



LAKELAND
ELECTRIC

AUDITED FINANCIAL STATEMENTS

2018

September 30, 2018 and September 30, 2017

*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	Sara Roberts McCarley Commissioner Southwest
Bill Read Commissioner Northeast	

TRANSMITTAL LETTER

March 31, 2019

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, 2018 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 six citizens representing a cross-section of the customer base. LE is the largest department of the City. It has a budgeted staff of 539 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 2018, an average of 130,183 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 1,956 miles of distribution lines of which 683 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

Peaking Unit Installation – In FY2018, LE purchased and relocated a 125-MW natural gas peaking unit to the McIntosh generation site. During 2019, the unit will be reassembled and is expected to commence operation in January 2020. When completed, the unit will replace McIntosh Unit 2, a 42-year-old gas-fired steam generating unit that is not operational. The project will cost a total of \$36 million, which is less than the amount the utility would have had to invest if it had built a new peaking unit from the ground up.

FINANCIAL HIGHLIGHTS

Lakeland Electric's income in fiscal year 2018 was up considerably from 2017 which had been adversely impacted by Hurricane Irma. (The hurricane caused widespread damage throughout the utility's service territory in 2017 resulting in \$10.4 million of system restoration costs.) Although LE anticipates that a substantial percentage of these storm recovery costs will be eligible for reimbursement, no grant agreement was in place before the end of fiscal year 2018. Accordingly, no accrual was recorded in 2018 for any potential disaster relief funding.

However, subsequent to year-end, the City of Lakeland entered a master agreement with the Florida Department of Emergency Management for the receipt of federal funds from the Federal Emergency Management Agency (FEMA). The agreement will be amended as funds are obligated on a project-by-project basis

During fiscal year 2018, Lakeland Electric, realized a number of accomplishments. In conjunction with the City's Finance Department, the utility issued \$44 million of debt to fund various capital projects, including the purchase and installation of the new peaking unit. At that time, Fitch Ratings, Moody's, and Standard and Poor's affirmed their long-term debt ratings of AA-, Aa3, and AA, respectively.

Lakeland Electric also finalized a rate study which identified a need to raise overall rates by 3% to keep up with inflation and provide the resources needed to continue to upgrade its infrastructure. Even with the increase, Lakeland Electric's rates remain among the lowest in the state.

Other financial highlights include:

- Change in net position of \$17.6 million.
- Debt service coverage of 216%. Well above our covenant requirement.
- Days Cash on Hand of 204 days. Solidly in AA credit range.

ACKNOWLEDGEMENTS

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 and Assistant Finance Director, Deidra Joseph, for their support throughout the process. We appreciate the assistance and cooperation of Crowe, 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 dependable, affordable and sustainable.

Respectfully Submitted,



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



David Harrell, CPA
Lakeland Electric Controller

STATISTICAL AND FINANCIAL DATA (Unaudited)

	FY2018	FY2017	Incr/-Decr
Retail electric customers:			
Residential	108,539	107,213	1.2%
Commercial and Industrial	13,241	12,954	2.2%
Roadway and private area lights	8,403	8,368	0.4%
	<u>130,183</u>	<u>128,535</u>	1.3%
Number of employees (FTE's)	503	510	-1.4%
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)	1,273	1,275	0.0%
Underground (miles)	683	670	0.0%
Retail sales (MWh)	3,064,315	3,003,586	2.0%
Average demand (MWh)	358	351	2.0%
Summer peak (MWh)	637	643	-0.9%
Winter peak (MWh)	704	539	30.6%

	(Dollars in thousands)		Percent
	Current Year	Prior Year	Incr/-Decr
Retail sales of electricity	\$ 180,626	\$ 176,971	2.1%
Other retail revenue	7,421	7,286	1.9%
Retail fuel revenue	119,044	114,583	3.9%
Sales for resale	7,952	4,643	71.3%
Fuel and purchased power expenses	(127,076)	(120,510)	5.4%
Other operating expenses	(93,833)	(99,224)	-5.4%
Depreciation expense (net)	<u>(35,947)</u>	<u>(38,267)</u>	-6.1%
Operating income	58,187	45,482	27.9%
Nonoperating revenue	5,421	5,832	-7.0%
Nonoperating expenses	(15,828)	(17,660)	-10.4%
Transfers to other funds	<u>(30,139)</u>	<u>(28,448)</u>	5.9%
Change in net position	<u>\$ 17,641</u>	<u>\$ 5,206</u>	238.9%
Utility plant, net	\$ 665,301	\$ 649,740	2.4%
Long-term bond debt, due beyond twelve months	\$ 385,120	\$ 363,475	6.0%
Debt service coverage from operations	2.61	2.32	12.5%
Days cash (excluding restricted and sinking cash)	204	209	-2.4%

OPERATING SUMMARY FY2018

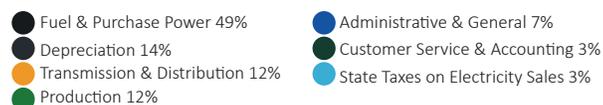
OPERATING REVENUE (in thousands)

Retail fuel charges	\$119,044
Residential Sales	108,822
Commercial & Industrial Sales	62,818
Sales for resale	7,952
Other operating revenue	7,421
Public street and highway lighting	5,468
Public authority sales, intra-city	<u>3,517</u>
TOTAL	<u><u>\$315,042</u></u>

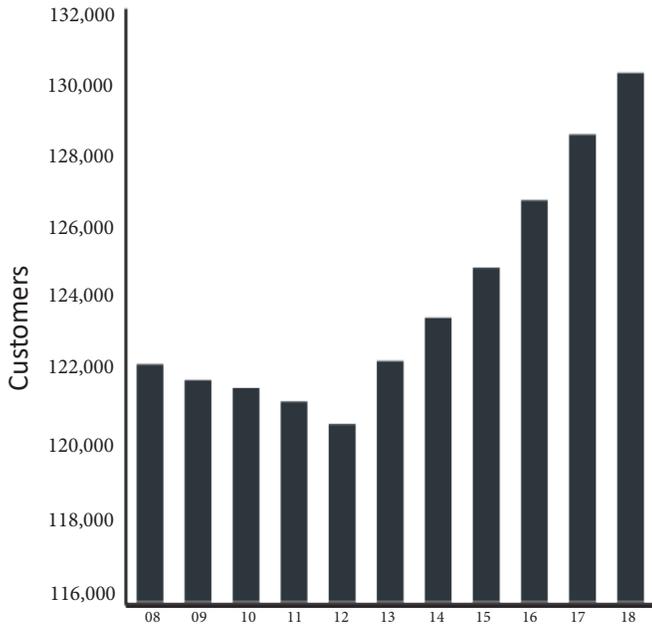


OPERATING EXPENSES (in thousands)

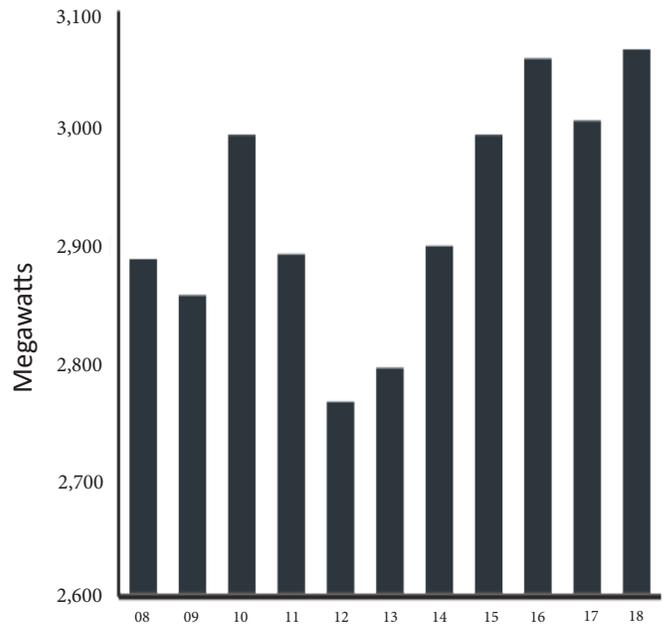
Fuel and Purchase Power	\$127,076
Depreciation	35,945
Transmission & Distribution	30,398
Production	30,131
Administrative & General	17,360
Customer Service & Accounting	8,433
State Tax on Electric Sales	<u>7,512</u>
TOTAL	<u><u>\$256,855</u></u>



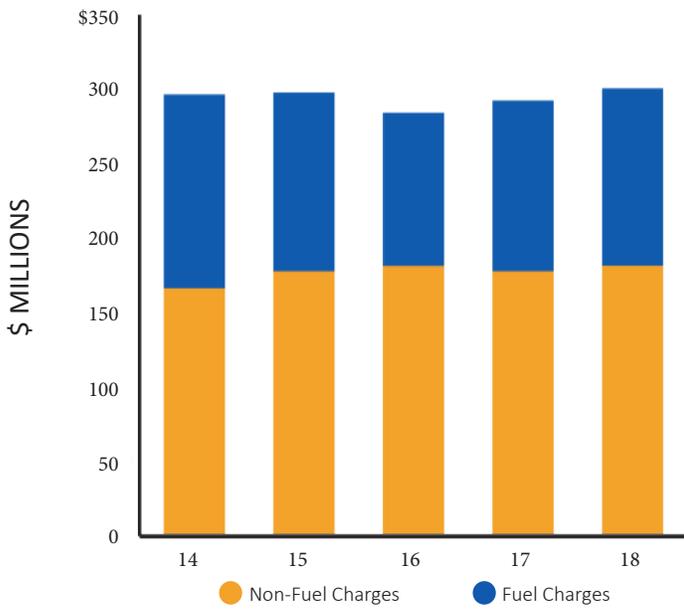
Retail Customer Count FY18 and Previous Ten Years



