



LAKELAND ELECTRIC
2017 AUDITED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016

Department of Electric Utilities
An Enterprise Fund of the City of Lakeland, Florida



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ELECTRIC MANAGEMENT

Joel Ivy General Manager	Gina Jacobi Assistant General Manager Fiscal Operations
Joey Curry Assistant General Manager Delivery	David Kus Assistant General Manager Customer Service
Michael Beckham Assistant General Manager Production	

LAKELAND CITY COMMISSION

William Mutz Mayor	Stephanie Madden Commissioner At Large
Justin Troller Commissioner At Large	Scott Franklin Commissioner Southeast
Phillip Walker Commissioner Northwest	Michael Dunn Commissioner Southwest
Bill Read Commissioner Northeast	

TRANSMITTAL LETTER

March 31, 2018

Honorable Mayor, Members of the Utility Committee and Customers of Lakeland Electric

It is our pleasure to submit this annual financial report for the fiscal year ended September 30, 2017 for the City of Lakeland, Florida's Department of Electric Utilities (Lakeland Electric, or "LE"). Management assumes full responsibility for the completeness and accuracy of the information contained in this report. We believe, to the best of our knowledge and belief, this report is complete and reliable in all material respects and the information fairly represents the Utility's financial condition.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF LAKELAND ELECTRIC

Lakeland Electric is an enterprise fund governed by a Utility Committee that consists of all seven members of the City Commission plus five citizens representing a cross-section of the customer base. Lakeland Electric is the largest department of the City. It has a budgeted staff of 546 full-time employees including approximately 300 employees who are members of the Utility Workers Union of America, Local 604.

The Utility's service territory consists of approximately 246 square miles and includes the incorporated area of the City and a number of unincorporated communities lying within a 15-mile radius of the City. The Utility's territory is bordered on the north by the Withlacoochee Rural Electric Cooperative, Inc. and on the east, west, and south by Tampa Electric Company. The City of Bartow also borders the Utility on the south. During Fiscal Year 2017, an average of 128,535 electric accounts was served, of which 83% were residential.

Lakeland Electric is a vertically integrated utility providing generation, transmission, and distribution services to its customers. The utility has over 1,945 miles of distribution lines of which 670 miles are underground, 156 miles of transmission lines including 128 miles of 69 kV lines, and 28 miles of 230 kV lines. Lakeland Electric also has 890 MW of net dependable generating capacity and is a member of the Florida Municipal Power Pool (FMPP) that includes Orlando Utilities Commission (OUC) and Florida Municipal Power Authority (FMPA).

MAJOR INITIATIVES

Battery Storage Project – Lakeland Electric installed a 40kWh battery storage project at the City of Lakeland's Beerman Family Tennis Center. The project's aim is to gain a better understanding of the technology's potential, particularly with respect to curbing peak demand. The final inspection was approved December 11, 2017 and the unit is currently being integrated into the City of Lakeland's data network.

Rate Study - During 2018, Lakeland Electric will conduct a comprehensive rate study to evaluate the need for a base rate increase.

FINANCIAL HIGHLIGHTS

Lakeland Electric's income in fiscal Year 2017 was adversely impacted by Hurricane Irma, the most intense hurricane to strike the continental United States since Katrina in 2005. Irma inflicted widespread damage to the Lakeland Electric system and a majority of the utility's customers lost power for 3 – 12 days. The loss in sales immediately following Irma's landfall coupled with milder weather overall resulted in a 1.7% decline in energy consumption. Customer growth was solid at 1.4%.

Other financial highlights include:

- Change in net position of \$5.2 million.
- Debt service coverage of 232%. Well above our covenant requirement.
- Days Cash on Hand of 209 days. Solidly in AA credit range.
- Credit outlook raised by Fitch Ratings™ from stable to positive.

ACKNOWLEDGMENTS

This report represents countless hours of preparation. The utmost appreciation is extended to all members of the staff who assisted and contributed to its preparation. We would like to thank the City of Lakeland's Finance Director, Mike Brossart; Assistant Finance Director, Deidra Joseph, John Zuercher, Internal Audit Director and former Lakeland Electric Controller, Mark Meeks for their support throughout the process. We appreciate the assistance and cooperation of Crowe Horwath, LLP for their completion of the independent audit. Special recognition is given to the employees of the Fiscal Operations Department who worked diligently to ensure the timeliness and accuracy of this report. We also express our appreciation to our General Manager, Joel Ivy and to the Utility Committee for the continued leadership they provide to ensure that Lakeland Electric is "powered for life".

Respectfully Submitted,



Gina G. Jacobi, MBA, CGFM
Assistant General Manager – Fiscal Operations



David Harrell, CPA
Lakeland Electric Controller

STATISTICAL AND FINANCIAL DATA (Unaudited)

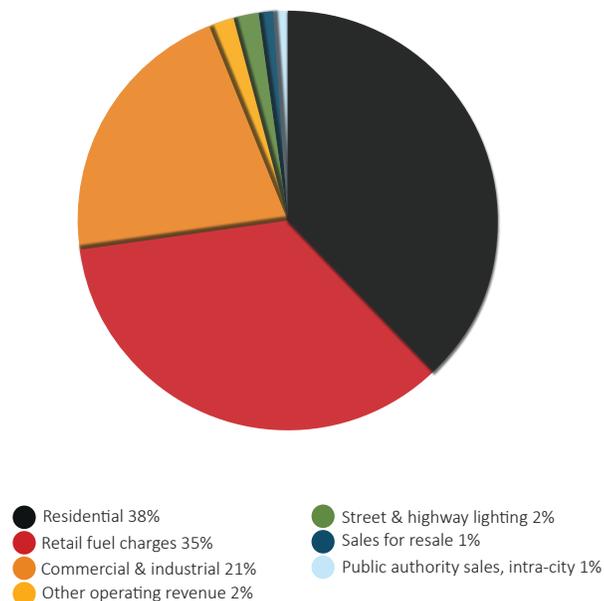
	FY2017	FY2016	Percent Incr/-Decr
Retail electric customers:			
Residential	107,213	105,619	1.5%
Commercial and Industrial	12,954	12,862	0.7%
Roadway and private area lights	8,368	8,301	0.8%
	<u>128,535</u>	<u>126,782</u>	1.4%
Number of employees (FTE's)	510	529	-3.6%
Electric plants	3	3	0.0%
Net normal generating capacity	890	890	0.0%
Retail service territory (square miles)	246	246	0.0%
Substations	24	24	0.0%
Transmission lines (miles)			
69 KV	128	128	0.0%
230 KV	28	28	0.0%
Distribution lines:			
Overhead (miles)	1,275	1,275	0.0%
Underground (miles)	670	654	2.5%
Retail sales (MWh)	3,003,586	3,056,153	-1.7%
Average demand (MWh)	359	358	0.3%
Summer peak (MWh)	643	646	-0.5%
Winter peak (MWh)	539	589	-8.5%

	(Dollars in thousands)		Percent Incr/-Decr
	Current Year	Prior Year	
Retail sales of electricity	\$ 176,972	\$ 180,514	-2.0%
Other retail revenue	7,286	7,462	-2.4%
Retail fuel revenue	114,583	102,788	11.5%
Sales for resale	4,643	5,789	-19.8%
Fuel and purchased power expenses	(120,510)	(109,466)	10.1%
Other operating expenses	(99,223)	(83,364)	19.0%
Depreciation expense (net)	<u>(38,269)</u>	<u>(41,784)</u>	-8.4%
Operating income	45,482	61,939	-26.6%
Nonoperating revenue	5,832	6,795	-14.2%
Nonoperating expenses	(17,660)	(18,385)	-3.9%
Transfers to other funds	<u>(28,448)</u>	<u>(30,678)</u>	-7.3%
Change in net position	<u>\$ 5,206</u>	<u>\$ 19,671</u>	-73.5%
Utility plant, net	\$ 649,740	\$ 656,497	-1.0%
Long-term bond debt, due beyond twelve months	\$ 363,475	\$ 387,725	-6.3%
Debt service coverage from operations	2.32	2.87	-19.2%
Days cash (excluding restricted and sinking cash)	209	230	-9.1%

OPERATING SUMMARY FY2017

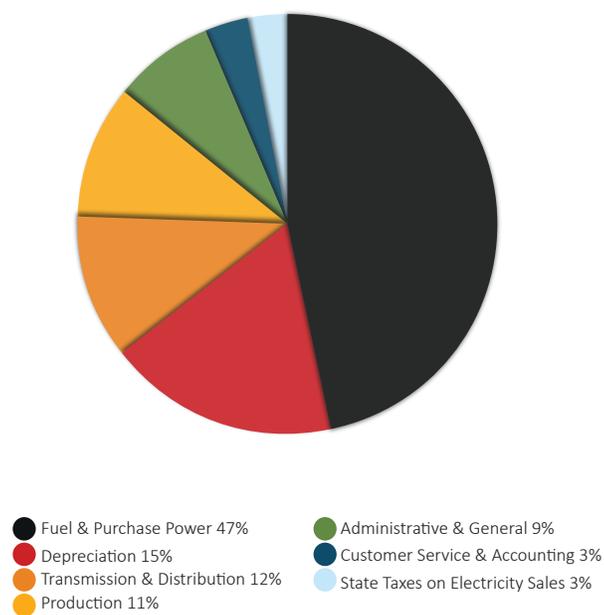
OPERATING REVENUE

Retail fuel charges	\$114,583,410
Residential Sales	105,596,437
Commercial & Industrial Sales	62,532,243
Other operating revenue	7,286,280
Public street & highway lighting	5,474,740
Sales for resale	4,642,718
Public authority sales, intra-city	<u>3,367,713</u>
TOTAL	<u><u>\$303,483,541</u></u>

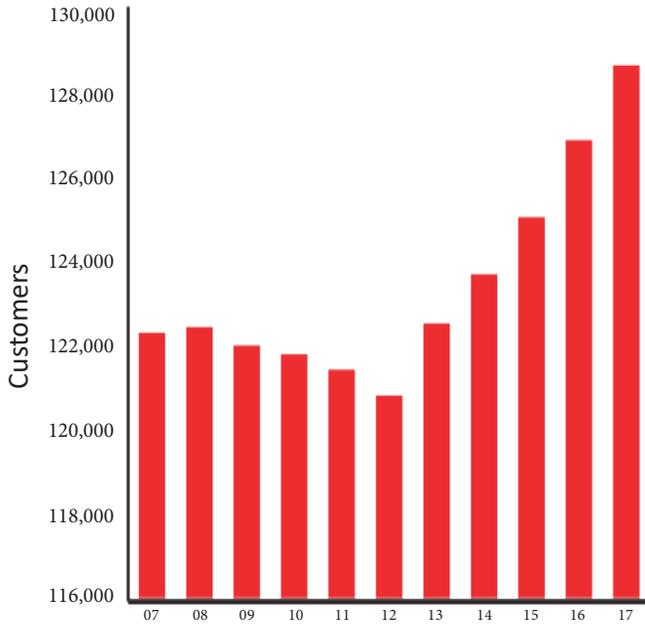


OPERATING EXPENSES

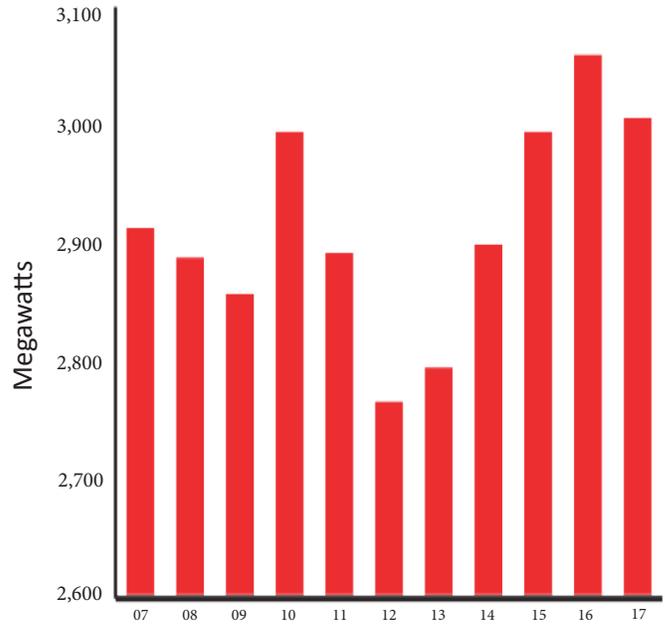
Fuel and Purchase Power	\$120,510,181
Depreciation	38,267,289
Transmission & Distribution	31,752,229
Production	29,371,069
Administrative & General	22,889,097
Customer Service & Accounting	8,025,266
State Tax on Electric Sales	<u>7,186,435</u>
TOTAL	<u><u>\$258,001,566</u></u>



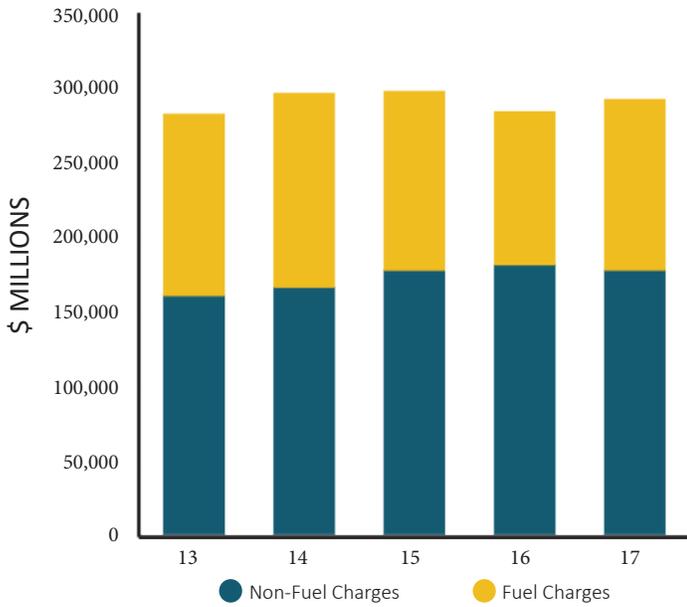
Retail Customer Count FY17 and Previous Ten Years



