LAKELAND ELECTRIC

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018

'19

CELEBRATING 115 YEARS

LAKELAND ELECTRIC
POWERED FOR LIFE

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, 2020

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, 2019 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 529 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 2019, an average of 131,806 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 for more than 115 years. The utility has over 1,975 miles of distribution lines of which 701 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 FY2019, LE began installation of a 125-MW natural gas peaking unit at the McIntosh generation site. The unit, an existing peaker, had been purchased from a merchant generator and relocated to Lakeland in 2018. It is expected to commence operation in March 2020 and will replace McIntosh Unit 2, a 43-year-old gas-fired steam generating unit that is not operational. The project is expected to 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.

Promoting Sustainability – LE is moving toward a more sustainable future in a variety of ways. In FY2019, the utility implemented a battery storage rebate program where residential solar customers could receive up to $4,000 in rebates when they purchased a battery storage system. LE is also installing several EV charging stations within the City of Lakeland and has begun to convert its fleet of gasoline-powered automobiles to EVs. The utility's generation portfolio is also evolving towards a more sustainable future as LE plans to mothball its aging coal unit by 2024 and replace it with cleaner sources of energy, such as natural gas and solar. Since 2000, LE has reduced its carbon emissions by more than 40%. Moreover, it expects its emissions to fall even further in the years to come.

Investing in Infrastructure – LE continues to invest in its infrastructure. In late FY2018, the utility hired contractors to work on a backlog of Distribution Pole Replacements. Since that time 576 wooden poles that had reached their end of life have been replaced. Two additional contract crews, bringing the total to four, were brought on board in FY2020 to accelerate replacing these poles. It is also investing in a new substation in Northeast Lakeland, which has seen substantial growth over the past few years. This substation will serve to meet the increasing needs of both residential and business customers in the area.

FINANCIAL HIGHLIGHTS

Lakeland Electric's income in fiscal year 2019 was up $18.5 million from 2018 reflecting a 2.2% increase in load due to warmer weather and a 1.2% increase in customers. Also affecting the results was the impact of a 3% rate increase implemented in October 2018. This rate increase, approved by the City Commission, allows LE to keep up with inflation and provides the utility with the resources needed to continue to upgrade its aging infrastructure. In spite of the rate increase, Lakeland Electric's rates still remained among the lowest in the state in FY2019.

Other financial highlights include:

- Change in net position of $36.2 million.
- Debt service coverage of 329%. Well above our covenant requirement.
- Days Cash on Hand of 204 days. Solidly in AA credit range.
- Ratings upgrade by Fitch from AA- to AA

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

Brent McLain,
Lakeland Electric Interim Controller

STATISTICAL AND FINANCIAL DATA (Unaudited)

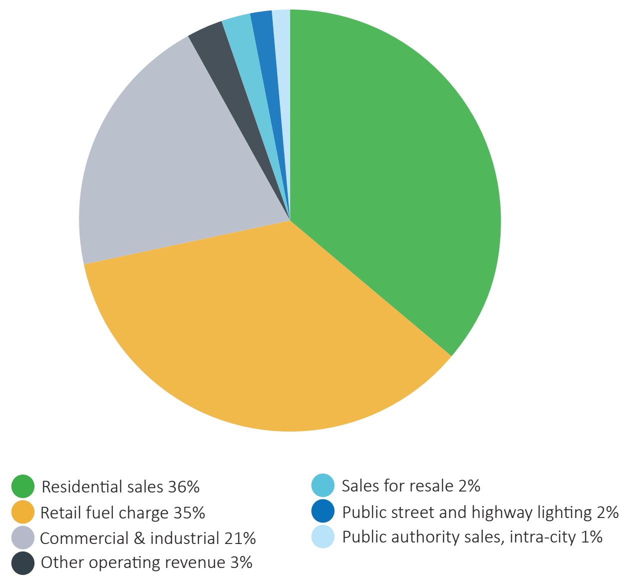
	FY2019	FY2018	Incr/-Decr
Retail electric customers:			
Residential	109,962	108,539	1.3%
Commercial and Industrial	13,382	13,241	1.1%
Roadway and private area lights	8,449	8,403	0.5%
	131,793	130,183	1.2%
Number of employees (FTE's)	483	503	-4.0%
Electric plants	3	3	0.0%
Net normal generating capacity	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 (miles):			
Overhead	1,274	1,273	0.1%
Underground	701	683	2.6%
Retail sales (MWh)	3,131,257	3,064,315	2.2%
Average demand (MW)	366	358	2.2%
Summer peak (MW)	667	637	4.7%
Winter peak (MW)	550	704	-21.9%

	(Dollars in thousands)		Percent
	Current Year	Prior Year	Incr/-Decr
Retail sales of electricity	$ 189,903	$ 180,625	5.1%
Other retail revenue	9,321	7,421	25.6%
Retail fuel revenue	112,752	119,044	-5.3%
Sales for resale	7,168	7,952	-9.9%
Fuel and purchased power expenses	(120,231)	(127,076)	-5.4%
Other operating expenses	(89,142)	(93,834)	-5.0%
Depreciation expense (net)	(40,407)	(35,945)	12.4%
Operating income	69,364	58,187	19.2%
Nonoperating revenue	14,148	5,421	161.0%
Nonoperating expenses	(16,062)	(15,828)	1.5%
Transfers to other funds	(31,281)	(30,139)	3.8%
Change in net position	$ 36,169	$ 17,641	105.0%
Utility plant, net	$ 681,818	$ 665,301	2.5%
Long-term bond debt, due beyond twelve months	$ 364,925	$ 385,120	-5.2%
Debt service coverage from operations	3.30	2.61	26.4%
Days cash (excluding restricted and sinking cash)	240	204	17.6%

OPERATING SUMMARY FY2019

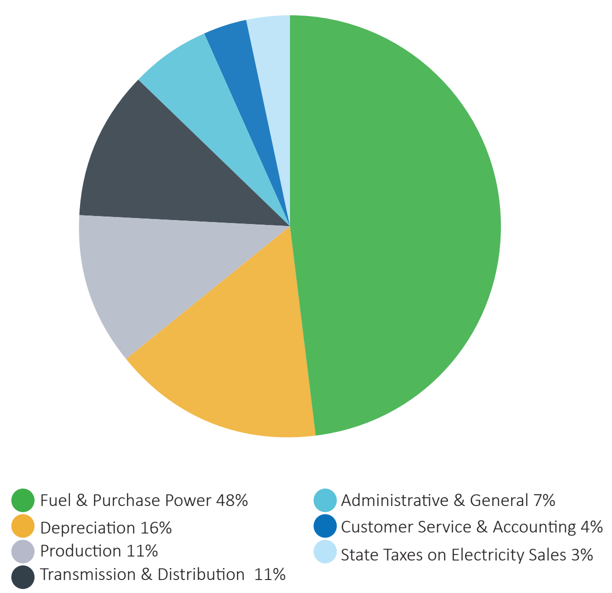
OPERATING REVENUE (in thousands)

Residential Sales	$115,869
Retail fuel charges	112,752
Commercial & Industrial Sales	64,845
Other operating revenue	9,321
Sales for resale	7,168
Public street and highway lighting	5,516
Public authority sales, intra-city	3,673
TOTAL	$319,144

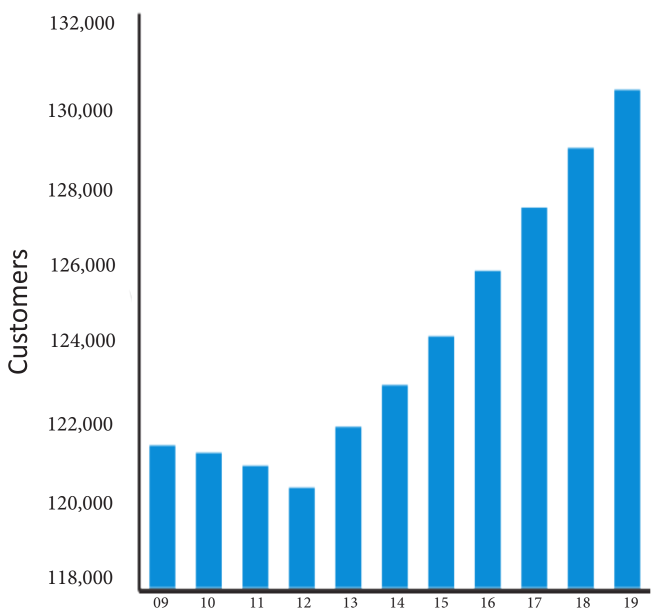


OPERATING EXPENSES (in thousands)

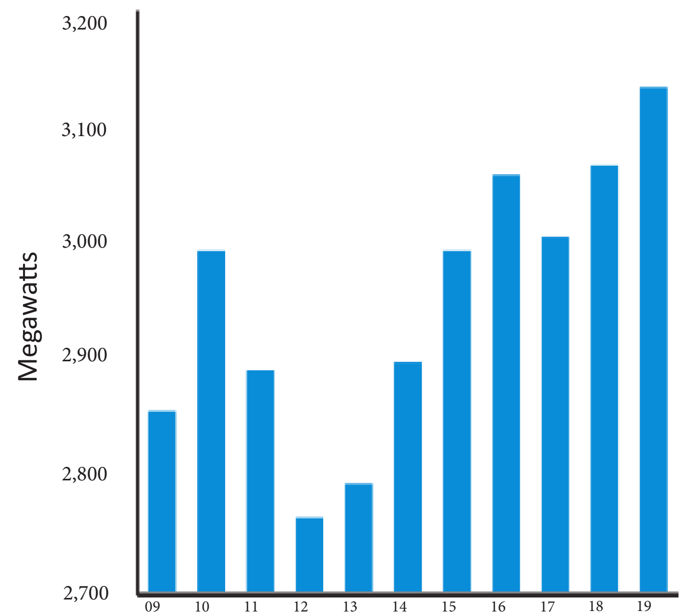
Fuel and Purchase Power	$120,231
Depreciation	40,407
Production	29,155
Transmission & Distribution	28,202
Administrative & General	15,415
Customer Service & Accounting	8,610
State Tax on Electric Sales	7,760
TOTAL	$249,780



