



LAKELAND ELECTRIC 2016 AUDITED FINANCIAL STATEMENTS

September 30, 2016 and September 30, 2015

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



TABLE OF CONTENTS

Transmittal Letter (Unaudited)	3
Statistical and Financial Data (Unaudited)	5
Report of Independent Auditors	9
Management’s Discussion and Analysis (Unaudited)	11
Basic Financial Statements	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	19
Statements of Cash Flow	20
Notes of Financial Statements	22
Required Supplementary Information	
Schedule of Lakeland Electric’s Proportionate share of the Net Pension Liability	56
Schedule of Lakeland Electric’s Contributions	56
Notes to Required Supplementary Information	57

ELECTRIC MANAGEMENT

Joel Ivy General Manager	Michael Beckham Assistant General Manager Production
Alan Shaffer Deputy General Manager	Gina Jacobi Assistant General Manager Fiscal Operations
John McMurray Assistant General Manager Delivery	Betsy Levingston Director Training & Workforce Development
David Kus Assistant General Manager Customer Service	

LAKELAND CITY COMMISSION 2016

Howard Wiggs Mayor	Jim Malless Commissioner At Large
Justin Troller Commissioner At Large	Edie Yates Commissioner Southeast
Phillip Walker Commissioner Northwest	Don Selvage Commissioner Southwest
Bill Read Commissioner Northeast	

TRANSMITTAL LETTER

March 31, 2017

Honorable Mayor Howard Wiggs, 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, 2016 for the City of Lakeland, Florida's Department of Electric Utilities (Lakeland Electric, or "LE"). Management assumes full responsibility for the completeness and accuracy of the information contained in this report. We believe, to the best of our knowledge and belief, this report is complete and reliable in all material respects and the information fairly represents the Utility's financial condition.

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

PROFILE OF LAKELAND ELECTRIC

Lakeland Electric is an enterprise fund governed by a Utility Committee that consists of all seven members of the City Commission plus five citizens representing a cross-section of the customer base. Lakeland Electric is the largest department of the City. It has a budgeted staff of 560 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 2016, an average of 126,782 electric accounts was served, of which 83% were residential.

Lakeland Electric is a vertically integrated utility providing generation, transmission, and distribution services to its customers. The utility has over 1,929 miles of distribution lines of which 653 miles are underground, 156 miles of transmission lines including 128 miles of 69 kV lines, and 28 miles of 230 kV lines. Lakeland Electric also has 890 MW of net dependable generating capacity and is a member of the Florida Municipal Power Pool (FMPP) that includes Orlando Utilities Commission (OUC) and Florida Municipal Power Authority (FMPA).

MAJOR INITIATIVES

Battery Storage – Lakeland Electric is piloting a 40kWh battery storage project at the City of Lakeland's Beerman Family Tennis Center. The project's aim is to gain a better understanding of the technology's potential, particularly with respect to curbing peak demand. Battery storage units work well when integrated with photo-voltaic systems which can charge the units during off-peak times and allow them to discharge to the customer during mid- and on-peak times.

Installation of LED Lights - During 2017, Lakeland Electric will launch a multi-year program to upgrade approximately 7,500 of the City's lights from high-pressure sodium vapor (HPSV) to light

emitting diode (LED). These new lights are expected to cut carbon emissions, increase lighting quality and reduce electricity consumption by one-half. Other municipalities that have replaced their HPSV lights with LED have experienced a payback between two to five years.

New Website – In 2017, Lakeland Electric plans to unveil a new suite of customer engagement applications on its website to help its customers better understand their energy usage and give them choices in how they interact with their utility. The tools will put utility customers in control of their energy consumption by recommending the most appropriate electric pricing plans, showing them how their personal behaviors as well as the weather impact electric bills, alerting them when their energy usage hits a certain level, and giving them detailed electric usage data by integrating with Lakeland Electric’s smart meter system.

FINANCIAL HIGHLIGHTS

Fiscal Year 2016 benefited from strong load growth, continued innovation and a focus on cost control. Energy consumption was up 2.0% from the prior year reflecting warmer than normal weather and modest customer growth. Productivity improvements also helped to enhance efficiency and drive financial performance.

During the year, Lakeland Electric, in conjunction with City’s Finance Department, refunded its Series 2014 Variable Rate Energy System bonds, thus fixing 75% of the enterprise’s long-term debt, up from 53% at year-end 2015. At that time, Fitch Ratings™, Moody’s™, and Standard & Poor’s™ Ratings Services affirmed their long-term debt ratings of AA-, Aa3, and AA, respectively.

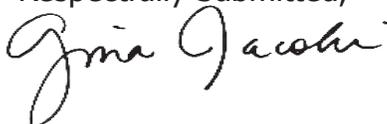
Other financial highlights include:

- Change in net position of \$19.7 million
- Debt service coverage of 287% Well above our covenant requirement.
- Days Cash on Hand of 230 days. Solidly in AA credit range.

ACKNOWLEDGMENTS

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

Respectfully Submitted,



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

STATISTICAL AND FINANCIAL DATA (Unaudited)

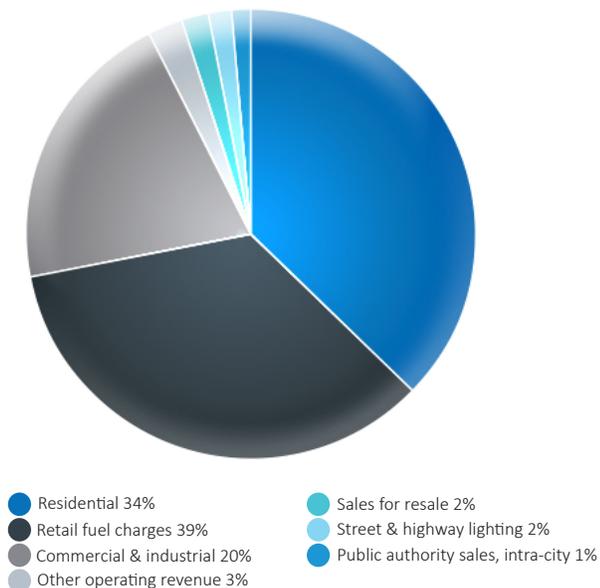
	FY2016	FY2015	Percent Incr/-Decr
Retail electric customers:			
Residential	105,619	103,721	1.8%
Commercial and Industrial	12,862	12,497	2.9%
Roadway and private area lights	8,301	8,747	-5.1%
	<u>126,782</u>	<u>124,965</u>	1.5%
Number of employees (FTE's)	529	544	-2.8%
Electric plants	3	3	0.0%
Net normal generating capacity*	890	890	0.0%
Retail service territory (square miles)	246	246	0.0%
Substations	24	24	0.0%
Transmission lines (miles)			
69 KV	128	128	0.0%
230 KV	28	28	0.0%
Distribution lines:			
Overhead (miles)	1,275	1,275	0.0%
Underground (miles)	653	642	1.7%
Retail sales (MWh)	3,056,153	2,991,107	2.2%
Average demand (MWh)	358	353	1.4%
Summer peak (MWh)	646	630	2.5%
Winter peak (MWh)	589	656	-10.2%

	(Dollars in thousands)		Percent Incr/-Decr
	Current Year	Prior Year	
Retail sales of electricity	\$ 180,514	\$ 176,922	2.0%
Other retail revenue	7,462	7,027	6.2%
Retail fuel revenue	102,788	120,033	-14.4%
Sales for resale	5,789	5,521	4.8%
Fuel and purchased power expenses	(109,466)	(124,528)	-12.1%
Other operating expenses	(83,364)	(89,451)	-6.8%
Depreciation expense (net)	<u>(41,784)</u>	<u>(40,734)</u>	2.6%
Operating income	61,939	54,790	13.0%
Nonoperating revenue	6,795	4,227	60.7%
Nonoperating expenses	(18,385)	(18,787)	-2.1%
Transfers to other funds	<u>(30,678)</u>	<u>(29,506)</u>	4.0%
Change in net position	<u>\$ 19,671</u>	<u>\$ 10,725</u>	83.4%
Utility plant, net	\$ 656,497	\$ 666,644	-1.5%
Long-term bond debt, due beyond twelve months	\$ 387,725	\$ 401,260	-3.4%
Debt service coverage from operations	2.87	2.84	1.1%
Days cash (excluding restricted and sinking cash)	230	181	27.1%

OPERATING SUMMARY FY2016

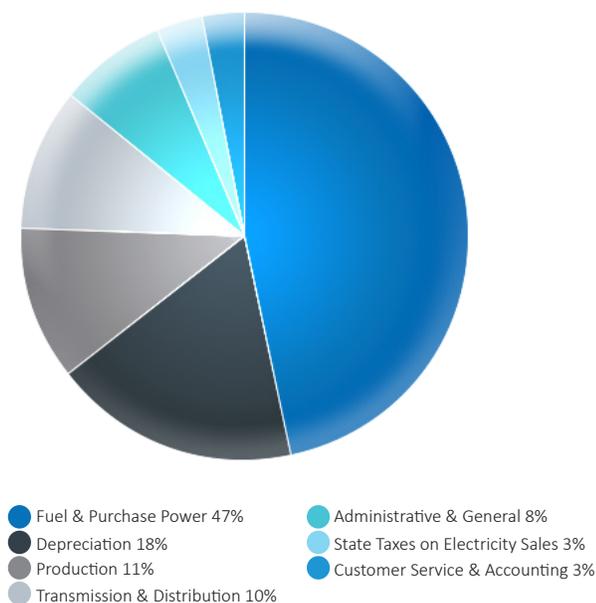
OPERATING REVENUE

Retail fuel charges	\$102,787,515
Residential Sales	110,895,061
Commercial & Industrial Sales	60,749,309
Other operating revenue	7,461,974
Sales for resale	5,788,651
Public street & highway lighting	5,423,535
Public authority sales, intra-city	<u>3,446,418</u>
TOTAL	<u><u>\$296,552,463</u></u>