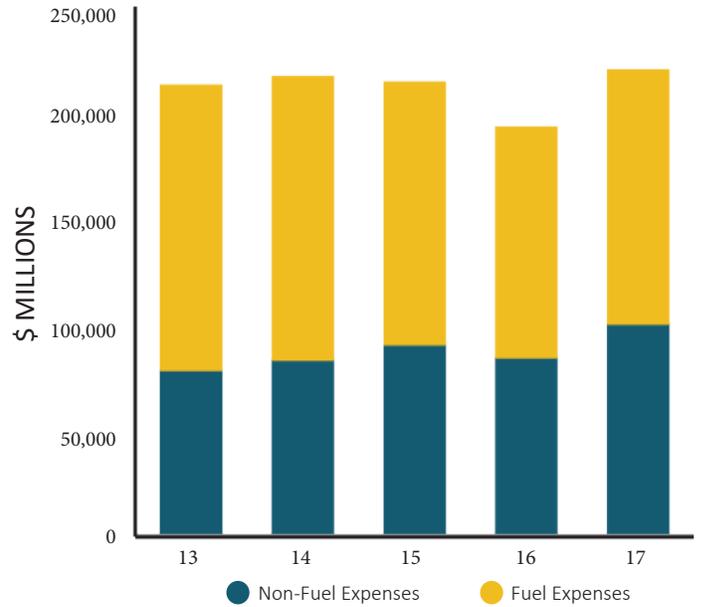
Net Retail Customer Load FY17 and Previous Ten Years



Retail Sales of Electricity FY17 and Previous Four Years



Operating Expenses FY17 and Previous Four Years





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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Electric Utilities of the City of Lakeland, Florida, (the Department), as of and for the years ended September, 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of September, 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Department, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida as of September 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Lakeland Electric's proportionate share of the net pension liability, and schedule of Lakeland Electric's contributions on pages 11 through 15 and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The Transmittal Letter and the Statistical and Financial Data on pages 3 through 7 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Transmittal Letter and Statistical and Financial Data on pages 3 through 7 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Crowe Horwath LLP

Tampa, Florida
April 11, 2018

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis (unaudited)

Management's Discussion and Analysis provides a narrative overview of City of Lakeland's Department of Electric Utilities' (Lakeland Electric) financial activities for fiscal year ending September 30, 2017. Lakeland Electric's operations consist of electric generation, transmission and distribution. The condensed financial data below summarizes Lakeland Electric's financial position and results of operations for the fiscal year ending September 30, 2017 and the previous two fiscal years.

Condensed Statements of Net Position:

(Dollars in thousands)	Fiscal years ended September 30,		
	2017	2016	2015
Assets			
Current assets	\$ 167,326	\$ 165,568	\$ 150,372
Utility plant, net	649,740	656,497	666,644
Other noncurrent assets	90,183	23,153	86,158
	<u>907,249</u>	<u>845,218</u>	<u>903,174</u>
Deferred outflows of resources	<u>70,391</u>	<u>92,266</u>	<u>70,498</u>
Liabilities			
Current liabilities	56,990	49,637	42,995
Noncurrent liabilities	517,251	560,461	550,149
	<u>574,241</u>	<u>610,098</u>	<u>593,144</u>
Deferred inflows of resources	<u>64,535</u>	<u>67,045</u>	<u>66,541</u>
Net position			
Net assets invested in capital assets, net of related debt	222,755	211,864	203,263
Restricted - capital improvement	-	6,955	4
Unrestricted	116,109	114,839	110,720
	<u>\$ 338,864</u>	<u>\$ 333,658</u>	<u>\$ 313,987</u>

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

(Dollars in thousands)	Fiscal years ended September 30,		
	2017	2016	2015
Operating revenues			
Sales of energy - retail	\$ 291,555	\$ 283,302	\$ 296,955
Sales of energy and capacity sales - wholesale	4,643	5,789	5,521
Other electric operating revenue	7,286	7,462	7,027
	<u>303,484</u>	<u>296,553</u>	<u>309,503</u>
Operating expenses			
Fuel and purchased power	120,510	109,466	124,527
Energy supply	29,371	26,370	27,859
Energy delivery	31,752	23,860	23,405
Customer service and accounting	8,025	7,041	6,583
State tax on electric sales	7,186	7,463	7,827
Administrative and general	22,889	18,630	23,777
Depreciation (net)	38,269	41,784	40,734
	<u>258,002</u>	<u>234,614</u>	<u>254,712</u>
Operating income	45,482	61,939	54,791
Non-operating activity			
Investment and other income	5,832	6,795	4,227
Interest and amortization expense	(17,660)	(17,995)	(18,787)
Loss on disposal of fixed assets	-	(390)	-
Net transfers (to) from other funds	(28,448)	(30,678)	(29,506)
Change in net position	<u>\$ 5,206</u>	<u>\$ 19,671</u>	<u>\$ 10,725</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis (unaudited) - continued

Net Position of Lakeland Electric

The net position of Lakeland Electric increased by \$5.2 million during fiscal year 2017 compared to a \$19.7 million increase in 2016. Operating income was \$45.5 million in 2017 compared to \$61.9 million in the preceding year. The year-over-year declines are primarily attributable to Hurricane Irma, which inflicted widespread damage to the Lakeland Electric system on September 10, 2017.

Financial Highlights

- Lakeland Electric's 2017 retail megawatt hour (MWh) sales were down 1.7 percent from the previous fiscal year, which was Lakeland's warmest in more than a decade. Additionally, during late summer, Hurricane Irma caused a majority of Lakeland Electric's customers to lose power for 3 - 12 days. Non-fuel sales of electricity decreased by \$3.5 million from the previous fiscal year, with \$2.8 million of the decrease attributable to residential customers.
- Non-operating revenue decreased by \$1.0 million from the previous fiscal year. Investment revenue increased by \$2.1 million, however a (\$2.8) million unfavorable fair value adjustment on Lakeland Electric's share of the City's pooled investments was recognized in 2017, compared to a gain of \$0.3 million recognized in the previous fiscal year. Fair value adjustments, up and down, are caused by the impact of interest rate changes on fixed income securities. Most of Lakeland Electric's investments are held through maturity.
- Lakeland Electric's nonfuel operating expenses, excluding gross receipts tax and depreciation, were \$92.0 million in 2017, compared to \$75.9 million in 2016, representing an overall increase of \$16.1 million or 21 percent. On September 10, 2017, Hurricane Irma inflicted widespread damage to the City of Lakeland's electric system. Nonfuel O&M expenses in 2017 include \$10.4 million of hurricane-related damage. Although Lakeland Electric anticipates that a substantial percentage of its storm recovery costs will be eligible for reimbursement through federal financial assistance, no grant agreement was in place during 2017. Accordingly, no accrual was recorded in 2017 for any possible future disaster relief funding. Administrative and General Expenses were \$4.3 million higher than the previous year mostly as the result of adjustments to the pension liability in 2016, as recognized in accordance with GASB Statement No. 68. Total operating and maintenance costs (excluding fuel, gross receipts tax, and depreciation) averaged \$30.64 per retail MWh in 2017, compared to \$24.84 in 2016.
- Fuel and purchased power expense increased by \$11.0 million in 2017, despite of the decreased volume of retail MWh sales. The main driver was a 28 percent annual increase in Lakeland Electric's average cost of natural gas, which is primarily a result of a rebound in the natural gas market. Lakeland Electric's coal tonnage burned increased by 6 percent as its average price of coal decreased by (3) percent. The volume of wholesale power purchases increased annually by 70 percent in 2017 because of an extended outage of McIntosh Unit 5 early in the fiscal year.
- Lakeland Electric recovers fuel costs from retail customers in the form of a fuel charge that is subject to a quarterly revision based on a forecast of fuel costs for the following twelve months. As of September 30, 2017, the retail fuel charge was \$38.75 per MWh, compared to \$34.25 per MWh twelve months earlier. The fuel recovery balance represents, on an accrual basis, the cumulative difference between fuel expenses incurred to serve retail load and fuel revenues realized. Lakeland Electric began 2017 with a cumulative over-recovered fuel position of \$26.7 million. A City of Lakeland ordinance provides for a fuel reserve balance of up to 15 percent of annual budgeted fuel costs (a maximum of \$18.0 million in FY2017) to offset costs associated with fuel inventories and prepaid fuel hedging. The cumulative fuel over-recovery as of September 30, 2017 was \$22.0 million. The fuel reserve was over-funded to the extent of \$4.0 million, for which a regulatory liability was recognized. See Note E, Regulatory Assets and Liabilities and Note S, Deferred Inflows of Resources – Fuel Reserve.
- Lakeland Electric recovers environmental compliance costs from retail customers in the form of an environmental compliance charge which is set annually, with the objective of achieving a zero cumulative recovery balance at the end of the subsequent budget year. An environmental compliance rate of \$2.532 per

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis (unaudited) - continued

Financial Highlights (continued)

- MWh was in effect during 2017 and 2016. Lakeland Electric had a cumulative over-recovered environmental compliance cost balance of \$1.3 million, classified as a regulatory liability, as of the end of 2017. Based on sales and environmental compliance expense projections, a rate of \$2.109 per MWh was recommended for 2018. See Note E.
- Lakeland Electric recovers energy conservation charges in a similar manner to environmental compliance charges. The conservation charge is currently a flat fee of 50¢ per month per customer. Lakeland Electric had a cumulative over-recovered energy conservation charge balance of \$0.3 million, classified as a regulatory liability, as of the end of 2017. See Note E.
- Lakeland Electric provides a dividend at a rate of \$9.68 per MWh to the City of Lakeland's General Fund in the form of monthly cash transfers. The total amount of the dividend in 2017 was \$29.2 million, compared to \$29.6 million in 2016.

Capital Assets

- Lakeland Electric has historically funded the cost of capital improvements through a combination of bond financing and cash generated from retail utility rates. Remaining bond proceeds from the Series 2016 Revenue and Refunding Bonds provided the initial \$6.8 million of capital funding for fiscal year 2017. Cash set aside from base rates provided funding for the remainder of capital spending during the year.
- Capital spending (net of contributions in aid of construction) totaled \$31.9 million in 2017 compared to \$32.8 million during fiscal year 2016 and \$35.4 million in 2015. Capital expenditures during 2017 included \$18.7 million for energy supply projects, \$12.5 million for energy delivery projects, and \$.7 million for building improvements and equipment. Lakeland Electric's projected capital improvement requirements from rates is expected to average approximately \$39 million over the next four years.
- Depreciation expense has exceeded capital spending during recent fiscal years resulting in a gradual decline in the balance of net plant assets. Depreciation expense, net of amortization of contributions in aid of construction, was \$38.3 million in 2017 compared to \$41.8 million in 2016.
- Lakeland Electric recorded contributions in aid of construction from outside the Department in the amount of \$2.4 million during fiscal year 2017, compared to \$2.5 million in 2016. These amounts are included in the *Plant in Service* balance in the Statements of Net Position. See Note S.

The table below contains a summary of Lakeland Electric's plant investment, net of accumulated depreciation, as of September 30, 2017 and 2016. Refer to Note H, Utility Plant, for more detailed information regarding utility plant assets.

	(In Thousands)	
	September 30	
	2017	2016
Land	\$ 15,595	\$ 15,595
Construction in process	20,400	8,592
Buildings	10,300	10,793
Machinery and equipment	12,304	12,899
Equipment under capital leases	852	1,009
Electric transmission and distribution	323,100	323,589
Electric supply	267,189	284,020
	<u>\$ 649,740</u>	<u>\$ 656,497</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis (unaudited) - continued

Capital Assets (continued)

The total net normal generating capacity of the production units owned by Lakeland Electric is 890 MW. The most efficient unit in Lakeland Electric's fleet is McIntosh 5, a 354 MW combined cycle natural gas unit. McIntosh 3, a 342 MW coal-fired unit, is jointly owned by Lakeland Electric and Orlando Utility Commission (OUC). Lakeland Electric's 60 percent ownership share of Unit 3 is 205 MW. In addition to its base load and peaking units, Lakeland Electric shares a power pool with Florida Municipal Power Agency (FMPA) and OUC, which provides access to relatively low-cost natural gas generated power to supply peak demand. Lakeland Electric has sufficient generation and transmission capacity to cover its projected load requirements for at least the next five years.

Long Term Debt

As of September 30, 2017, Lakeland Electric had \$363.5 million in net long-term bond debt outstanding compared to \$387.7 million at the end of 2016 as shown in the table below. The current portion of the long-term debt is paid on the first day of the subsequent fiscal year (October 1st). Refer to Note L, Revenue Bonds, for more detailed information regarding long-term debt.

	(In Thousands)	
	September 30	
	2017	2016
Electric System Revenue Bonds:		
Series 2006	\$ -	\$ 1,055
Series 2010	152,615	168,895
Series 2012	-	100,000
Series 2016	135,110	138,650
Series 2017	97,000	-
	384,725	408,600
Less Current Portion	(21,250)	(20,875)
	\$ 363,475	\$ 387,725

As indicated in Note L (Revenue Bonds), the coverage on bonded debt of Lakeland Electric for 2017 was 2.32 times the annual debt service requirement for the fiscal year ended 2017. Lakeland Electric is not obligated to fund a Debt Service Reserve Fund, provided that "net revenues" equal or exceed 150 percent of the bond service requirement for each year. Based on debt service requirement and forecasted revenues and expenses, debt service coverage is expected to remain greater than 2 times the annual debt service requirement in fiscal year 2018.

Lakeland Electric sets aside apportioned funds to meet its current debt service requirements (see Note F, Asset Apportionments). In August 2017, Lakeland Electric issued its Series 2017 Floating Rate Notes which refunded all of the Series 2012 Variable Rate Bonds that were scheduled to mature on October 1, 2017. Immediately prior to the 2017 refunding transaction, Lakeland Electric paid down \$3 million of outstanding principal on the Series 2012 Bonds.

Economic Factors

- The average demand for energy placed on the system from retail customers during Fiscal Year 2017 was 359 megawatts (MW), compared to 358 MW during the previous year. The peak demand during the winter was 539 MW on January 9, 2017, and a summer peak demand of 643 MW was reached on July 26, 2017. Lakeland Electric expects to see a growth of approximately 1 percent in the retail customer base during fiscal year 2018.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis (unaudited) - continued

Economic Factors (continued)

Lakeland Electric's ten largest customers account for less than 20 percent of revenue. Well over half of the annual revenue comes from residential customers.