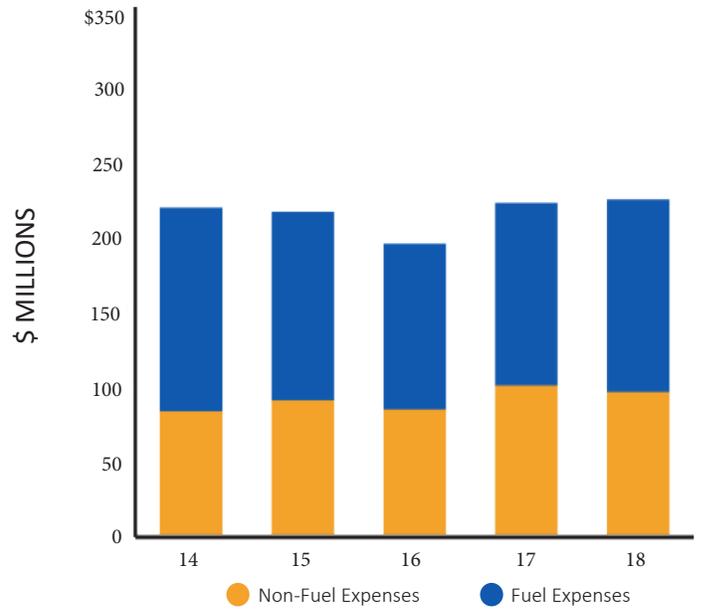
Net Retail Customer Load FY18 and Previous Ten Years



Retail Sales of Electricity FY18 and Previous Four Years



Operating Expenses FY18 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, 2018 and 2017, 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, 2018 and 2017, 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 Matters

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, 2018 and 2017, 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.

As discussed in Note B to the financial statements, in June 2015 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about OPEB are also addressed. Beginning net position at October 1, 2016 was restated by (\$40,674,134) as part of the implementation of this standard. 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 City's net pension liability, schedule of Lakeland Electric's pension contributions, schedule of Lakeland Electric's proportionate share of the City's net OPEB liability, and schedule of Lakeland Electric's OPEB contributions on pages 12 through 17 and 68 through 69 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 4 through 8 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 4 through 8 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 26, 2019 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 LLP

Tampa, Florida
April 26, 2019

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, 2018. 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, 2018 and the previous two fiscal years.

Condensed Statements of Net Position:

(Dollars in thousands)	Fiscal years ended September 30,		
	2018	(as restated) 2017	2016
Assets			
Current assets	\$ 156,794	\$ 167,326	\$ 165,568
Utility plant, net	665,301	649,740	656,497
Other noncurrent assets	127,892	90,183	96,469
	<u>949,987</u>	<u>907,249</u>	<u>918,534</u>
Deferred outflows of resources	<u>56,033</u>	<u>70,391</u>	<u>92,266</u>
Liabilities			
Current liabilities	50,508	56,990	49,636
Noncurrent liabilities	556,838	552,941	560,461
	<u>607,346</u>	<u>609,931</u>	<u>610,097</u>
Deferred inflows of resources	<u>81,421</u>	<u>68,097</u>	<u>67,045</u>
Net position			
Net assets invested in capital assets, net of related debt	209,309	222,755	211,864
Restricted - capital improvement	28,328	-	6,955
Unrestricted	79,616	76,857	114,839
	<u>\$ 317,253</u>	<u>\$ 299,612</u>	<u>\$ 333,658</u>

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

(Dollars in thousands)	Fiscal years ended September 30,		
	2018	(as restated) 2017	2016
Operating revenues			
Sales of energy - retail	\$ 299,669	\$ 291,555	\$ 283,302
Sales of energy and capacity sales - wholesale	7,952	4,643	5,789
Other electric operating revenue	7,421	7,286	7,462
	<u>315,042</u>	<u>303,484</u>	<u>296,553</u>
Operating expenses			
Fuel and purchased power	127,076	120,510	109,466
Energy supply	30,131	29,371	26,370
Energy delivery	30,398	31,752	23,860
Customer service and accounting	8,433	8,025	7,041
State tax on electric sales	7,512	7,188	7,463
Administrative and general	17,360	21,467	18,630
Depreciation (net)	35,945	38,267	41,784
	<u>256,855</u>	<u>256,580</u>	<u>234,614</u>
Operating income	<u>58,187</u>	<u>46,904</u>	<u>61,939</u>
Non-operating activity			
Investment and other income	5,421	5,832	6,795
Interest and amortization expense	(15,828)	(17,660)	(17,995)
Loss on disposal of fixed assets	-	-	(390)
Net transfers (to) from other funds	(30,139)	(28,448)	(30,678)
Change in net position	<u>\$ 17,641</u>	<u>\$ 6,628</u>	<u>\$ 19,671</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 \$17.6 million during fiscal year 2018 compared to a \$6.6 million increase in 2017. Operating income was \$58.2 million in 2018 compared to \$46.9 million in the preceding year. The year-over-year increases primarily reflect the non-recurrence of \$10.4 million of system restoration costs incurred in 2017 following Hurricane Irma.

Financial Highlights

- Lakeland Electric's 2018 retail megawatt hour (MWh) sales were up 2.0 percent from the previous fiscal year resulting in \$3.7 million higher non-fuel revenues. Approximately half of the increase in load was associated with growth in Lakeland Electric's customer base while the rest was weather-related.
- Non-operating revenue decreased by \$0.4 million from the previous fiscal year. Investment revenue increased by \$1.4 million, however a (\$4.7) million unfavorable fair value adjustment on Lakeland Electric's share of the City's pooled investments was recognized in 2018, compared to an unfavorable adjustment of (\$2.8) 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 non-fuel operating expenses, excluding gross receipts tax and depreciation, were down (\$4.3) million or (5) percent from \$91.0 million in 2017 to \$86.3 million in 2018. The favorable variance is more than accounted for by the non-recurrence of \$10.4 million of restoration costs incurred following Hurricane Irma. Partially offsetting the \$10.4 million favorable variance in restoration costs were higher line clearance expenses of \$4.0 million in 2018, increased maintenance associated with McIntosh Units 3 and 5, and higher salaries and benefits.
- Although Lakeland Electric anticipates that a substantial percentage of the \$10.4 million of storm recovery costs will be eligible for reimbursement, no grant agreement was in place before the end of fiscal year 2018. Accordingly, no accrual was recorded in 2018 for any potential disaster relief funding. Subsequent to year-end, the City of Lakeland entered a master agreement with the Florida Department of Emergency Management for the receipt of federal funds from the Federal Emergency Management Agency (FEMA). The agreement will be amended as funds are obligated on a project-by-project basis (see Note V, Subsequent Events).
- Administrative and General Expenses were \$4.1 million lower than the previous year mostly as the result of adjustments to the pension liability in 2017, which were made in accordance with GASB Statement No. 68. Total operating and maintenance costs (excluding fuel, gross receipts tax, and depreciation) averaged \$28.17 per retail MWh in 2018, compared to \$30.17 in 2017.
- Fuel and purchased power expense were up \$6.6 million in 2018, reflecting increased MWh generated. In 2017, McIntosh Unit 5 underwent a series of outages which reduced production volumes available for wholesale sales. Lakeland Electric's coal tonnage burned increased by 9 percent as its average price of coal decreased by (2) percent.
- 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, 2018, the retail fuel charge was \$40.75 per MWh, compared to \$38.75 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 2018 with a cumulative over-recovered fuel position of \$22.0 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 \$19.3 million in FY2018) to offset costs associated with

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

Financial Highlights (continued)

fuel inventories and prepaid fuel hedging. The cumulative fuel over-recovery as of September 30, 2018 was \$24.7 million. The fuel reserve was over-funded to the extent of \$5.4 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. Environmental compliance rates of \$2.109 and \$2.532 per MWh were in effect during 2018 and 2017, respectively. Lakeland Electric had a cumulative over-recovered environmental compliance cost balance of \$0.4 million, classified as a regulatory liability, as of the end of 2018. Based on sales and environmental compliance expense projections, a rate of \$2.109 per MWh was recommended for 2019. 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 \$0.2 million, classified as a regulatory liability, as of the end of 2018. 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 2018 was \$29.7 million, compared to \$29.2 million in 2017.

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. Cash set aside from base rates provided funding for the majority of capital spending during the year. Proceeds from the Series 2018 bond issuance provided funding of \$10.3 million for the purchase of a 125 megawatt peaking unit as well as \$7.3 million for other energy supply and delivery projects. The remainder of the Series 2018 bond proceeds were carried over to fiscal year 2019 as the peaking unit is scheduled to be completed before the end of fiscal year 2020.
- Capital spending (net of contributions in aid of construction) totaled \$47.1 million in 2018 compared to \$31.9 million in fiscal year 2017 and \$32.8 million in 2016. Capital expenditures during 2018 included \$28.8 million for energy supply projects, \$17.1 million for energy delivery projects, and \$1.2 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.
- Capital spending exceeded depreciation expense in fiscal year 2018, as net plant assets increased by \$15.6 million from fiscal year 2017. Depreciation expense, net of amortization of contributions in aid of construction, was \$35.9 million in 2018 compared to \$38.3 million in 2017.
- Lakeland Electric recorded contributions in aid of construction from outside the Department in the amount of \$5.7 million during fiscal year 2018, compared to \$2.4 million in 2017. These amounts are included in the *Plant in Service* balance in the Statements of Net Position. See Note S.