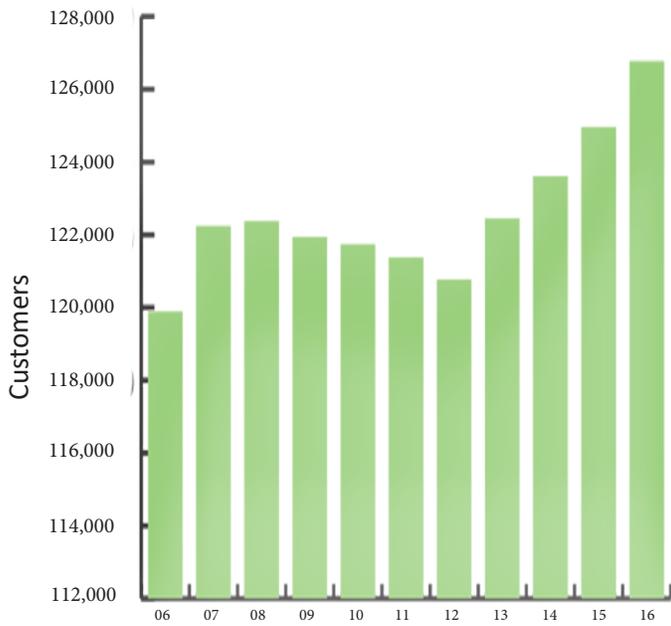


OPERATING EXPENSES

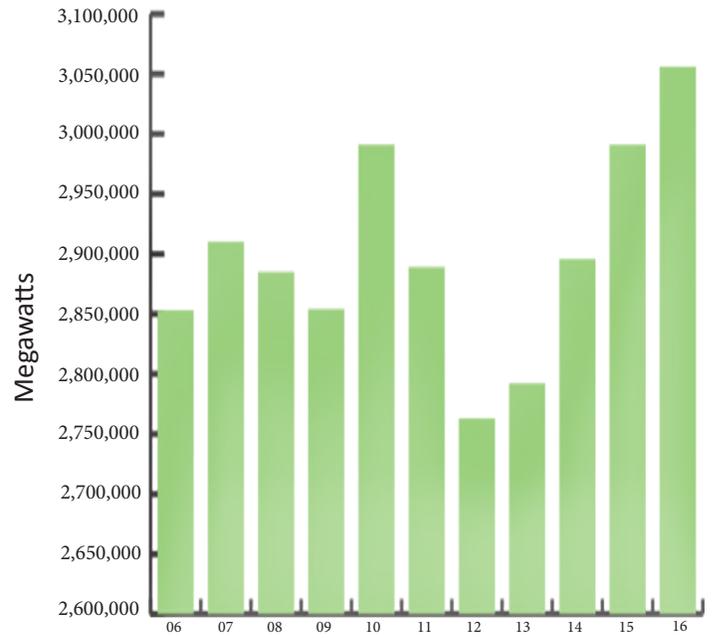
Fuel and Purchase Power	\$109,465,695
Depreciation	41,783,960
Production	26,370,033
Transmission & Distribution	23,859,751
Administrative & General	18,629,834
State tax on electric sales	7,463,268
Customer Service & Accounting	<u>7,041,335</u>
TOTAL	<u><u>\$234,613,876</u></u>



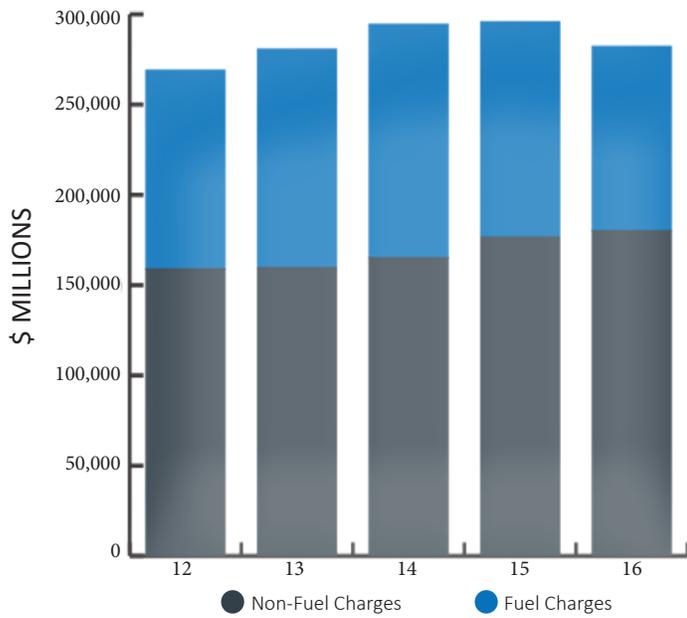
Retail Customer Count FY16 and Previous Ten Years



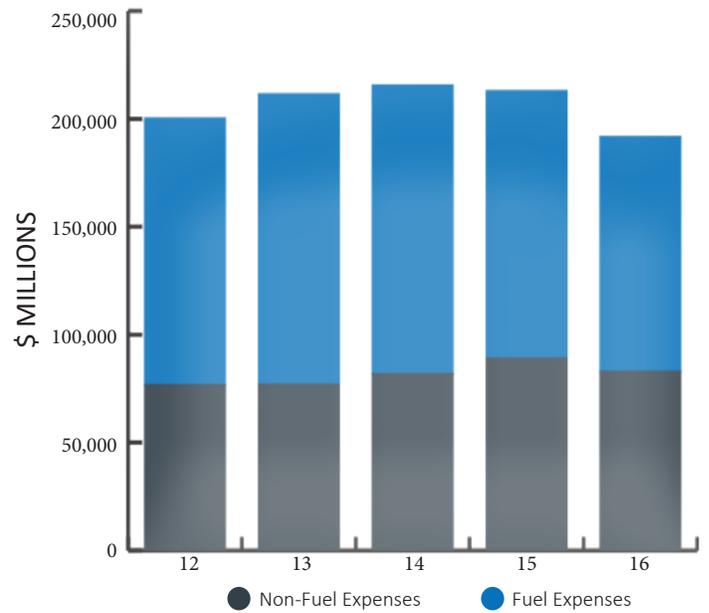
Net Retail Customer Load FY16 and Previous Ten Years



Retail Sales of Electricity FY16 and Previous Four Years



Operating Expenses FY16 and Previous Four Years



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Electric Utilities of the City of Lakeland, Florida, (the Department), as of and for the years ended September, 30, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Department, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida as of September 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Lakeland Electric's proportionate share of the net pension liability, and schedule of Lakeland Electric's contributions on pages 11 through 15 and 56 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 19, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lakeland, Florida
April 19, 2017

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, 2016. 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, 2016 and the previous two fiscal years.

Condensed Statements of Net Position:

(Dollars in thousands)	Fiscal years ended September 30,		
	2016	2015	2014
Assets			
Current assets	\$ 165,568	\$ 150,372	\$ 147,139
Utility plant, net	656,497	666,644	675,503
Other noncurrent assets	96,469	86,158	83,799
	<u>918,534</u>	<u>903,174</u>	<u>906,441</u>
Deferred outflows of resources	<u>92,266</u>	<u>70,498</u>	<u>64,307</u>
Liabilities			
Current liabilities	49,637	42,995	59,337
Noncurrent liabilities	560,461	550,149	559,938
	<u>610,098</u>	<u>593,144</u>	<u>619,275</u>
Deferred inflows of resources	<u>67,045</u>	<u>66,541</u>	<u>54,182</u>
Net position			
Net assets invested in capital assets, net of related debt	211,864	203,263	192,567
Restricted - capital improvement	6,955	4	5
Unrestricted	114,839	110,720	104,719
	<u>\$ 333,658</u>	<u>\$ 313,987</u>	<u>\$ 297,291</u>

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

(Dollars in thousands)	Fiscal years ended September 30,		
	2016	2015	2014
Operating revenues			
Sales of energy - retail	\$ 283,302	\$ 296,955	\$ 295,627
Sales of energy and capacity sales - wholesale	5,789	5,521	3,840
Other electric operating revenue	7,462	7,027	6,870
	<u>296,553</u>	<u>309,503</u>	<u>306,338</u>
Operating expenses			
Fuel and purchased power	109,466	124,528	134,396
Energy supply	26,370	27,859	23,568
Energy delivery	23,860	23,405	22,349
Customer service and accounting	7,041	6,583	6,726
State tax on electric sales	7,463	7,827	7,208
Administrative and general	18,630	23,777	21,618
Depreciation (net)	41,784	40,734	39,481
	<u>234,614</u>	<u>254,713</u>	<u>255,347</u>
Operating income	61,939	54,790	50,991
Non-operating activity			
Investment and other income	6,795	4,227	15,549
Interest and amortization expense	(17,995)	(18,787)	(21,578)
Loss on disposal of fixed assets	(390)		
Operating transfers to other funds	(30,678)	(29,506)	(25,517)
Change in net position	<u>\$ 19,671</u>	<u>\$ 10,725</u>	<u>\$ 19,444</u>

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

Net Position of Lakeland Electric

The net position of Lakeland Electric improved by \$19.7 million during fiscal year 2016 compared to \$10.7 million in 2015. Operating income was \$61.9 million in 2016 compared to \$54.8 million in the preceding year.