- The Bond Ratings Services of Fitch Ratings™, Moody's™, and Standard & Poor's™ have assigned long-term ratings of AA-, Aa3, and AA, respectively, to Lakeland Electric's energy system bonds. During the early part of Fiscal Year 2018, Fitch reaffirmed Lakeland Electric's AA- rating and changed its outlook from stable to positive.

Currently Known Facts or Conditions That May Have a Significant Effect on the Net Position or Results of Operations

- Lakeland Electric's rates, among all customer classes, have consistently been among the lowest in Florida for many years. Residential electric rates during September 2017 were the second lowest of any municipal electric utility in the state.
- Days cash is a key financial metric used as a measure of liquidity, essential for maintaining strong bond ratings. An internal goal of Lakeland Electric is to maintain 150-175 days of operating cash. At the end of 2017, Lakeland Electric had over 209 days of cash compared to 230 days in the previous fiscal year. The decrease is largely the result of a temporary build-up of unrestricted capital reserves in the prior fiscal year. Days cash is forecasted to remain above 150, with no base electric rate increase, through FY2018. A rate study will be conducted during FY2018 and could result in recommended rate changes for FY2019.
- Lakeland Electric has been, and will continue to be impacted by various regulatory and legislative requirements. In the opinion of Lakeland Electric, the System is currently in compliance with all current federal, state and local environmental regulations. Lakeland Electric cannot predict at this time whether any additional legislation or rules will be enacted which might affect operations, and if such laws or rules are enacted, what the additional capital and operating costs, if any, might occur in the future because of such actions. The estimation of costs of compliance is subject to significant uncertainties and the financial impact of future proposals could be substantial.

Using This Annual Report

The annual financial report includes the Statements of Net Position, Statements of Revenues, Expenses and Change in Net Position, Statements of Cash Flows and notes to the financial statements for Lakeland Electric, an enterprise fund of the City of Lakeland. Please refer to the City of Lakeland's Comprehensive Annual Financial Report for additional information regarding the City of Lakeland, as a whole.

Requests 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 may be addressed to: Lakeland Electric Finance, 501 East Lemon Street, Lakeland, FL 33801.



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CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
STATEMENTS OF NET POSITION

	September 30	
	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,522,537	\$ 57,371,795
Accounts receivable	47,948,236	41,749,329
Less allowance for uncollectibles	(857,908)	(736,931)
Fuel hedges	4,186,999	3,289,949
Inventories	34,035,924	33,137,545
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	21,250,000	20,875,000
Accrued interest payable	7,216,706	9,086,747
Accounts payable	2,401,875	-
Accrued liabilities	8,594,329	-
Restricted assets (cash and equivalents) set aside for		
Accounts payable	5,000	601,668
Accrued liabilities	22,305	193,199
Total current assets	167,326,003	165,568,301
NONCURRENT ASSETS		
Asset apportionments (including \$73,183,724 and \$ 73,316,038 of cash and cash equivalents in 2017 and 2016, respectively)	73,660,909	73,316,038
Restricted assets (including \$15,081,793 and \$20,723,060 of cash and cash equivalents in 2017 and 2016, respectively)	15,319,569	21,864,972
Utility plant		
Land	15,595,265	15,595,265
Construction in progress	20,400,199	8,591,770
Utility plant in service	1,340,491,177	1,322,510,937
Less accumulated depreciation	(726,746,930)	(690,200,533)
Total utility plant, net	649,739,711	656,497,441
OTHER ASSETS		
Regulatory assets	1,202,916	1,287,642
Total Assets	907,249,108	918,534,392
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Unamortized loss on refunding of bond debt	31,020,673	34,931,160
Unrealized loss on hedges	-	348,521
Hedge derivative outflows	26,073,175	36,695,648
Deferred outflows of resources related to pensions	13,296,993	20,290,620
Total deferred outflows of resources	70,390,841	92,265,949

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
STATEMENTS OF NET POSITION (continued)

	September 30	
	2017	2016
<u>LIABILITIES</u>		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	\$ 13,981,812	\$ 15,037,580
Accrued liabilities	3,379,411	3,514,453
Obligation under capital leases	139,046	328,184
Liabilities payable from apportioned assets		
Accrued interest payable	7,216,706	9,086,747
Current portion of bonds payable	21,250,000	20,875,000
Accounts payable	2,401,875	-
Accrued liabilities	8,594,329	-
Liabilities payable from restricted assets		
Accounts payable	5,000	601,668
Accrued liabilities	22,305	193,199
Total current liabilities	56,990,484	49,636,831
OTHER LIABILITIES		
Obligation under capital leases	-	139,045
Restricted liabilities	15,314,251	14,909,828
Regulatory liabilities	5,588,094	7,086,148
Interest rate swaps	26,073,175	36,695,648
Accrued liabilities, less current portion	3,996,611	4,169,330
Net other post employment benefits obligation	19,904,620	17,945,523
Net pension liability	53,534,111	58,777,353
Revenue bonds payable, less current portion	363,475,000	387,725,000
Unamortized bond premium	29,364,687	33,012,771
Total other liabilities	517,250,549	560,460,646
Total liabilities	574,241,033	610,097,477
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Unamortized contributions in aid of construction	44,979,842	45,591,950
Fuel reserve	18,001,167	20,301,603
Unearned revenue	-	398,321
Unrealized gain on hedges	929,482	-
Deferred inflows of resources related to pensions	624,849	753,373
Total deferred inflows of resources	64,535,340	67,045,247
<u>NET POSITION</u>		
Net investment in capital assets	222,754,725	211,864,152
Restricted		
Capital improvement	-	6,955,144
Unrestricted	116,108,851	114,838,321
	\$ 338,863,576	\$ 333,657,617

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended September 30,	
	2017	2016
OPERATING REVENUES		
Sales of energy - retail	\$ 291,554,543	\$ 283,301,838
Sales of energy and capacity sales - wholesale	4,642,718	5,788,651
Other electric operating revenue	7,286,280	7,461,974
Total operating revenues	<u>303,483,541</u>	<u>296,552,463</u>
OPERATING EXPENSES		
Fuel and purchased power	120,510,181	109,465,695
Energy supply	29,371,069	26,370,033
Energy delivery	31,752,229	23,859,751
Customer service	8,025,266	7,041,335
State tax on electric sales	7,186,435	7,463,268
Administrative and general	22,889,097	18,629,834
Total operating expenses	<u>219,734,277</u>	<u>192,829,916</u>
OPERATING INCOME BEFORE DEPRECIATION		
	83,749,264	103,722,547
Depreciation expense	(41,321,215)	(44,758,745)
Depreciation - contributions in aid of construction	3,053,926	2,974,785
OPERATING INCOME		
	<u>45,481,975</u>	<u>61,938,587</u>
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less \$61,897 and \$430,378 capitalized in 2017 and 2016, respectively)	8,102,640	5,987,716
Net increase (decrease) in the fair value of cash equivalents	(2,814,184)	293,448
Miscellaneous revenue	543,621	513,947
Interest expense (less \$811,841 and \$725,754 capitalized in 2017 and 2016, respectively)	(17,135,391)	(17,626,744)
Amortization expense	(524,884)	(368,188)
Loss on disposal of fixed assets	-	(389,796)
TOTAL NONOPERATING REVENUES (EXPENSES)		
	<u>(11,828,198)</u>	<u>(11,589,617)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS		
	33,653,777	50,348,970
DIVIDEND TO GENERAL FUND	(29,223,213)	(29,583,546)
TRANSFERS FROM OTHER FUNDS	1,231,000	-
TRANSFERS TO OTHER FUNDS	(455,605)	(1,094,763)
CHANGE IN NET POSITION		
	5,205,959	19,670,661
NET POSITION, beginning of year	<u>333,657,617</u>	<u>313,986,956</u>
NET POSITION, end of year	<u>\$ 338,863,576</u>	<u>\$ 333,657,617</u>

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
STATEMENTS OF CASH FLOWS

	Year ended September 30	
	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 296,457,319	\$ 307,176,468
Payments for interfund services	(14,426,224)	(13,702,590)
Payments to suppliers	(148,603,188)	(131,230,071)
Payments to employees	(44,731,387)	(41,020,519)
Net cash provided by operating activities	88,696,520	121,223,288
Cash flows used in noncapital financing activities:		
Interest paid on meter deposits	(641,203)	(722,130)
Operating transfers to other funds	(28,447,818)	(30,678,309)
Cash flows used in noncapital financing activities	(29,089,021)	(31,400,439)
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(20,403,315)	(15,454,423)
Proceeds from issuance of long-term debt	97,000,000	16,269,713
Payments on and maturities of long-term debt	(120,875,000)	(27,370,619)
Debt issue costs	(3,648,084)	(674,950)
Purchase of capital assets	(28,858,794)	(32,555,681)
Cash flows used in capital financing activities:	(76,785,193)	(59,785,960)
Cash flows from investing activities:		
Investment revenue	8,102,640	6,418,094
Net increase (decrease) in the fair value of cash equivalents	(2,814,184)	293,448
Cash flows provided by investing activities	5,288,456	6,711,542
Net increase (decrease) in cash and cash equivalents	(11,889,238)	36,748,431
Cash and cash equivalents, beginning of year	182,167,507	145,419,076
Cash and cash equivalents, end of year	\$ 170,278,269	\$ 182,167,507
Classified as:		
Current	\$ 42,522,537	\$ 57,371,795
Apportioned	112,646,634	103,277,785
Restricted	15,109,098	21,517,927
Total	\$ 170,278,269	\$ 182,167,507

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
STATEMENTS OF CASH FLOWS (continued)

	Year ended September 30	
	2017	2016
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	\$ 45,481,975	\$ 61,938,587
Depreciation	41,321,215	44,758,745
Depreciation - contributions in aid of construction	(3,053,926)	(2,974,785)
Miscellaneous revenue	543,621	513,947
Decease (increase) in receivables, net	(6,077,930)	4,387,814
Decrease (increase) in inventory	(898,379)	1,419,413
Decrease (increase) in regulatory assets	84,726	-
(Increase) decrease in deferred outflows related to pensions	10,193,034	(14,161,060)
Decrease in fair value of derivatives	380,951	6,935,098
Increase (decrease) in accounts payable	(976,956)	603,195
(Decrease) increase in accrued liabilities	8,192,127	(60,832)
Increase in regulatory liabilities	(3,798,451)	6,035,114
Increase in deposits payable	404,423	165,115
(Decrease) in unearned revenue	(398,321)	(477,985)
Increase (decrease) in net pension liability	(5,243,242)	10,516,079
(Decrease) increase other deferred inflows of resources	582,556	(375,257)
Increase in net OPEB obligation	1,959,097	2,000,100
Net cash used in operating activities	<u>\$ 88,696,520</u>	<u>\$ 121,223,288</u>
Noncash investing, capital, or financing activities:		
Proceeds from refunding used for defeasement of debt	\$ -	\$ 120,789,907
Capitalized interest expense	811,841	725,754
Less capital interest revenue	61,897	520,553
	<u>\$ 873,738</u>	<u>\$ 122,036,214</u>

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 the financial position, changes in net position, and cash flows of the City of Lakeland, Department of Electric Utilities (Lakeland Electric) only 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 with the stated intent that the costs (expenses, including amortization and depreciation) of providing goods or services to the general public on a continuing basis are 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) in the United States of America, as required by the Governmental Accounting Standards Board (GASB). Lakeland Electric has adopted the uniform system of accounts (USOA) prescribed by the Federal Energy Regulatory Commission (FERC) for electric operations. Lakeland Electric does not follow any accounting methods that conflict with the GASB.

Regulatory Accounting:

Lakeland Electric applies certain accounting principles allowed by the GASB with respects to *Regulated Operations*. Lakeland Electric's rates are designed to recover the cost of providing services and Lakeland Electric is able to collect those rates from its customers. This guidance allows Lakeland Electric to defer certain expenses and revenues, and to record various regulatory assets and liabilities in accordance with rate actions of the Lakeland City Commission. See Note E, Regulatory Assets and Liabilities.

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 C). Additionally, Lakeland Electric's equity in the City's internal investment pool (see Note C) 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 that are categorized as cash equivalents on the Statement of Net Position are reported at fair value. See Note C.

Receivables:

Lakeland Electric bills customers monthly on a cyclical basis. Lakeland Electric has recognized, in its receivables, an estimated amount for services rendered but not yet billed as of September 30, 2017 and 2016, respectively. An estimate of uncollectible accounts is recognized based upon historical experience.

Inventories:

Inventories (see Note D) are valued at cost, not in excess of replacement cost, using the weighted average cost method.

Restricted and Apportioned Assets:

Revenue bond ordinances and certain other agreements with parties outside the City require the restriction of certain fund assets for specific purposes such as meter deposits held on behalf of utility customers and bond proceeds, which are restricted by bond ordinance for the purpose of funding certain capital improvements. Apportionments do not represent legal restrictions imposed by parties external from the local government and may be rescinded at any time. Refer to Notes F and G.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

Utility plant is valued at historical cost, or estimated historical cost, if actual historical cost is not available. The acquisition value of assets that have been contributed are classified as utility plant assets in the period in which received. Interest costs on funds used for the construction of utility plant are capitalized as part of the costs of these assets.

Routine maintenance and repairs, including additions and improvements of less than \$2,500 are charged to operating expense as incurred. Individual equipment items with a cost of \$1,500 or more are capitalized. In accordance with standard industry accounting practice, electric transformers and certain specialty plant replacement components which are critical in nature are classified as utility plant and are depreciated prior to being placed in service. Total depreciation expense as a percentage of depreciable assets was approximately 3.1 percent and 3.4 percent in 2017 and 2016, respectively. Depreciation expense was lower in fiscal year 2017 than in the previous 3 fiscal years because certain aging assets have become fully depreciated. Depreciation expense has exceeded capital spending in recent fiscal years. 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

Intangible Assets:

In accordance with GASB, intangible assets are classified as Fixed Assets (Utility Plant), and are depreciated according to Lakeland Electric's capitalization policy.

Impaired Assets:

Lakeland Electric records impaired assets in accordance with GASB Statement No. 42. No material impairment losses were identified during the fiscal year ending September 30, 2017.