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

Capital Assets (Continued)

The table below contains a summary of Lakeland Electric's plant investment, net of accumulated depreciation, as of September 30, 2018 and 2017. Refer to Note H, Utility Plant, for more detailed information regarding utility plant assets.

	(In Thousands)	
	September 30	
	2018	2017
Land	\$ 15,595	\$ 15,595
Construction in process	42,010	20,400
Buildings	9,492	10,300
Machinery and equipment	13,295	12,304
Equipment under capital leases	-	852
Electric transmission and distribution	322,250	323,100
Electric supply	262,659	267,189
	<u>\$ 665,301</u>	<u>\$ 649,740</u>

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, 2018, Lakeland Electric had \$385.1 million in net long-term bond debt outstanding compared to \$363.5 million at the end of 2017 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	
	2018	2017
Electric System Revenue Bonds:		
Series 2010	\$ 135,510	\$ 152,615
Series 2016	130,965	135,110
Series 2017	97,000	97,000
Series 2018	43,945	-
	<u>407,420</u>	<u>384,725</u>
Less Current Portion	<u>(22,300)</u>	<u>(21,250)</u>
	<u>\$ 385,120</u>	<u>\$ 363,475</u>

As indicated in Note L (Revenue Bonds), the coverage on bonded debt of Lakeland Electric for 2018 was 2.61 times the annual debt service requirement for the fiscal year ended 2018. 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.

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

Long Term Debt (Continued)

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 2019.

Lakeland Electric sets aside apportioned funds to meet its current debt service requirements (see Note F, Asset Apportionments). In September 2018, Lakeland Electric issued its Series 2018 Bonds to fund the purchase, delivery, and installation of a 125 megawatt combustion turbine peaking unit.

Economic Factors

- The average demand for energy placed on the system from retail customers during Fiscal Year 2018 was 358 megawatts (MW), compared to 351 MW during the previous year. The peak demand during the winter was 704 MW on January 18, 2018, and a summer peak demand of 637 MW was reached on September 17, 2018. Lakeland Electric expects to see a growth of approximately 1 percent in the retail customer base during fiscal year 2019. 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.

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 2018 were the fifth 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 2018, Lakeland Electric had over 204 days of cash compared to 209 days in the previous fiscal year. Days cash is forecasted to remain above 175, with an electric base rate increase of 3%, effective 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.

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

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	
	2018	(as restated) 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 38,233,488	\$ 42,522,537
Accounts receivable	48,882,389	47,948,236
Less allowance for uncollectibles	(793,202)	(857,908)
Fuel hedges	3,877,544	4,186,999
Prepaid expenses	28,986	-
Inventories	35,811,223	34,035,924
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	22,300,000	21,250,000
Accrued interest payable	6,531,254	7,216,706
Accounts payable	647,253	2,401,875
Accrued liabilities	1,176,412	8,594,329
Restricted assets (cash and equivalents) set aside for		
Accounts payable	67,010	5,000
Accrued liabilities	32,097	22,305
Total current assets	156,794,454	167,326,003
NONCURRENT ASSETS		
Asset apportionments (including \$82,376,968 and \$73,183,724 of cash and cash equivalents in 2018 and 2017, respectively)	82,676,040	73,660,909
Restricted assets (including \$43,562,399 and \$15,081,793 of cash and cash equivalents in 2018 and 2017, respectively)	43,765,249	15,319,569
Utility plant		
Land	15,595,265	15,595,265
Construction in progress	42,009,696	20,400,199
Utility plant, facilities & equipment in service	1,369,167,198	1,340,491,177
Less accumulated depreciation	(761,470,728)	(726,746,930)
Total utility plant, net	665,301,431	649,739,711
OTHER ASSETS		
Regulatory assets	1,449,493	1,202,916
Total Assets	949,986,667	907,249,108
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding of bond debt	27,319,503	31,020,673
Interest rate swaps	20,205,867	26,073,175
Deferred outflows of resources related to pensions	8,508,069	13,296,993
Total deferred outflows of resources	56,033,439	70,390,841

See accompanying notes to financial statements

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

	September 30	
	2018	(as restated) 2017
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES, payable from current assets</u>		
Accounts payable	\$ 15,954,322	\$ 13,981,812
Accrued liabilities	3,799,962	3,379,411
Obligation under capital leases	-	139,046
<u>Liabilities payable from apportioned assets</u>		
Accrued interest payable	6,531,254	7,216,706
Current portion of bonds payable	22,300,000	21,250,000
Accounts payable	647,253	2,401,875
Accrued liabilities	1,176,412	8,594,329
<u>Liabilities payable from restricted assets</u>		
Accounts payable	67,010	5,000
Accrued liabilities	32,097	22,305
Total current liabilities	50,508,310	56,990,484
 <u>OTHER LIABILITIES</u>		
Restricted liabilities	15,436,831	15,314,251
Regulatory liabilities	6,049,686	5,588,094
Interest rate swaps	20,205,867	26,073,175
Accrued liabilities, less current portion	3,960,857	3,996,611
Net OPEB liability	52,325,012	55,594,556
Net pension liability	43,697,119	53,534,111
Revenue bonds payable, less current portion	385,120,000	363,475,000
Unamortized bond premium	30,042,147	29,364,687
Total other liabilities	556,837,519	552,940,485
Total liabilities	607,345,829	609,930,969
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Unamortized contributions in aid of construction	47,299,774	44,979,842
Fuel reserve	19,270,871	18,001,167
Unrealized gain on hedges	1,264,554	929,482
Deferred inflows of resources related to pensions	6,309,506	624,849
Deferred inflows of resources related to OPEB	7,276,322	3,561,783
Total deferred inflows of resources	81,421,027	68,097,123
 <u>NET POSITION</u>		
Net investment in capital assets	209,308,507	222,754,725
Restricted		
Capital improvement	28,328,418	5,318
Unrestricted	79,616,325	76,851,814
	\$ 317,253,250	\$ 299,611,857

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,	
	2018	(as restated) 2017
OPERATING REVENUES		
Sales of energy - retail	\$ 299,668,819	\$ 291,554,543
Sales of energy and capacity sales - wholesale	7,952,236	4,642,718
Other electric operating revenue	7,421,349	7,286,280
Total operating revenues	<u>315,042,404</u>	<u>303,483,541</u>
OPERATING EXPENSES		
Fuel and purchased power	127,076,307	120,510,181
Energy supply	30,130,960	29,371,069
Energy delivery	30,397,651	31,752,229
Customer service	8,433,447	8,025,266
State tax on electric sales	7,511,696	7,186,435
Administrative and general	17,359,962	21,466,682
Total operating expenses	<u>220,910,023</u>	<u>218,311,862</u>
OPERATING INCOME BEFORE DEPRECIATION	94,132,381	85,171,679
Depreciation expense	(39,317,215)	(41,321,215)
Depreciation - contributions in aid of construction	3,372,062	3,053,926
OPERATING INCOME	<u>58,187,228</u>	<u>46,904,390</u>
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less \$0 and \$61,897 capitalized in 2018 and 2017, respectively)	9,568,048	8,102,640
Net increase (decrease) in the fair value of cash equivalents	(4,667,795)	(2,814,184)
Miscellaneous revenue	520,955	543,621
Interest expense (less \$1,263,850 and \$811,841 capitalized in 2018 and 2017, respectively)	(15,375,742)	(17,135,391)
Amortization expense	(452,367)	(524,884)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(10,406,901)</u>	<u>(11,828,198)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	47,780,327	35,076,192
DIVIDEND TO GENERAL FUND	(29,701,896)	(29,223,213)
TRANSFERS FROM OTHER FUNDS	-	1,231,000
TRANSFERS TO OTHER FUNDS	(437,038)	(455,605)
CHANGE IN NET POSITION	17,641,393	6,628,374
NET POSITION, beginning of year	299,611,857	333,657,617
Prior period adjustment (Note B)	-	(40,674,134)
NET POSITION, end of year	<u>\$ 317,253,250</u>	<u>\$ 299,611,857</u>

See accompanying notes to financial statements

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

	Year ended September 30	
	2018	(as restated) 2017
Cash flows from operating activities:		
Receipts from customers	\$ 315,148,674	\$ 296,457,319
Payments for interfund services	(13,419,551)	(14,426,224)
Payments to suppliers	(154,954,567)	(148,603,188)
Payments to employees	(52,931,284)	(44,731,387)
Net cash provided by operating activities	<u>93,843,272</u>	<u>88,696,520</u>
Cash flows used in noncapital financing activities:		
Interest paid on meter deposits	(757,419)	(641,203)
Operating transfers to other funds	(30,138,934)	(28,447,818)
Cash flows used in noncapital financing activities	<u>(30,896,353)</u>	<u>(29,089,021)</u>
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(17,019,992)	(20,403,315)
Proceeds from issuance of interfund loans	5,050,000	-
Proceeds from issuance of long-term debt	43,945,000	97,000,000
Payments on interfund loans	(5,050,000)	-
Payments on and maturities of long-term debt	(21,389,046)	(120,875,000)
Debt issue costs	677,460	(3,648,084)
Purchase of capital assets	(49,411,982)	(28,858,794)
Cash flows used in capital financing activities:	<u>(43,198,560)</u>	<u>(76,785,193)</u>
Cash flows from investing activities:		
Investment revenue	9,568,048	8,102,640
Net increase (decrease) in the fair value of cash equivalents	(4,667,795)	(2,814,184)
Cash flows provided by investing activities	<u>4,900,253</u>	<u>5,288,456</u>
Net increase (decrease) in cash and cash equivalents	<u>24,648,612</u>	<u>(11,889,238)</u>
Cash and cash equivalents, beginning of year	<u>170,278,269</u>	<u>182,167,507</u>
Cash and cash equivalents, end of year	<u>\$ 194,926,881</u>	<u>\$ 170,278,269</u>
Classified as:		
Current	\$ 38,233,488	\$ 42,522,537
Apportioned	113,031,887	112,646,634
Restricted	43,661,506	15,109,098
Total	<u>\$ 194,926,881</u>	<u>\$ 170,278,269</u>