Financial Highlights

- Lakeland Electric's 2016 retail megawatt hour (MWh) sales were up 2 percent from the previous fiscal year. The increased sales volume was driven by warmer than normal weather and a modest 1.4 percent increase in the customer base. Fiscal year 2016 was Lakeland's warmest, on average, in more than a decade. Non-fuel sales of electricity improved by \$3.6 million from the previous fiscal year, with \$3.1 million of the increase attributable to residential customers.
- Non-operating revenue increased by \$2.6 million from the previous fiscal year. The majority of the increase was related to the fair value adjustment on Lakeland Electric's share of the City's pooled investments. In 2016, an unrealized gain of \$0.3 million was recognized. Conversely, a (\$2.2) million unrealized loss was recognized in the previous fiscal year. Fair value adjustments, up and down, are caused by the impact of interest rate changes on fixed income securities. Most of Lakeland Electric's investments are held through maturity.
- Lakeland Electric's nonfuel operating expenses, excluding gross receipts tax and depreciation, were \$75.9 million in 2016, compared to \$81.6 million in 2015, representing an overall decrease of (\$5.7) million or (7) percent. Administrative and General Expenses were (\$5.1) million lower than the previous year mostly as the result of a reduction in the pension liability as recognized in accordance with GASB Statement No. 68. Operating expenses of the previous fiscal year (2015) also included a \$3.6 million impairment loss expense associated with McIntosh Unit 1. Total operating and maintenance costs (excluding fuel, gross receipts tax, and depreciation) averaged \$24.84 per retail MWh in 2016, compared to \$27.19 in 2015.
- Fuel and purchased power expense decreased by (\$15.5) million in 2016, despite of the increased volume of retail MWh sales. The main driver was an (18) percent annual decline in Lakeland Electric's average cost of natural gas. Lakeland Electric's coal tonnage burned increased by 15 percent as its average price of coal decreased by (4) percent. Wholesale power purchases decreased annually by (16) percent in 2016 because of improved system reliability.
- Lakeland Electric recovers fuel costs from retail customers in the form of a fuel charge that is subject to revision, quarterly, based on a forecast of fuel costs for the following twelve months. As of September 30, 2016, the retail fuel charge was \$34.25 per MWh, compared to \$43.85 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 2016 with a cumulative over-recovered fuel position of \$13.1 million. A City of Lakeland ordinance provides for a fuel reserve balance of up to 15 percent of annual budgeted fuel costs (a maximum of \$20.3 million in FY2016) to offset costs associated with fuel inventories and prepaid fuel hedging. The cumulative fuel over-recovery as of September 30, 2016 was \$26.7 million. A regulatory liability was recognized to the extent that the fuel reserve was over-funded (\$6.4 million). See Note E, Regulatory Assets and Liabilities and Note S, Deferred Inflows of Resources – Fuel Reserve.
- Lakeland Electric recovers environmental compliance costs from retail customers in the form of an environmental compliance charge which is set annually, with the objective of achieving a zero cumulative recovery balance at the end of the subsequent budget year. An environmental compliance rate of \$2.532 per MWh was in effect during 2016, compared to \$3.327 in 2015. Lakeland Electric had a cumulative over-recovered environmental compliance cost balance of \$0.5 million, classified as a regulatory liability, as of the end of 2016. Based on sales and environmental compliance expense projections, no rate change was recommended for 2017. See Note E

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

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 over-recovered energy conservation charge balance of \$0.3 million, classified as a regulatory liability, as of the end of 2016. See Note E
- Lakeland Electric provides a dividend to the City of Lakeland's General Fund in the form of monthly cash transfers. The total amount of the dividend in 2016 was \$29.6 million, compared to \$29.0 million in 2015. The dividend rate of \$9.68 per MWh is consistent with the mean reported by comparable municipal utilities in the State of Florida.

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. Capital spending during 2016 was financed by funding provided by the Series 2016 Revenue and Refunding Bonds, with the exception of a \$1.9 million appropriation funded by the Emergency Repair Fund. Remaining proceeds from the 2016 bonds will provide funding for capital projects during 2017 until fully exhausted during the second quarter of the fiscal year.
- Capital spending (net of contributions in aid of construction) totaled \$32.8 million in 2016 compared to \$35.4 million during fiscal year 2015 and \$37.6 million in 2014. Capital expenditures during 2016 included \$15.3 million for energy supply projects, \$15.9 million for energy delivery projects, and \$1.6 million for building improvements and equipment. Lakeland Electric's projected capital improvement requirements from rates is less than \$35 million in each of the next four years.
- Depreciation expense has exceeded capital spending during recent fiscal years resulting in a gradual decline in the balance of net plant assets. Depreciation expense, net of amortization of contributions in aid of construction, was \$41.8 million in 2016 compared to \$40.8 million in 2015.
- Lakeland Electric recorded contributions in aid of construction from outside the Department in the amount of \$2.5 million during fiscal year 2016, which was approximately the same amount as in the previous year. 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, 2016 and 2015. Refer to Note H, Utility Plant, for more detailed information regarding utility plant assets.

	(In Thousands)	
	September 30	
	2016	2015
Land	\$ 15,595	\$ 15,595
Construction in process	8,592	12,224
Buildings	10,793	10,185
Machinery and equipment	12,899	11,599
Equipment under capital leases	1,009	1,166
Electric transmission and distribution	323,589	311,110
Electric supply	284,020	304,765
	\$ 656,497	\$ 666,644

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

Capital Assets (continued)

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

Long Term Debt

As of September 30, 2016, Lakeland Electric had \$387.7 million in net long-term bond debt outstanding compared to \$401.3 million at the end of 2015 as shown in the table below. The current portion of the long-term debt is paid on the first day (October 1st) of the subsequent fiscal year. Refer to Note L, Revenue Bonds, for more detailed information regarding long-term debt.

	(In Thousands)	
	September 30	
	2016	2015
Electric System Revenue Bonds:		
Series 2006	\$ 1,055	\$ 38,385
Series 2010	168,895	184,405
Series 2012	100,000	100,000
Series 2016	138,650	95,000
	408,600	417,790
Less Current Portion	(20,875)	(16,530)
	\$ 387,725	\$ 401,260

As indicated in Note L (Revenue Bonds), the coverage on bonded debt of Lakeland Electric for 2016 was 2.88 times the annual debt service requirement for the fiscal year ended 2016. Lakeland Electric is not obligated to fund a Debt Service Reserve Fund, provided that "net revenues" equal or exceed 150 percent of the bond service requirement for each year. Based on debt service requirement and forecasted revenues and expenses, debt service coverage is expected to remain greater than 2 times the annual debt service requirement in fiscal year 2017.

Lakeland Electric sets aside apportioned funds, on a monthly basis, to pay current bond principal and interest requirements (see Note F, Asset Apportionments). In February 2016, Lakeland Electric issued Series 2016 Energy System Revenue and Refunding Bonds which refunded all of the Series 2014 floating rate notes, refunded a portion of the Series 2006 Bonds, and provided financing for certain capital improvements. The Series 2012 variable rate bonds are scheduled to mature on October 1, 2017, and therefore are expected to be refunded during the fiscal year ending September 30, 2017.

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

Economic Factors

- The average demand for energy placed on the system from retail customers during Fiscal Year 2016 was 358 megawatts (MW), compared to 353 MW during the previous year. The peak demand during the winter was 589 MW on January 25, 2016, and a summer peak demand of 646 MW was reached on July 27, 2016. Lakeland Electric expects to see a growth of approximately 1 percent in the retail customer base during fiscal year 2017.
- 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.
- In January 2015, Fitch Ratings™, Moody's™, and Standard & Poor's™ Ratings Services assigned long-term ratings of AA-, Aa3, and AA, respectively, to Lakeland Electric's 2016 energy system bonds. At the same time, all three rating services also affirmed the same ratings on the utility's existing debt.

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 several years. Residential electric rates during September 2016 were the second lowest of any electric utility in the state.
- Days cash is a key financial metric used as a measure of liquidity, essential for maintaining strong bond ratings. An internal goal of Lakeland Electric is to maintain 150-175 days of operating cash. At the end of 2016, Lakeland Electric had over 230 days of cash compared to 181 days in the previous fiscal year. The increase is largely the result of decreased fuel costs, the fully funded fuel reserve, and a temporary build-up of unrestricted capital reserves. Days cash is forecasted to remain above 150, with no base electric rate increase, through FY2018.
- Lakeland Electric has been, and will continue to be impacted by various regulatory and legislative requirements. In the opinion of Lakeland Electric, the System is currently in compliance with all current federal, state and local environmental regulations. Lakeland Electric cannot predict at this time whether any additional legislation or rules will be enacted which might affect operations, and if such laws or rules are enacted, what the additional capital and operating costs, if any, might occur in the future because of such actions. The estimation of costs of compliance is subject to significant uncertainties and the financial impact of future proposals could be substantial.