Contributions in Aid of Construction:

Lakeland Electric receives non-refundable payments from consumers and developers for the extension of electric services, and receives funds from developers, customers, and others for assets owned and maintained by Lakeland Electric. Lakeland Electric's capital projects are budgeted net of outside recoveries, which is consistent with its rate design. Through the use of regulatory accounting, contributions in aid of construction are recorded as *deferred inflows of resources*, and amortized over the life of the corresponding assets. See Note S.

Deferred Outflows/Inflows of Resources:

Within the Statements of Net Position, certain items that were previously reported as assets and liabilities are recognized as deferred outflows of resources and deferred inflows of resources because they result in the use of resources in the current period for the benefit of future periods. For details regarding Deferred Outflows and Deferred Inflows of Resources refer to Notes J and S, respectively.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 noncurrent 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. See Note K, Accrued Liabilities and Long-Term Debt.

Derivatives and Interest Rate Swap Agreements:

Derivative instruments are used by Lakeland Electric in conjunction with debt financing and fuel purchases and are reported at fair value. See Note R, Derivative and Hedging Activities.

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. Lakeland Electric had no amounts due to or receivable from other funds of the City of Lakeland as of September 30, 2017 or 2016.

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.

Use of Estimates:

Management has made estimates and assumptions relating to the reporting of assets and liabilities in conformity with GAAP. Actual results may differ.

Amortization:

Lakeland Electric records amortization using the effective interest rate method. Bond discounts, premiums, and losses on refunding of debt are amortized over the life of the issue. Lakeland Electric elects to follow accounting for regulated operations, which provides for debt issuance costs which are recovered through rates to be classified as a regulatory asset and amortized over the life of the associated debt.

Transfers to/From Other Funds:

Lakeland Electric accounts for subsidy payments to other funds as transfers to other funds in the Statements of Revenues, Expenses and Changes in Net Position. A dividend is paid to the General Fund at a rate of \$9.68 per MWh. Lakeland Electric distributed annual transfers to the City of Lakeland as follows:

	September 30,	
	2017	2016
Annual dividend to the City of Lakeland	\$ 29,223,213	\$ 29,583,546
Transfer to Information Technology Fund	455,605	551,614
Transfer (from) / to Fleet Management Fund	(1,231,000)	543,149
	\$ 28,447,818	\$ 30,678,309

Other Significant Accounting Policies:

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

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – ACCOUNTING AND REPORTING CHANGES

New Accounting Pronouncements:

In August 2015, the GASB issued Statement No. 77, Tax Abatements Disclosures. The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Tax abatements are widely used by state and local governments, particularly to encourage economic development. The provisions for this Statement are effective for the City's fiscal year ending September 30, 2017. This statement requires governments that enter into tax abatement agreements to disclose information regarding the agreement. Implementation of GASB 77 had no effect on the financial statements of Lakeland Electric.

In December 2015 the GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions for this Statement are effective for the City's fiscal year ending September 30, 2017. Implementation of GASB 78 had no effect on the financial statements of Lakeland Electric.

In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Units. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial presentation of component units for all state and local governments which was established in GASB Statement No. 14, The Financial Reporting. The provisions for this Statement are effective for the City's fiscal year ending September 30, 2017. Implementation of GASB 80 had no effect on the financial statements of Lakeland Electric.

In March 2016, the GASB issued Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The new disclosures were added to Note N - Defined Benefit Pension Plan.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - 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 Statute, 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's Comprehensive Annual Financial Report (CAFR) for additional disclosures. The following is a summary of the key controls which the City of Lakeland utilizes to mitigate investment risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The City utilizes the "segmented time distribution" method as a measure of interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or other counterparty.

Custodial credit risk is the risk that in the event of a bank failure, the City of Lakeland's deposits may not be returned. Florida Statutes require deposits by governmental units in a financial institution be collateralized. The City of Lakeland's policy, in accordance with the Florida Security for Public Deposits Act, requires that deposits in a financial institution be collateralized, and requires the use of only authorized dealers and institutions, and qualified public depositories who meet the standards as set forth by the State of Florida and the Securities and Exchange Commission's Rule 15c3-1. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name. The carrying amount of Lakeland Electric's share of pooled demand and time deposits with financial institutions as of September 30, 2017 was \$28,010,109. The carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was \$28,957,517.

The types of investments in which the City of Lakeland may directly invest are governed by several forms of legal and contractual provisions. The City of Lakeland may directly invest in obligations of or obligations on which the principal and interest of is 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 and 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. The City of Lakeland 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. Information regarding credit risk categories for pooled investments is disclosed in the CAFR of the City of Lakeland. Credit risk is the risk of loss due to the failure of the security issuer or other counterparty. The City of Lakeland's investment policy minimizes credit risk by limiting investments in securities that have higher credit risks, pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Lakeland Electric's cash consisted of equity in pooled investments in the amounts of \$142,266,635 and \$153,208,466 for September 30, 2017 and September 30, 2016, respectively. Lakeland Electric has elected to pool its cash with the City of Lakeland. At September 30, 2017, Lakeland Electric held a 34% interest in the investments of the pool compared to a 36% interest in the previous year. For additional information on the assets held by the pool, refer to Note 3 in the City of Lakeland's Comprehensive Annual Financial Report.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

As of September 30, 2017, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Market	%
AAA	\$ 578,787	0.41%
AA+ to AA-	46,670,757	32.81%
A+ to A-	7,574,948	5.32%
BBB+ to BBB-	45,653,573	32.09%
BB+ to BB-	4,262,789	3.00%
Below BB-	5,183,984	3.64%
NR	32,341,797	22.73%
	<u>\$ 142,266,635</u>	<u>100.00%</u>
Moody's Rating:		
Aaa	\$ 40,196,106	28.25%
Aa1 to Aa3	1,525,318	1.07%
A1 to A3	12,727,452	8.95%
Baa1 to Baa3	38,327,003	26.94%
Ba1 to Ba3	4,946,975	3.48%
Below Ba3	7,432,655	5.22%
NR	37,111,126	26.09%
	<u>\$ 142,266,635</u>	<u>100.00%</u>

Concentration of Credit Risk:

The City of Lakeland limits investments to avoid over concentration in securities from a specific issuer or business sector (excluding US Treasury securities) and continuously invests a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements.

The City of Lakeland's overall investment policy concentration limits and actual concentration limits in investment types as of September 30, 2017 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	39.70%
Local Government Investment Pools	100%	0.00%
Certificates of Deposits	25%	0.00%
Collateralized Repurchase Agreements	15%	0.00%
Other Investment Pools (rated "A" or better)	10%	0.00%
Mutual Funds	0%	0.40%
High Grade Corporate Debt	15%	47.80%
Investment Grade Obligations of State and Local Govts	15%	10.70%
Money Market Mutual Funds	N/A	1.40%
		<u>100.00%</u>

The High Grade Corporate Debt exceeded the maximum percentage temporarily as investment policy provides discretion for temporary variances, such as due to market changes. No investments in a single security exceeded 15 percent of the fixed income portfolio.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

As of September 30, 2016, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Market	%
AAA	\$ 1,444,508	0.94%
AA+ to AA-	60,575,935	39.54%
A+ to A-	14,020,777	9.15%
BBB+ to BBB-	36,305,292	23.70%
BB+ to BB-	8,135,295	5.31%
Below BB-	3,908,719	2.55%
NR	28,817,940	18.81%
	<u>\$ 153,208,466</u>	<u>100.00%</u>
 Moody's Rating:		
Aaa	\$ 48,455,533	31.63%
Aa1 to Aa3	5,853,625	3.82%
A1 to A3	11,210,685	7.32%
Baa1 to Baa3	42,008,187	27.42%
Ba1 to Ba3	6,210,618	4.05%
Below Ba3	6,114,471	3.99%
NR	33,355,347	21.77%
	<u>\$ 153,208,466</u>	<u>100.00%</u>

Concentration of Credit Risk:

The City of Lakeland's overall investment policy concentration limits and actual concentration limits in investment types as of September 30, 2016 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	37.80%
Local Government Investment Pools	100%	0.00%
Certificates of Deposits	25%	0.00%
Collateralized Repurchase Agreements	15%	0.00%
Other Investment Pools (rated "A" or better)	10%	0.00%
Mutual Funds	0%	0.40%
High Grade Corporate Debt	15%	42.38%
Investment Grade Obligations of State and Local Govts	15%	17.71%
Money Market Mutual Funds	N/A	1.71%
		<u>100.00%</u>

The High Grade Corporate Debt exceeded the maximum percentage temporarily as investment policy provides discretion for temporary variances, such as due to market changes. No investments in a single security exceeded 15 percent of the fixed income portfolio. The investment in obligations of state and local governments exceeded the maximum percentage. However, Section IV 7b of the policy provides an increase to 30 percent for state and local government obligations if, in the judgment of the Investment Administrator, said obligations provide sufficient additional returns. No individual issue purchased exceeded 50 percent in relation to the total portfolio.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

As of September 30, 2017 and 2016, the fair value of the total investment pool of the City of Lakeland and Lakeland Electric's share of the pool was as follows:

	Reported Amount Fair Value
<u>As of September 30, 2017:</u>	
Total Investment Pool	\$ 406,854,252
Lakeland Electric's Share of the Investment Pool	\$ 142,266,635
 <u>As of September 30, 2016:</u>	
Total Investment Pool	\$ 421,738,771
Lakeland Electric's Share of the Investment Pool	\$ 153,208,466

As of September 30, 2017 and 2016, other amounts classified as cash equivalents and investments are as follows:

	September 30	
	2017	2016
Demand deposits	\$ 28,010,109	\$ 28,957,517
Petty cash	1,525	1,525
	\$ 28,011,634	\$ 28,959,042

Cash, cash equivalents and investments are included in the following captions in the accompanying Statements of Net Position:

	September 30	
	2017	2016
Current assets:		
Cash and cash equivalents	\$ 42,522,537	\$ 57,371,795
Asset Apportionments:		
Cash and cash equivalents	84,636,525	74,258,895
Cash with paying agent	28,010,109	29,018,890
Restricted assets:		
Cash and cash equivalents	15,109,098	21,517,925
	\$ 170,278,269	\$ 182,167,505

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - INVENTORIES

The major classes of inventory consist of the following:

	September 30	
	2017	2016
Fuel oil	\$ 5,925,148	\$ 6,025,376
Coal	5,611,696	7,106,188
Spare parts	22,499,080	20,005,981
	<u>\$ 34,035,924</u>	<u>\$ 33,137,545</u>

NOTE E – REGULATORY ASSETS AND LIABILITIES

Unamortized debt issue costs:

Lakeland Electric treats unamortized debt issuance costs as a regulatory asset as allowed for regulated operations that recover their debt issuance costs through rates. These debt issue costs are amortized using the effective interest method, over the life of the related debt.

	September 30,	
	2017	2016
Unamortized balance, beginning of year	\$ 1,287,642	\$ 860,206
Additions	177,755	930,179
Less: amortization	(262,481)	(247,514)
deletions	-	(255,229)
Unamortized balance, end of year	<u>\$ 1,202,916</u>	<u>\$ 1,287,642</u>

Environmental compliance and energy conservation charges:

Accounting guidance for regulated operations allows the recognition of revenues provided either before or after the cost is incurred as assets or (liabilities) in accordance with rate actions of the City Commission. The regulatory assets/liabilities below represent the amounts due from, or (payable to) retail customers.

	September 30,	
	2017	2016
Environmental compliance charge recovery		
(Liability) balance, beginning of year	\$ (465,174)	\$ (905,627)
Charges recovered through rates	7,612,688	7,605,221
Less environmental compliance expenses	6,742,321	8,045,674
(Liability) balance, end of year	<u>\$ (1,335,541)</u>	<u>\$ (465,174)</u>

	September 30,	
	2017	2016
Energy conservation charges recovery		
(Liability) asset balance, beginning of year	\$ (258,929)	\$ (145,407)
Charges recovered through rates	719,428	708,577
Less future conservation charges	679,502	595,055
(Liability) balance, end of year	<u>\$ (298,855)</u>	<u>\$ (258,929)</u>

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE E – REGULATORY ASSETS AND LIABILITIES (CONTINUED)

Fuel charges:

The cumulative over-recovery of fuel charges, in excess of the long-term fuel reserve established by the Lakeland City Commission (see Note S), is classified as a regulatory (liability), calculated as follows:

	September 30,	
	2017	2016
Fuel reserve balance	\$ 18,001,167	\$ 20,301,603
Less cumulative over-recovery of fuel charges	21,954,865	26,663,649
(Liability) balance	\$ (3,953,698)	\$ (6,362,046)

Below is a summary of regulatory assets and regulatory liabilities recorded in the Statements of Net Position of Lakeland Electric:

	September 30,	
	2017	2016
Regulatory assets:		
Unamortized debt issuance costs	\$ 1,202,916	\$ 1,287,642

	September 30,	
	2017	2016
Regulatory liabilities:		
Environmental compliance charges	\$ 1,335,541	\$ 465,174
Energy conservation charges	298,855	258,929
Fuel charges	3,953,698	6,362,045
	\$ 5,588,094	\$ 7,086,148

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CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – ASSET APPORTIONMENTS

Debt service funds are set aside on a monthly basis and apportioned for the purpose of paying current principal and interest requirements.

The Capital Expansion Fund is used to fund capital expansion, as part of the plan to achieve Lakeland Electric’s objectives.