See accompanying notes to financial statements

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

	Year ended September 30	
	2018	(as restated) 2017
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	\$ 58,187,228	\$ 46,904,390
Depreciation	39,317,215	41,321,215
Depreciation - contributions in aid of construction	(3,372,062)	(3,053,926)
Miscellaneous revenue	520,955	543,621
Decrease (increase) in receivables, net	(998,859)	(6,077,930)
Decrease (increase) in inventory	(1,775,299)	(898,379)
Decrease (increase) in prepaid expenses	(28,985)	-
Decrease (increase) in regulatory assets	(246,577)	84,726
(Increase) decrease in deferred outflows related to pensions	8,490,094	10,193,034
Decrease in fair value of derivatives	644,527	380,951
Increase (decrease) in accounts payable	2,051,321	(976,956)
(Decrease) increase in accrued liabilities	(7,092,822)	8,192,127
Increase (decrease) in regulatory liabilities	1,731,296	(3,798,451)
Increase in deposits payable	122,580	404,423
(Decrease) in unearned revenue	-	(398,321)
Increase (decrease) in net pension liability	(9,836,992)	(5,243,242)
(Decrease) increase other deferred inflows of resources	9,399,196	(839,859)
Increase (decrease) in net OPEB liability	(3,269,544)	1,959,097
Net cash used in operating activities	<u>\$ 93,843,272</u>	<u>\$ 88,696,520</u>
Noncash investing, capital, or financing activities:		
Capitalized interest expense	\$ 1,263,850	\$ 811,841
Less capital interest revenue	-	61,897
	<u>\$ 1,263,850</u>	<u>\$ 873,738</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 (City), 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, 2018 and 2017, respectively. An estimate of uncollectible accounts is recognized based upon historical experience.

Inventories and Prepaid Items:

Inventories (see Note D) are valued at cost, not in excess of replacement cost, using the weighted average cost method. Prepaid items are recorded as expenses when actually used.

Restricted and Apportioned Assets:

Revenue bond ordinances and certain other agreements with parties outside the City require the restriction of certain 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 2.9 percent and 3.1 percent in 2018 and 2017, respectively. Depreciation expense was lower in fiscal year 2018 than in the previous 3 fiscal years because certain aging assets have become fully depreciated. 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 years ending September 30, 2018 and 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, 2018 or 2017.

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,	
	2018	2017
Annual dividend to the City of Lakeland General Fund	\$ 29,701,896	\$ 29,223,213
Transfer to Information Technology Fund	437,038	455,605
Transfer (from) Fleet Management Fund	-	(1,231,000)
	\$ 30,138,934	\$ 28,447,818

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

Reporting change:

During fiscal year 2018, the City implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75 established new accounting and financial reporting requirements for OPEB plans. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actual present values, and attribute that present value to periods of employee service, and specific requirements for note disclosure and required supplementary information. As a result, Lakeland Electric must report its proportionate share of the City's collective OPEB liability, OPEB expense, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB as determined by the City's relative current year contributions to the OPEB Trust.

The implementation of the statement required Lakeland Electric to record a beginning OPEB liability. The prior year amounts affected have been adjusted in the Statements of Net Position, as required for comparative purposes. The following table reconciles the restated balances to the amounts previously reported for the fiscal year ending September 30, 2016 as follows:

Net Position, October 1, 2016	\$	333,657,617
Prior period adjustment:		
Net OPEB obligation		17,945,523
Net OPEB Liability		(58,619,657)
Net Position, October 1, 2016, as restated	<u>\$</u>	<u>292,983,483</u>

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 Lakeland Electric's fiscal year ending September 30, 2018. However, implementation of GASB 81 had no effect on the financial statements of Lakeland Electric.

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

NOTE B – ACCOUNTING AND REPORTING CHANGES (CONTINUED)

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 reasonable 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 ending September 30, 2019.

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 ending September 30, 2020.

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 and negative goodwill, real estate held by insurance entities, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Lakeland Electric has implemented the related OPEB plan provision of this statement for the period ending September 30, 2018.

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. The provisions of this Statement are effective for Lakeland Electric's fiscal year ending September 30, 2018. Implementation of GASB 86 had no effect on the financial statements of Lakeland Electric.

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 provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing 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 ending September 30, 2021.

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

NOTE B – ACCOUNTING AND REPORTING CHANGES (CONTINUED)

In April, 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed as the date the contractual obligation is established. 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 ending September 30, 2019.

In June, 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus. It also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. 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 ending September 30, 2021.

In August, 2018, the GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. 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 ending September 30, 2020.

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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, 2018 was \$28,528,859. The carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was \$28,010,109.

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 \$166,396,797 and \$142,266,635 for September 30, 2018 and September 30, 2017, respectively. Lakeland Electric has elected to pool its cash with the City of Lakeland. At September 30, 2018, Lakeland Electric held a 38% interest in the investments of the pool compared to a 34% 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, 2018, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Market	%
AAA	\$ 4,284,070	2.57%
AA+ to AA-	47,050,397	28.28%
A+ to A-	8,231,420	4.95%
BBB+ to BBB-	51,662,670	31.05%
BB+ to BB-	8,368,615	5.03%
Below BB-	5,177,424	3.11%
NR	41,622,201	25.01%
	<u>\$ 166,396,797</u>	<u>100.00%</u>

Moody's Rating:	Market	%
Aaa	\$ 46,165,460	27.74%
Aa1 to Aa3	1,265,704	0.76%
A1 to A3	6,200,873	3.73%
Baa1 to Baa3	45,985,326	27.64%
Ba1 to Ba3	6,254,862	3.76%
Below Ba3	6,925,721	4.16%
NR	53,598,851	32.21%
	<u>\$ 166,396,797</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, 2018 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	32.00%
Local Government Investment Pools	100%	12.10%
Certificates of Deposits	10%	0.00%
Collateralized Repurchase Agreements	15%	0.00%
Other Investment Pools (rated "A" or better)	10%	0.50%
Asset Backed Securities	25%	31.10%
High Grade Corporate Debt & CP	25%	24.30%
State and Local Government Obligations*	25%	0.00%
*Except as provided for in section IV.7.b		<u>100.00%</u>

The Asset Backed Securities 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, 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'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, 2018 and 2017, 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
As of September 30, 2018:	
Total Investment Pool	\$ 435,312,425
Lakeland Electric's Share of the Investment Pool	\$ 166,396,797
As of September 30, 2017:	
Total Investment Pool	\$ 406,854,252
Lakeland Electric's Share of the Investment Pool	\$ 142,266,635

As of September 30, 2018 and 2017, other amounts classified as cash equivalents and investments are as follows:

	September 30	
	2018	2017
Demand deposits	\$ 28,528,859	\$ 28,010,109
Petty cash	1,225	1,525
	<u>\$ 28,530,084</u>	<u>\$ 28,011,634</u>

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

	September 30	
	2018	2017
Current assets:		
Cash and cash equivalents	\$ 38,233,488	\$ 42,522,537
Asset Apportionments:		
Cash and cash equivalents	84,503,028	84,636,525
Cash with paying agent	28,528,859	28,010,109
Restricted assets:		
Cash and cash equivalents	43,661,506	15,109,098
	<u>\$ 194,926,881</u>	<u>\$ 170,278,269</u>

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	
	2018	2017
Fuel oil	\$ 4,137,199	\$ 5,925,148
Coal	7,738,930	5,611,696
Spare parts	23,935,094	22,499,080
	<u>\$ 35,811,223</u>	<u>\$ 34,035,924</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,	
	2018	2017
Unamortized balance, beginning of year	\$ 1,202,916	\$ 1,287,642
Additions	404,628	177,755
Less: amortization deletions	(158,051)	(262,481)
	-	-
Unamortized balance, end of year	<u>\$ 1,449,493</u>	<u>\$ 1,202,916</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,	
	2018	2017
Environmental compliance charge recovery (Liability) balance, beginning of year	\$ (1,335,541)	\$ (465,174)
Charges recovered through rates	6,398,151	7,612,688
Less environmental compliance expenses	7,330,114	6,742,321
(Liability) balance, end of year	<u>\$ (403,578)</u>	<u>\$ (1,335,541)</u>

	September 30,	
	2018	2017
Energy conservation charges recovery (Liability) asset balance, beginning of year	\$ (298,855)	\$ (258,929)
Charges recovered through rates	729,364	719,428
Less future conservation charges	843,962	679,502
(Liability) balance, end of year	<u>\$ (184,257)</u>	<u>\$ (298,855)</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,	
	2018	2017
Fuel reserve balance	\$ 19,270,871	\$ 18,001,167
Less cumulative over-recovery of fuel charges	24,732,722	21,954,865
(Liability) balance	\$ (5,461,851)	\$ (3,953,698)