Using This Annual Report

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

Requests for Information

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

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

	September 30	
	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 57,371,795	\$ 36,724,455
Accounts receivable	41,749,329	46,205,677
Less allowance for uncollectibles	(736,931)	(805,465)
Fuel hedges	3,289,947	8,695,691
Inventories	33,137,545	34,556,958
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	20,875,000	16,530,000
Accrued interest payable	9,086,747	6,913,366
Accounts payable	-	1,379,214
Accrued liabilities	-	140,654
Restricted assets (cash and equivalents) set aside for		
Accounts payable	601,668	8,300
Accrued liabilities	193,199	23,333
Total current assets	165,568,299	150,372,183
NONCURRENT ASSETS		
Asset apportionments (including \$73,316,038 and \$69,193,899 of cash and cash equivalents in 2016 and 2015, respectively)	73,316,038	70,549,069
Restricted assets (including \$20,723,060 and \$14,505,855 of cash and cash equivalents in 2016 and 2015, respectively)	21,864,972	14,748,382
Utility plant		
Land	15,595,265	15,595,265
Construction in progress	8,591,770	12,223,993
Utility plant in service	1,322,510,938	1,296,988,973
Less accumulated depreciation	(690,200,532)	(658,164,124)
Total utility plant, net	656,497,441	666,644,107
OTHER ASSETS		
Regulatory assets	1,287,642	860,206
Total Assets	918,534,392	903,173,947
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Unamortized loss on refunding of bond debt	34,931,160	16,415,262
Unrealized loss on hedges	348,521	-
Hedge derivative outflows	36,695,648	47,953,148
Deferred outflows of resources related to pensions	20,290,620	6,129,560
Total deferred outflows of resources	92,265,949	70,497,970

See accompanying notes to financial statements

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

	September 30	
	2016	2015
<u>LIABILITIES</u>		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	\$ 15,037,580	\$ 14,434,385
Accrued liabilities	3,514,453	3,245,386
Obligation under capital leases	328,184	320,526
Liabilities payable from apportioned assets		
Accounts payable	-	1,379,213
Accrued liabilities	-	140,655
Accrued interest payable	9,086,747	6,913,366
Current portion of bonds payable	20,875,000	16,530,000
Liabilities payable from restricted assets		
Accounts payable	601,668	8,300
Accrued liabilities	193,199	23,333
Total current liabilities	<u>49,636,831</u>	<u>42,995,164</u>
OTHER LIABILITIES		
Obligation under capital leases	139,045	467,231
Restricted liabilities	14,909,828	14,744,714
Regulatory liabilities	7,086,148	1,051,034
Interest rate swaps	36,695,648	47,953,148
Accrued liabilities, less current portion	4,169,330	4,499,228
Net other post employment benefits obligation	17,945,523	15,945,423
Net pension liability	58,777,353	48,261,275
Revenue bonds payable, less current portion	387,725,000	401,260,000
Unamortized bond premium	33,012,771	15,966,579
Total other liabilities	<u>560,460,646</u>	<u>550,148,632</u>
Total liabilities	<u>610,097,477</u>	<u>593,143,796</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Unamortized contributions in aid of construction	45,591,950	46,112,503
Fuel reserve	20,301,603	13,057,442
Unearned revenue	398,321	876,306
Unrealized gain on hedges	-	5,366,286
Deferred inflows of resources related to pensions	753,373	1,128,630
Total deferred inflows of resources	<u>67,045,247</u>	<u>66,541,167</u>
<u>NET POSITION</u>		
Net investment in capital assets	211,864,152	203,262,738
Restricted		
Capital improvement	6,955,144	3,668
Unrestricted	114,838,321	110,720,550
	<u>\$ 333,657,617</u>	<u>\$ 313,986,956</u>

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,	
	2016	2015
OPERATING REVENUES		
Sales of energy - retail	\$ 283,301,838	\$ 296,954,882
Sales of energy and capacity sales - wholesale	5,788,651	5,521,230
Other electric operating revenue	7,461,974	7,026,779
Total operating revenues	<u>296,552,463</u>	<u>309,502,891</u>
OPERATING EXPENSES		
Fuel and purchased power	109,465,695	124,527,810
Energy supply	26,370,033	27,858,841
Energy delivery	23,859,751	23,405,248
Customer service	7,041,335	6,583,313
State tax on electric sales	7,463,268	7,827,028
Administrative and general	18,629,834	23,776,704
Total operating expenses	<u>192,829,916</u>	<u>213,978,944</u>
OPERATING INCOME BEFORE DEPRECIATION	103,722,547	95,523,947
Depreciation expense	(44,758,745)	(43,532,007)
Depreciation - contributions in aid of construction	2,974,785	2,797,952
OPERATING INCOME	<u>61,938,587</u>	<u>54,789,892</u>
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less \$430,378 capitalized in 2016)	5,987,716	5,614,634
Net increase (decrease) in the fair value of cash equivalents	293,448	(2,159,263)
Miscellaneous revenue	513,947	771,805
Interest expense (less \$725,754 and \$661,483 capitalized in 2016 and 2015, respectively)	(17,626,744)	(18,764,630)
Amortization expense	(368,188)	(21,420)
Loss on disposal of fixed assets	(389,796)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(11,589,617)</u>	<u>(14,558,874)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	50,348,970	40,231,018
DIVIDEND TO GENERAL FUND	(29,583,546)	(28,953,920)
OTHER OPERATING TRANSFERS	(1,094,763)	(551,614)
CHANGE IN NET POSITION	19,670,661	10,725,484
NET POSITION, beginning of year	313,986,956	303,261,472
NET POSITION, end of year	<u>\$ 333,657,617</u>	<u>\$ 313,986,956</u>

See accompanying notes to financial statements

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

	Year ended September 30	
	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 307,176,468	\$ 308,600,888
Payments for interfund services	(13,702,590)	(16,218,165)
Payments to suppliers	(131,230,071)	(147,371,287)
Payments to employees	(41,020,519)	(39,930,710)
Net cash provided by operating activities	<u>121,223,288</u>	<u>105,080,726</u>
Cash flows used in noncapital financing activities:		
Interest paid on meter deposits	(722,130)	(764,907)
Operating transfers to other funds	(30,678,309)	(29,505,534)
Cash flows used in noncapital financing activities	<u>(31,400,439)</u>	<u>(30,270,441)</u>
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(15,454,423)	(24,691,986)
Proceeds from issuance of long-term debt	16,269,713	-
Payments on and maturities of long-term debt	(27,370,619)	(21,184,338)
Debt issue costs	(674,950)	-
Proceeds from capital grant programs	-	316,021
Purchase of capital assets	(32,555,681)	(34,193,794)
Cash flows used in capital financing activities:	<u>(59,785,960)</u>	<u>(79,754,097)</u>
Cash flows from investing activities:		
Investment revenue	6,418,094	5,614,634
Net increase (decrease) in the fair value of cash equivalents	293,448	(2,159,263)
Cash flows provided by investing activities	<u>6,711,542</u>	<u>3,455,371</u>
Net (decrease) in cash and cash equivalents	<u>36,748,431</u>	<u>(1,488,441)</u>
Cash and cash equivalents, beginning of year	<u>145,419,076</u>	<u>146,907,517</u>
Cash and cash equivalents, end of year	<u>\$ 182,167,507</u>	<u>\$ 145,419,076</u>
Classified as:		
Current	\$ 57,371,795	\$ 36,724,455
Apportioned	103,277,785	94,157,133
Restricted	21,517,927	14,537,488
Total	<u>\$ 182,167,507</u>	<u>\$ 145,419,076</u>

See accompanying notes to financial statements

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

	Year ended September 30	
	2016	2015
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	\$ 61,938,587	\$ 54,789,893
Depreciation	44,758,745	43,532,007
Depreciation - contributions in aid of construction	(2,974,785)	(2,797,952)
Miscellaneous revenue	513,947	771,805
Decease (increase) in receivables, net	4,387,814	(2,022,478)
Decrease (increase) in inventory	1,419,413	(3,235,068)
(Increase) decrease in deferred outflows related to pensions	(14,161,060)	15,799,617
Decrease in fair value of derivatives	6,935,098	760,140
Increase (decrease) in accounts payable	603,195	(3,324,106)
(Decrease) increase in accrued liabilities	(60,832)	126,445
Increase in regulatory liabilities	6,035,114	599,020
Increase in deposits payable	165,115	227,633
(Decrease) in unearned revenue	(477,985)	(477,983)
Increase (decrease) in net pension liability	10,516,079	(2,263,970)
(Decrease) increase other deferred inflows of resources	(375,257)	1,128,630
Increase in net OPEB obligation	2,000,100	1,467,093
Net cash used in operating activities	<u>\$ 121,223,288</u>	<u>\$ 105,080,726</u>
Noncash investing, capital, or financing activities:		
Proceeds from refunding used for defeasement of debt	\$ 120,789,907	\$ -
Capitalized interest expense	520,553	661,483
Less capital interest revenue	725,754	-
	<u>\$ 122,036,214</u>	<u>\$ 661,483</u>

See accompanying notes to financial statements

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

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting:

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

Regulatory Accounting:

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

Cash and Cash Equivalents:

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

Receivables:

Lakeland Electric bills customers monthly on a cyclical basis. Lakeland Electric has recognized, in its receivables, an estimated amount for services rendered but not yet billed as of September 30, 2016 and 2015, respectively. An estimate of uncollectible accounts is recognized based upon historical experience.