The Emergency Repair Fund is intended to fund large unbudgeted expenditures such as would be required for restoration from damage caused by a storm disaster. During fiscal year 2017, the Emergency Repair Fund transferred \$4,428,141 to cover storm costs related to Hurricane Irma paid through September 30, 2017.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2017 and 2016 consist of the following:

September 30, 2017:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	\$ 1,192,601	\$ 70,475,110	\$ 12,968,814	\$ 84,636,525
Cash with paying agent/trustee	28,010,109	-	-	28,010,109
Accounts receivable		477,185	-	477,185
Asset apportionments	<u>\$ 29,202,710</u>	<u>\$ 70,952,295</u>	<u>\$ 12,968,814</u>	<u>\$ 113,123,819</u>
Accounts Payable	\$ -	\$ 2,401,875	\$ -	\$ 2,401,875
Accrued Expenses	-	8,594,329	-	8,594,329
Accrued interest payable	7,216,706	-	-	7,216,706
Current portion of long term debt	21,250,000	-	-	21,250,000
Liabilities payable from apportioned assets, due within twelve months	<u>\$ 28,466,706</u>	<u>\$ 10,996,204</u>	<u>\$ -</u>	<u>\$ 39,462,910</u>
September 30, 2016:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	\$ 1,145,744	\$ 57,952,552	\$ 15,160,599	\$ 74,258,895
Cash with paying agent/trustee	29,018,890	-	-	29,018,890
Accounts receivable	-	-	-	-
Accrued receivable	-	-	-	-
Asset apportionments	<u>\$ 30,164,634</u>	<u>\$ 57,952,552</u>	<u>\$ 15,160,599</u>	<u>\$ 103,277,785</u>
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expenses	-	-	-	-
Accrued interest payable	9,086,747	-	-	9,086,747
Current portion of long term debt	20,875,000	-	-	20,875,000
Liabilities payable from apportioned assets, due within twelve months	<u>\$ 29,961,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,961,747</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - RESTRICTED ASSETS

The Reserve for Customer Deposits, which is completely offset by a liability payable from restricted assets reserve, represents cash held from electric customers. Guarantees from customers, other than cash, are not recorded as assets or liabilities on Lakeland Electric's Statements of Net Position.

Lakeland Electric participates in an energy efficiency revolving loan program which began in December 2009, and was initially funded by a \$250,000 block grant from the Federal Department of Energy (DOE).

Bond proceeds are restricted for the purpose of funding certain electric system capital projects. Remaining bond proceeds from the Series 2016 Revenue and Refunding Bonds provided the initial capital funding for fiscal year 2017.

Lakeland Electric's total restricted assets and restricted liabilities, as of September 30, 2017 and 2016 consist of the following:

September 30, 2017:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	\$ 15,086,557	\$ 22,541	\$ -	\$ 15,109,098
Accounts receivable	-	237,776	-	237,776
Restricted assets	<u>\$ 15,086,557</u>	<u>\$ 260,317</u>	<u>\$ -</u>	<u>\$ 15,346,874</u>
Accounts payable	\$ -	\$ 5,000	\$ -	\$ 5,000
Accrued expenses	-	-	-	-
Accrued interest payable	22,305	-	-	22,305
Advances	-	250,000	-	250,000
Customer deposits	15,064,251	-	-	15,064,251
Restricted liabilities, due within twelve months	<u>\$ 15,086,556</u>	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ 15,341,556</u>
September 30, 2016:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	\$ 14,685,727	\$ 12,341	\$ 6,819,859	\$ 21,517,927
Accounts receivable	-	242,040	899,872	1,141,912
Restricted assets	<u>\$ 14,685,727</u>	<u>\$ 254,381</u>	<u>\$ 7,719,731</u>	<u>\$ 22,659,839</u>
Accounts Payable	\$ -	\$ -	\$ 601,668	\$ 601,668
Accrued expenses	-	-	167,300	167,300
Accrued interest payable	25,899	-	-	25,899
Advances	-	250,000	-	250,000
Customer deposits	14,659,828	-	-	14,659,828
Restricted liabilities, due within twelve months	<u>\$ 14,685,727</u>	<u>\$ 250,000</u>	<u>\$ 768,968</u>	<u>\$ 15,704,695</u>

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE H - UTILITY PLANT

Utility plant in service consists of the following:

<u>Fiscal year 2017:</u>	September 30, 2016	Additions	Deletions	September 30, 2017
Non-depreciable assets:				
Land	\$ 15,595,265	\$ -	\$ -	\$ 15,595,265
Construction in process	8,591,771	32,600,552	20,792,124	20,400,199
	<u>24,187,036</u>	<u>32,600,552</u>	<u>20,792,124</u>	<u>35,995,464</u>
Depreciable assets:				
Buildings	25,589,625	791,924	-	26,381,549
Machinery and equipment	28,033,591	830,256	4,067,147	24,796,700
Equipment under capital leases	1,572,285	-	-	1,572,285
Electric plants in service:				
Electric delivery	522,112,985	16,119,929	1,433,064	536,799,850
Electric supply	745,202,451	11,847,010	6,108,668	750,940,793
Total plant assets	<u>1,322,510,937</u>	<u>29,589,119</u>	<u>11,608,879</u>	<u>1,340,491,177</u>
Less Accumulated Depreciation:				
Buildings	14,796,176	1,390,370	104,621	16,081,925
Machinery and equipment	15,134,002	1,880,672	4,522,336	12,492,338
Equipment under capital leases	563,393	157,224	-	720,617
Electric plants in service:				
Electric delivery	198,524,118	15,323,859	147,861	213,700,116
Electric supply	461,182,844	22,569,090	-	483,751,934
Total plant assets	<u>690,200,533</u>	<u>41,321,215</u>	<u>4,774,818</u>	<u>726,746,930</u>
Total Utility plant net of accumulated depreciation	<u>\$ 656,497,441</u>	<u>\$ 20,868,456</u>	<u>\$ 27,626,185</u>	<u>\$ 649,739,711</u>

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CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - UTILITY PLANT (CONTINUED)

<u>Fiscal year 2016:</u>	September 30, 2015	Additions	Deletions	September 30, 2016
Non-depreciable assets:				
Land	\$ 15,595,265	\$ -	\$ -	\$ 15,595,265
Construction in process	12,223,993	33,098,546	36,730,768	8,591,771
	<u>27,819,258</u>	<u>33,098,546</u>	<u>36,730,768</u>	<u>24,187,036</u>
Depreciable assets:				
Buildings	23,359,901	2,229,724	-	25,589,625
Machinery and equipment	33,285,146	1,755,977	7,007,532	28,033,591
Equipment under capital leases	1,572,285	-	-	1,572,285
Electric plants in service:				
Electric delivery	495,094,496	27,124,758	106,269	522,112,985
Electric supply	743,677,145	7,133,843	5,608,537	745,202,451
Total plant assets	<u>1,296,988,973</u>	<u>38,244,302</u>	<u>12,722,338</u>	<u>1,322,510,937</u>
Less Accumulated Depreciation:				
Buildings	13,175,128	1,621,048	-	14,796,176
Machinery and equipment	21,686,018	1,712,857	8,264,873	15,134,002
Equipment under capital leases	406,174	157,219	-	563,393
Electric plants in service:				
Electric delivery	183,985,116	14,599,600	60,598	198,524,118
Electric supply	438,911,688	26,668,017	4,396,861	461,182,844
Total plant assets	<u>658,164,124</u>	<u>44,758,741</u>	<u>12,722,332</u>	<u>690,200,533</u>
Total Utility plant net of accumulated depreciation	<u>\$ 666,644,107</u>	<u>\$ 26,584,107</u>	<u>\$ 36,730,774</u>	<u>\$ 656,497,441</u>

Allowance for Funds Used During Construction:

In accordance with GASB guidance regarding capitalized interest, Lakeland Electric has adopted the policy of capitalizing net interest costs on funds used for the construction of fixed assets. As required by the provisions of the related accounting guidance, interest charges are capitalized as part of capital costs during acquisition or construction of capital assets provided that Lakeland Electric has any outstanding debt. Interest earnings on borrowed funds, if any, are also capitalized. The remaining bond proceeds from the Series 2016 Bonds were exhausted during the first half of 2017.

	September 30	
	2017	2016
Interest cost on bonds was reduced by amounts capitalized as follows:		
Total interest expense on bonds payable	\$ 17,299,223	\$ 17,567,094
Capitalized interest revenue	61,897	430,378
Less capitalized interest expense	(811,841)	(725,754)
	<u>\$ 16,549,279</u>	<u>\$ 17,271,718</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I - UTILITY PLANT PARTICIPATION AGREEMENT

On April 4, 1978, the City entered into a fifty-year participation agreement with the Orlando Utilities Commission (OUC). Under the terms of this agreement, the City of Lakeland has a 60 percent interest and OUC a 40 percent interest in McIntosh Unit 3, a 365 MW coal-fired steam generating unit. OUC constructed, at its expense, a 230 KV transmission line to deliver its share of the output to its service area. The City of Lakeland issued revenue bonds to cover a portion of its initial investment in the plant. OUC 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.

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. Capital costs related to renewal and replacement of Unit 3 during fiscal year 2017 were \$3,984,278 with an OUC share of \$1,593,711. Shared operating expenses for the fiscal years ending September 30, 2017 and 2016, were as follows:

<u>Fiscal year 2017</u>	<u>City Share</u>	<u>OUC Share</u>	<u>Total</u>
McIntosh unit #3 fuel expense	\$ 35,728,226	\$ 23,818,817	\$ 59,547,043
McIntosh unit #3 direct operating & maintenance expenses	9,631,485	6,420,990	16,052,475
Other shared operating and administrative expenses	5,773,383	3,848,922	9,622,305
	<u>\$ 51,133,094</u>	<u>\$ 34,088,729</u>	<u>\$ 85,221,823</u>

<u>Fiscal year 2016</u>	<u>City Share</u>	<u>OUC Share</u>	<u>Total</u>
McIntosh unit #3 fuel expense	\$ 33,964,943	\$ 22,643,295	\$ 56,608,238
McIntosh unit #3 direct operating & maintenance expenses	8,529,821	5,686,547	14,216,368
Other shared operating and administrative expenses	5,981,740	3,987,827	9,969,567
	<u>\$ 48,476,504</u>	<u>\$ 32,317,669</u>	<u>\$ 80,794,173</u>

No separate financial statements are issued for the utility participation agreement.

NOTE J – DEFERRED OUTFLOWS OF RESOURCES

GASB requires certain items, which do not meet the definition of assets or liabilities, to be accounted for as deferred outflows or inflows of resources. Unamortized loss on refunding of debt is classified as a deferred outflow of resources, because it results in the use of resources in the current period for the benefit of future periods. It is amortized over the life of the issue using the effective interest rate method. Refer to Note R for details regarding hedge derivative outflows.

	<u>September 30</u>	
	<u>2017</u>	<u>2016</u>
Unamortized loss on refunding of debt, beginning balance	\$ 34,931,160	\$ 16,415,262
Additions	-	21,822,907
Deletions	-	(96,199)
Amortization	(3,910,487)	(3,210,810)
	<u>31,020,673</u>	<u>34,931,160</u>
Fuel hedges (see Note R)	-	348,521
Interest rate swaps (See Note R)	26,073,175	36,695,648
Pension contributions	13,296,993	20,290,620
Total deferred outflows of resources	<u>\$ 70,390,841</u>	<u>\$ 92,265,949</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – ACCRUED LIABILITIES AND LONG-TERM DEBT

Accrued liabilities are classified on the Statements of Net Position as follows:

	September 30	
	2017	2016
Current:		
Accrued taxes payable	\$ 760,726	\$ 702,864
Accrued payroll	1,622,736	1,798,093
Compensated absences	995,949	1,013,496
	\$ 3,379,411	\$ 3,514,453
Accrued liabilities, less current portion:		
Compensated absences	\$ 3,996,611	\$ 4,169,330
Other post employment benefits	19,904,620	17,945,523
Net pension liability	53,534,111	58,777,354
	\$ 77,435,342	\$ 80,892,207

Long-term bond debt, due beyond twelve months consists of the following:

	September 30	
	2017	2016
Revenue bonds payable, less current portion	\$ 363,475,000	\$ 387,725,000
Plus unamortized bond discount (net of premium)	29,364,687	33,012,771
	\$ 392,839,687	\$ 420,737,771

The following is a summary of long-term obligation transactions for the year ended September 30, 2017:

	Balance October 1 2016	Incurred	Satisfied	Balance September 30 2017	Amount Due within One Year
Net pension liability	\$ 58,777,354	\$ -	\$ 5,243,243	\$ 53,534,111	\$ -
Net OPEB obligation	17,945,523	1,959,097	-	19,904,620	-
Compensated absences	5,182,826	823,230	1,013,496	4,992,560	995,949
Capital lease obligations	467,229	-	328,183	139,046	139,046
Revenue bonds payable	408,600,000	97,000,000	120,875,000	384,725,000	21,250,000
Unamortized bond premium	33,012,771	-	3,648,084	29,364,687	-
	\$ 523,985,703	\$ 99,782,327	\$ 131,108,006	\$ 492,660,024	\$ 22,384,995

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – ACCRUED LIABILITIES AND LONG-TERM DEBT (CONTINUED)

For comparison to the table on the preceding page, the following is a summary of long-term obligation transactions of Lakeland Electric for the year ended September 30, 2016:

	Balance October 1 2015	Incurred	Satisfied	Balance September 30 2016	Amount Due within One Year
Net pension liability	\$ 48,261,275	\$ 10,516,079	\$ -	\$ 58,777,354	\$ -
Net OPEB obligation	15,945,423	2,000,100	-	17,945,523	-
Compensated absences	5,486,455	683,598	987,227	5,182,826	1,013,496
Capital lease obligations	787,757	-	320,526	467,229	328,184
Revenue bonds payable	417,790,000	138,650,000	147,840,000	408,600,000	20,875,000
Unamortized bond premium	15,966,579	20,482,754	3,436,562	33,012,771	-
	<u>\$ 504,237,489</u>	<u>\$ 172,332,531</u>	<u>\$ 152,584,315</u>	<u>\$ 523,985,703</u>	<u>\$ 22,216,680</u>

NOTE L - REVENUE BONDS

Lakeland Electric's revenue bonds payable as of September 30, 2017 consists of the following:

	Interest Rate %	Final Maturity	September 30, 2016	Additions	Deletions	September 30, 2017
Series 2006	4.00% to 5.00%	10-01-2036	\$ 1,055,000	\$ -	\$ 1,055,000	\$ -
Series 2010	4.00% to 5.25%	10-01-2036	168,895,000	-	16,280,000	152,615,000
Series 2012	Variable	10-01-2017	100,000,000	-	100,000,000	-
Series 2016	2.50% to 5.00%	10-01-2036	138,650,000	-	3,540,000	135,110,000
Series 2017	Variable	10-01-2022	-	97,000,000	-	97,000,000
			408,600,000	<u>\$ 97,000,000</u>	<u>\$ 120,875,000</u>	384,725,000
Less current portion			(20,875,000)			(21,250,000)
			<u>\$ 387,725,000</u>			<u>\$ 363,475,000</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of the debt service requirements, excluding the current portion of outstanding revenue bonds and excluding the impact of interest swaps on variable rate bonds, as of September 30, 2017:

Fiscal Year(s)	Series 2010		Series 2016		Floating Rates Notes	
	Principal	Interest	Principal	Interest	Principal*	Interest
2019	\$ 17,950,000	\$ 6,853,550	\$ 4,350,000	\$ 5,604,169	\$ -	\$ 1,316,775
2020	13,840,000	5,956,050	4,560,000	5,386,669	1,795,000	1,316,775
2021	4,695,000	5,264,050	4,770,000	5,158,669	7,000,000	1,292,408
2022	4,925,000	5,029,300	9,620,000	4,920,169	-	1,197,383
2023	5,140,000	4,819,988	10,020,000	4,439,169	-	1,197,383
2024-2028	28,195,000	20,291,588	57,470,000	14,203,344	-	5,986,914
2029-2033	30,290,000	12,933,375	31,415,000	4,304,675	17,565,000	5,796,186
2034-2038	30,475,000	4,102,088	8,760,000	1,122,000	70,640,000	3,117,092
	<u>\$ 135,510,000</u>	<u>\$ 65,249,989</u>	<u>\$ 130,965,000</u>	<u>\$ 45,138,864</u>	<u>\$ 97,000,000</u>	<u>\$ 21,220,916</u>

Fiscal Year(s)	TOTAL		
	Principal	Interest	Total
2019	\$ 22,300,000	\$ 13,774,494	\$ 36,074,494
2020	20,195,000	12,659,494	32,854,494
2021	16,465,000	11,715,127	28,180,127
2022	14,545,000	11,146,852	25,691,852
2023	15,160,000	10,456,539	25,616,539
2024-2028	85,665,000	40,481,846	126,146,846
2029-2033	79,270,000	23,034,236	102,304,236
2034-2038	109,875,000	8,341,179	118,216,179
	<u>\$ 363,475,000</u>	<u>\$ 131,609,767</u>	<u>\$ 495,084,767</u>

* The remaining \$97,000,000 of Floating Rates Notes are scheduled to mature on October 1, 2022. It has been assumed for debt service purposes that the replacement debt for the FRNs retains the same maturity schedules that convert these obligations to a synthetic fixed rate.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage from operations for fiscal year 2017 and the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2017	\$ 89,581,341	\$ 21,250,000	\$ 17,299,223	\$ 38,549,223	2.32
2016	110,517,658	20,875,000	17,567,094	38,442,094	2.87
2015	99,751,104	16,530,000	18,575,791	35,123,491	2.84
2014	111,991,243	20,775,499	25,469,790	46,245,289	2.42
2013	90,272,554	20,313,195	26,313,189	46,626,384	1.94
2012	97,653,479	24,456,267	27,136,639	51,592,906	1.89

Bond coverage was calculated as follows for the year ended September 30, 2017:

Charges for services	\$ 303,483,541
Investment and other revenue	5,832,077
Total revenue	<u>\$ 309,315,618</u>
Less cost of operations	<u>(219,734,277)</u>
Net revenues from operations available for debt service	89,581,341
Debt service requirement:	
Interest on bonds payable	17,299,223
Current portion of bonds payable	21,250,000
Total debt service requirement	<u>\$ 38,549,223</u>
 Bond coverage from operations	 2.32

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - REVENUE BONDS (CONTINUED)

All energy system bonds are secured by a first lien on and pledge of the net revenues of Lakeland Electric. As of September 30, 2017, Lakeland Electric is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Energy System Revenue and Refunding Bonds, Series 2006:

In August 2006, the City issued the Energy System Revenue and Refunding Bonds, Series 2006 in the amount of \$44,870,000 to finance certain capital improvements for the electric power system of the City, to refund, on a current basis, a portion of the City's outstanding Energy System Refunding Revenue Bonds, Series 1999B, and to pay certain costs and expenses related to the issuance of the bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. \$24,645,000 of the Series 2006 bond principal was redeemed in February 2016 as part of the Series 2016 Revenue and Refunding Bonds transaction. Another \$11,665,000 of the Series 2006 principal was paid using legally available apportioned assets. The remaining principal balance of \$1,055,000 was paid on October 1, 2016.

Energy System Revenue and Refunding Bonds, Series 2010:

In October 2010, the City issued the Energy System Revenue and Refunding Bonds, Series 2010 in the amount of \$199,300,000 to (1) finance certain capital improvements to the electric power system of the City, (2) to refund on a current basis, a portion of the City's outstanding Electric and Water Refunding Revenue Bonds, Series 1999A and to refund on an advance basis, all of the City's outstanding Energy System Revenue Bonds, Series 2001B, (3) to pay costs associated with the termination of a conditional bond warrant agreement, and (4) to pay certain costs and expenses related to the issuance of the Bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. As of September 30, 2017, the remaining principal and interest requirement for these bonds aggregate to \$221,719,388.

The current and advance refunding reduced the aggregate debt service requirement on the refunded bonds only nominally from \$308.2 million to \$308.0 million over the remaining 25-year life of the bonds. The majority of the financial benefit of the transaction was monetized in January of 2007 when the City sold a warrant to Goldman Sachs for the price of \$7,680,000. That warrant gave Goldman Sachs the right to compel the City to refund the 1999A bonds. In addition to those proceeds, there was approximately \$2,200,000 in net cash proceeds from the refunding paid to the City to finance capital projects.

The transaction also resulted in recognition of a loss on refunding of \$13,165,887, representing the difference in the carrying value of the new debt and the refunded debt, including the write-off and recognition of unamortized bond issue costs associated with each issue, the write-off of unamortized loss on refunding from a previous refunding transaction associated with the 1999A bonds of \$1,222,088, and the monetization of \$7,680,000 of future decreases of debt service costs.

Energy System Revenue and Refunding Bonds, Series 2016:

In February 2016, the City issued the Energy System Revenue and Refunding Bonds, Series 2016 in the amount of \$138,650,000. The Series 2016 bonds refunded all of the Series 2014 bonds, a portion of the outstanding Series 2006 bonds, and provided \$37.4 million in proceeds to fund Electric System capital projects. The Series 2016 bonds bear fixed interest rates ranging from 2.00 to 5.00 percent, and mature from October 1, 2016 through October 1, 2036. In concert with the refunding of the 2014 bonds, which were variable rate obligations, the City terminated portions of three associated floating-to-fixed interest rate swaps. The refunding portion of the transaction did not produce net present value savings or a material economic gain or loss. Rather, it was designed to restructure and simplify the Electric System's debt profile. The remaining principal and interest requirements for these bonds aggregate to \$183,154,572.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - REVENUE BONDS (CONTINUED)

Variable Rate Energy System Refunding Bond, Series 2017:

In August 2017, the City issued the Variable Rate Energy System Refunding Bond, Series 2017 in the amount of \$97,000,000 to refund the City's outstanding Variable Rate Energy System Revenue and Refunding Bonds, Series 2012 that were scheduled to mature on October 1, 2017. Immediately prior to this 2017 refunding, the City paid down \$3,000,000 of outstanding principal on the Series 2012 Bonds. The 2017 bonds mature on October 1, 2022. The bonds bear a variable rate of interest equal to the one-month LIBOR index plus 0.52 percent. Principal payments of \$1,795,000 and \$7,000,000 are payable on April 1, 2020 and 2021, respectively. Interest payments are payable on the first business day of each month. Although the 2017 bonds bear a variable rate of interest, they have been effectively converted to a fixed rate as a result of pre-existing interest rate swap agreements. There was no gain or loss on refunding of the debt.

The Electric and Energy bonds series are secured by a pledge of operating revenues of the Electric Utility. The total principal and interest remaining to be paid on all of the Electric Revenue Bonds is \$523,094,878. Principal and interest paid for the current year and total net customer revenues were \$40,704,725 and \$109,711,739 respectively.

As of September 30, 2017, the City is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Interest Rate Swaps:

As a means to reduce borrowing costs and to hedge the variable rate exposure related to certain bonds, the City has entered into a number of interest rate swap agreements.

An interest rate swap is a derivative, a financial instrument whose value and terms are derived from the SIFMA index. In the case of the interest rate swaps employed by the City of Lakeland, the intent is two-fold. First to achieve an all-in financing cost (representing interest payments to bondholders combined with net interest payments and receipts on the derivatives) that is less than the financing cost associated with traditional fixed rate bonds based on market conditions at the time of each bond issue. The second objective is to minimize the interest rate risk associated with the inherent volatility associated with "naked" variable rate debt. Under the terms of these interest rate swaps, the City of Lakeland pays an amount to a counterparty that is based on a specified notional amount (which closely approximates the outstanding principal amount of the related bonds) times a specified fixed interest rate. In exchange, the counterparty makes a payment to the City that is based on the same notional amount times a variable rate of interest. When the variable and fixed components of the interest rate swaps are combined with the variable cash payments made by the City to the actual bondholders, the end result is a net, fixed rate of interest. In February 2016, Lakeland Electric elected to terminate a portion of interest rate swaps associated with variable rate bonds, using legally available apportioned assets, at a cost of \$20,678,000.

In the case of the City's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulate the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using all of the methods outlined by GASB Statement No. 53, except the dollar-offset method, and have passed at least one of the prescribed effectiveness tests. Accordingly, the market values of the derivatives are recorded as offsetting items on the Statements of Net Position. The fair value of Lakeland Electric's interest rate swaps as of September 30, 2017 was (\$26,073,175). Also see Note R, Derivative and Hedging Activities.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - REVENUE BONDS (CONTINUED)

Variable Rate Hedges:

As a result of the swap agreements, the City will receive (on a combined basis) variable rate payments equal to between 67 percent and 74.125 percent of LIBOR times the notional amount of the swap agreements. The notional amount of the swap agreements roughly corresponds to the outstanding amount of the Series 2017 variable rate bonds. In return, the City will make fixed rate payments of between 3.163 percent and 4.283 percent times the notional amount of the swap agreements. These agreements fix the variable rate exposure of the 2017 bonds at the fixed rates noted above (plus the fixed rate spread paid on the bonds) to the extent that the variable rate payments received by the City under the swap agreements are equal to the variable rates paid by the City on the 2017 bonds. The City is subject to the basis risk between the LIBOR based variable rates it receives and the actual rates paid on the 2017 bonds, which are based on SIFMA. Over time the variable rates paid and received are expected to be equivalent.

The swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or rating downgrades to either counterparty. As of September 30, 2017, the City was not subject to credit risk with its counterparties because the fair market values of the swap agreements were negative.

The market values of the derivatives are recorded as offsetting items on the Statements of Net Position, and accordingly, recognition of changes in fair market value are deferred until the period when transactions are settled. See Note R, Derivatives and Hedging Activities.

NOTE M – CAPITAL LEASES

On November 5, 2012, Lakeland Electric entered into a 60-month lease-purchase agreement for a medium wheel loader and for interconnection communication equipment. Lakeland Electric's share of the present value of the future minimum lease payments at the inception of the contract, with an interest rate of 2.36 percent, was \$1,572,285. The lease concludes in February 2018. As of September 30, 2017, the remaining total lease obligation was \$139,046 which is payable during fiscal year 2018.

NOTE N - DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Principles:

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expenses, information about the fiduciary net position of the City of Lakeland's Employees' Pension and Retirement System, and additions to/deductions from the Employees' Pension and Retirement System's fiduciary net position have been determined on the same basis as reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

The Plan is maintained using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which the employee services are performed. Expenses are recognized when they are incurred and revenues are recognized when they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Generally Accepted Accounting Principles in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates. Investments are recorded at fair value. Dividends and interest are recognized when earned. Gains and losses on sales are recognized on the trade date.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description:

The City of Lakeland Employees' Pension and Retirement System administers the City of Lakeland Employees' Pension Plan – a single employer, defined benefit pension plan that provides pensions for all full-time, regular employees of the City. The authority for the establishment and amendment of the Plan, benefits, vesting, and contributions are established by City Ordinances. Government plans are not subject to the provisions of the Employee's Retirement Income Security Act of 1974 (ERISA). Management of the plan is vested in the Employees' Pension Board, which consists of seven (7) active members – three (3) of which are elected by plan members for 3-year terms, three (3) appointed by the City Commission for 3-year terms and one (1) appointed by the board. This Plan is a pension trust fund (fiduciary fund type) of the City that contains three pension plan options (Plans A, B, and C). Each plan option is part of a single employer, defined benefit pension plan offered by the City with a defined contribution option available to certain eligible employees. Plan A is eligible to employees of the City hired prior to October 1, 2003. Plan B is eligible to employees hired on or after October 1, 2003 through February 15, 2012. Plan C is eligible to employees hired after December 29, 2011 or who have made an irrevocable election to convert their prospective benefit calculation to Plan C as of February 15, 2012.

The defined contribution option allows certain eligible employees to cease participation in this Plan and begin participation in the City's defined contribution plan.

Deferred Retirement Option Plan (DROP):

A Deferred Retirement Option Plan (DROP) was enacted on December 19, 2009 by Ordinance 4727. Under this Plan, participants who have attained eligibility may continue working with the city for up to sixty months while receiving a retirement benefit that is deposited into a DROP account. As of September 30, 2017, Lakeland Electric had a total of 57 participants.

Cost of Living Adjustment:

No cost of living increase was awarded for fiscal year 2017.

Funding Policy, Contributions Required, and Contributions Made:

Under Ordinance 5287, section 23.1.1, the Plan grants the authority to the City Commission to establish and modify contribution requirements of the City and active plan members. The Plan is subject to periodic review by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute at least quarterly to the fund in an amount equal to the required city contribution as shown by the applicable actuarial valuation system. The actuarial experience 0.97, a variable rate of 0.02 and Change in Cost Sharing 0.65 are added to the prior Contribution Rate (18.89%), less the Amortization Payment on Unfunded Actuarial Accrued Liability (UAAL) (0.35), plan change of (0.73), and Change in Normal Cost Rate (0.18) to calculate the current year Contribution Rate of 19.27%. Contributions to the pension plan from Department of Electric Utilities were \$5,590,678 for the year ended September 30, 2017 and \$11,436,475 for the year ended September 30, 2016.