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

	September 30,	
	2018	2017
Regulatory assets:		
Unamortized debt issuance costs	\$ 1,449,493	\$ 1,202,916

	September 30,	
	2018	2017
Regulatory liabilities:		
Environmental compliance charges	\$ 403,578	\$ 1,335,541
Energy conservation charges	184,257	298,855
Fuel charges	5,461,851	3,953,698
	\$ 6,049,686	\$ 5,588,094

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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 2018, the Emergency Repair Fund transferred \$6,673,153 to cover storm costs related to Hurricane Irma paid through September 30, 2018.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2018 and 2017 consist of the following:

September 30, 2018:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	\$ 1,641,352	\$ 76,755,404	\$ 6,106,272	\$ 84,503,028
Cash with paying agent/trustee	28,528,859	-	-	28,528,859
Accounts receivable	-	299,072	-	299,072
Asset apportionments	<u>\$ 30,170,211</u>	<u>\$ 77,054,476</u>	<u>\$ 6,106,272</u>	<u>\$ 113,330,959</u>
Accounts Payable	\$ -	\$ 647,253	\$ -	\$ 647,253
Accrued Expenses	-	1,176,412	-	1,176,412
Accrued interest payable	6,531,254	-	-	6,531,254
Current portion of long term debt	<u>22,300,000</u>	<u>-</u>	<u>-</u>	<u>22,300,000</u>
Liabilities payable from apportioned assets, due within twelve months	<u>\$ 28,831,254</u>	<u>\$ 1,823,665</u>	<u>\$ -</u>	<u>\$ 30,654,919</u>
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
Accrued receivable	-	-	-	-
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	<u>21,250,000</u>	<u>-</u>	<u>-</u>	<u>21,250,000</u>
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>

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. The bond proceeds from the Series 2018 Revenue Bonds will provide the capital funding for the purchase, delivery, and installation of a 125-megawatt peaking unit.

Lakeland Electric's total restricted assets and restricted liabilities, as of September 30, 2018 and 2017 consist of the following:

September 30, 2018:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	\$ 15,216,988	\$ 52,241	\$ 28,392,277	\$ 43,661,506
Accounts receivable	-	202,850	-	202,850
Restricted assets	<u>\$ 15,216,988</u>	<u>\$ 255,091</u>	<u>\$ 28,392,277</u>	<u>\$ 43,864,356</u>
Accounts payable	\$ -	\$ -	\$ 67,010	\$ 67,010
Accrued expenses	-	-	1,940	1,940
Accrued interest payable	30,157	-	-	30,157
Advances	-	250,000	-	250,000
Customer deposits	<u>15,186,831</u>	<u>-</u>	<u>-</u>	<u>15,186,831</u>
Restricted liabilities, due within twelve months	<u>\$ 15,216,988</u>	<u>\$ 250,000</u>	<u>\$ 68,950</u>	<u>\$ 15,535,938</u>
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	<u>15,064,251</u>	<u>-</u>	<u>-</u>	<u>15,064,251</u>
Restricted liabilities, due within twelve months	<u>\$ 15,086,556</u>	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ 15,341,556</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:

Fiscal year 2018:	September 30, 2017	Additions	Deletions	September 30, 2018
Non-depreciable assets:				
Land	\$ 15,595,265	\$ -	\$ -	\$ 15,595,265
Construction in process	20,400,199	38,843,866	17,234,369	42,009,696
	<u>35,995,464</u>	<u>38,843,866</u>	<u>17,234,369</u>	<u>57,604,961</u>
Depreciable assets:				
Buildings	26,381,549	523,136	-	26,904,685
Machinery and equipment	24,796,700	2,604,352	2,616,348	24,784,704
Equipment under capital leases	1,572,285	-	1,572,285	-
Electric plants in service:				
Electric delivery	536,799,850	14,009,267	958,154	549,850,963
Electric supply	750,940,793	16,918,823	232,770	767,626,846
Total plant assets	<u>1,340,491,177</u>	<u>34,055,578</u>	<u>5,379,557</u>	<u>1,369,167,198</u>
Less Accumulated Depreciation:				
Buildings	16,081,925	1,442,036	110,826	17,413,135
Machinery and equipment	12,492,338	903,603	1,906,647	11,489,294
Equipment under capital leases	720,617	65,524	786,141	-
Electric plants in service:				
Electric delivery	213,700,116	15,687,625	1,787,226	227,600,515
Electric supply	483,751,934	21,218,427	2,577	504,967,784
Total plant assets	<u>726,746,930</u>	<u>39,317,215</u>	<u>4,593,417</u>	<u>761,470,728</u>
Total Utility plant net of accumulated depreciation	<u>\$ 649,739,711</u>	<u>\$ 33,582,229</u>	<u>\$ 18,020,509</u>	<u>\$ 665,301,431</u>

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

NOTE H - UTILITY PLANT (CONTINUED)

Fiscal year 2017:	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	11,487,010	6,108,668	750,580,793
Total plant assets	<u>1,322,510,937</u>	<u>29,229,119</u>	<u>11,608,879</u>	<u>1,340,131,177</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	15,223,859	147,861	213,600,116
Electric supply	461,182,844	22,569,090	-	483,751,934
Total plant assets	<u>690,200,533</u>	<u>41,221,215</u>	<u>4,774,818</u>	<u>726,646,930</u>
Total Utility plant net of accumulated depreciation	<u>\$ 656,497,441</u>	<u>\$ 20,608,456</u>	<u>\$ 27,626,185</u>	<u>\$ 649,479,711</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.

	September 30	
	2018	2017
Interest cost on bonds was reduced by amounts capitalized as follows:		
Total interest expense on bonds payable	\$ 15,806,087	\$ 17,299,223
Capitalized interest revenue	-	61,897
Less capitalized interest expense	(1,263,850)	(811,841)
	<u>\$ 14,542,237</u>	<u>\$ 16,549,279</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 were \$5,086,466 with an OUC share of \$3,390,978 in fiscal year 2018, and \$3,984,728 with an OUC share of \$1,593,711 in fiscal year 2017. Shared operating expenses for the fiscal years ending September 30, 2018 and 2017, were as follows:

Fiscal year 2018	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	\$ 38,264,708	\$ 25,509,806	\$ 63,774,514
McIntosh unit #3 direct operating & maintenance expenses	10,552,026	7,034,684	17,586,710
Other shared operating and administrative expenses	5,917,982	3,945,321	9,863,303
	<u>\$ 54,734,716</u>	<u>\$ 36,489,811</u>	<u>\$ 91,224,527</u>

Fiscal year 2017	City Share	OUC Share	Total
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>

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.

	September 30	
	2018	2017
Unamortized loss on refunding of debt, beginning balance	\$ 31,020,673	\$ 34,931,160
Amortization	(3,701,170)	(3,910,487)
	<u>27,319,503</u>	<u>31,020,673</u>
Interest rate swaps (See Note R)	20,205,867	26,073,175
Pension related (See Note N)	8,508,069	13,296,993
Total deferred outflows of resources	<u>\$ 56,033,439</u>	<u>\$ 70,390,841</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	
	2018	2017
Current:		
Accrued taxes payable	\$ 779,248	\$ 760,726
Accrued payroll	2,006,857	1,622,736
Compensated absences	1,013,857	995,949
	<u>\$ 3,799,962</u>	<u>\$ 3,379,411</u>
Accrued liabilities, less current portion:		
Compensated absences	\$ 3,960,857	\$ 3,996,611
Net OPEB liability	52,325,012	55,594,556
Net pension liability	43,697,119	53,534,112
	<u>\$ 99,982,988</u>	<u>\$ 113,125,279</u>

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

	September 30	
	2018	2017
Revenue bonds payable, less current portion	\$ 385,120,000	\$ 363,475,000
Plus unamortized bond discount (net of premium)	30,042,147	29,364,687
	<u>\$ 415,162,147</u>	<u>\$ 392,839,687</u>

The following is a summary of long-term obligation transactions for the year ended September 30, 2018:

	Balance October 1 2017	Incurred	Satisfied	Balance September 30 2018	Amount Due within One Year
Net pension liability	\$ 53,534,111	\$ -	\$ 9,836,992	\$ 43,697,119	\$ -
Net OPEB liability	55,594,556	-	3,269,544	52,325,012	-
Compensated absences	4,992,560	978,103	995,949	4,974,714	1,013,857
Capital lease obligations	139,046	-	139,046	-	-
Revenue bonds payable	384,725,000	43,945,000	21,250,000	407,420,000	22,300,000
Unamortized bond premium	29,364,687	4,084,313	3,406,853	30,042,147	-
	<u>\$ 528,349,960</u>	<u>\$ 49,007,416</u>	<u>\$ 38,898,384</u>	<u>\$ 538,458,992</u>	<u>\$ 23,313,857</u>

**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, 2017:

	(restated) 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 liability	58,619,657	-	3,025,101	55,594,556	-
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	-
	<u>\$ 564,659,837</u>	<u>\$ 97,823,230</u>	<u>\$ 134,133,107</u>	<u>\$ 528,349,960</u>	<u>\$ 22,384,995</u>

NOTE L - REVENUE BONDS

Lakeland Electric's revenue bonds payable as of September 30, 2018 consists of the following:

	Interest Rate %	Final Maturity	September 30, 2017	Additions	Deletions	September 30, 2018
Series 2010	4.00% to 5.25%	10-01-2036	\$ 152,615,000	\$ -	\$ 17,105,000	\$ 135,510,000
Series 2016	2.50% to 5.00%	10-01-2036	135,110,000	-	4,145,000	130,965,000
Series 2017	Variable	10-01-2022	97,000,000	-	-	97,000,000
Series 2018	3.25% to 5.00%	10-01-2037	-	43,945,000	-	43,945,000
			<u>384,725,000</u>	<u>\$ 43,945,000</u>	<u>\$ 21,250,000</u>	<u>407,420,000</u>
Less current portion			<u>(21,250,000)</u>			<u>(22,300,000)</u>
			<u>\$ 363,475,000</u>			<u>\$ 385,120,000</u>

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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, 2018:

Fiscal Year(s)	<u>Series 2010</u>		<u>Series 2016</u>		<u>Floating Rate Notes</u>	
	Principal	Interest	Principal	Interest	Principal*	Interest
2020	\$ 13,840,000	\$ 5,610,050	\$ 4,560,000	\$ 5,272,669	\$ 1,795,000	\$ 1,952,342
2021	4,695,000	5,146,675	4,770,000	5,039,419	7,000,000	1,863,005
2022	4,925,000	4,924,644	9,620,000	4,679,669	-	1,791,902
2023	5,140,000	4,710,763	10,020,000	4,188,669	-	1,791,902
2024	5,355,000	4,481,050	10,480,000	3,676,169	-	1,791,902
2025-2029	28,290,000	18,151,950	59,810,000	10,449,444	-	8,959,511
2030-2034	31,885,000	10,506,169	20,625,000	3,019,572	25,085,000	8,062,443
2035-2038	23,430,000	1,887,113	6,730,000	515,750	63,120,000	2,588,563
	<u>\$ 117,560,000</u>	<u>\$ 55,418,414</u>	<u>\$ 126,615,000</u>	<u>\$ 36,841,361</u>	<u>\$ 97,000,000</u>	<u>\$ 28,801,570</u>

Fiscal Year(s)	<u>Series 2018</u>		<u>TOTAL</u>		Total
	Principal	Interest	Principal	Interest	
2020	\$ -	\$ 1,952,313	\$ 20,195,000	\$ 14,787,373	\$ 34,982,373
2021	2,630,000	1,886,563	19,095,000	13,935,662	33,030,662
2022	3,995,000	1,720,938	18,540,000	13,117,152	31,657,152
2023	2,930,000	1,547,813	18,090,000	12,239,146	30,329,146
2024	1,985,000	1,424,938	17,820,000	11,374,058	29,194,058
2025-2029	5,125,000	6,210,938	93,225,000	43,771,843	136,996,843
2030-2034	22,615,000	3,033,681	100,210,000	24,621,865	124,831,865
2035-2038	4,665,000	560,700	97,945,000	5,552,126	103,497,126
	<u>\$ 43,945,000</u>	<u>\$ 18,337,884</u>	<u>\$ 385,120,000</u>	<u>\$ 139,399,225</u>	<u>\$ 524,519,225</u>

* The remaining \$97,000,000 of Floating Rates Notes - Variable Rate Energy System Refunding Bond, Series 2017 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 2018 and the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2018	\$ 99,553,538	\$ 22,300,000	\$ 15,806,087	\$ 38,106,087	2.61
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	35,105,791	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

Bond coverage was calculated as follows for the year ended September 30, 2018:

Charges for services	\$ 315,042,404	
Investment and other revenue	5,421,208	
Total revenue	<u>320,463,612</u>	\$ 320,463,612
Less cost of operations		<u>(220,910,023)</u>
Net revenues from operations available for debt service		99,553,589
Debt service requirement:		
Interest on bonds payable		15,806,087
Current portion of bonds payable		<u>22,300,000</u>
Total debt service requirement		<u>\$ 38,106,087</u>
Bond coverage from operations		2.61

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, 2018, 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 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, 2018, the remaining principal and interest requirement for these bonds aggregate to \$197,333,213.

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 \$173,301,781.

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 remaining principal and interest requirements for these bonds aggregate to \$117,562,528.

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

NOTE L - REVENUE BONDS (CONTINUED)

Energy System Revenue Bonds, Series 2018:

In September 2018, the City issued the Energy System Revenue Bonds, Series 2018 in the amount of \$43,945,000. Proceeds of the bonds will be used to fund various capital projects for Lakeland Electric, including the acquisition and installation of a 125 megawatt peaking unit. The 2018 bonds mature in serial installments on October 1, 2020 through October 1, 2037. The bonds bear interest rates of between 3.25% and 5.00%, with interest payable on April 1 and October 1 of each year. The remaining principal and interest requirements for these bonds aggregate to \$63,280,730.

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 \$551,478,251. Principal and interest paid for the current year and total net customer revenues were \$37,056,087 and \$99,553,538 respectively.

As of September 30, 2018, 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, 2018 was (\$20,205,867). Also see Note R, Derivative and Hedging Activities.

As a means to reduce borrowing costs of a portion of the Electric and Water Refunding Revenue Bonds Series 1999A, the City entered into an interest rate swap in June 2004. On October 20, 2010, the City refunded a large portion of the Series 1999A bonds. The City has elected to apply the existing swap agreement to the related 2010 refunding bonds.

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

NOTE L - REVENUE BONDS (CONTINUED)

Under the swap agreement, the City pays Citigroup Financial Products Inc. (the counterparty) a payment equal to the notional amount of the swap times an interest rate equal to the SIFMA Municipal Bond index. In return, the counterparty pays the City an amount equal to the notional amount times an interest rate equal to 68 percent of the three-month USD-LIBOR-BBA index, plus a spread of 0.46%. To the extent the relationship between SIFMA and LIBOR approximates a marginal tax rate of more than 33 percent; the net borrowing costs on the underlying debt will be reduced. During FY2018 the counterparty paid the City about \$0.3 million under the agreement, reducing the City's net borrowing cost by that amount. Since inception, the counterparty has paid the City approximately \$11.0 million, reducing the City's net borrowing cost since 2004, by that amount. Settlement payments to the City have been positive in each fiscal year since inception.

On September 7, 2018 the City of Lakeland optionally terminated the 2004 Basis Swap. The City received a termination payment of \$2,173,000 from the swap counterparty, Citigroup Financial Products, Inc.

Variable Rate Hedges:

As a means to hedge the variable rate risk exposure related to certain variable rate Electric System bonds, the City has entered into several interest rate swap agreements. These agreements, which were entered into between 2001 and 2008, were 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. In August 2017, the City issued the Variable Rate Energy System Refunding Bond, Series 2017 which refunded the outstanding Series 2012 bonds, which were variable rate obligations. Concurrently, the City modified the terms of several of the outstanding variable rate hedges to bring them into closer alignment with the outstanding variable rate bonds. No termination payments were made.

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.

On September 7, 2018, the City optionally terminated basis swap with a notional value of \$90,000,000 related to its variable rate debt. The City received a termination payment of \$227,000 from the counterparty, Citigroup Financial Products, Inc.

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, 2018, 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.

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

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. During fiscal year 2018, the remaining total lease obligation of \$139,046, was fully satisfied.

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.

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, 2018, Lakeland Electric had a total of 94 participants.

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Cost of Living Adjustment:

No cost of living increase was awarded for fiscal year 2018.

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 1.20 and the Amortization Payment on UAAL (0.38) are added to the prior Contribution Rate (19.27%), plus Change in Cost Sharing (0.38), assumption change of (0.18), a variable rate of (0.04), Change in Normal Cost Rate (0.10) and actuarial experience from DROP variable interest rate option (.04) to calculate the current year Contribution Rate of 19.75%. Contributions to the pension plan from Department of Electric Utilities were \$5,596,901 for the year ended September 30, 2018 and \$5,590,678 for the year ended September 30, 2017.

At September 30, 2018, the Department of Electric Utilities reported a liability of \$43,697,119 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, 2017, 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, 2017 was \$53,534,111. 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. The Department of Electric Utilities' proportion was 38% and 40%, measured as of September 30, 2018 and September 30, 2017, respectively. The Department of Electric Utilities recognized pension expenses of \$5,667,113 and \$7,566,748 in fiscal year 2018 and 2017, respectively.

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**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:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 717,533	\$ 358,273	\$ 7,706,315	\$ -
Net difference between projected and actual earnings	-	4,145,364	-	624,849
Changes of Assumptions	2,193,635	-	-	-
Cost Share Change	-	1,805,869	-	-
Proportionate share of contributions subsequent to the measurement date	5,596,901	-	5,590,678	-
Total	\$ 8,508,069	\$ 6,309,506	\$ 13,296,993	\$ 624,849

\$5,596,901 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, 2019. 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:	
2019	\$ (8,533)
2020	474,290
2021	(1,780,793)
2022	(2,083,302)
	<u>\$ (3,398,338)</u>

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions:

The total pension liability in the actuarial valuation 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 12.50% depending on service, including inflation
Inflation rate	2.50%
Post-retirement benefit increases	N/A
Retirement rate	(1)
Mortality table	The RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for postretirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. (2)

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

(2) Effective October 1, 2016, the mortality table was changed to the mortality assumption used by the Florida Retirement System (FRS) for Regular Class members in the FRS actuarial valuation report as of July 1, 2016. This change was made in compliance with Florida House Bill 1309, which requires all public pension plans in Florida to use the same mortality tables used in either of the last two actuarial valuation reports of FRS effective no later than October 1, 2016.

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.