Inventories:

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

Restricted and Apportioned Assets:

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

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

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

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

Routine maintenance and repairs, including additions and improvements of less than \$2,500 are charged to operating expense as incurred. Individual equipment items with a cost of \$1,500 or more are capitalized. In accordance with standard industry accounting practice, electric transformers and certain specialty plant replacement components which are critical in nature are classified as utility plant and are depreciated prior to being placed in service. Total depreciation expense as a percentage of depreciable assets was approximately 3.4 percent in both 2016 and 2015. 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, 2016. An impairment loss was recorded during the previous fiscal year, ending September 30, 2015, due to the obsolescence and unavailability of McIntosh Unit 1. The \$3,565,264 impairment loss recorded in the prior fiscal year included \$2,644,842 for the remaining undepreciated cost of plant improvements, and a \$920,422 write-down in the value of replacement parts.

Contributions in Aid of Construction:

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

Deferred Outflows/Inflows of Resources:

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Unpaid Vacation and Sick Pay:

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

Derivatives and Interest Rate Swap Agreements:

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

Due to/from Other Funds:

Amounts receivable from or payable to other funds in the City of Lakeland are reflected in the accounts of the fund until liquidated by payment or authorized inter-fund transactions. Lakeland Electric had no amounts due to or receivable from other funds of the City of Lakeland as of September 30, 2016 or 2015.

Operating/Non-operating Revenue:

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

Use of Estimates:

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

Amortization:

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

Transfers to/From Other Funds:

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

	September 30,	
	2016	2015
Annual dividend to the City of Lakeland	\$ 29,583,546	\$ 28,953,920
Transfer to Information Technology Fund	551,614	551,614
Transfer to Fleet Management Fund	543,149	-
	\$ 30,678,309	\$ 29,505,534

Other Significant Accounting Policies:

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

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

NOTE B – ACCOUNTING AND REPORTING CHANGES

New Accounting Pronouncements:

The City of Lakeland implemented GASB Statement No. 72, Fair Value Measurement and Application during fiscal year 2016. The objective of this statement is to address accounting and financial reporting issues related to fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one of more of the following approaches: the market approach, the cost approach or the income approach. Valuation techniques should be applied consistently; maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs-other than quoted prices-included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. This Statement requires disclosures to be made about the fair value measurements, the level of fair value hierarchy, and the valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value and requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent) and is disclosed in the City of Lakeland's Comprehensive Annual Financial Report.

The City of Lakeland implemented Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 in fiscal year 2016. This Statement establishes requirements for defined benefits pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions and also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. Implementation of GASB 73 had no effect on the financial statements of Lakeland Electric.

The City of Lakeland implemented GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments in fiscal year 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements in this Statement: (1) raise the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasize the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) require the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of GASB 76 had no effect on the financial statements of the Lakeland Electric.

The City of Lakeland implemented GASB Statement No. 79, Certain External Investment Pools and Pool Participants in fiscal year 2016. The objective of this Statement is to address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB 79 had no effect on the financial statements of Lakeland Electric.

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

NOTE C - CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits:

All of the City of Lakeland cash accounts have been pooled and all deposits are in a single financial institution and are carried at cost. The deposits are insured or collateralized. Florida Statute, Chapter 280, sets forth the qualifications and requirements that a financial institution must meet in order to become a qualified public depository. The statute also defines the amount and type of collateral that must be pledged in order to remain qualified. The financial institution in which the City maintains its deposits is a qualified public depository. Refer to the City of Lakeland's Comprehensive Annual Financial Report (CAFR) for additional disclosures. The following is a summary of the key controls which the City of Lakeland utilizes to mitigate investment risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The City utilizes the "segmented time distribution" method as a measure of interest rate risk. Credit risk is the risk of loss due to the failure of the security issuer or other counterparty.

Custodial credit risk is the risk that in the event of a bank failure, the City of Lakeland's deposits may not be returned. Florida Statutes require deposits by governmental units in a financial institution be collateralized. The City of Lakeland's policy, in accordance with the Florida Security for Public Deposits Act, requires that deposits in a financial institution be collateralized, and requires the use of only authorized dealers and institutions, and qualified public depositories who meet the standards as set forth by the State of Florida and the Securities and Exchange Commission's Rule 15c3-1. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name. The carrying amount of Lakeland Electric's share of pooled demand and time deposits with financial institutions as of September 30, 2016 was \$28,957,517. The carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was \$22,113,122.

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 as of September 30, 2016, consisted of equity in pooled investments in the amount of \$153,208,466. Lakeland Electric has elected to pool its cash with the City of Lakeland. At September 30, 2016, Lakeland Electric held a 36% interest in the investments of the pool. For additional information on the assets held by the pool, refer to Note 3 in the City of Lakeland's Comprehensive Annual Financial Report.

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

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

Deposits (continued):

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

S&P Rating:	Cost	%	Market	%
AAA	\$ 1,442,352	0.93%	\$ 1,444,508	0.94%
AA+ to AA-	59,467,180	38.25%	60,575,935	39.54%
A+ to A-	13,682,989	8.80%	14,020,777	9.15%
BBB+ to BBB-	36,303,446	23.35%	36,305,292	23.70%
BB+ to BB-	8,969,571	5.77%	8,135,295	5.31%
Below BB-	5,734,720	3.69%	3,908,719	2.55%
NR	29,866,269	19.21%	28,817,940	18.81%
	<u>\$ 155,466,528</u>	<u>100.00%</u>	<u>\$ 153,208,466</u>	<u>100.00%</u>
Moody's Rating:				
Aaa	\$ 47,889,817	30.80%	\$ 48,455,533	31.63%
Aa1 to Aa3	5,754,247	3.70%	5,853,625	3.82%
A1 to A3	10,442,725	6.72%	11,210,685	7.32%
Baa1 to Baa3	41,794,673	26.88%	42,008,186	27.42%
Ba1 to Ba3	6,686,606	4.30%	6,210,618	4.05%
Below Ba3	8,171,167	5.26%	6,114,471	3.99%
NR	34,727,293	22.34%	33,355,347	21.77%
	<u>\$ 155,466,528</u>	<u>100.00%</u>	<u>\$ 153,208,466</u>	<u>100.00%</u>

Concentration of Credit Risk:

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

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

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

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

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

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

As of September 30, 2016 and 2015, the fair value of the total investment pool of the City of Lakeland and Lakeland Electric's share of the pool was as follows:

	Reported Amount Fair Value
<u>As of September 30, 2016:</u>	
Total Investment Pool	\$ 421,738,771
Lakeland Electric's Share of the Investment Pool	\$ 153,208,466
<u>As of September 30, 2015:</u>	
Total Investment Pool	\$ 371,272,039
Lakeland Electric's Share of the Investment Pool	\$ 123,304,429

As of September 30, 2016 and 2015, other amounts classified as cash equivalents and investments are as follows:

	September 30	
	2016	2015
Demand deposits	\$ 28,957,517	\$ 22,113,122
Petty cash	1,525	1,525
	\$ 28,959,042	\$ 22,114,647

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

	September 30	
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 57,371,795	\$ 36,724,455
Asset Apportionments:		
Cash and cash equivalents	74,258,895	72,044,011
Cash with paying agent	29,018,890	22,113,122
Restricted assets:		
Cash and cash equivalents	21,517,927	14,537,488
	\$ 182,167,507	\$ 145,419,076

NOTE D - INVENTORIES

The major classes of inventory consist of the following:

	September 30	
	2016	2015
Fuel oil	\$ 6,025,376	\$ 6,032,946
Coal	7,106,188	8,940,670
Spare parts	20,005,981	19,583,342
	\$ 33,137,545	\$ 34,556,958

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

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,	
	2016	2015
Unamortized balance, beginning of year	\$ 860,206	\$ 1,074,373
Additions	930,179	-
Less: amortization	(247,514)	(214,167)
deletions	(255,229)	-
Unamortized balance, end of year	<u>\$ 1,287,642</u>	<u>\$ 860,206</u>

Environmental compliance and energy conservation charges:

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

	September 30,	
	2016	2015
Environmental compliance charge recovery		
(Liability) balance, beginning of year	\$ (905,627)	\$ (452,014)
Charges recovered through rates	7,605,221	10,041,957
Less environmental compliance expenses	8,045,674	9,588,344
(Liability) balance, end of year	<u>\$ (465,174)</u>	<u>\$ (905,627)</u>

	September 30,	
	2016	2015
Energy conservation charges recovery		
(Liability) asset balance, beginning of year	\$ (145,407)	\$ 41,851
Charges recovered through rates	708,577	554,168
Less future conservation charges	595,055	366,910
(Liability) balance, end of year	<u>\$ (258,929)</u>	<u>\$ (145,407)</u>

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,	
	2016	2015
Fuel reserve balance	\$ 20,301,603	\$ 13,057,442
Less cumulative over-recovery of fuel charges	26,663,648	13,057,442
(Liability) balance	<u>\$ (6,362,045)</u>	<u>\$ -</u>

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

NOTE E – REGULATORY ASSETS AND LIABILITIES (CONTINUED)