At September 30, 2017, the Department of Electric Utilities reported a liability of \$53,534,111 for its proportionate share of the net pension liability of the Employees' Pension and Retirement System. The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportionate share of the net pension liability of the Employee's Pension and Retirement System at September 30, 2016 was \$58,777,353. The Department of Electric Utilities' portion of the net pension liability was based on the Department of Electric Utilities' share of the actual contributions to the pension plan relative to the actual total contributions of the City of Lakeland. At September 30, 2017, the Department of Electric Utilities' proportion was 40%, which was the same as the proportion measured as of September 30, 2016. The Department of Electric Utilities recognized pension expenses of \$7,566,748 and \$7,416,244 in fiscal year 2017 and 2016, respectively.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy, Contributions Required, and Contributions Made (continued):

The Department of Electric Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Proportionate share of contributions subsequent to the measurement date	\$ 5,590,678	\$ -	\$ 11,436,475	\$ -
Difference between actual and expected experience	7,706,315	-	8,854,145	-
Difference between projected and actual earnings		624,849	-	753,373
Total	\$ 13,296,993	\$ 624,849	\$ 20,290,620	\$ 753,373

\$5,590,678 reported as deferred outflows of resources related to pensions resulting from Lakeland Electric's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Fiscal year ended September 30th:	
2018	\$ 2,118,046
2019	2,121,653
2020	2,646,446
2021	195,321
	\$ 7,081,466

Actuarial Assumptions:

The total pension liability in the actuarial evaluation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.25%
Salary increases	4.0% to 14.0% depending on service, including inflation
Inflation rate	3.00%
Post-retirement benefit increases	N/A
Retirement rate	(1)
Mortality table	Generational RP-2000 for males and females with mortality improvement projected using Scale AA after 2000

(1) Probabilities of retirement eligible members are assigned for each attained age and length of service

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (continued):

The projected long-term real rate of return for the Plan net of investment expenses is 6.126 percent. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation (see the discussion of the pension plan's investment policy) are summarized in the following tables as required by GASB 67 and 68:

As of September 30, 2017

Asset Class (Market)	Target Allocation	Long-Term Expected Real Rate of Return	Asset Group Contribution
Domestic Equity	35.00%	7.50%	2.625%
International Equity	15.00%	8.50%	1.275%
Domestic Bonds	15.00%	2.50%	0.375%
International Bonds	5.00%	3.50%	0.175%
Real Estate	10.00%	4.50%	0.450%
Alternate Assets	20.00%	6.00%	1.226%
Total Investments	<u>100.00%</u>		<u>6.126%</u>

As of September 30, 2016

Asset Class (Market)	Target Allocation	Long-Term Expected Real Rate of Return	Asset Group Contribution
Domestic Equity	40.00%	7.50%	3.000%
International Equity	15.00%	8.50%	1.275%
Domestic Bonds	20.00%	2.50%	0.500%
International Bonds	5.00%	3.50%	0.175%
Real Estate	10.00%	4.50%	0.450%
Alternate Assets	10.00%	6.00%	0.600%
Total Investments	<u>100.00%</u>		<u>6.000%</u>

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that the plan members' contributions will be made at the current contribution rate and the City contributions will be made at the rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.25 percent) was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents Lakeland Electric's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate.

<u>As of September 30, 2017</u>	<u>1% Decrease Rate (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase Rate (8.25%)</u>
Lakeland Electric's proportionate share of the net pension liability	\$ 80,294,473	\$ 53,534,111	\$ 30,857,290
<u>As of September 30, 2016</u>	<u>1% Decrease Rate (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase Rate (8.25%)</u>
Lakeland Electric's proportionate share of the net pension liability	\$ 85,175,004	\$ 58,777,353	\$ 36,406,970

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued Employee's Pension and Retirement System financial report.

Termination of Benefits:

If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable: If the employee is not vested, the employee shall be entitled to a refund of amounts contributed by the employee. If the employee is vested, 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.

Additional Information:

For more information regarding the aforementioned plan, 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.

NOTE O - BUSINESS SEGMENT

Lakeland Electric is a department of the City of Lakeland, operating in only one business segment, that of providing electric service. The City of Lakeland has been generating power and providing electric service since 1904. Its service area is primarily the City of Lakeland and the immediate area surrounding the City.

NOTE P - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, 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 of 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.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P - POST-EMPLOYMENT BENEFITS (Continued)

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 percent was reduced as follows: in fiscal year 2004 to 45 percent, in fiscal year 2005 to 40 percent, and in subsequent fiscal years to 35 percent. Effective October 1, 2002, the health insurance premium subsidy is based on years of service. Lakeland Electric's annual cost of this benefit was \$506,009 and \$490,183 during fiscal years 2017 and 2016, respectively, and is funded on a pay-as-you-go basis.

Effective January 1, 2004, 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, 2014, there were more than 200 retired employees of Lakeland Electric participating in the program.

In accordance with GASB's prescribed accounting treatment for Other Post Employment Benefits (OPEB), the City has measured the long-term liability and associated required contributions necessary to finance the explicit subsidy provided to retired employees as a percentage of annual insurance premiums and an implicit subsidy associated with the state mandate that health insurance premiums for retired employee equal the amount charged to active employees, without regard to the increased health insurance costs associated with retired employees based on claims experience. The City has elected to fund the explicit subsidy within a formal Trust established to accumulate and invest assets necessary to pay for the accumulated liability. The City has not established a trust to finance cost of the implicit subsidy.

The annual OPEB cost is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB. The Net OPEB obligation represents the excess of the annual required contribution necessary to amortize both the explicit and implicit subsidies on an actuarially sound basis over the amount actually funded on a pay-as-you go basis for the City of Lakeland. The portion of the liability attributable to the operations of Lakeland Electric was \$19,904,620 as of September 30, 2017, and \$17,945,523 as of September 30, 2016.

NOTE Q - 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 percent of an employee's gross salary (not to exceed \$18,000 in one year).

Under the terms of the Deferred Compensation 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.

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES

Accounting for Derivatives and Hedging Activities:

Derivatives have a market value, require no initial investment, and may be net settled. The City follows GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Statement No. 53 requires derivatives to be categorized as either hedging derivative instruments or investment derivatives. Hedging derivative instruments are associated with specific hedging transactions wherein the intent is to significantly reduce risks. Changes in fair value of hedges are reported as either deferred inflows or deferred outflows in the statement of net position. For accounting purposes, in order to qualify as a hedge, the relationship between the derivative and the underlying asset must result in a hedge that is "effective" in mitigating risk. If the hedge transaction is considered "ineffective" the valuation of the instrument is considered investment income or loss on the Statements of Revenues, Expenses, and

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (Continued)

Changes in Net Position. GASB Statement No. 53 outlines five methods for evaluating hedge effectiveness:

Consistent Critical Terms
Synthetic Instrument
Dollar Offset
Regression Analysis
Other Quantitative Methods

For purposes of performing hedge effectiveness testing, Lakeland Electric can use any or all of the evaluation methods and is not limited to using the same method from period to period. Therefore, if the result of any one prescribed evaluation method indicates the hedge is ineffective, Lakeland Electric may apply another method to verify effectiveness. In addition, the calculations for effectiveness may be based on either a life-to-date period or be limited to the immediately preceding annual accounting period.

Fuel Hedges:

For purposes of performing hedge effectiveness testing, Lakeland Electric can use any or all of the evaluation methods and is not limited to using the same method from period to period. Therefore, if the result of any one prescribed evaluation method indicates the hedge is ineffective, Lakeland Electric may apply another method to verify effectiveness. In addition, the calculations for effectiveness may be based on either a life-to-date period or be limited to the immediately preceding annual accounting period.

To achieve its goals of minimizing volatility in both cash flow and fuel rates to the ratepayers, Lakeland Electric hedges at various volumes for a rolling 30 month forward period with emphasis on upside protection through the purchase of swaps. Due to a depressed natural gas market, the costs of the program became significant. To control the cost of the program, Lakeland Electric's Utility Committee implemented changes to the policy in March 2010. When a swap is placed, at or near the same time, a put option will be placed to provide opportunity to participate in a downward market. Swaps should be placed at no more than \$1/MMBTU above market and option premiums at \$0.50/MMBtu resulting in a maximum cost of \$1.50/MMBtu. Each quarter, when a fuel rate change is proposed, the next 12 months of forecasted volumes will be approximately 63 percent hedged as follows:

1st quarter will be 100 percent hedged
2nd quarter will be 75 percent hedged
3rd quarter will be 50 percent hedged
4th quarter will be 25 percent hedged

Fuel related derivative transactions are executed in accordance with the fuel hedging policies established by Lakeland Electric's Energy Risk Management Oversight Committee. The primary objective of these policies is to minimize exposure to natural gas price volatility for cash flow and fuel rate stabilization purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counterparty credit worthiness, specific fuel volumes and financial limits in addition to overall policy compliance. Acquisition of these hedge transactions are managed by The Energy Authority (TEA) based on a contractual relationship created in March 2007.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

TEA performs the front and back office functions associated with such trades in accordance with overall hedging policies developed jointly by TEA and the aforementioned oversight committee of Lakeland Electric. The recording of fuel derivatives, when appropriate, is included on the Statement of Net Position as either an asset or liability measured at fair value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as part of Fuel and Purchased Power costs in the Statement of Revenues, Expenses and Changes in Net Position. The premiums associated with the purchase of options are expensed upon expiration of the option. Premiums associated with unexpired options are embedded in the valuation table displayed later in this note. The valuation of market changes for contracts entered into within Lakeland Electric's Risk Management Program resulted in a net increase of \$1,967,220 and \$5,886,576 to the cost of fuel during the fiscal year ended September 30, 2017 and 2016, which was approximately 2 percent and 5 percent of the total fuel cost, respectively.

Lakeland Electric's natural gas swaps and options have been evaluated using the regression analysis method cited above. According to this method, all of Lakeland Electric's derivatives were considered to be effective. Consequently, the R-Squared relationship between the derivative based on the NYMEX index as related to physical natural gas prices based on purchased gas from Florida Gas Transmission Zones 1, 2 and 3 was 0.8 or higher with a slope between -0.8 and -1.25 with a 95 percent confidence. In addition, the effectiveness of options was assessed consistent with the objective of the derivative instrument as mentioned in the goals of hedging above. With GASB compliance, the open swaps and options valuation of \$929,482 includes mark-to-market of the swaps and both intrinsic and extrinsic mark-to-market of the options.

Natural Gas Derivate Instruments:

Lakeland Electric uses Over-the-Counter (OTC) swaps, put options, swing-swaps and fixed price firm physical purchases of natural gas as tools to stabilize the cost of natural gas that will be needed by the utility in the future. Any gain or loss of the value of these derivatives are ultimately rolled into the price of natural gas burned, offsetting the volatility in the price of that fuel. These derivative instruments are classified in level 2 of the fair value hierarchy using the market approach of valuation. Derivative instruments classified as level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives. As of September 2017, Lakeland Electric had options, swaps, and physical contracts outstanding in the following amounts, covered fiscal year 2017 and beyond:

Fiscal Year	Options	Swaps	Market Value (Gain) / Loss
2018	\$ 10,660,000	\$ 4,730,000	\$ (818,540)
2019	2,800,000	2,200,000	(89,237)
2020	1,400,000	1,400,000	(21,705)
	\$ 14,860,000	\$ 8,330,000	\$ (929,482)

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Interest Rate Swaps:

An interest rate swap is a derivative whose value and terms are derived from a specified financial index (SIFMA). In the case of the interest rate swaps employed by the City of Lakeland, the intent is two-fold. First to achieve an all-in financing cost (representing interest payments to bondholders combined with net interest payments and receipts on the derivatives) that is less than the financing cost associated with traditional fixed rate bonds based on market conditions at the time of each bond issue. The second objective is to minimize the interest rate risk associated with the inherent volatility associated with "naked" variable rate debt. Under the terms of these interest rate swaps, the City of Lakeland pays an amount to a counterparty that is based on a specified notional amount (which closely approximates the outstanding principal amount of the related bonds) times a specified fixed interest rate. In exchange, the counterparty makes a payment to the City that is based on the same notional amount times a variable rate of interest. When the variable and fixed components of the interest rate swaps are combined with the variable cash payments made by the City to the actual bondholders, the end result is a net fixed rate of interest.

In the case of Lakeland's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulated the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using all of the methods cited above except the dollar-offset method. All of the interest rate swaps employed by the City have passed at least one of the effectiveness tests prescribed by GASB Statement No. 53. Accordingly, the market values of the derivatives are recorded as offsetting items on the Statements of Net Position, and therefore the recognition of changes in fair market value are deferred. The first item on the table below is a \$134,580,000 basis swap entered in 2004 as a means to reduce borrowing costs of a portion of the Electric and Water Refunding Revenue Bonds Series 1999A. Settlement payments to the City have been positive in each fiscal year since inception. The remaining items on the table below are related to certain prior variable rate debt, which has been refunded. The City has elected to apply the existing swap agreements to hedge the new variable rate refunding debt as a means to hedge the variable rate risk exposure related to variable rate bonds.

Lakeland Electric had interest rate swaps with the following mid-market value as of the close of the final business day of the fiscal year ending September 30, 2017:

Description	Maturity	Net Value
\$134.580M Basis Swap	10/01/2036	\$ 2,383,945
\$24.772M SIFMA Swap	10/01/2035	(8,026,695)
\$47.86M 67% LIBOR Swap	10/01/2037	(15,632,105)
\$14.053M SIFMA Swap	10/01/2035	(4,393,847)
\$1.520M 67% of LIBOR Swap	10/01/2037	(309,361)
\$90M 74.12% of LIBOR Swap	05/01/2021	(95,112)
		<u>\$ (26,073,175)</u>

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Interest Rate Swaps (continued):

Note L, Revenue Bonds, refers to the fair value of interest swap derivatives, which are evaluated for effectiveness using the same criteria required for fuel hedge derivatives under GASB Statement No. 53. The interest rate swaps are classified in level 2 of the fair value hierarchy using the market approach to valuation. Derivative instruments classified as level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives.