The projected long-term real rate of return for the Plan net of investment expenses is 6.13 percent. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of measurement date September 30, 2017 and September 30, 2016 (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%	6.13%	1.226%
Total Investments	<u>100.00%</u>		<u>6.126%</u>

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (continued):

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.

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.

As of September 30, 2018	1% Decrease Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase Rate (8.25%)
Lakeland Electric's proportionate share of the net pension liability	\$ 71,570,111	\$ 43,697,119	\$ 20,233,331
As of September 30, 2017	1% Decrease Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase Rate (8.25%)
Lakeland Electric's proportionate share of the net pension liability	\$ 80,294,273	\$ 53,534,111	\$ 30,857,290

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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

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 in conjunction with the Employees' Pension and Retirement System Plan.

Effective October 1, 2017, the Retiree Healthcare Trust Fund adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement replaces Statements No. 45, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. In addition to the relevant disclosures within this note, Lakeland Electric's financial statements reflect its proportionate share of the total City's long-term liability for fiscal years ending September 30, 2018 and September 30, 2017, resulting from the adoption.

The Retiree Health Insurance Plan is a single-employer defined benefit healthcare plan administered by the City of Lakeland Retiree Healthcare Trust. The City Commission serves as the trustees of the plan. The plan provides for healthcare insurance for eligible retirees and their spouses and dependents through the City-sponsored health insurance plan as formally adopted by City ordinance. One other form of subsidy consists of a payment of up to 50 percent of the cost of Part A Medicare insurance coverage purchased by a former employee who is not otherwise eligible for Medicare coverage. To date, there have been no participants in this program. Under Florida Statute 112.08 if the City offers insurance to active employees, the City must offer the same to the retirees. The difference is the City can charge the full premium to the retiree based on the active employees'/city portion of the premiums for the plan their enrolled in.

Funding Policy

The contribution percentages are set forth by City ordinance. The City subsidy is equal to \$5 per month for each year of service accumulated at retirement (maximum 30 years of service or \$150 per month). The City will fund the benefit by placing 1.5% of annual covered payroll into a trust. Retirees are required to make an election as to participation in the City-sponsored health insurance plan upon retirement. Effective January 1, 2003, any employee, who wishes to have his/her spouse and dependents insured on the City of Lakeland's Health Insurance Plan prior to retirement, will be required to have them on the plan 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, is terminated. Plan provisions may be amended by city ordinance.

Effective January 1, 2003, all new hires will not be eligible for the retiree subsidy plan which has been formally adopted by City ordinance 4379. The City has established a Trust to accumulate and invest assets necessary to pay for the accumulated liability.

At September 30, 2018, the Department of Electric Utilities reported a liability of \$52,325,012 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The proportionate share of the net OPEB liability at September 30, 2017 was \$55,594,556. The Department of Electric Utilities' portion of the net OPEB liability was based on the Department of Electric Utilities' share of the actual contributions to the plan relative to the actual total contributions of the City of Lakeland. Lakeland Electric contributed \$2,424,179 and \$506,009 to the plan in fiscal year 2018 and 2017, respectively. At September 30, 2018, the Department of Electric Utilities' proportion was 29%, compared to 30% as of September 30, 2017.

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of actuarial methods and assumptions used including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such these actuarial amounts are subject to continual valuation.

Significant Assumptions:

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

	2018	2017
Actuarial cost method	Entry age normal based on level percentage of projected salary	Entry age normal based on level percentage of projected salary
Valuation Date	September 30, 2018	September 30, 2017
Projected benefit payment period	6.2 years	6.2 years
Discount rate		
Implicit	4.18%	3.63%
Explicit	6.96%	6.96%
Health care cost trend rate:		
Medical and Rx benefits		
Select	6.00%	6.00%
Ultimate	4.50%	4.50%
Stop loss fees		
Select	7.00%	7.00%
Ultimate	4.50%	4.50%
Administrative		
Select	4.50%	4.50%
Ultimate	4.50%	4.50%
Inflation rate	2.5% per annum	2.5% per annum
Salary changes	3.5% per annum	3.5% per annum
Postemployment benefit changes	N/A	N/A
Mortality rates	RP-2014 Table generational table scheduled using MP-17 and applied gender specific tax-exempt, high quality municipal bond	RP-2014 Table generational table scheduled using MP-17 and applied gender specific tax-exempt, high quality municipal bond
Long-term expected rate of return	fair market value	fair market value
Asset valuation	fair market value	fair market value

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the previously listed actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Change in assumptions

The discount rate for the implicit subsidy was increased from 3.63% to 4.18%.

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Interest rates

Discount (or interest) rates are used to reflect the time value of money. Discount rates are used in determining the present value of the valuation date of future cash flows currently expected to be required to satisfy the postretirement benefit obligation. The long-term expected rate of return using arithmetic mean on OPEB investments was determined using the rate of return on tax-exempt, high quality municipal bonds (20 year, tax-exempt municipal bond - 4.18%) blended with the expected rate of return on trust assets.

The discount rate used to measure the total OPEB liability was 4.18% for the implicit subsidy and 6.96% for the explicit subsidy. The discount rate for fiscal year 2017 was 3.63%. The municipal bond rate used in the discount rate is the Bond Buyer 20-Bond GO Index.

The annual money-weighted rate of return that expresses investment performance, net of investment expense, adjusted for changes in the amount actually invested was 15.1%.

Investments

Investment are held in the City's Consolidated Investment Fund. For information regarding the Consolidated Fund's investment policies, asset allocations, and descriptions of significant investments, refer to Note 3.C.

Concentration

The rate of return for the assets of the Trust as of September 30, 2018 and September 30, 2017 are summarized in the following tables.

September 30, 2018:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	95.30%	7.30%	\$ 7,871,916	97%
Money market funds	3.10%	1.50%	-	2%
Cash	0.60%	0.00%	12,500	0%
Accounts receivable	1.00%	0.00%	-	1%
Total	100.00%		\$ 8,145,722	100%

September 30, 2017:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	95.30%	7.30%	\$ 7,250,917	96%
Money market funds	3.10%	1.50%	191,064	3%
Cash	0.60%	0.00%	12,500	0%
Accounts receivable	1.00%	0.00%	70,242	1%
Total	100.00%		\$ 7,524,723	100%

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Rate of Return

For the year ended September 30, 2018, the annual rate of return (with inflation) was 6.96%.

Projected Benefit Payments

The long-term expected rate of return is used for the first two years of the benefit payments. Thereafter, the municipal bond rate index is applied to the remainder of the life of the plan.

Net OPEB Liability

The components of the Net OPEB Liability for the Health Insurance Trust Fund for Lakeland Electric's proportionate share as September 30, 2018 and September 30, 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Total OPEB Liability	\$ 54,764,125	\$ 57,805,505
Fiduciary Net Position	<u>2,439,113</u>	<u>2,210,949</u>
Net OPEB Liability	<u>\$ 52,325,012</u>	<u>\$ 55,594,556</u>
Fiduciary Net Position as a percentage of the total OPEB liability	4.45%	3.82%

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the discount rate

The sensitivity of the net OPEB liability for Lakeland Electric's proportionate share to a discount rate 1% (5.18%) higher and 1% lower (3.18%) than the discount rate of 4.18% as of September 30, 2018 is as follows:

	<u>1% Decrease Rate (3.18%)</u>	<u>Current Discount Rate (4.18%)</u>	<u>1% Increase Rate (5.18%)</u>
Lakeland Electric's proportionate share of the net OPEB liability	\$ 62,225,877	\$ 52,325,012	\$ 42,197,618

The sensitivity of the net OPEB liability for Lakeland Electric's proportionate share to a discount rate 1% (4.63%) higher and 1% lower (2.63%) than the discount rate of 3.63% as of September 30, 2017 is as follows:

	<u>1% Decrease Rate (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase Rate (4.63%)</u>
Lakeland Electric's proportionate share of the net OPEB liability	\$ 66,120,229	\$ 55,594,556	\$ 44,838,514

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rate

The sensitivity of the net OPEB liability using healthcare cost trend rates 1% higher and 1% lower than the current trend rates as of September 30, 2018 is as follows:

	<u>1% Decrease Trend Rate</u>	<u>Current Trend Rate</u>	<u>1% Increase Trend Rate</u>
Lakeland Electric's proportionate share of the net OPEB liability	\$ 42,963,619	\$ 52,325,012	\$ 61,043,527

The sensitivity of the net OPEB liability using healthcare cost trend rates 1% higher and 1% lower than the current trend rates as of September 30, 2017 is as follows:

	<u>1% Decrease Trend Rate</u>	<u>Current Trend Rate</u>	<u>1% Increase Trend Rate</u>
Lakeland Electric's proportionate share of the net OPEB liability	\$ 45,652,408	\$ 55,594,556	\$ 64,863,964

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Plan Fiduciary Net Position

The Plan does not issue a stand-alone publicly available financial report. In accordance with the requirements of GASB Statement 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, the City has elected to present the Lakeland Retiree Healthcare Trust as a fiduciary fund and include the required disclosures and required supplementary information in its annual financial statements.

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

The Department of Electric Utilities recognized OPEB expenses of \$3,001,563 and \$3,985,723 for fiscal year 2018 and 2017, respectively. Lakeland Electric reported deferred inflows of resources related to OPEB from the following sources as of September 30, 2018 and 2017:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings	\$ -	\$ 135,432	\$ -	\$ 66,294
Changes in assumptions	-	7,140,890	-	3,495,489
Total	<u>\$ -</u>	<u>\$ 7,276,322</u>	<u>\$ -</u>	<u>\$ 3,561,783</u>

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Fiscal year ended September 30th:	
2019	\$ 1,554,935
2020	1,554,935
2021	1,554,935
2022	1,523,506
2023	953,189
2024	134,822
	<u>\$ 7,276,322</u>

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 \$18,500 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.