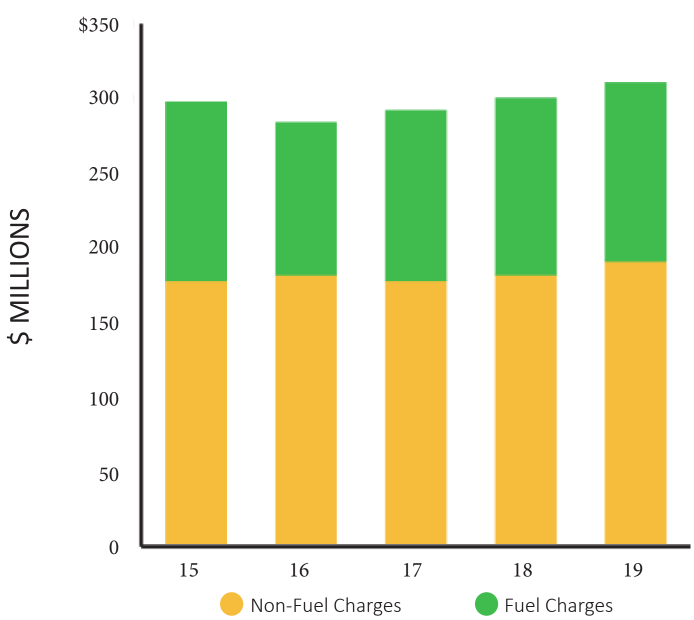
Retail Customer Count FY19 and Previous Ten Years



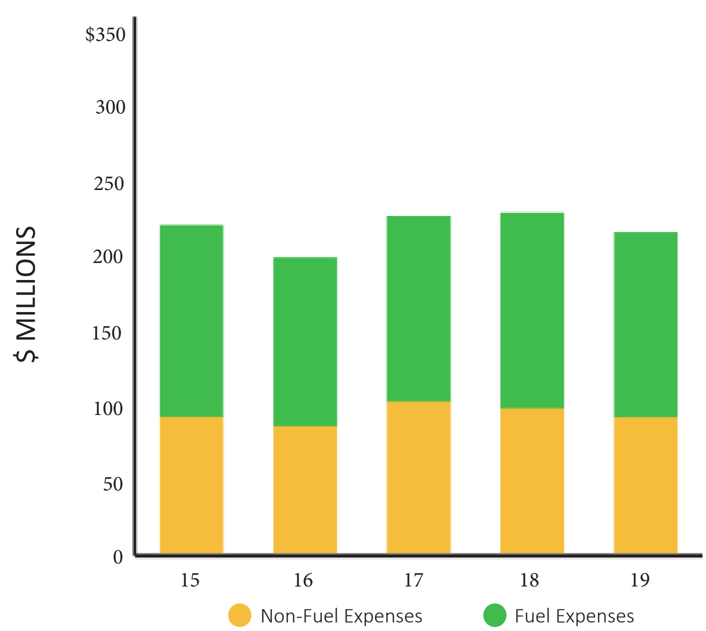
Net Retail Customer Load FY19 and Previous Ten Years



Retail Sales of Electricity FY19 and Previous Four Years



Operating Expenses FY19 and Previous Four Years



LAKELAND ELECTRIC
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Crowe LLP
Independent Member Crowe Global

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 Notes B and V to the financial statements, in November 2016 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations that were not previously addressed in GASB standards. Beginning liabilities and deferred outflows of resources at October 1, 2017 were restated by $1,696,200 as part of the implementation of this standard. Our opinion is not modified with respect to this matter.

As discussed in Note B to the financial statements, in April 2018 the Governmental Accounting Standards Board (GASB) issued GASB 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. 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 16 and 73 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 21, 2020 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

Crowe LLP

Tampa, Florida
April 21, 2020

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, 2019. 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, 2019 and the previous two fiscal years.

Condensed Statements of Net Position:

	Fiscal years ended September 30,		
		(as restated)	
(Dollars in thousands)	2019	2018	2017
Assets			
Current assets	$ 170,291	$ 156,794	$ 167,326
Utility plant, net	681,818	665,301	649,740
Other noncurrent assets	120,016	127,891	90,183
	972,125	949,986	907,249
Deferred outflows of resources	73,942	57,696	70,391
Liabilities			
Current liabilities	55,771	50,508	56,990
Noncurrent liabilities	543,970	558,553	552,941
	599,741	609,061	609,931
Deferred inflows of resources	92,957	81,421	68,097
Net position			
Net assets invested in capital assets, net of related debt	248,056	209,309	222,755
Restricted - capital improvement	16,647	28,328	-
Unrestricted	88,665	79,563	76,857
	$ 353,369	$ 317,200	$ 299,612

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

	Fiscal years ended September 30,		
		(as restated)	
(Dollars in thousands)	2019	2018	2017
Operating revenues			
Sales of energy - retail	$ 302,654	$ 299,669	$ 291,555
Sales of energy and capacity sales - wholesale	7,168	7,952	4,643
Other electric operating revenue	9,321	7,421	7,286
	319,143	315,042	303,484
Operating expenses			
Fuel and purchased power	120,231	127,076	120,510
Energy supply	29,155	30,131	29,371
Energy delivery	28,202	30,397	31,752
Customer service and accounting	8,610	8,433	8,025
State tax on electric sales	7,760	7,513	7,188
Administrative and general	15,415	17,360	21,467
Depreciation (net)	40,407	35,945	38,267
	249,780	256,855	256,580
Operating income	69,363	58,187	46,904
Non-operating activity			
Investment and other income	14,148	5,421	5,832
Interest and amortization expense	(16,062)	(15,881)	(17,660)
Net transfers (to) from other funds	(31,281)	(30,139)	(28,448)
Change in net position	$ 36,168	$ 17,588	$ 6,628

Net Position of Lakeland Electric

The net position of Lakeland Electric increased by $36.2 million during fiscal year 2019 compared to a $17.6 million increase in 2018. Operating income was $69.4 million in 2019 compared to $58.2 million in the preceding year. The year-over-year increases primarily reflect the impact of a 3 percent rate increase, load growth of 2.2 percent and reduced Transmission/Distribution expenses.

Financial Highlights

- Lakeland Electric's 2019 non-fuel retail revenue was up $19.3 million from the previous year reflecting a 3% rate increase and 2.2% load growth. 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 increase by $9 million from the previous fiscal year. Investment revenue decreased by $1.3 million, however a $5.3 million favorable fair value adjustment on Lakeland Electric's share of the City's pooled investments was recognized in 2019, compared to an unfavorable adjustment of ($4.7) 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 ($4.9) million or (6) percent from $86.3 million in 2018 to $81.4 million in 2019. The favorable variance is more than accounted for by reduced tree trimming and pension expenses. Total operating and maintenance costs (excluding fuel, gross receipts tax, and depreciation) averaged $25.99 per retail MWh in 2019, compared to $28.17 in 2018.

- Although Lakeland Electric anticipates that a substantial percentage of the $10.4 million of storm recovery costs associated with hurricane Irma will be eligible for reimbursement, only $0.1 million was reimbursed as of fiscal year 2019. A grant agreement was in place before the end of fiscal year, and an accrual of $0.9 million was recorded for funds obligated in fiscal year 2019.

- Administrative and General Expenses were ($1.9) million lower than the previous year largely in relation to pension.

- Fuel and purchased power expenses were down ($6.8) million in 2019, reflecting lower natural gas prices. Also, in 2019, McIntosh Unit 3 was in an extended outage which reduced the amount of coal purchased during the year.

- Lakeland Electric recovers fuel costs from retail customers in the form of a fuel charge that is subject to a quarterly revision based on a forecast of fuel costs for the following twelve months. As of September 30, 2019, the retail fuel charge was $36.50 per MWh, compared to $40.75 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 2019 with a cumulative over-recovered fuel position of $24.7 million and ended the year at $29.2 million. The fuel reserve was over-funded to the extent of $10.2 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 $2.109 per MWh were in effect during 2019 and 2018, respectively. Lakeland Electric had a cumulative under-recovered environmental compliance cost balance of $(55) thousand, classified as a regulatory liability, as of the end of 2019. Based on sales and environmental compliance expense projections, a rate of $2.776 per MWh was recommended for 2020. See Note E.

Financial Highlights (continued)

- 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 under-recovered energy conservation charge balance of $(11) thousand, classified as a regulatory liability, as of the end of 2019. See Note E.

- Lakeland Electric provides a dividend at a rate of $9.96 per MWh to the City of Lakeland's General Fund in the form of monthly cash transfers. The total amount of the dividend in 2019 was $30.8 million, compared to $29.7 million in 2018.

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 for the purchase and installation of a 125 megawatt peaking unit as well as other energy supply and delivery projects. As of 2019, $34.5 million has been spent. The remainder of the Series 2018 bond proceeds were carried over to fiscal year 2020. 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 $55.9 million in 2019 compared to $47.1 million in 2018 and $31.9 million 2017. Capital expenditures during 2019 included $26.4 million for the purchase and installation of a 125 megawatt peadking unit, $7.2 million for other energy supply projects, $20.8 million for energy delivery projects, $1.5 million for building improvements and equipment.

- Depreciation expense, net of amortization of contributions in aid of construction, was $40.4 million in 2019 compared to $35.9 million in 2018.

- Lakeland Electric recorded contributions in aid of construction from outside the Department in the amount of $3.5 million during fiscal year 2019, compared to $5.7 million in 2018. These amounts are included in the *Plant in Service* balance in the Statements of Net Position. See Note S.

The table below contains a summary of Lakeland Electric's plant investment, net of accumulated depreciation, as of September 30, 2019 and 2018. Refer to Note H, Utility Plant, for more detailed information regarding utility plant assets.

	(In Thousands)	
	September 30	
	2019	2018
Land	$ 15,595	$ 15,595
Construction in process	65,223	42,010
Buildings	8,856	9,492
Machinery and equipment	9,995	13,295
Electric transmission and distribution	329,149	322,250
Electric supply	253,000	262,659
	$ 681,818	$ 665,301

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.

Capital Assets (Continued)

The utility announced it will be mothballing its coal fired unit by 2024 due to economic reasons. 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, 2019, Lakeland Electric had $364.9 million in net long-term bond debt outstanding compared to $385.1 million at the end of 2018 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	
	2019	2018
Electric System Revenue Bonds:		
Series 2010	117,560	135,510
Series 2016	126,615	130,965
Series 2017	97,000	97,000
Series 2018	43,945	43,945
	385,120	407,420
Less Current Portion	(20,195)	(22,300)
	$ 364,925	$ 385,120

As indicated in Note L (Revenue Bonds), the coverage on bonded debt of Lakeland Electric for 2019 was 3.30 times the annual debt service requirement for the fiscal year ended 2019. Lakeland Electric is not obligated to fund a Debt Service Reserve Fund, provided that "net revenues" equal or exceed 150 percent of the bond service requirement for each year.

Based on debt service requirements and forecasted revenues and expenses, debt service coverage is expected to remain greater than 2 times the annual debt service requirement in fiscal year 2020.

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 2019 was 366 megawatts (MW), compared to 358 MW during the previous year. The peak demand during the winter was 545 MW on January 19, 2019, and a summer peak demand of 667 MW was reached on June 25, 2019. Lakeland Electric expects to see a growth of approximately 1 percent in the retail customer base during fiscal year 2020. 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 2019 were the fourth 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 180 days of operating cash. At the end of 2019, Lakeland Electric had over 240 days of cash compared to 204 days in the previous fiscal year.