The fair value of all of Lakeland Electric's derivatives as of September 30, 2017 was as follows:

Interest rate swaps	\$ (26,073,175)
Prepaid fuel	3,257,517
Fuel hedges (deferred inflows)	929,482
	<u>\$ (21,886,176)</u>

The fair value of all of Lakeland Electric's derivatives as of September 30, 2016 was as follows:

Interest rate swaps	\$ (36,695,648)
Prepaid fuel	3,638,469
Fuel hedges (deferred outflows)	(348,521)
	<u>\$ (33,405,700)</u>

NOTE S – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent acquisitions applicable to future accounting periods and typically have a credit balance similar to liabilities.

Contributions in Aid of Construction

Through the use of regulatory accounting, Lakeland Electric records contributions in aid of construction (CIAC) as a deferred inflow of resources, which is amortized over the estimated useful life of the corresponding assets as a reduction of depreciation expense.

	September 30,	
	2017	2016
Contributions in aid of construction, beginning balance	\$ 45,591,950	\$ 46,112,503
Additions	2,441,818	2,454,232
Amortization as depreciation expense	(3,053,926)	(2,974,785)
	<u>\$ 44,979,842</u>	<u>\$ 45,591,950</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S – DEFERRED INFLOWS OF RESOURCES (CONTINUED)

Fuel Reserve

The fuel reserve represents the cumulative recovery of fuel revenues over fuel expenses up to a maximum of 15 percent of annual budgeted fuel expenses. A regulatory liability (see Note E) exists to the extent that the cumulative over-recovery of fuel charges exceeds the fuel reserve. The fuel reserve balance is as follows:

	September 30,	
	2017	2016
Beginning balance	\$ 20,301,603	\$ 13,057,442
Fuel revenues	122,163,443	123,071,900
Less fuel expenses	(120,510,181)	(109,465,694)
Less regulatory liability related to fuel charges	(3,953,698)	(6,362,045)
	<u>\$ 18,001,167</u>	<u>\$ 20,301,603</u>

Unearned Revenue

During August 2009, Lakeland Electric received a \$3,823,875 termination fee in a natural gas discount settlement with Florida Gas Utility. Lakeland Electric has been amortizing the lump sum settlement as fuel revenue over a period of eight years, which is the approximate length of time that the natural gas discount would have otherwise been maintained. The unamortized portion of the unearned revenue classified as a deferred inflow of resources was \$398,321 in fiscal year ending September 30, 2016 and was fully amortized during fiscal year 2017.

Below is a summary of all deferred inflows of resources contained in the Statements of Net Position:

	September 30,	
	2017	2016
Contributions in aid of construction	\$ 44,979,842	\$ 45,591,950
Fuel reserve balance	18,001,167	20,301,603
Unearned revenue	-	398,321
Deferred outflows - actuarial (see Note R)	929,482	-
Deferred inflows - actuarial (see Note N)	624,849	753,373
	<u>\$ 64,535,340</u>	<u>\$ 67,045,247</u>

NOTE T – 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.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - COMMITMENTS AND CONTINGENCIES

Self-Insurance Program:

The City of Lakeland has established a self-insurance fund for worker's compensation, general liability, public official's 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, 2017, 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-Insurance 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's CAFR 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.

Lakeland Electric has a long-term service agreement with Siemens/Westinghouse to provide labor, parts, and materials to cover all planned annual outages for McIntosh Unit 5, a 354 MW combined cycle gas turbine unit. In December 2012, the Lakeland City Commission approved changes to the contract, which included a revised payment schedule. During fiscal year 2017, milestone payments of \$7,874,013 were made under the contract. The agreement, which is scheduled to run through 2025, includes annual milestone payments, and an economic index escalation factor. Future base payments per the schedule, excluding escalation, are as follows:

Fiscal Year	Operating	Capital	Total
2018	\$ 367,320	\$ 7,267,796	\$ 7,635,116
2019	367,320	6,238,946	6,606,266
2020	367,320	7,267,796	7,635,116
2021	367,320	7,267,796	7,635,116
2022	367,320	7,267,796	7,635,116
2023-2025	1,101,960	38,785,927	39,887,887
	<u>\$ 2,938,560</u>	<u>\$ 74,096,057</u>	<u>\$ 77,034,617</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lakeland Electric entered into a total of five Solar Energy Participation Agreements (SEPAs) with Sun Edison, LLC from 2009 through 2016. As of September 30, 2017, Sun Edison's former ownership interests were assigned as follows:

Location	Generation Capacity (MW)	Owner/Operator
RP Funding Center	0.25	Longroad Energy Holdings, LLC
Airport Phase I	2.25	Longroad Energy Holdings, LLC
Airport Phase II	2.75	SE Solar Trust VII
West Bella Vista	6.00	Terra Form Utility Solar XIX, LLC
Airport Phase III	3.15	NRG DG Lakeland, LLC
	<u>14.40</u>	

Lakeland Electric has no equity interest in and assumes no financial responsibility for the solar generation systems which are all located on properties owned by the City of Lakeland. Solar energy system installations are as follows: the roof of the RP Funding Center, the runway protection zones of the Lakeland Linder Regional Airport, and 70 acres adjacent to the Sutton Electric Substation. The latest SEPA, Airport Phase III (3.15MWs), became available to purchase power on December 21, 2016. Each SEPA is in effect for twenty-five years at a fixed price per MWh with no price escalation clauses. Lakeland Electric's purchases under the SEPAs totaled \$3,512,157 and \$3,242,903 in 2017 and 2016, respectively.

Lakeland Electric participates in federal and state programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. In the opinion of management, no significant contingent liabilities exist related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Lakeland Electric had active construction projects as of September 30, 2017. Commitments for construction contracts and other capital outlay as of September 30, 2017 are as follows:

McIntosh unit 5 renewal and replacement projects	\$ 3,580,574
Other power production plant improvements	393,769
Energy delivery capital projects	1,109,833
Building improvement projects	469,745
Equipment	21,367
	<u>\$ 5,575,288</u>

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Encumbrances:

In addition to the commitments for capital projects, Lakeland Electric had other outstanding purchase orders in the amount of \$195,774,570 as of September 30, 2017, of which \$190,550,469 represents contracts for the procurement and transportation of fuel and purchased power.

It is management's opinion that Lakeland Electric is in compliance with the requirements of all the aforementioned contractual commitments.

Contingency:

On September 10, 2017, Hurricane Irma inflicted widespread damage to the City of Lakeland's electric system. The total \$11.2 million cost of restoration was funded from the Emergency Repair Reserve of Lakeland Electric, including cash paid in 2017 in the amount of \$4.4 million, with the remainder paid in the subsequent fiscal year.

As of the date of this report, the City of Lakeland has not entered into an agreement with the Federal Emergency Management Agency or any other agency. Any future financial assistance to Lakeland Electric related to Hurricane Irma storm recovery efforts will be used to replenish the Emergency Repair Reserve. The amount of any possible financial assistance that may be received cannot be determined at this time.

NOTE V – SUBSEQUENT EVENTS

New Accounting Pronouncements:

In March 2016, the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and 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. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The provisions of this Statement are effective for the City's fiscal year ending September 30, 2018. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The principal objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In March, 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPES)). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE V – SUBSEQUENT EVENTS (CONTINUED)

New Accounting Pronouncements (continued):

In March, 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The objective of this statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In May, 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt prior to its maturity. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for defeased debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

Approval for Purchase of Gas Turbine Unit and Issuance of Bonds

On April 2, 2018, the Lakeland City Commission approved the purchase of a 125-megawatt hour Calpine combustion turbine unit. The dual-fuel (natural gas and oil) capable unit was originally installed in 2002 in Auburndale, Florida, and has experienced a low number of starts and hours of operation. The contract for purchase has not been fully executed as of the date of this report and Lakeland Electric reserves the right to terminate the agreement if the unit fails to meet testing parameters. The newer unit is expected to replace the 106-megawatt hour McIntosh Unit 2, which was placed in service in 1976. Project completion is anticipated in fiscal year 2020, with a total cost including testing, delivery, and installation of \$36.1 million. The cost is expected to be financed by a bond issuance of up to \$60 million during fiscal year 2018, with the remaining bond proceeds used to fund other energy supply and delivery projects of Lakeland Electric.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2017**

SCHEDULE OF LAKELAND ELECTRIC'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement date:	Employees' Pension & Retirement System		
	2016	30-Sep 2015	2014
Lakeland Electric's proportion of the net pension liability	39.6375%	39.7567%	39.7567%
Lakeland Electric's portion of the net pension liability	\$ 53,534,111	\$ 58,777,353	\$ 48,261,275
Lakeland Electrics covered payroll	\$ 31,951,564	\$ 31,696,314	\$ 31,094,405
Lakeland Electric's proportionate share as a % of covered payroll	167.55%	185.44%	155.21%
Plan fiduciary net position as a % total pension liability	79.69%	77.14%	80.60%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF LAKELAND ELECTRIC'S CONTRIBUTIONS

Employees' Pension & Retirement System					
Year Ended Sep 30th	Actuarily Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2017	\$ 7,094,755	\$ 5,590,678	\$ 1,504,077	\$ 31,867,657	17.54%
2016	6,035,644	11,436,475	(5,400,831)	31,951,564	35.79%
2015	5,876,490	6,240,823	(364,333)	31,696,314	19.69%
2014	5,596,993	6,120,777	(523,784)	31,094,405	19.68%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Actuarially determined contribution rates are calculated as of October 1, 2015, two years prior to the end of the fiscal year in which contributions are reported.

The City of Lakeland contributed \$15 million to the Employee Pension Fund in fiscal year 2016 as an advance payment against the employer's share of the unfunded pension liability. In return for this advance payment, the City (as the employer) will receive an annual credit against its regular payment into the fund. As a result of the \$15 million advance payment, a contribution deficiency will be reflected in future years.

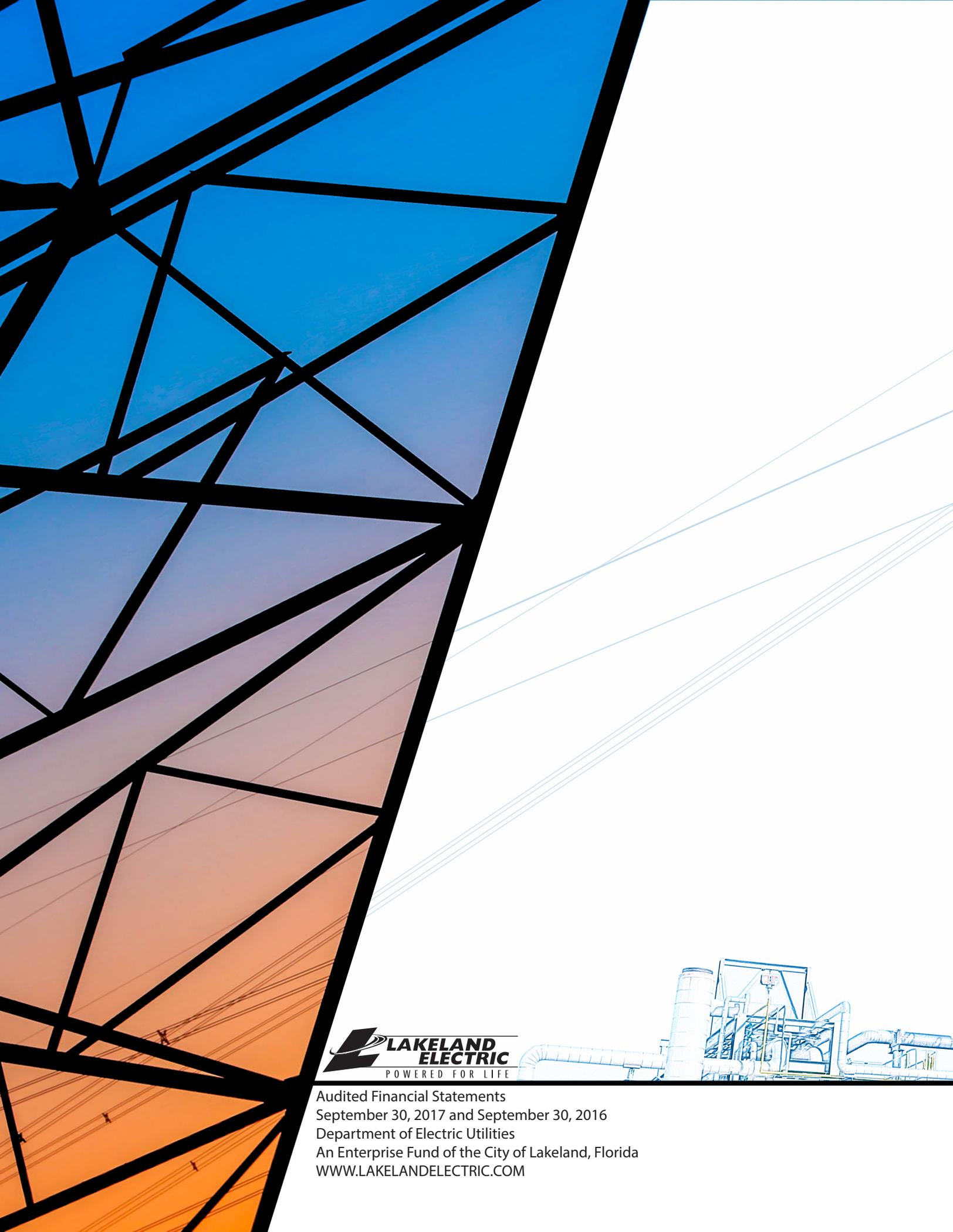
**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND (CONTINUED)
SEPTEMBER 30, 2017**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For more information pertaining to the aforementioned plan refer to the City of Lakeland, Florida stand-alone financial statements for each plan, which can be obtained by contacting the City of Lakeland, Finance Department, City Hall, 228 S. Massachusetts Ave., Lakeland, FL 33801- 5086.

Budgets of the City are adopted on a modified accrual basis of accounting, which is consistent with Generally Accepted Accounting Principles (GAAP). In cases where appropriations and estimated revenues have been revised during the year, budget data represents final authorized amounts. As of September 30, 2017 there were no material violations of budgetary requirements.

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Audited Financial Statements
September 30, 2017 and September 30, 2016
Department of Electric Utilities
An Enterprise Fund of the City of Lakeland, Florida
WWW.LAKELANDELECTRIC.COM