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

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 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

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

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

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.

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 \$3,399,582 and \$1,967,220 to the cost of fuel during the fiscal year ended September 30, 2018 and 2017, which was approximately 3 percent and 2 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 \$1,264,554 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. As of September 2018, Lakeland Electric had options, swaps, and physical contracts outstanding in the following amounts, covered fiscal year 2018 and beyond:

Fiscal Year	Options	Swaps	Market Value (Gain) / Loss
2018	\$ 11,770,000	\$ 7,890,000	\$ (569,469)
2019	3,950,000	3,950,000	(630,383)
2020	1,200,000	2,250,000	(64,702)
	<u>\$ 16,920,000</u>	<u>\$ 14,090,000</u>	<u>\$ (1,264,554)</u>

**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 regression analysis. 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 interest rate swaps 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, 2018:

Description	Maturity	Net Value
\$24.772M 67% of LIBOR Swap	10/01/2035	\$ (5,689,212)
\$14.053M 67% of LIBOR Swap	10/01/2035	(3,163,081)
\$47.86M 67% of LIBOR Swap	10/01/2037	(11,156,795)
\$1.520M 67% of LIBOR Swap	10/01/2035	(196,779)
		<u>\$ (20,205,867)</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 fair value of all of Lakeland Electric's derivatives as of September 30, 2018 was as follows:

Interest rate swaps	\$ (20,205,867)
Prepaid fuel	2,612,990
Fuel hedges (deferred inflows)	1,264,554
	<u>\$ (16,328,323)</u>

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>

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,	
	2018	2017
Contributions in aid of construction, beginning balance	\$ 44,979,842	\$ 45,591,950
Additions	5,691,994	2,441,818
Amortization as depreciation expense	(3,372,062)	(3,053,926)
	<u>\$ 47,299,774</u>	<u>\$ 44,979,842</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,	
	2018	2017
Beginning balance	\$ 18,001,167	\$ 20,301,603
Fuel revenues	133,807,862	122,163,443
Less fuel expenses	(127,076,307)	(120,510,181)
Less regulatory liability related to fuel charges	(5,461,851)	(3,953,698)
	<u>\$ 19,270,871</u>	<u>\$ 18,001,167</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 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,	
	2018	2017
Contributions in aid of construction	\$ 47,299,774	\$ 44,979,842
Fuel reserve balance	19,270,871	18,001,167
Deferred inflows - fuel hedges (see Note R)	1,264,554	929,482
Deferred inflows - OPEB (see Note P)	7,276,322	3,561,783
Deferred inflows - pension (see Note N)	6,309,506	624,849
	<u>\$ 81,421,027</u>	<u>\$ 68,097,123</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, 2018, 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 2018, milestone payments of \$8,011,817 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
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>\$ 2,571,240</u>	<u>\$ 66,828,261</u>	<u>\$ 69,399,501</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, 2018, Sun Edison's former ownership interests were assigned as follows:

Location	Owner	COD	Years	MWs/AC	Rate
Airport I	Longroad Energy Holdings, LLC	12/22/2011	25	2.25	\$ 190.00
Airport II	DG Solar Partners 1, LLC	9/16/2012	25	2.75	\$ 176.50
Airport III	NRG DG Lakeland, LLC	12/21/2016	25	3.15	\$ 112.52
RP Funding Center	Longroad Energy Holdings, LLC	4/4/2010	20	0.25	\$ 280.99
West Bella Vista	TerraForm Utility Solar XIX, LLC	7/6/2015	25	6.00	\$ 112.52

Lakeland Electric has no equity interest in and assumes no financial responsibility for the solar generation systems which four are located on properties owned by the City of Lakeland. The West Bella Vista property is owned by the vendor. 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. Four of the SEPA are in effect for twenty-five years and one is 20 years at a fixed price per MWh with no price escalation clauses. DG Solar Partners 1, LLC purchase SE Solar Trust VII interest on November 29, 2017. DG Solar is a joint venture between EverStream Energy Capital Management and Oaktree Capital Management. Lakeland Electric's purchases under the SEPAs totaled \$3,282,984 and \$3,512,157 in 2018 and 2017, respectively. The total purchase MWs purchase in fiscal year 2018, is 23,718.11 MWs at average cost of \$138.42 MWh.

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, 2018. Commitments for construction contracts and other capital outlay as of September 30, 2018 are as follows:

McIntosh unit 3 renewal and replacement projects	\$ 757,059
McIntosh unit 5 renewal and replacement projects	133,834
McIntosh gas turbine 2 project	20,713
Other power production plant improvements	323,882
Energy delivery capital projects	1,197,007
Building improvement projects	501,931
Equipment	78,560
	<u>\$ 3,012,986</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 \$113,698,637 as of September 30, 2018, of which \$107,692,551 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.

NOTE V – SUBSEQUENT EVENTS

Auburndale Peaker Energy Center Facility

In October 2018 Lakeland Electric entered into agreements with Sargent & Lundy, LLC and Rayco Industrial, Inc. for services related to the relocation of the Auburndale Peaker Energy Center Facility to the McIntosh Power Plant on 1 Oct 2018. The expected completion date and commissioning of the Combustion Turbine is anticipated to occur in January 2020. The total cost of the engineering and relocation services are expected to total \$21,611,958 to be funded from the proceeds of the 2018 Series bond received on September 27, 2018.

Federal Financial Assistance related to Hurricane Irma storm recovery efforts

On September 10, 2017, Hurricane Irma inflicted widespread damage to the City of Lakeland's electric system. The total \$11.5 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 current fiscal year.

On January 22, 2019, the City of Lakeland entered a master agreement with the Florida Department of Emergency Management (FDEM) for the receipt of federal funds from the Federal Emergency Management Agency (FEMA). The agreement will be amended as funds are obligated on a project-by-project basis. Lakeland Electric has a total of 10 projects related to Hurricane Irma recovery efforts. As of the date of this report, 9 projects totaling \$9.7 million have been submitted for reimbursement, of which \$81,509 has been received as of the date of this report.

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**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2018**

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

Measurement date:	Employees' Pension & Retirement System			
	30-Sep			
	2017	2016	2015	2014
Lakeland Electric's proportion of the net pension liability	37.9290%	39.6375%	39.7567%	39.7567%
Lakeland Electric's portion of the net pension liability	\$ 43,697,119	\$ 53,534,111	\$ 58,777,353	\$ 48,261,275
Lakeland Electric's covered payroll	\$ 31,899,370	\$ 31,867,657	\$ 31,696,314	\$ 31,094,405
Lakeland Electric's proportionate share as a % of covered payroll	136.98%	167.99%	185.44%	155.21%
Plan fiduciary net position as a % of total pension liability	83.36%	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 PENSION CONTRIBUTIONS

Employees' Pension & Retirement System						
Year Ended Sep 30th	Actuarly Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll	
2018	\$ 6,353,623	\$ 5,596,901	\$ 756,722	\$ 31,899,370	17.55%	
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, 2016, 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
OTHER POST EMPLOYMENT BENEFITS (OPEB)
SEPTEMBER 30, 2018**

SCHEDULE OF LAKELAND ELECTRIC'S PROPORTIONATE SHARE OF THE CITY'S NET OPEB LIABILITY

Measurement date:	Other Post Employment Benefits (OPEB)	
	30-Sep	
	2018	2017
Lakeland Electric's proportion of the net OPEB liability	29.3824%	29.8280%
Lakeland Electric's portion of the net OPEB liability	\$ 52,325,012	\$ 55,594,556
Lakeland Electric's covered payroll	\$ 31,899,370	\$ 31,867,657
Lakeland Electric's proportionate share as a % of covered payroll	164.03%	174.45%
Plan fiduciary net position as a % of total OPEB liability	4.45%	3.82%

GASB 75 was implemented in fiscal year 2018. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF LAKELAND ELECTRIC'S OPEB CONTRIBUTIONS

Other Post Employment Benefits (OPEB)					
Year Ended Sep 30th	Statutorily Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 478,491	\$ 2,424,179	\$ (1,945,688)	\$ 31,899,370	7.60%
2017	478,015	506,009	(27,994)	31,867,657	1.59%

GASB 75 was implemented in fiscal year 2018. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

For more information pertaining to the aforementioned plans 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.

Changes in assumptions / inputs: The following assumption changes are reflected in the Actuarially Determined Contribution rate as of September 30, 2018.

Employee Pension and Retirement System

The amounts reported as changes in assumptions resulted primarily from the adjustments resulting from the adoption of the RP2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB, changes in the rate of inflation used, assumed salary increases, payroll growth, retirement, and employment termination.

Other Post Employment Benefits (OPEB)

For additional information regarding the OPEB Trust Fund please refer to Note P in the Notes to Financial Statements. The only applicable change in the valuation was the increase in the discount rate to 4.18%.

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**INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Electric Utilities of the City of Lakeland, Florida (the Department) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 26, 2019. 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, the changes in its financial position, or, where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Crowe LLP

Tampa, Florida
April 26, 2019



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*Audited Financial Statements
September 30, 2018 and September 30, 2017*

*Department of Electric Utilities
An enterprise fund of the City of Lakeland, Florida*

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