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

	September 30,	
	2016	2015
Regulatory assets:		
Unamortized debt issuance costs	\$ 1,287,642	\$ 860,206

	September 30,	
	2016	2015
Regulatory liabilities:		
Environmental compliance charges	\$ 465,174	\$ 905,627
Energy conservation charges	258,929	145,407
Fuel charges	6,362,045	-
	\$ 7,086,148	\$ 1,051,034

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

NOTE F – ASSET APPORTIONMENTS

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

The Future Debt Service fund was not designated for current debt service requirements. The remainder of the Future Debt Service reserve was combined with Capital Expansion funds during 2016. 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 2016, the Emergency Repair Fund funded a mid-year appropriation of \$1,900,000 which was required to replace a substation transformer.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2016 and 2015 consist of the following:

September 30, 2016:	Debt Service Sinking	Future Debt Service	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	\$ 1,145,744	\$ -	\$ 57,952,552	\$ 15,160,599	\$ 74,258,895
Cash with paying agent/trustee	29,018,890	-	-	-	29,018,890
Asset apportionments	<u>\$ 30,164,634</u>	<u>\$ -</u>	<u>\$ 57,952,552</u>	<u>\$ 15,160,599</u>	<u>\$ 103,277,785</u>
Accrued interest payable	\$ 9,086,747	\$ -	\$ -	\$ -	\$ 9,086,747
Current portion of long term debt	20,875,000	-	-	-	20,875,000
Liabilities payable from apportioned assets, due within twelve months	<u>\$ 29,961,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,961,747</u>
September 30, 2015:	Debt Service Sinking	Future Debt Service	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	\$ 2,375,908	\$ 33,107,938	\$ 20,271,398	\$ 16,288,767	\$ 72,044,011
Cash with paying agent/trustee	22,113,122	-	-	-	22,113,122
Accounts receivable	-	-	315,755	-	315,755
Accrued receivable	-	-	1,039,416	-	1,039,416
Asset apportionments	<u>\$ 24,489,030</u>	<u>\$ 33,107,938</u>	<u>\$ 21,626,569</u>	<u>\$ 16,288,767</u>	<u>\$ 95,512,304</u>
Accounts payable	\$ -	\$ -	\$ 1,379,213	\$ -	\$ 1,379,213
Accrued expenses	-	-	140,655	-	140,655
Accrued interest payable	6,913,366	-	-	-	6,913,366
Current portion of long term debt	16,530,000	-	-	-	16,530,000
Liabilities payable from apportioned assets, due within twelve months	<u>\$ 23,443,366</u>	<u>\$ -</u>	<u>\$ 1,519,868</u>	<u>\$ -</u>	<u>\$ 24,963,234</u>

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

NOTE G - RESTRICTED ASSETS

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

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

Bond proceeds are restricted for the purpose of funding certain electric system capital projects. The majority of Lakeland Electric's capital spending during fiscal year 2016 was funded by proceeds from the Series 2016 Revenue and Refunding Bonds.

Lakeland Electric's total restricted assets and restricted liabilities, as of September 30, 2016 and 2015 consist of the following:

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

September 30, 2015:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	\$ 14,518,048	\$ 19,440	\$ -	\$ 14,537,488
Accounts receivable	-	242,527	-	242,527
Restricted assets	<u>\$ 14,518,048</u>	<u>\$ 261,967</u>	<u>\$ -</u>	<u>\$ 14,780,015</u>
Payables and accrued liabilities	\$ 23,334	\$ 8,299	\$ -	\$ 31,633
Advances	-	250,000	-	250,000
Customer deposits	<u>14,494,714</u>	<u>-</u>	<u>-</u>	<u>14,494,714</u>
Restricted liabilities, due within twelve months	<u>\$ 14,518,048</u>	<u>\$ 258,299</u>	<u>\$ -</u>	<u>\$ 14,776,347</u>

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

NOTE H - UTILITY PLANT

Utility plant in service consists of the following:

<u>Fiscal year 2016:</u>	September 30, 2015	Additions	Deletions	September 30, 2016
Non-depreciable assets:				
Land	\$ 15,595,265	\$ -	\$ -	\$ 15,595,265
Construction in process	12,223,993	33,098,546	36,730,768	8,591,771
	27,819,258	33,098,546	36,730,768	24,187,036
Depreciable assets:				
Buildings	23,359,901	2,229,724		25,589,625
Machinery and equipment	33,285,146	1,755,977	7,007,532	28,033,591
Equipment under capital leases	1,572,285	-	-	1,572,285
Electric plants in service:				
Electric delivery	495,094,496	27,124,758	106,268	522,112,985
Electric supply	743,677,145	7,133,843	5,608,537	745,202,451
Total plant assets	1,324,808,231	71,342,848	49,453,105	1,346,697,974
Less Accumulated Depreciation:				
Buildings	13,175,128	1,621,048	-	14,796,176
Machinery and equipment	21,686,018	1,712,857	8,264,873	15,134,002
Equipment under capital leases	406,174	157,219	-	563,393
Electric plants in service:				-
Electric delivery	183,985,116	14,599,600	60,598	198,524,118
Electric supply	438,911,688	26,668,017	4,396,861	461,182,844
Total plant assets	658,164,124	44,758,741	12,722,332	690,200,533
Total Utility plant net of accumulated depreciation	\$ 666,644,107	\$ 26,584,107	\$ 36,730,774	\$ 656,497,441

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

NOTE H - UTILITY PLANT (CONTINUED)

<u>Fiscal year 2015:</u>	<u>September 30,</u> <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30,</u> <u>2015</u>
Non-depreciable assets:				
Land	\$ 15,595,265	\$ -	\$ -	\$ 15,595,265
Construction in process	<u>25,762,208</u>	<u>16,624,658</u>	<u>30,162,873</u>	<u>12,223,993</u>
	41,357,473	16,624,658	30,162,873	27,819,258
Depreciable assets:				
Buildings	23,380,561	184,764	205,424	23,359,901
Machinery and equipment	31,096,805	3,037,852	849,511	33,285,146
Equipment under capital leases	2,243,461	-	671,176	1,572,285
Electric plants in service:				
Electric delivery	476,405,044	19,093,738	404,286	495,094,496
Electric supply	<u>724,458,964</u>	<u>29,581,343</u>	<u>10,363,162</u>	<u>743,677,145</u>
Total plant assets	<u>1,298,942,308</u>	<u>68,522,355</u>	<u>42,656,432</u>	<u>1,324,808,231</u>
Less Accumulated Depreciation:				
Buildings	12,071,299	1,103,829	-	13,175,128
Machinery and equipment	20,893,491	1,947,398	1,154,871	21,686,018
Equipment under capital leases	836,224	241,126	671,176	406,174
Electric plants in service:				
Electric delivery	170,812,695	13,711,617	539,196	183,985,116
Electric supply	<u>418,825,266</u>	<u>26,528,037</u>	<u>6,441,614</u>	<u>438,911,688</u>
Total plant assets	<u>623,438,974</u>	<u>43,532,007</u>	<u>8,806,857</u>	<u>658,164,124</u>
Total Utility plant net of accumulated depreciation	<u>\$ 675,503,334</u>	<u>\$ 24,990,348</u>	<u>\$ 33,849,575</u>	<u>\$ 666,644,107</u>

Allowance for Funds Used During Construction:

In accordance with GASB guidance regarding capitalized interest, Lakeland Electric has adopted the policy of capitalizing net interest costs on funds used for the construction of fixed assets. As required by the provisions of the related accounting guidance, interest charges are capitalized as part of capital costs during acquisition or construction of capital assets provided that Lakeland Electric has any outstanding debt. Interest earnings on borrowed funds, if any, are also capitalized. Lakeland Electric had no outstanding bond proceeds during the previous fiscal year (2015).

	<u>September 30</u>	
	<u>2016</u>	<u>2015</u>
Interest cost on bonds was reduced by amounts capitalized as follows:		
Total interest expense on bonds payable	\$ 17,567,094	\$ 18,593,491
Capitalized interest revenue	430,378	-
Less capitalized interest expense	<u>(725,754)</u>	<u>(661,483)</u>
	<u>\$ 17,271,718</u>	<u>\$ 17,932,008</u>

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

NOTE I - UTILITY PLANT PARTICIPATION AGREEMENT

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

The City has operational control of this project and accounts for its undivided ownership interest based on its pro-rata share of the project's construction costs and operating expenses. Capital costs related to renewal and replacement of Unit 3 during fiscal year 2016 were \$8,418,595 with an OUC share of \$3,365,838. Shared operating expenses for the fiscal years ending September 30, 2016 and 2015, were as follows:

<u>Fiscal year 2016</u>	<u>City Share</u>	<u>OUC Share</u>	<u>Total</u>
McIntosh unit #3 fuel expense	\$ 33,964,943	\$ 22,643,295	\$ 56,608,238
McIntosh unit #3 direct operating & maintenance expenses	8,529,821	5,686,547	14,216,368
Other shared operating and administrative expenses	5,981,740	3,987,827	9,969,567
	<u>\$ 48,476,504</u>	<u>\$ 32,317,669</u>	<u>\$ 80,794,173</u>
	<u>City Share</u>	<u>OUC Share</u>	<u>Total</u>
<u>Fiscal year 2015</u>			
McIntosh unit #3 fuel expense	\$ 31,788,163	\$ 21,192,109	\$ 52,980,272
McIntosh unit #3 direct operating & maintenance expenses	7,173,801	4,782,534	11,956,336
Other shared operating and administrative expenses	5,578,404	3,718,936	9,297,340
	<u>\$ 44,540,368</u>	<u>\$ 29,693,579</u>	<u>\$ 74,233,947</u>