- Lakeland Electric has been, and will continue to be, impacted by various regulatory and legislative requirements. In the opinion of Lakeland Electric, the System is currently in compliance with all current federal, state and local environmental regulations. Lakeland Electric cannot predict at this time whether any additional legislation or rules will be enacted which might affect operations, and if such laws or rules are enacted, what the additional capital and operating costs, if any, might occur in the future because of such actions. The estimation of costs of compliance is subject to significant uncertainties and the financial impact of future proposals could be substantial.

Using This Annual Report

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

Requests for Information

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

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

	September 30	
		(as restated)
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 45,651,210	$ 38,233,488
Accounts receivable	46,203,699	48,882,389
Less allowance for uncollectibles	(736,782)	(793,202)
Fuel hedges	4,430,918	3,877,544
Prepaid expenses	608,719	28,985
Inventories	39,034,006	35,811,223
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	20,195,000	22,300,000
Accrued interest payable	6,957,765	6,531,254
Accounts payable	5,361,289	647,253
Accrued liabilities	990,875	1,176,412
Restricted assets (cash and equivalents) set aside for		
Accounts payable	1,565,241	67,010
Accrued liabilities	29,339	32,097
Total current assets	170,291,279	156,794,453
NONCURRENT ASSETS		
Asset apportionments (including $87,669,913 and $82,376,968 of cash and cash equivalents in 2019 and 2018, respectively).	88,889,879	82,676,040
Restricted assets (including $29,702,293 and $43,562,399 of cash and cash equivalents in 2019 and 2018, respectively).	29,884,472	43,765,249
Utility plant		
Land	15,595,265	15,595,265
Construction in progress	65,223,409	42,009,696
Utility plant, facilities & equipment in service	1,405,608,689	1,369,167,198
Less accumulated depreciation	(804,609,592)	(761,470,727)
Total utility plant, net	681,817,771	665,301,432
OTHER ASSETS		
Regulatory assets	1,241,338	1,449,493
Total Assets	972,124,739	949,986,667
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding of bond debt	24,254,970	27,319,503
Hedge derivative outflows	33,652,445	20,205,867
Deferred outflows of resources related to pensions	7,862,003	8,508,069
Deferred outflows of resources related to OPEB	6,549,328	-
Asset retirement obligation outflows	1,623,194	1,662,484
Total deferred outflows of resources	73,941,940	57,695,923

See accompanying notes to financial statements

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

	September 30	
	2019	(as restated) 2018
LIABILITIES		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	$ 16,698,515	$ 15,954,322
Accrued liabilities	3,972,648	3,799,962
Liabilities payable from apportioned assets		
Accrued interest payable	6,957,765	6,531,254
Current portion of bonds payable	20,195,000	22,300,000
Accounts payable	5,361,289	647,253
Accrued liabilities	990,875	1,176,412
Liabilities payable from restricted assets		
Accounts payable	1,565,241	67,010
Accrued liabilities	29,339	32,097
Total current liablities	55,770,672	50,508,310
OTHER LIABILITIES		
Restricted liabilities	13,237,008	15,436,831
Regulatory liabilities	10,339,354	6,049,686
Interest rate swaps	33,652,445	20,205,867
Accrued liabilities, less current portion	3,951,658	3,960,857
Net OPEB liability	51,892,133	52,325,012
Net pension liability	37,353,638	43,697,119
Asset retirement obligation	1,730,000	1,715,400
Revenue bonds payable, less current portion	364,925,000	385,120,000
Unamortized bond premium	26,888,444	30,042,147
Total other liabilities	543,969,680	558,552,919
Total liabilities	599,740,352	609,061,229
DEFERRED INFLOWS OF RESOURCES		
Unamortized contributions in aid of construction	47,249,282	47,299,774
Fuel reserve	19,094,941	19,270,871
Unrealized gain on hedges	2,186,812	1,264,554
Deferred inflows of resources related to pensions	9,846,421	6,309,506
Deferred inflows of resources related to OPEB	14,579,664	7,276,322
Total deferred inflows of resources	92,957,120	81,421,027
NET POSITION		
Net investment in capital assets	248,056,353	209,308,508
Restricted		
Capital improvement	16,647,464	28,328,418
Unrestricted	88,665,390	79,563,409
	$ 353,369,207	$ 317,200,335

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, 2019	(as restated) 2018
OPERATING REVENUES		
Sales of energy - retail	$ 302,654,931	$ 299,668,819
Sales of energy and capacity sales - wholesale	7,167,763	7,952,236
Other electric operating revenue	9,321,025	7,421,349
Total operating revenues	319,143,719	315,042,404
OPERATING EXPENSES		
Fuel and purchased power	120,230,962	127,076,307
Energy supply	29,155,481	30,130,960
Energy delivery	28,202,180	30,397,651
Customer service	8,609,523	8,433,447
State tax on electric sales	7,760,449	7,511,696
Administrative and general	15,414,593	17,359,962
Total operating expenses	209,373,188	220,910,023
OPERATING INCOME BEFORE DEPRECIATION	109,770,531	94,132,381
Depreciation expense	(43,979,948)	(39,317,215)
Depreciation - contributions in aid of construction	3,573,283	3,372,062
OPERATING INCOME	69,363,866	58,187,228
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less $1,164,447 and $0 capitalized in 2019 and 2018, respectively).	8,232,824	9,568,048
Net increase (decrease) in the fair value of cash equivalents	5,283,534	(4,667,795)
Miscellaneous revenue	631,511	520,955
Interest expense (less $2,077,356 and $1,263,850 capitalized in 2019 and 2018, respectively).	(15,895,505)	(15,375,742)
Amortization expense	(166,116)	(505,282)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,913,752)	(10,459,816)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	67,450,114	47,727,412
DIVIDEND TO GENERAL FUND	(30,850,393)	(29,701,896)
TRANSFERS TO OTHER FUNDS	(430,849)	(437,038)
CHANGE IN NET POSITION	36,168,872	17,588,478
NET POSITION, beginning of year	317,200,335	299,611,857
NET POSITION, end of year	$ 353,369,207	$ 317,200,335

See accompanying notes to financial statements

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

	Year ended September 30	
		(as restated)
	2019	2018
Cash flows from operating activities:		
Receipts from customers	$ 324,487,344	$ 315,148,674
Payments for interfund services	(13,234,684)	(13,419,551)
Payments to suppliers	(150,634,796)	(154,954,567)
Payments to employees	(47,283,157)	(52,931,284)
Net cash provided by operating activities	113,334,707	93,843,272
Cash flows used in noncapital financing activities:		
Interest paid on meter deposits	(656,092)	(757,419)
Operating transfers to other funds	(31,281,242)	(30,138,934)
Cash flows used in noncapital financing activities	(31,937,334)	(30,896,353)
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(17,002,484)	(17,019,992)
Proceeds from issuance of interfund loans	-	5,050,000
Proceeds from issuance of long-term debt	-	43,945,000
Payments on interfund loans	-	(5,050,000)
Payments on and maturities of long-term debt	(22,300,000)	(21,389,046)
Debt issue costs	(3,153,678)	677,460
Purchase of capital assets	(50,425,973)	(49,411,982)
Cash flows used in capital financing activities:	(92,882,135)	(43,198,560)
Cash flows from investing activities:		
Investment revenue	9,397,271	9,568,048
Net increase (decrease) in the fair value of cash equivalents	5,283,534	(4,667,795)
Cash flows provided by investing activities	14,680,805	4,900,253
Net increase (decrease) in cash and cash equivalents	3,196,043	24,648,612
Cash and cash equivalents, beginning of year	194,926,881	170,278,269
Cash and cash equivalents, end of year	$ 198,122,925	$ 194,926,881
Classified as:		
Current	$ 45,651,210	$ 38,233,488
Apportioned	121,174,842	113,031,887
Restricted	31,296,873	43,661,506
Total	$ 198,122,925	$ 194,926,881

See accompanying notes to financial statements

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

	Year ended September 30	
		(as restated)
	2019	2018
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	$ 69,363,866	$ 58,187,228
Depreciation	43,979,948	39,317,215
Depreciation - contributions in aid of construction	(3,573,283)	(3,372,062)
Miscellaneous revenue	631,511	520,955
Increase (decrease) in receivables, net	2,622,270	(998,859)
(Decrease) in inventory	(3,222,783)	(1,775,299)
(Decrease) in prepaid expenses	(579,734)	(28,985)
Decrease (increase) in regulatory assets	208,155	(246,577)
Decrease in deferred outflows related to pensions	3,710,599	8,490,094
Decrease in deferred outflows related to OPEB	(6,549,328)	-
Decrease in fair value of derivatives	368,884	644,527
Increase (decrease) in accounts payable	744,193	2,051,321
(Decrease) increase in accrued liabilities	(347,402)	(7,092,822)
Increase (decrease) in regulatory liabilities	4,113,738	1,731,296
Increase in deposits payable	(2,199,824)	122,580
Decrease in net pension liability	(6,343,481)	(9,836,992)
Increase deferred inflows of resources related to penions	3,536,915	5,684,657
Increase deferred inflows of resources related to OPEB	7,303,342	3,714,539
Increase (decrease) in net OPEB liability	(432,879)	(3,269,544)
Net cash used in operating activities	$ 113,334,707	$ 93,843,272
Noncash investing, capital, or financing activities:		
Capitalized interest expense	$ 2,077,356	$ 1,263,850
Less capital interest revenue	(1,164,447)	-
	$ 912,909	$ 1,263,850

See accompanying notes to financial statements

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting:

Lakeland Electric uses the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America, as required by the Governmental Accounting Standards Board (GASB). Lakeland Electric has adopted the uniform system of accounts (USOA) prescribed by the Federal Energy Regulatory Commission (FERC) for electric operations. Lakeland Electric does not follow any accounting methods that conflict with the GASB.

Regulatory Accounting:

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

Cash and Cash Equivalents:

Lakeland Electric has defined Cash and Cash Equivalents to include cash on hand, demand deposits, cash with paying agents, as well as Lakeland Electric's equity in the City's pooled cash (see Note C). Additionally, Lakeland Electric's equity in the City's internal investment pool (see Note C) is considered to be a cash equivalent since Lakeland Electric can deposit or effectively withdraw cash from the pool at any time without prior notice or penalty. Investments that are categorized as cash equivalents on the Statement of Net Position are reported at fair value. See Note C.

Receivables:

Lakeland Electric bills customers monthly on a cyclical basis. Lakeland Electric has recognized, in its receivables, an estimated amount for services rendered but not yet billed as of September 30, 2019 and 2018, 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 fund assets for specific purposes such as meter deposits held on behalf of utility customers and bond proceeds, which are restricted by bond ordinance for the purpose of funding certain capital improvements. Apportionments do not represent legal restrictions imposed by parties external from the local government and may be rescinded at any time. Refer to Notes F and G.

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

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

Routine maintenance and repairs, including additions and improvements of less than $2,500 are charged to operating expense as incurred. Individual equipment items with a cost of $1,500 or more are capitalized. In accordance with standard industry accounting practice, electric transformers and certain specialty plant replacement components which are critical in nature are classified as utility plant and are depreciated prior to being placed in service. Total depreciation expense as a percentage of depreciable assets was approximately 3.1 percent and 2.9 percent in 2019 and 2018, respectively. Depreciation expense was higher in fiscal year 2019 due to recalculating the useful life of McIntosh Unit 3 following the announcement of its mothballing. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

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

Intangible Assets:

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

Impaired Assets:

Lakeland Electric records impaired assets in accordance with GASB Statement No. 42. No material impairment losses were identified during the fiscal year ending September 30, 2019 or September 30, 2018.

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.

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, 2019 or 2018.

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 $9.96 per MWh. Lakeland Electric distributed annual transfers to the City of Lakeland as follows:

	September 30,	
	2019	2018
Annual dividend to the City of Lakeland	$ 30,850,393	$ 29,701,896
Transfer to Information Technology Fund	430,849	437,038
	$ 31,281,242	$ 30,138,934

Other Significant Accounting Policies:

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

NOTE B – ACCOUNTING AND REPORTING CHANGES

Reporting change:

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 at the date the contractual obligation is established. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The new note disclosures are addressed in Note L.

During fiscal year 2019, the City implemented GASB Statement 83, *Certain Asset Retirement Obligations.* Statement No. 83 established accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The objective of this Statement is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability, deferred outflow of resources and expense/expenditures. The liability should be incurred based on the occurrence of external laws, regulations, contracts or court judgments, along with an occurrence of internal events that obligates a government to perform asset retirement activities. The measurement of an ARO should be based on the best estimate of the current value of outlays expected to be incurred. The current value of a government's ARO should be adjusted for the effects of general inflation or deflation at least annually. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

The implementation of the statement required the City to record a beginning ARO 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, 2017 as follows:

Net Position, as originally reported	$	299,611,857
Prior period adjustment:		
Asset Retirement Obligation		(1,696,200)
Deferred outflows of resources		1,696,200
Net position, beginning of year, as restated	$	299,611,857

Change in Accounting Estimate:

Lakeland Electric Management decided in FY2019 to mothball McIntosh Unit 3 by the end of FY2024. Once the new unit is built, Unit 3 will be officially retired.

As a result, effective October 1, 2018, Lakeland Electric changed the estimated useful lives of depreciable Unit 3 assets to reflect a useful life ending September 30, 2024. Estimated useful lives of the remaining Unit 3 depreciable assets were reduced to six years. The effect of this change in estimate was to increase the FY2019 deprecation expense by $2,805,253, which reduces the FY2019 net position by the same amount.

NOTE B – ACCOUNTING AND REPORTING CHANGES (CONTINUED)

New Accounting Pronouncements:

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 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 determined that this GASB statement will be implemented for the fiscal period ending September 30, 2021.

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.

In May, 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

NOTE B – ACCOUNTING AND REPORTING CHANGES (CONTINUED)

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2022.

In January, 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement will enhance the comparability in the application of accounting and financial reporting requirements and will improve the usefulness of information for users of state and local government financial statements. The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.'
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
- The requirement related to the measurement of liabilities (and assets, if any) associated with ARO's in a government acquisition are effective for the government acquisitions occurring in reporting periods beginning after June 15, 2020.

Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2021.

In March 2020, GASB issues Statement No. 93, *Replacement of Interbank Rates.* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). This objective is achieved by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing London Interbank Offered Rate (LIBOR) as an appropriate bank benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2022.

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, 2019 was $26,842,515. The carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was $28,528,859.

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 $171,279,585 and $166,396,797 for September 30, 2019 and September 30, 2018, respectively. Lakeland Electric has elected to pool its cash with the City of Lakeland. At September 30, 2019, Lakeland Electric held a 36% interest in the investments of the pool compared to a 38% 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.

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

As of September 30, 2019, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:		Market	%
AAA	$	3,372,741	1.97%
AA+ to AA-		40,172,748	23.45%
A+ to A-		23,601,239	13.78%
BBB+ to BBB-		40,040,331	23.38%
BB+ to BB-		7,748,470	4.52%
Below BB-		1,374,928	0.80%
NR		54,969,128	32.09%
	$	171,279,585	100.00%
Moody's Rating:			
Aaa	$	39,318,025	22.96%
Aa1 to Aa3		13,450,067	7.85%
A1 to A3		8,966,706	5.24%
Baa1 to Baa3		53,525,955	31.25%
Ba1 to Ba3		5,389,349	3.15%
Below Ba3		4,360,720	2.55%
NR		46,268,763	27.01%
	$	171,279,585	100.00%

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, 2019 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	0.00%
Local Government Investment Pools	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	30.70%
Asset Backed Securities	25%	41.30%
High Grade Corporate Debt & CP	25%	19.40%
State and Local Government Obligations*	25%	8.60%
Certificates of Deposits	10%	0.00%
Collateralized Repurchase Agreements	15%	0.00%
Other Investment Pools (rated "A" or better)	10%	0.00%
*Except as provided for in section IV.7.b		100.00%

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.

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%
	$ 166,396,797	100.00%
Moody's Rating:		
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%
	$ 166,396,797	100.00%

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, 2018 are as follows:

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

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.

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

As of September 30, 2019 and 2018, 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, 2019:	
Total Investment Pool	$ 482,216,489
Lakeland Electric's Share of the Investment Pool	$ 171,279,585
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, 2019 and 2018, other amounts classified as cash equivalents and investments are as follows:

	September 30	
	2019	2018
Demand deposits	$ 26,842,515	$ 28,528,859
Petty cash	850	1,225
	$ 26,843,365	$ 28,530,084

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

	September 30	
	2019	2018
Current assets:		
Cash and cash equivalents	$ 45,651,210	$ 38,233,488
Asset Apportionments:		
Cash and cash equivalents	94,332,352	84,503,028
Cash with paying agent	26,842,515	28,528,859
Restricted assets:		
Cash and cash equivalents	31,296,873	43,661,506
	$ 198,122,950	$ 194,926,881

NOTE D - INVENTORIES

The major classes of inventory consist of the following:

	September 30 2019	September 30 2018
Fuel oil	$ 1,891,624	$ 4,137,199
Coal	10,078,739	7,738,930
Spare parts	27,063,643	23,935,094
	$ 39,034,006	$ 35,811,223

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, 2019	September 30, 2018
Unamortized balance, beginning of year	$ 1,449,493	$ 1,202,916
Additions	-	404,628
Less: amortization	(208,155)	(158,051)
Unamortized balance, end of year	$ 1,241,338	$ 1,449,493

Environmental compliance, energy conservation and economic development 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.

Environmental compliance charge recovery	September 30, 2019	September 30, 2018
(Liability) balance, beginning of year	$ (403,578)	$ (1,335,541)
Charges recovered through rates	6,620,502	6,398,151
Less environmental compliance expenses	7,079,466	7,330,114
(Liability) balance, end of year	$ 55,386	$ (403,578)

Energy conservation charges recovery	September 30, 2019	September 30, 2018
(Liability) asset balance, beginning of year	$ (184,257)	$ (298,855)
Charges recovered through rates	738,633	729,364
Less energy conservation charges	933,780	843,962
(Liability) balance, end of year	$ 10,890	$ (184,257)

NOTE E – REGULATORY ASSETS AND LIABILITIES (CONTINUED)

	September 30, 2019	September 30, 2018
Economic development charges recovery		
(Liability) asset balance, beginning of year	$ -	$ -
Charges recovered through rates	250,000	-
Less economic development costs	22,950	-
(Liability) balance, end of year	$ (227,050)	$ -

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, 2019	September 30, 2018
Fuel reserve balance	$ 19,094,941	$ 19,270,871
Less cumulative over-recovery of fuel charges	29,273,521	24,732,722
(Liability) balance	$ (10,178,580)	$ (5,461,851)

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

	September 30, 2019	September 30, 2018
Regulatory assets:		
Unamortized debt issuance costs	$ 1,241,338	$ 1,449,493

	September 30, 2019	September 30, 2018
Regulatory liabilities:		
Environmental compliance charges	$ (55,386)	$ 403,578
Energy conservation charges	(10,890)	184,257
Economic development charges	227,050	-
Fuel charges	10,178,580	5,461,851
	$ 10,339,354	$ 6,049,686

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 2019, the Emergency Repair Fund transferred $604,394 to cover storm costs related to Hurricane Irma paid through September 30, 2019.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2019 and 2018 consist of the following:

September 30, 2019:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	$ 2,322,803	$ 85,655,844	$ 6,353,657	$ 94,332,304
Cash with paying agent/trustee	26,842,515	-	-	26,842,515
Accounts receivable	-	307,366	-	307,366
Accrued receivable	-	-	912,623	912,623
Asset apportionments	$ 29,165,318	$ 85,963,210	$ 7,266,280	$ 122,394,808
Accounts Payable	$ -	$ 5,361,289	$ -	$ 5,361,289
Accrued Expenses	-	990,875	-	990,875
Accrued interest payable	6,957,765	-	-	6,957,765
Current portion of long term debt	20,195,000	-	-	20,195,000
Liabilities payable from apportioned assets, due within twelve months	$ 27,152,765	$ 6,352,164	$ -	$ 33,504,929

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
Accrued receivable	-	-	-	-
Asset apportionments	$ 30,170,211	$ 77,054,476	$ 6,106,272	$ 113,330,959
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	22,300,000	-	-	22,300,000
Liabilities payable from apportioned		-		
assets, due within twelve months	$ 28,831,254	$ 1,823,665	$ -	$ 30,654,919

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, 2019 and 2018 consist of the following:

September 30, 2019:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	$ 13,563,642	$ 72,610	$ 17,660,621	$ 31,296,873
Accounts receivable	-	182,179	-	182,179
Restricted assets	$ 13,563,642	$ 254,789	$ 17,660,621	$ 31,479,052
Accounts payable	$ -	$ -	$ 1,565,241	$ 1,565,241
Accrued expenses	-	-	6,499	6,499
Accrued interest payable	22,840	-	-	22,840
Advances	-	250,000	-	250,000
Customer deposits	12,987,008	-	-	12,987,008
Restricted liabilities, due within twelve months	$ 13,009,848	$ 250,000	$ 1,571,740	$ 14,831,588

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	$ 15,216,988	$ 255,091	$ 28,392,277	$ 43,864,356
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 payable	15,186,831	-	-	15,186,831
Restricted liabilities, due within twelve months	$ 15,216,988	$ 250,000	$ 68,950	$ 15,535,938

NOTE H - UTILITY PLANT

Utility plant in service consists of the following:

Fiscal year 2019:	September 30, 2018	Additions	Deletions	September 30, 2019
Non-depreciable assets:				
Land	$ 15,595,265	$ -	$ -	$ 15,595,265
Construction in process	42,009,696	40,126,084	16,912,371	65,223,409
	57,604,961	40,126,084	16,912,371	80,818,674
Depreciable assets:				
Buildings	26,904,685	682,381	-	27,587,066
Machinery and equipment	24,784,704	677,309	2,409,626	23,052,387
Electric plants in service:				
Electric delivery	549,850,963	22,610,558	418,586	572,042,935
Electric supply	767,626,846	15,637,484	338,029	782,926,301
Total plant assets	1,369,167,198	39,607,732	3,166,241	1,405,608,689
Less Accumulated Depreciation:				
Buildings	17,413,135	1,449,011	130,963	18,731,183
Machinery and equipment	11,489,294	2,143,490	575,113	13,057,671
Electric plants in service:				
Electric delivery	227,600,515	15,293,433	-	242,893,948
Electric supply	504,967,784	25,094,015	135,009	529,926,790
Total plant assets	761,470,728	43,979,949	841,085	804,609,592
Total Utility plant net of accumulated depreciation	$ 665,301,431	$ 35,753,867	$ 19,237,527	$ 681,817,771

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NOTE H - UTILITY PLANT (CONTINUED)

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
	35,995,464	38,843,866	17,234,369	57,604,961
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	1,340,491,177	34,055,578	5,379,557	1,369,167,198
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	726,746,930	39,317,215	4,593,417	761,470,728
Total Utility plant net of accumulated depreciation	$ 649,739,711	$ 33,582,229	$ 18,020,509	$ 665,301,431

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	
	2019	2018
Interest cost on bonds was reduced by amounts capitalized as follows:		
Total interest expense on bonds payable	$ 17,306,668	$ 15,806,087
Capitalized interest revenue	1,164,447	-
Less capitalized interest expense	(2,077,356)	(1,263,850)
	$ 16,393,759	$ 14,542,237

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. Total capital costs related to renewal and replacement of Unit 3 were $12,590,742, with a Lakeland Electric share of $7,554,445 and an OUC share of $5,036,297 in fiscal year 2019. Total capital costs were $8,477,444 with a Lakeland Electric share of $5,086,466 and an OUC share of $3,390,978 in fiscal year 2018. Shared operating expenses for the fiscal years ending September 30, 2019 and 2018, were as follows:

Fiscal year 2019	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	$ 27,305,735	$ 18,203,823	$ 45,509,558
McIntosh unit #3 direct operating & maintenance expenses	11,025,669	7,350,446	18,376,115
Other shared operating and administrative expenses	5,911,561	3,941,041	9,852,602
	$ 44,242,965	$ 29,495,310	$ 73,738,275

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
	$ 54,734,716	$ 36,489,811	$ 91,224,527

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	
	2019	2018
Unamortized loss on refunding of debt, beginning balance	$ 27,319,503	$ 31,020,673
Amortization	(3,064,533)	(3,701,170)
	24,254,970	27,319,503
Interest rate swaps (See Note R)	33,652,445	20,205,867
Pension related (see Note N)	7,862,003	8,508,069
OPEB related (see Note P)	6,549,328	-
Asset retirement obligation outflow	1,623,194	1,662,484
Total deferred outflows of resources	$ 73,941,940	$ 57,695,923

NOTE K – ACCRUED LIABILITIES AND LONG-TERM DEBT

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

	September 30 2019	September 30 2018
Current:		
Accrued taxes payable	$ 811,361	$ 779,248
Accrued payroll	2,141,324	2,006,857
Compensated absences	1,019,963	1,013,857
	$ 3,972,648	$ 3,799,962
Accrued liabilities, less current portion:		
Compensated absences	$ 3,951,658	$ 3,960,857
Other post employment benefits	51,892,133	52,325,012
Net pension liability	37,353,638	43,697,119
	$ 93,197,429	$ 99,982,988

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

	September 30 2019	September 30 2018
Revenue bonds payable, less current portion	$ 364,925,000	$ 385,120,000
Plus unamortized bond discount (net of premium)	26,888,444	30,042,147
	$ 391,813,444	$ 415,162,147

The following is a summary of long-term obligation transactions for the year ended September 30, 2019:

	Balance October 1 2018	Incurred	Satisfied	Balance September 30 2019	Amount Due within One Year
Revenue notes from direct borrowing	$ 97,000,000	$ -	$ -	$ 97,000,000	$ -
Revenue bonds payable	310,420,000	-	22,300,000	288,120,000	20,195,000
Net pension liability	43,697,119	-	6,343,481	37,353,638	-
Net OPEB liability	52,325,012	-	432,879	51,892,133	-
Asset retirement obligation	1,715,400	14,600	-	1,730,000	-
Compensated absences	4,974,714	1,010,764	1,013,857	4,971,621	1,019,963
Unamortized bond premium	30,042,147	-	3,153,703	26,888,444	-
	$ 540,174,392	$ 1,025,364	$ 33,243,920	$ 507,955,836	$ 21,214,963

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, 2018:

	Balance October 1 2017	Incurred	Satisfied	Balance September 30 2018	Amount Due within One Year
Revenue notes from direct borrowing	$ 97,000,000	$ -	$ -	97,000,000	$ -
Revenue bonds payable	287,725,000	43,945,000	21,250,000	310,420,000	22,300,000
Net pension liability	53,534,111	-	9,836,992	43,697,119	-
Net OPEB liability	55,594,556	-	3,269,544	52,325,012	-
Asset retirement obligation	1,696,200	19,200	-	1,715,400	-
Compensated absences	4,992,560	978,103	995,949	4,974,714	1,013,857
Capital lease obligations	139,046	-	139,046	-	-
Unamortized bond premium	29,364,687	4,084,313	3,406,853	30,042,147	-
	$ 530,046,160	$ 49,026,616	$ 38,898,384	$ 540,174,392	$ 23,313,857

NOTE L - REVENUE BONDS

Lakeland Electric’s revenue bonds payable as of September 30, 2019 consists of the following:

	Series	Purpose	Interest Rate %	Final Maturity	September 30, 2018	Additions	Deletions	September 30, 2019
Direct Borrowings:								
Energy System Refunding Bonds	2017	Refunding	Variable	10/1/22	$ 97,000,000	$ -	$ -	$ 97,000,000
Bonds:								
Energy System Revenue and Refunding Bonds	2010	Refunding	4.00% to 5.25%	10/1/36	135,510,000	-	17,950,000	117,560,000
Energy System Revenue and Refunding Bonds	2016	Refunding	2.50% to 5.00%	10/1/36	130,965,000	-	4,350,000	126,615,000
Energy System Revenue and Refunding Bonds	2018	Refunding	3.25% to 5.00%	10/1/37	43,945,000	-	-	43,945,000
					407,420,000	$ -	$ 22,300,000	385,120,000
Less current portion					(22,300,000)			(20,195,000)
					$ 385,120,000			$ 364,925,000

NOTE L - REVENUE BONDS (CONTINUED)

Lakeland Electric's events of default and subjective acceleration clauses as of September 30, 2019 consist of the following:

	Direct Borrowing	Bonds		
	Energy System Refunding Bonds, Series 2017	Energy System Revenue Bonds, Series 2010	Energy System Bonds, Series 2016	Energy System Bonds, Series 2018
Events of Default with finance-related consequences:				
Non-payment of principal and/or interest when due	X	X	X	X
Failure to make required sinking/reserve fund deposits		X		
Bankruptcy filings, not disharged	X	X	X	X
Proceedings effecting the composition of debts or claims to pledged revenues	X	X	X	X
Final judgement that would materially affect the ability to meet obligations		X	X	X
Non-performance of or compliance with any term, provision or convenant not cured	X	X	X	X
False or incorrect representations made on behalf of the City to the creditor			X	X
Payment of or security for the bonds materially adversely affected not remedied			X	
Subjective acceleration clauses:				
Determination by the creditor, in its sole discretion, that the occurance of any events tht substantially diminish the ability to make payments or honor the obligations under the agreement				X

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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, 2019:

	Series 2010		Series 2016		Floating Rates Notes	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal*	Interest
2021	$ 4,695,000	$ 5,146,675	$ 4,770,000	$ 5,039,419	$ 7,000,000	$ 1,244,895
2022	4,925,000	4,924,644	9,620,000	4,679,669	-	1,197,383
2023	5,140,000	4,710,763	10,020,000	4,188,669	-	1,197,383
2024	5,355,000	4,481,050	10,480,000	3,676,169	-	1,197,383
2025	5,595,000	4,220,688	10,955,000	3,140,294	-	1,197,383
2026-2030	28,440,000	16,684,494	57,675,000	8,208,231	195,000	5,985,591
2031-2035	33,555,000	8,788,369	13,940,000	2,403,616	41,405,000	4,936,175
2036-2038	16,015,000	851,681	4,595,000	232,625	46,605,000	984,968
	$ 103,720,000	$ 49,808,364	$ 122,055,000	$ 31,568,692	$ 95,205,000	$ 17,941,161

	Series 2018		TOTAL		
Fiscal Year(s)	Principal	Interest	Principal	Interest	Total
2021	$ 2,630,000	$ 1,886,563	$ 19,095,000	$ 13,317,552	$ 32,412,552
2022	3,995,000	1,720,938	18,540,000	12,522,634	31,062,634
2023	2,930,000	1,547,813	18,090,000	11,644,628	29,734,628
2024	1,985,000	1,424,938	17,820,000	10,779,540	28,599,540
2025	1,520,000	1,337,313	18,070,000	9,895,678	27,965,678
2026-2030	8,475,000	5,870,938	94,785,000	36,749,254	131,534,254
2031-2035	17,745,000	2,222,969	106,645,000	18,351,129	124,996,129
2036-2038	4,665,000	374,100	71,880,000	2,443,374	74,323,374
	$ 43,945,000	$ 16,385,572	$ 364,925,000	$ 115,703,789	$ 480,628,789

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

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage from operations for fiscal year 2019 and the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2019	$ 123,918,400	$ 20,195,000	$ 17,306,668	$ 37,501,668	3.30
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

Bond coverage was calculated as follows for the year ended September 30, 2019:

Charges for services	$ 319,143,719	
Investment and other revenue	14,147,869	
Total revenue		$ 333,291,588
Less cost of operations		(209,373,188)
Net revenues from operations available for debt service		123,918,400
Debt service requirement:		
Interest on bonds payable		17,306,668
Current portion of bonds payable		20,195,000
Total debt service requirement		$ 37,501,668
Bond coverage from operations		3.30

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, 2019, 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, 2019, the remaining principal and interest requirement for these bonds aggregate to $172,978,413

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 $163,456,359.

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 $116,245,753.

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 $62,282,881.