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

NOTE J – DEFERRED OUTFLOWS OF RESOURCES

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

	<u>September 30</u>	
	<u>2016</u>	<u>2015</u>
Unamortized loss on refunding of debt, beginning balance	\$ 16,415,262	\$ 18,034,854
Additions	21,822,907	-
Deletions	(96,199)	-
Amortization	(3,210,810)	(1,619,592)
	<u>34,931,160</u>	<u>16,415,262</u>
Fuel hedges (see Note R)	348,521	-
Interest rate swaps (See Note R)	36,695,648	47,953,148
Pension contributions	20,290,620	6,129,560
Total deferred outflows of resources	<u>\$ 92,265,949</u>	<u>\$ 70,497,970</u>

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

NOTE K – ACCRUED LIABILITIES AND LONG-TERM DEBT

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

	September 30	
	2016	2015
Current:		
Accrued taxes payable	\$ 702,864	\$ 802,669
Accrued payroll	1,798,093	1,455,490
Compensated absences	1,013,496	987,227
	\$ 3,514,453	\$ 3,245,386
Accrued liabilities, less current portion:		
Compensated absences	\$ 4,169,330	\$ 4,499,228
Other post employment benefits	17,945,523	15,945,423
Net pension liability	58,777,354	48,261,275
	\$ 80,892,207	\$ 68,705,926

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

	September 30	
	2016	2015
Revenue bonds payable, less current portion	\$ 387,725,000	\$ 401,260,000
Plus unamortized bond discount (net of premium)	33,012,771	15,966,579
	\$ 420,737,771	\$ 417,226,579

The following is a summary of long-term obligation transactions for the year ended September 30, 2016:

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

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

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

For comparison to the table on the preceding page, the following is a summary of long-term obligation transactions of Lakeland Electric for the year ended September 30, 2015:

	Balance October 1 2014	Incurred	Satisfied	Balance September 30 2015	Amount Due within One Year
Net pension liability	\$ 50,525,245	\$ -	\$ 2,263,970	\$ 48,261,275	\$ -
Net OPEB obligation	14,478,330	1,467,093	-	15,945,423	-
Compensated absences	5,590,100	872,996	976,641	5,486,455	987,227
Capital lease obligations	1,196,590	-	408,833	787,757	320,526
Revenue bonds payable	438,565,499	-	20,775,499	417,790,000	16,530,000
Unamortized bond premium	17,776,418	-	1,809,839	15,966,579	-
	<u>\$ 528,132,182</u>	<u>\$ 2,340,089</u>	<u>\$ 26,234,782</u>	<u>\$ 504,237,489</u>	<u>\$ 17,837,753</u>

NOTE L - REVENUE BONDS

Lakeland Electric's revenue bonds payable as of September 30, 2016 consists of the following:

	Interest Rate %	Final Maturity	September 30, 2015	Additions	Deletions	September 30, 2016
Series 2006	4.00% to 5.00%	10-01-2036	\$ 38,385,000	\$ -	\$ 37,330,000	\$ 1,055,000
Series 2010	4.00% to 5.25%	10-01-2036	184,405,000	-	15,510,000	168,895,000
Series 2012	Variable	10-01-2017	100,000,000	-	-	100,000,000
Series 2014	Variable	04-01-2019	95,000,000	-	95,000,000	-
Series 2016	2.50% to 5.00%	10-01-2036	-	138,650,000	-	138,650,000
			417,790,000	<u>\$ 138,650,000</u>	<u>\$ 147,840,000</u>	408,600,000
Less current portion			(16,530,000)			(20,875,000)
			<u>\$ 401,260,000</u>			<u>\$ 387,725,000</u>

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

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of the debt service requirements, excluding the current portion of outstanding revenue bonds and excluding the impact of interest swaps on variable rate bonds, as of September 30, 2016:

Fiscal Year(s)	<u>Series 2010</u>		<u>Series 2016</u>		<u>Floating Rates Notes</u>	
	Principal	Interest	Principal	Interest	Principal*	Interest
2017	\$ 17,105,000	\$ 7,708,800	\$ 4,145,000	\$ 5,811,419	\$ -	\$ 1,038,100
2018	17,950,000	6,853,550	4,350,000	5,604,169	-	1,038,100
2019	13,840,000	5,956,050	4,560,000	5,386,669	1,000,000	1,038,100
2020	4,695,000	5,264,050	4,770,000	5,158,669	10,000,000	1,027,719
2021	4,925,000	5,029,300	9,620,000	4,920,169	3,500,000	923,909
2022	5,140,000	4,819,988	10,020,000	4,439,169	2,000,000	887,576
2023-2027	28,195,000	20,291,588	57,470,000	14,203,344	10,000,000	4,126,448
2028-2032	30,290,000	12,933,375	31,415,000	4,304,675	20,942,000	3,579,670
2033-2037	30,475,000	4,102,088	8,760,000	1,122,000	52,558,000	1,901,778
	<u>\$ 152,615,000</u>	<u>\$ 72,958,788</u>	<u>\$ 135,110,000</u>	<u>\$ 50,950,281</u>	<u>\$ 100,000,000</u>	<u>\$ 15,561,399</u>

Fiscal Year(s)	TOTAL		
	Principal	Interest	Total
2017	\$ 21,250,000	\$ 14,558,319	\$ 35,808,319
2018	22,300,000	13,495,819	35,795,819
2019	19,400,000	12,380,819	31,780,819
2020	19,465,000	11,450,438	30,915,438
2021	18,045,000	10,873,378	28,918,378
2022	17,160,000	10,146,732	27,306,732
2023-2027	95,665,000	38,621,379	134,286,379
2028-2032	82,647,000	20,817,720	103,464,720
2033-2037	91,793,000	7,125,866	98,918,866
	<u>\$ 387,725,000</u>	<u>\$ 139,470,468</u>	<u>\$ 527,195,468</u>

* The remaining \$100,000,000 of Floating Rates Notes are scheduled to mature on October 1, 2017. It has been assumed for debt service purposes that the replacement debt for the FRNs retains the same maturity schedules that convert these obligations to a synthetic fixed rate.

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

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage from operations for fiscal year 2016 and the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2016	\$ 110,517,658	\$ 20,875,000	\$ 17,567,094	\$ 38,442,094	2.87
2015	99,751,104	16,530,000	18,575,791	35,123,491	2.84
2014	111,991,243	20,775,499	25,469,790	46,245,289	2.42
2013	90,272,554	20,313,195	26,313,189	46,626,384	1.94
2012	97,653,479	24,456,267	27,136,639	51,592,906	1.89
2011	107,664,669	23,632,510	28,350,017	51,982,527	2.07

Bond coverage was calculated as follows for the year ended September 30, 2016:

Charges for services	\$ 296,552,463	
Investment and other revenue	<u>6,795,111</u>	
Total revenue		\$ 303,347,574
Less cost of operations		<u>(192,829,916)</u>
Net revenues from operations available for debt service		110,517,658
Debt service requirement:		
Interest on bonds payable		17,567,094
Current portion of bonds payable		<u>20,875,000</u>
Total debt service requirement		<u>\$ 38,442,094</u>
Bond coverage from operations		2.87

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

NOTE L - REVENUE BONDS (CONTINUED)

All energy system bonds are secured by a first lien on and pledge of the net revenues of Lakeland Electric. As of September 30, 2016, Lakeland Electric is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Energy System Revenue and Refunding Bonds, Series 2006:

In August 2006, the City issued the Energy System Revenue and Refunding Bonds, Series 2006 in the amount of \$44,870,000 to finance certain capital improvements for the electric power system of the City, to refund, on a current basis, a portion of the City's outstanding Energy System Refunding Revenue Bonds, Series 1999B, and to pay certain costs and expenses related to the issuance of the bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. \$24,645,000 of the Series 2006 bond principal was redeemed in February 2016 as part of the Series 2016 Revenue and Refunding Bonds transaction. Another \$11,665,000 of the Series 2006 principal was paid using legally available apportioned assets. The remaining principal balance of \$1,055,000 as of September 30, 2016 is to be paid on October 1, 2016.

Energy System Revenue and Refunding Bonds, Series 2010:

In October 2010, the City issued the Energy System Revenue and Refunding Bonds, Series 2010 in the amount of \$199,300,000 to (1) finance certain capital improvements to the electric power system of the City, (2) to refund on a current basis, a portion of the City's outstanding Electric and Water Refunding Revenue Bonds, Series 1999A and to refund on an advance basis, all of the City's outstanding Energy System Revenue Bonds, Series 2001B, (3) to pay costs associated with the termination of a conditional bond warrant agreement, and (4) to pay certain costs and expenses related to the issuance of the Bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. As of September 30, 2016, the remaining principal and interest requirement for these bonds aggregate to \$246,115,188.

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.