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 $514,963,406. Principal and interest paid for the current year and total net customer revenues were $37,501,668 and $123,918,400 respectively.

As of September 30, 2019, 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, 2019 was ($33,652,444). 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.

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.

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, 2019, Lakeland Electric had a total of 80 participants.

Cost of Living Adjustment:

No cost of living increase was awarded for fiscal year 2019.

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 City Contribution Rate is calculated as follows:

Contribution Rate Last Year	19.75	%
Change in Cost Sharing	(0.11)	
Change in Normal Cost Rate	(0.05)	
Amortization Payment on UAAL	(0.05)	
Actuarial Experience	0.36	
Actuarial Experience from DROP Variable Interest Rate Option	(0.22)	
Contribution Rate This Year	19.68	%

Contributions to the pension plan from Department of Electric Utilities were $5,627,295 for the year ended September 30, 2019 and $5,596,901 for the year ended September 30, 2018.

At September 30, 2019, the Department of Electric Utilities reported a liability of $37,353,638 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, 2018, 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, 2018 was $43,697,119. 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 36% and 38%, measured as of September 30, 2019 and September 30, 2018, respectively. The Department of Electric Utilities recognized pension expenses of $3,466,798 and $5,667,113 in fiscal year 2019 and 2018, respectively.

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:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 650,416	$ 151,480	$ 717,533	$ 358,273
Changes of Assumptions	1,584,292		2,193,635	-
Net difference between projected and actual earnings	-	6,825,816	-	4,145,364
Cost Share Change	-	2,869,125	-	1,805,869
Proportionate share of contributions subsequent to	-			
the measurement date	5,627,295	-	5,596,901	-
Total	$ 7,862,003	$ 9,846,421	$ 8,508,069	$ 6,309,506

$5,627,295 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, 2020. 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:	
2020	$ (644,393)
2021	(2,899,476)
2022	(3,201,987)
2023	(865,857)
	$ (7,611,713)

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NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions:

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

Investment rate of return	7.25%
Salary increases	4.0% to 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, 2019 and September 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following tables as required by GASB 67 and 68:

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	100.00%		6.126%

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.

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The following presents Lakeland Electric's proportionate share of the City's net pension liability calculated using the discount rate of 7.25 percent, as well as what said share would be if the net pension liability 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, 2019	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	$ 64,646,262	$ 37,353,638	$ 14,391,925

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

Pension Plan Fiduciary Net Position:

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

Termination of Benefits:

If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable: If the employee is not vested, the employee shall be entitled to a refund of amounts contributed by the employee. If the employee is vested, the employee will be entitled to the accrued monthly retirement benefit to commence on normal retirement date, provided the employee's contributions are left in the fund. A terminated employee may also elect an early retirement benefit as described above. The authority for establishing or amending the benefit provisions and contribution provisions is contained in City ordinances.

Additional Information:

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

NOTE O - BUSINESS SEGMENT

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

NOTE P - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the City Commission has agreed to offer subsidized post-employment health care benefits to former employees who are receiving retirement benefits from the City 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 Electrics financial statements reflect its proportionate share of the total City's long-term liability for fiscal years ending September 30, 2019 and September 30, 2018, 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 Statue 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 they're 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, 2019, the Department of Electric Utilities reported a liability of $51,892,133 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of September 30, 2019, 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, 2018 was $52,325,012. 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 $1,720,376 and $2,424,179 to the plan in fiscal year 2019 and 2018, respectively. September 30, 2019, the Department of Electric Utilities' proportion was 28%, compared to 29% as of September 30, 2018.

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 date of the actuarial valuation on which the plan's liability was determined is September 30, 2019. The following actuarial assumptions were applied.

	2019	2018
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, 2019	September 30, 2018
Projected benefit payment period	6.2 years	6.2 years
Discount rate		
Implicit	2.66%	4.18%
Explicit	7.21%	6.96%
Health care cost trend rate:		
Medical and Rx benefits		
Select	6.50%	6.00%
Ultimate	4.50%	4.50%
Stop loss fees		
Select	6.50%	7.00%
Ultimate	4.50%	4.50%
Administrative		
Select	4.50%	4.50%
Ultimate	4.50%	4.50%
Inflation rate	2.0% 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	Pub-2010 base table scaled generationalling using MP-2019 and applied on a gender-specific basis	RP-2014 Table generational table scheduled using MP-17 and applied gender specific
Long-term expected rate of return	tax-exempt, high quality municipal bond	tax-exempt, high quality municipal bond
Asset valuation	fair market value	fair market value
Date of experience study	24 months ending September 30, 2019	24 months ending September 30, 2017

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the previously listed actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The discount rate is the only applicable change in the simplified evaluation.

Change in assumptions:

The discount rate for the implicit subsidy was decreased from 4.18% to 2.66%. The mortality assumption was updated from the RP-2014 base mortality with generational scale MP-2016 to the PUB-2010 base table with generational scale MP-2019 to reflect the Society of Actuaries' recent mortality study.

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 - 2.66%) blended with the expected rate of return on trust assets.

The discount rate used to measure the total OPEB liability was 2.66% for the implicit subsidy and 7.21% for the explicit subsidy. The discount rate for fiscal year 2018 was 4.18%. 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 7.9%.

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 of the City of Lakeland's CAFR.

Concentration:

The rate of return for the assets of the Trust as of September 30, 2019 and September 30, 2018 are summarized in the following tables.

September 30, 2019:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	99.16%	7.25%	$ 9,009,718	99%
Money market funds	0.00%	1.50%	-	0%
Accounts receivable	0.84%	0.00%	76,670	1%
Total	100.00%		$ 9,086,388	100%

September 30, 2018:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	95.30%	7.30%	$ 7,871,916	95%
Money market funds	3.10%	1.50%	191,064	4%
Cash	0.60%	0.00%	12,500	0%
Accounts receivable	1.00%	0.00%	70,242	1%
Total	100.00%		$ 8,145,722	100%

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Rate of Return:

For the year ended September 30, 2019, the annual rate of return (with inflation) was 7.21%.

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 Electrics proportionate share as September 30, 2019 and September 30, 2018 were as follows:

	2019	2018
Total OPEB Liability	$ 54,411,104	$ 54,764,125
Fiduciary Net Position	2,518,971	2,439,113
Net OPEB Liability	$ 51,892,133	$ 52,325,012
Fiduciary Net Position as a percentage of the total OPEB liability	4.63%	4.45%

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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 Electrics proportionate share to a discount rate 1% (3.66%) higher and 1% lower (1.66%) than the discount rate of 2.66% as of September 30, 2019 is as follows:

	1% Decrease Rate (1.66%)	Current Discount Rate (2.66%)	1% Increase Rate (3.66%)
Lakeland Electric's proprtionate share of the net OPEB liability	$ 63,308,344	$ 51,892,133	$ 43,070,472

The sensitivity of the net OPEB liability for Lakeland Electrics 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:

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

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, 2019 is as follows:

	1% Decrease Trend Rate	Current Trend Rate	1% Increase Trend Rate
Lakeland Electric's proprtionate share of the net OPEB liability	$ 42,551,360	$ 51,892,133	$ 64,865,125

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:

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

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 $2,572,756 and $2,869,174 for fiscal year 2019 and 2018, respectively. Lakeland Electric reported deferred inflows of resources related to OPEB from the following sources as of September 30, 2019 and 2018:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings	$ -	$ 115,681	$ -	$ 135,432
Difference between actual and expected experience	-	6,387,206	-	-
Changes in assumptions	6,549,328	5,316,915	-	7,140,890
Change in cost share allocation	-	2,759,862	-	-
Total	$ 6,549,328	$ 14,579,664	$ -	$ 7,276,322

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

Fiscal year ended September 30th:	
2020	$ (2,198,463)
2021	(2,198,463)
2022	(2,153,221)
2023	(1,332,242)
2024	(147,947)
Thereafter	-
	$ (8,030,336)

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.

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:

To achieve its goals of minimizing volatility in both cash flow and fuel rates to the ratepayers, Lakeland Electric was hedged 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 a $1/MMBTU above market and option premiums at $0.50/MMBTU resulting in a maximum cost of $1.50/MMBTU. Each quarter, when a fuel rate change is proposed, the next 12 months of forecasted volumes will be approximately 63 percent hedged as follows:

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

Fuel related derivative transactions are executed in accordance with the fuel hedging policies established by Lakeland Electrics 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.

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

TEA performs the front and back office functions associated with such trades in accordance with overall hedging policies developed jointly by TEA and the aforementioned oversight committee of Lakeland Electric. The recording of fuel derivatives, when appropriate, is included on the Statement of Net Position as either an asset or liability measured at fair value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as part of Fuel and Purchased Power costs in the Statement of Revenues, Expenses and Changes in Net Position. The premiums associated with the purchase of options are expensed upon expiration of the option. Premiums associated with unexpired options are embedded in the valuation table displayed later in this note. The valuation of market changes for contracts entered into within Lakeland Electrics Risk Management Program resulted in a net increase of $1,617,950 and $3,399,582 to the cost of fuel during the fiscal year ended September 30, 2019 and 2018, which was approximately 1 percent and 3 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 $(2,186,812) includes mark-to-market of the swaps and both intrinsic and extrinsic mark-to-market of the options.

Natural Gas Derivative Instruments:

Lakeland Electric uses Over-the-Counter (OTC) swaps, put options, swing-swaps and fixed price firm physical purchases of natural gas as tools to stabilize the cost of natural gas that will be needed by the utility in the future. Any gain or loss of the value of these derivatives are ultimately rolled into the price of natural gas burned, offsetting the volatility in the price of that fuel. These derivative instruments are classified in Level 2 of the fair value hierarchy using the market approach of valuation. Derivative instruments classified as Level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives. As of September 30, 2019, Lakeland Electric had options, swaps and physical contracts outstanding in the following amounts, covering fiscal year 2020 and beyond:

Fiscal Year	Options	Swaps	Market Value (Gain) / Loss
2020	$ 11,448,533	$ 8,420,000	$ (1,726,290)
2021	3,240,215	4,300,000	(478,010)
2022	300,000	900,000	17,488
	$ 14,988,748	$ 13,620,000	$ (2,186,812)

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 (e.g. SIFMA). In the case of the interest rate swaps employed by the City of Lakeland, the intent is two-fold. The first objective is 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.

The interest rate swaps are classified in Level 2 of the fair value hierarchy using the market approach to valuation. Derivative instruments classified as Level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives. 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, 2019:

Description	Maturity	Net Value
$24.772M 67% of LIBOR Swap	10/01/2035	$ (9,097,370)
$14.053M 67% of LIBOR Swap	10/01/2035	(5,044,131)
$47.86M 67% of LIBOR Swap	10/01/2037	(19,129,320)
$1.520M 67% of LIBOR Swap	10/01/2035	(381,624)
		$ (33,652,445)

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, 2019 was as follows:

Interest rate swaps	$	(33,652,445)
Prepaid fuel		2,244,106
Fuel hedges (deferred inflows)		2,186,812
	$	(29,221,527)

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
	$	(16,328,323)

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,			
	2019		2018	
Contributions in aid of construction, beginning balance	$	47,299,774	$	44,979,842
Additions		3,522,791		5,691,994
Amortization as depreciation expense		(3,573,283)		(3,372,062)
	$	47,249,282	$	47,299,774

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, 2019	September 30, 2018
Beginning balance	$ 19,270,871	$ 18,001,167
Fuel revenues	130,233,612	133,807,862
Less fuel expenses	(120,230,962)	(127,076,307)
Less regulatory liability related to fuel charges	(10,178,580)	(5,461,851)
	$ 19,094,941	$ 19,270,871

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

	September 30, 2019	September 30, 2018
Contributions in aid of construction	$ 47,249,282	$ 47,299,774
Fuel reserve balance	19,094,941	19,270,871
Deferred inflows - fuel hedges (see Note R)	2,186,812	1,264,554
Deferred inflows - OPEB (see Note P)	14,579,664	7,276,322
Deferred inflows - actuarial (see Note N)	9,846,421	6,309,506
	$ 92,957,120	$ 81,421,027

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.

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, 2019, 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 $350,000 per claim for worker's compensation claims. The City purchases commercial insurance for claims in excess of this amount up to $1,000,000 per claim. The program provides coverage of up to a maximum of $435,000 per individual for health insurance claims. The City purchases commercial insurance for claims in excess of this amount. 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 2019, milestone payments of $6,238,946 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
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	367,320	7,267,796	7,635,116
2024-2025	734,640	31,518,131	32,252,771
	$ 2,203,920	$ 60,589,315	$ 62,793,235

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, 2019, 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	Renewable Holdco I, LLC	9/16/2012	25	2.75	$ 176.50
Airport III	Clearway Energy Group, 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, four of which, 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.

Lakeland Electric's purchases under the SEPAs for the current and previous year were as follows:

	2019	2018
Sales Revenue	$ 3,579,253	$ 3,282,984
MegaWatts Sold	25,834.47	23,718.11
Average Per MW	$ 138.55	$ 138.42

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, 2019. Commitments for construction contracts and other capital outlays as of September 30, 2019 are as follows:

McIntosh unit 3 renewal and replacement projects	$ 1,855,987
McIntosh unit 5 renewal and replacement projects	1,101,068
McIntosh gas turbine 2 project	10,601,058
Larsen unit 8 renewal and replacement projects	2,908,786
Other power production plant improvements	567,006
Energy delivery capital projects	2,633,339
Building improvement projects	151,419
	$ 19,818,663

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 $74,130,094 as of September 30, 2019, of which $69,119,392 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.

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NOTE V – ASSET RETIREMENT OBLIGATIONS

Effective October 1, 2017, the City of Lakeland adopted GASB Statement No. 83, *Certain Asset Retirement Obligations (ARO).* GASB 83 established criteria for determining the timing and pattern for recognizing a liability and the corresponding deferred outflow of resources for AROs. The Statement requires that the measurement of an ARO be based on the best estimate of the current value of outlays to be incurred when retiring the asset. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. Otherwise, the best estimate should be the most likely amount.

ARO costs should be recognized on the balance sheet as a liability and as a deferred outflow of resources (i.e., deferred cost) once the liability is both incurred and reasonably estimable. The liability shall be reduced as payment is made, and the deferred outflows of resources shall be reduced and recognized as outflows of resources (e.g., expenses) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

GASB 83 also requires that the government disclose information about the nature of its AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If a government incurs an ARO (or portions thereof) but has not yet recognized the ARO because it is not reasonably estimable, the government must disclose this and the reasons why the amount is not reasonably estimable.

Procedures:

Lakeland Electric staff from various departments (e.g., legal, environmental, accounting, production, etc.) and a third-party consultant from PricewaterhouseCoopers (PwC) participated in multiple discussions to determine possible AROs at Lakeland Electric sites. There are certain asset types that have regulatory requirements related to retirement as well as certain asset types that often have retirement obligations required by permits or contracts. For those that were determined to be located at Lakeland Electric sites, staff identified whether or not those assets have legal obligations for retirement. For those with legal retirement obligations, Lakeland Electric determined if the ARO costs were reasonably estimable and, thus, the ARO liabilities should be recognized.

The following types of assets were determined to have AROs:

Item	Asset	Deferred Outflow Amortization Period	ARO Cost Estimate (9/30/2019)	ARO Cost Estimate (9/30/2018)
1	Water Wells	17 Years	$ 410,000	$ 403,100
2	Septic Tanks	17 Years	20,000	19,700
3	PCB Fluid-Containing Electrical Equipment	10 Years	30,000	29,500
4	Radiological Devices	5 Years	10,000	9,800
5	Natural Gas Pipeline	17 Years	390,000	383,500
6	Office Trailers	17 Years	10,000	9,800
			$ 870,000	$ 855,400

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Non-Amortizing, Non-Accreting Obligation*

Item	Asset	Deferred Outflow Amortization Period	ARO Cost Estimate (9/30/2019)	ARO Cost Estimate (9/30/2018)
1	McIntosh Plant Unit 3	N/A	$ 860,000	$ 860,000

*Amount relates to requirement to repurchase land at end of life from joint owner at amount received from land sale at original participation. As amount is fixed, there will be no escalation in cost over remaining life of plant and as amount involves purchase of land no amortization of the deferred outflow to expense as land is a non-depreciable asset.

Water Wells:

Florida and federal regulations provide specific requirements for the plugging of water wells upon abandonment in Florida Administrative Code 62-532.500(5). Water wells located in the Southwest Florida Water Management District have the following specific requirement for plugging water wells upon abandonment Florida Administrative Code 40D-3.531(3).

Lakeland Electric conducted a review of all water wells installed at their sites and provided a list of applicable assets, which included the following 80 wells (8,227 total feet):

No. of Wells	Well Type	Average Depth (ft)	Unit Cost	Cost Estimate
McIntosh Plant				
7	10-inch drinking water wells	600	$ 22,500	$ 157,500
3	24-inch drinking water wells	732	68,400	205,200
42	2-inch extraction/monitoring wells	22	445	18,690
18	4-inch monitoring wells	43	1,280	23,040
Larsen Plant				
8	2-inch extraction wells	12	445	3,560
2	4-inch extraction wells	9	400	800
	Miscellaneous costs			1,210
				$ 410,000

Lakeland Electric will likely abandon these water wells when those respective plants close. Historically Lakeland Electric plugs and abandoned water wells at the site in order to comply with the applicable regulations, the estimated cost was determined by a cost proposal prepared by Terracon Consultants, Inc. for the plugging of a four-inch groundwater monitoring well at McIntosh Plant. To obtain additional cost data for preparing the best estimate, vendor quotes were requested from local contractors. Green Well Drilling, Inc. of Lakeland, Florida provided the abandonment costs included in the table above. The contractor noted that the Southwest Florida Water Management District may request additional abandonment requirements beyond those prescribed in F.A.C. 40D-3.

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Based on Green Well Drilling, Inc.'s historical experience with the District, they assumed that the most likely requirements will include filling the wells with grout to the water table and then with Portland cement from the water table to the surface. The cost estimate received in this vendor quote represents the best information currently available on which to base the ARO liability.

Septic Tanks:

Florida regulations provide specific requirements for the abandonment of on-site sewage treatment and disposal systems upon retirement in Florida Administrative Code 64E-6.011(2). Lakeland Electric conducted a review of all septic tanks used at their sites and provided the following applicable assets. McIntosh Plant has four 1,250-gallon tanks, Larsen Plant has one 1,250-gallon tank and Winston Peaking Station has one 1,000-gallon tank (four of which are located beneath asphalt or concrete).

Number of Septic Tanks	Abandonment Cost per Tank	Cost Estimate
6	$ 3,000	$ 18,000
Miscellaneous costs		2,000
		$ 20,000

Lakeland Electric will abandon the septic tanks when their respective plant/station close.Lakeland Electric has not previously abandoned septic tanks at any of their sites. To obtain ARO cost data for abandoning the septic tanks, vendor quotes were requested from local contractors. Averett Septic Tank Co., Inc. of Lakeland, Florida provided a cost estimate to abandon the septic tanks in accordance with F.A.C. 64E-6.011(2), which is summarized in the table above. The cost estimate received in this vendor quote represents the best information currently available on which to base the ARO liability.

PCB-Containing Electrical Equipment:

Federal regulation 40 CFR § 761.60(a) provides specific requirements for the disposal of materials containing more than 50 parts per million (ppm) of PCBs. Lakeland Electric conducted a review of all electrical equipment located at their sites known to contain PCBs at concentrations greater than 50 ppm. McIntosh plant has two 15-kVA transformers with 55 gallons of PCB-containing dielectric fluids, and also two three-gallon 13,800-volt surge capacitors with PCB-containing dielectric fluids.

Size of Transformer	Cost per Gallon	PCB Fluid Replacement Cost
110 Gallons	$ 218	$ 24,000
6 Gallons	218	1,400
Miscellaneous costs		4,600
		$ 30,000

It is currently unknown when these PCB fluids will be disposed. Historically PCB-containing electrical equipment have been serviced on site, standard practice has been to replace the PCB-containing fluids per 40 CFR § 761.60(a) (as opposed to removing and disposing of the equipment itself) so the equipment may continue to be used.

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

This process includes removing the fluids, flushing the equipment, refilling the equipment with non-PCB-containing fluids, and transporting the PCB-containing fluids off site to a chemical waste landfill. The cost data was obtained from the contractor (ACT Environmental & Infrastructure) who removed and disposed of PCB fluids from two transformers at the Larsen Plant in 2013. Based on this unit cost of $218 per gallon, the approximate cost to remove and dispose of the 116 gallons of PCB fluids from the four electrical equipment items to be $30,000. Because historically ACT has been used for this work, it is assumed that ACT will be used in the future. As such, the quote provided by ACT represents the most likely future cost for the most likely removal/ disposal method.

Radiological Devices:

Federal regulations 49 CFR § Part 173, Subpart I provide specific requirements for the shipment of Type A radioactive materials. Lakeland Electric uses radiation-based measurement at the McIntosh Plant to determine the density of stockpiled coal piles, which requires radioactive sources. Retirement of these gauges is anticipated in 2024 when the coal-fired electric generating unit (Unit 3) is deactivated. Upon retirement of these sources, shipment of these sources will be required, and the devices that house them, to the manufacturer as Type A radioactive materials.

Lakeland Electric conducted a review of all radiological devices located at their sites. There were eighteen assets identified, one portable Troxler 3430 nuclear density gauge, five fixed Ohmart SH-F1 source holders and twelve fixed Thermo Fisher 5197 source heads.

Radiological Device	Number of Devices	Shipping Cost	Cost Estimate
Troxler 3430	1	$ 243	$ 243
Ohmart SH-F1	5	680	3,400
Thermo Fisher 5197	12	307	3,684
Miscellaneous costs			2,673
			$ 10,000

A bill of lading from our most recent (October 2019) shipment of the Troxler 3430 gauge (via R+L Carriers) to Troxler Electronic Labs in Apopka, Florida was provided. It was noted that the device plus packaging weighed 75 pounds, and the one-way shipment had a cost of $243.31. Per review of the device specifications provided on the manufacturers' website, indicated that model "3430" devices weigh 31 pounds and indicates that the shipping container weighs approximately 44 pounds. Also identified was that SH-F1 devices weigh 129 pounds and will be shipped to Ohmart/Vega in Cincinnati, Ohio, and 5197 devices weigh 35 pounds and will be shipped to Thermo Fisher in Sugarland, Texas.

Because each radiological device will need to be shipped in a specific container designed for Type A radioactive materials, it was assumed that each device will be shipped in a separate container. R+L Carriers were contacted and requested quotes for these shipments, and the above table summarizes those costs. Because Lakeland Electric has historically used R+L Carriers to ship these devices, it is assumed that R+L Carriers will likely be used for future shipments. As such, the quotes provided by R+L Carriers most likely represent future costs and are considered the best estimate.

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Natural Gas Pipeline:

Federal regulation 49 CFR § Part 192.727(2) provides requirements for the abandonment of natural gas pipelines upon retirement. Lakeland Electric owns and operates a 16-inch, underground natural gas pipeline. The pipeline is approximately 9.25 miles long and runs from the North East Wellfield to the McIntosh Plant Regulating Station and then to the Larsen Plant. The pipeline is located exclusively on properties for which Lakeland Electric has right-of-way easements and that the pipeline transects two FDOT road crossings. It was assumed that Lakeland Electric will abandon this pipeline in place when both plants have been closed. Upon abandonment, Lakeland Electric anticipates that the pipeline will be cut at eight locations (i.e., North East Wellfield, both sides of the McIntosh Plant, the Larsen Plant, and both sides of the two road crossings). The pipeline will be purged with an inert gas and seal each end open of the pipeline by welded cap. Lakeland Electric will also fill the two segments located under road crossings with grout.

Lakeland Electric engineers prepared the cost estimate of $390,000 to perform the necessary work. The components of this cost estimate are provided in the following table:

Description	Cost Estimate
Labor (1,638 man-hours)	$ 160,098
Equipment Rental (1,941 hours)	37,223
Materials (grout and 16" piping caps)	50,100
Pipeline Purging	140,000
Miscellaneous costs	2,579
	$ 390,000

Office Trailers:

Lakeland Electric leases two office trailers located at the McIntosh Plant from Williams Scotsman, Inc. The leases require that Lakeland Electric pay for the “knockdown” of these trailers upon lease termination. Currently these leases do not have termination dates and Lakeland Electric will continue to lease the trailers at least until Unit 3 is deactivated in 2024. Williams Scotsman, Inc. includes the following predetermined costs for trailer knockdown:

Trailer Size (square ft)	Cost
64X48	$ 4,600
64X24	1,900
Miscellaneous costs	3,500
	$ 10,000

Because the leases included contractually agreed upon retirement costs, these costs are considered certain, and probability weighting is not considered necessary.

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

McIntosh Plant Unit 3:

Although Lakeland Electric does not anticipate deconstructing and demolishing Unit 3 at the McIntosh plant when the unit is retired in 2027 (following deactivation in 2024), Lakeland Electric is contractually obligated to acquire OUC's 40% ownership share of Unit 3 for the amount that OUC originally paid, according to Section 19 of the *Participation Agreement Between City of Lakeland and Orlando Utilities Commission for the Joint Ownership of McIntosh Unit Three Generation Project.*

The cost to repurchase OUC's 40% share will be approximately $860,000 based on the original purchase price of $2,152,000. Because this cost is based upon a contractually agreed upon amount, these costs are considered certain, and probability weighting is not considered necessary.

Safeguarding Public Health and Safety:

Also identified was an obligation for safeguarding the Larsen Plant based on the requirements of the plant's industrial wastewater facility permit. Lakeland Electric, however, did not recognize the ARO liability because the requirements related to safeguarding the Larsen Plant are not currently known and, as such, the costs are not reasonably estimable.

The Larsen Plant discharges its Unit 8 cooling water, intake screen wash water, and storm water from the petroleum storage areas into Lake Parker under an industrial wastewater facility permit. As such, the Larsen Plant is subject to Florida Administrative Code 62-620, Wastewater Facility and Activities Permitting, which includes requirements for the abandonment of wastewater facilities.

The Florida Department of Environmental Protection (FDEP) has not provided information regarding the tasks that will need to be performed at the Larsen Plant in order to safeguard public health and safety. Lakeland Electric currently does not anticipate that there will be a need for any infrastructure at the plant to safeguard public health and safety beyond security fencing, which already exists at the Larsen Plant. Because Lakeland Electric is currently unable to determine what additional tasks will need to be performed, Lakeland Electric currently does not consider costs for this ARO liability to be reasonably estimable.

It is possible that, through discussions with FDEP, Lakeland Electric will identify additional tasks that will need to be performed to sufficiently safeguard public health and safety. If additional tasks are identified, a cost estimate will be prepared to complete these tasks and the ARO liability will be adjusted, as needed.

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NOTE W – 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. The expected completion date and commissioning of the Combustion Turbine is anticipated to occur in fiscal year 2020. As of the end of the fiscal year the total cost of the engineering, relocation services and installation was $26,464,909.

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.

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 11 projects related to Hurricane Irma recovery efforts. As of the date of this report, all projects have been submitted for reimbursement, of which $948,850 have been federally obligated as of the date of this report.

COVID-19 Pandemic:

On April 1, 2020, Florida Governor Ron DeSantis issued a statewide Safer-at-Home Order to last through April 30, 2020, in response to the coronavirus (COVID-19) pandemic. As a result of the order and the impacts from the virus, Lakeland Electric acted to provide relief for its customers and to safeguard its employees. Lakeland Electric suspended its policies for late fees, disconnection fees, and disconnection for non-payment and reduced its fuel rate during this time Employees were encouraged and equipped to work remotely or to maintain social distancing in job functions and non-essential activities were curbed.

The effects of COVID-19 are likely to impact the load profile and revenue stream of Lakeland Electric as many small commercial accounts were affected during this time period. The suspension of the late fees and disconnections will possibly delay the receipts of some revenues. At this time, Lakeland Electric cannot estimate the effects of the COVID-19 virus and the Safer-at-Home Order.

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CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2019

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

Employees' Pension & Retirement System

	30-Sep				
Measurement date:	2018	2017	2016	2015	2014
Lakeland Electric's proportion of the net pension liability	36.1712%	37.9290%	39.6375%	39.7567%	39.7567%
Lakeland Electric's portion of the net pension liability	$ 37,353,637	$ 43,697,119	$ 53,534,111	$ 58,777,353	$ 48,261,275
Lakeland Electric's covered payroll	$ 31,899,370	$ 31,867,657	$ 31,951,564	$ 31,696,314	$ 31,094,405
Lakeland Electric's proportionate share as a % of covered payroll	117.10%	137.12%	167.55%	185.44%	155.21%
Plan fiduciary net position as a % of total pension liability	85.51%	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	Actuarially Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 6,226,537	$ 5,627,294	$ 599,243	$ 30,679,310	18.34%
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, 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, 2019

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

Other Post Employment Benefits (OPEB)

	30-Sep		
Measurement date:	2019	2018	2017
Lakeland Electric's proportion of the net OPEB liability	27.7600%	29.3824%	29.8280%
Lakeland Electric's portion of the net OPEB liability	$ 51,892,133	$ 52,325,012	$ 55,594,556
Lakeland Electric's covered payroll	$ 31,899,370	$ 31,867,657	$ 31,867,657
Lakeland Electric's proportionate share as a % of covered payroll	162.67%	164.19%	174.45%
Plan fiduciary net position as a % of total OPEB liability	4.63%	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
2019	$ 478,491	$ 1,720,376	$ (1,241,885)	$ 31,899,370	5.39%
2018	478,015	2,424,179	(1,946,164)	31,867,657	7.61%
2017	479,273	506,009	(26,736)	31,951,564	1.58%

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.

Changes in assumptions/inputs:

The following assumption changes are reflected in the general plan actuarially determined contributions:

September 30, 2019

- The discount rate was updated from 4.18% to 2.66% for the implicit liability, and from 6.96% to 7.21% for the explicity liability.
- The ACA Excise Tax on high-cost employer sponsored healthcare plans is no longer applicable as the bill which repealed it passed on December 20, 2019.
- The mortality assumption was updated from the RP-2014 base mortality with generational scale MP-2016 to the Pub-2010 base table with generational scale MP-2019 to reflect the Society of Actuaries' recent mortaility study.
- The initial year medical trend rate was updated from 6.0% to 6.5% for pre-Medicare costs and from 5.0% to 5.5% for post-Medicare costs to reflect the generally low claims experience environment.

September 30, 2018

- The discount rate was changed from 3.63% to 4.18% for the implicit liability.

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.

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Crowe

Crowe LLP
Independent Member Crowe Global

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, 2019, 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 21, 2020. 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

Crowe LLP

Tampa, Florida
April 21, 2020

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON BOND COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2019, as listed in the table of contents, and have issued our report thereon dated April 21, 2020.

In connection with our audit for the year ended September 30, 2019, nothing came to our attention that caused us to believe that the Department failed to comply with the terms, covenants, provisions or conditions of the authorizing ordinances for the following bond issues insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attending regarding noncompliance with the above referenced terms, covenants, provisions or conditions of the authorizing ordinances, insofar as they relate to accounting matters.

Revenue Bonds:

2018	Series
2017	Series
2016	Series
2010	Series

This report is intended solely for the information and use of the City Commissioners, the City's management, and the bondholders of the Series 2018, 2017, 2016, and 2010 bonds, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

Crowe LLP

Tampa, Florida
April 21, 2020

Crowe LLP
Independent Member Crowe Global

Honorable Mayor and City Commissioners
City of Lakeland, Florida

Report on the Financial Statements

We have audited the financial statements of the Department of Electric Utilities of the City of Lakeland, Florida (the Department) as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated April 21, 2020.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated April 21, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Commissioners, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

Crowe LLP

Tampa, Florida
April 21, 2020

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LOCALLY OWNED BY YOU!

LAKELAND ELECTRIC
POWERED FOR LIFE

AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018

Department of Electric Utilities, an enterprise fund of the City of Lakeland, Florida.

LAKELANDELECTRIC.COM