Variable Rate Energy System Refunding Bonds, Series 2012:

In August 2012, the City issued the Variable Rate Energy System Refunding Bonds, Series 2012 in the amount of \$100,000,000 to (i) refund, on a current basis, the portion of the City's outstanding Variable Rate Energy System Refunding Bonds, Series 2009 (\$100,000,000) which matured on October 1, 2012 and (ii) pay certain costs and expenses related to the issuance of the Series 2012 Bonds. The bonds mature on October 1, 2017. Principal and interest payments are payable on October 1 of each year. The Bonds shall bear interest at the adjusted SIFMA rate for each maturity plus the per annum spread. The adjusted SIFMA rate shall never exceed an interest rate per annum equal to the lesser of the maximum rate permitted by law or 12%. The remaining principal and interest requirements for these bonds aggregate to \$108,174,782.

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

NOTE L - REVENUE BONDS (CONTINUED)

Variable Rate Energy System Refunding Bond, Series 2014:

In April 2014, the City issued the Variable Rate Energy System Refunding Bond, Series 2014 in the amount of \$95,000,000 to refund on a portion of the City's outstanding Variable Rate Energy System Revenue and Refunding, Series 2009. The 2014 bonds mature on April 1, 2019. The bonds bear a variable rate of interest equal to the SIFMA index plus 0.58 percent. The principal of the bond is payable on April 1, 2019 and interest payments are payable on the first business day of each month. Although the 2014 bonds bear a variable rate of interest, they, along with a similar series of 2012 bonds, 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. All of the Series 2014 bonds were refunded in February 2016 by the Series 2016 Revenue and Refunding bonds.

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 \$193,456,406

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, 2016 was (\$36,695,648). Also see Note R, Derivative and Hedging Activities.

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

NOTE L - REVENUE BONDS (CONTINUED)

Variable Rate Hedges:

As a result of the swap agreements, the City will receive (on a combined basis) variable rate payments equal to between 67 percent and 74.125 percent of LIBOR times the notional amount of the swap agreements. The notional amount of the swap agreements roughly corresponds to the outstanding amount of the Series 2012 and 2014 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 2012 and 2014 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 2012 and 2014 Bonds. The City is subject to the basis risk between the LIBOR based variable rates it receives and the actual rates paid on the 2012 and 2014 bonds, which are based on SIFMA. Over time the variable rates paid and received are expected to be equivalent.

The swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or rating downgrades to either counterparty. As of September 30, 2016, the City was not subject to credit risk with its counterparties because the fair market values of the swap agreements were negative.

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

NOTE M – CAPITAL LEASES

On November 5, 2012, Lakeland Electric entered into a 60-month lease-purchase agreement for a medium wheel loader and for interconnection communication equipment. Lakeland Electric's share of the present value of the future minimum lease payments at the inception of the contract, with an interest rate of 2.36 percent, was \$1,572,285. The lease concludes in February 2018. As of September 30, 2016, the remaining total lease obligation was \$467,239, of which \$328,184 is payable during fiscal year 2017.

NOTE N - DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Principles:

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

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

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description:

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

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

Deferred Retirement Option Plan (DROP):

A Deferred Retirement Option Plan (DROP) was enacted on December 19, 2009 by Ordinance 4727. Under this Plan, participants who have attained eligibility may continue working with the city for up to sixty months while receiving a retirement benefit that is deposited into a DROP account. As of September 30, 2016, Lakeland Electric had a total of 94 participants.

Cost of Living Adjustment:

No cost of living increase was awarded for fiscal year 2016.

Funding Policy, Contributions Required, and Contributions Made:

Under Ordinance 5287, section 23.1.1, the Plan grants the authority to the City Commission to establish and modify contribution requirements of the City and active plan members. The Plan is subject to periodic review by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute at least quarterly to the fund in an amount equal to the required city contribution as shown by the applicable actuarial valuation system. The actuarial experience (0.29) and the Amortization Payment on UAAL (0.43) are added to the prior Contribution Rate (18.54%), less Change in Cost Sharing (0.31) and Change in Normal Cost Rate (0.06) to calculate the current year Contribution Rate of 18.89%. Contributions to the pension plan from Department of Electric Utilities were \$11,436,475 for the year ended September 30, 2016 and \$6,240,823 for the year ended September 30, 2015.

At September 30, 2016, the Department of Electric Utilities reported a liability of \$58,777,354 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, 2015, 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, 2015 was \$48,261,275. The Department of Electric Utilities' portion of the net pension liability was based the Department of Electric Utilities' share of the actual contributions to the pension plan relative to the actual total contributions of the City of Lakeland. At September 30, 2016, the Department of Electric Utilities' proportion was 40%, which was the same as the proportion measured as of September 30, 2015.

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Proportionate share of contributions subsequent to the measurement date	\$ 11,436,475	\$ -	\$ 6,240,823	\$ -
Difference between actual and expected experience	8,854,145	-	(111,263)	-
Difference between projected and actual earnings		<u>753,373</u>	<u>-</u>	<u>1,128,630</u>
Total	<u>\$ 20,290,620</u>	<u>\$ 753,373</u>	<u>\$ 6,129,560</u>	<u>\$ 1,128,630</u>

\$11,436,475 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, 2017. 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:	
2017	\$ 1,894,499
2018	1,894,499
2019	1,898,043
2020	<u>2,413,732</u>
	<u>\$ 8,100,773</u>

Actuarial Assumptions:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (continued):

The projected long-term real rate of return for the Plan net of investment expenses is 6.00 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 September 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table as required by GASB 67 and 68:

Asset Class (Market)	Target Allocation	Long-Term Expected Real Rate of Return	Asset Group Contribution
Domestic Equity	40.00%	7.50%	3.00%
International Equity	15.00%	8.50%	1.28%
Domestic Bonds	20.00%	2.50%	0.50%
International Bonds	5.00%	3.50%	0.17%
Real Estate	10.00%	4.50%	0.45%
Alternate Assets	10.00%	6.00%	0.60%
Total Investments	<u>100.00%</u>		<u>6.00%</u>

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

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

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

<u>As of September 30, 2016</u>	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	\$ 85,175,004	\$ 58,777,353	\$ 36,406,970
<u>As of September 30, 2015</u>	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	\$ 74,199,766	\$ 48,261,275	\$ 26,273,799

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.

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Termination of Benefits:

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

Additional Information:

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

NOTE O - BUSINESS SEGMENT

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

NOTE P - POST-EMPLOYMENT BENEFITS

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

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

On September 18, 1989, the City Commission agreed to subsidize the cost of health insurance coverage offered to any person receiving retirement benefits from the City of Lakeland. Effective September 22, 2002 the retirees' health insurance premium subsidy of 50 percent was reduced as follows: in fiscal year 2004 to 45 percent, in fiscal year 2005 to 40 percent, and in subsequent fiscal years to 35 percent. Effective October 1, 2002, the health insurance premium subsidy is based on years of service. Lakeland Electric's annual cost of this benefit was \$490,183 and \$496,183 during fiscal years 2016 and 2015, respectively, and is funded on a pay-as-you-go basis.

Effective January 1, 2004, any employee who wishes to have his/her spouse and dependents insured will be required to have them on the plan for one year prior to retirement. Should a participant at any time elect not to purchase coverage from the City-sponsored plan, all eligibility for future participation in that plan, including rights to the subsidy, are terminated. The subsidy program can be terminated by the City at any time. During the fiscal year ended September 30, 2014, there were more than 200 retired employees of Lakeland Electric participating in the program.

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

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

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

The annual OPEB cost is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB. The Net OPEB obligation represents the excess of the annual required contribution necessary to amortize both the explicit and implicit subsidies on an actuarially sound basis over the amount actually funded on a pay-as-you go basis for the City of Lakeland. The portion of the liability attributable to the operations of Lakeland Electric was \$17,945,523 as of September 30, 2016, and \$15,945,423 as of September 30, 2015.

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 \$17,000 in one year).

Under the terms of the Deferred Compensation program, the City may purchase, at the direction of the employee, fixed or variable life insurance, annuity contracts or mutual fund shares for the purpose of "informally" funding the deferred compensation agreements of the employee. The investments will, at all times, remain solely the property of the employee, held in trust until the employee is eligible to draw the amounts contributed. The compensation deferred under the program is not included in employees' taxable income until such amounts are actually received by employees under the terms of the program.

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES

Accounting for Derivatives and Hedging Activities:

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

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

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Fuel Hedges:

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

During a depressed natural gas market, the costs of the fuel hedge program can become more significant. To achieve its goals of minimizing volatility in both cash flow and fuel rates to the ratepayers, Lakeland Electric hedges at various volumes for a rolling 36-month forward period with emphasis on upside protection and downside participation through the purchase of option like structures which can include calls, swaps and puts. 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. Hedge structures should be placed at no more than \$1/MMBTU above the current market price and option premiums will not exceed \$0.50/MMBtu. The maximum hedge cost of the hedge structure including option premium will not exceed \$1.50/MMBtu. Each quarter, when a fuel rate change is proposed, the next 12 months of forecasted volumes use a programmatic approach with a target of approximately 62.5 to 82.5 percent hedged as follows:

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

Fuel related derivative transactions are executed in accordance with the fuel hedging policies established by Lakeland Electric's Energy Risk Management Oversight Committee. The primary objective of these policies is to minimize exposure to natural gas price volatility for cash flow and fuel rate stabilization purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counterparty credit worthiness, specific fuel volumes and financial limits in addition to overall policy compliance. Acquisition of these hedge transactions are managed by The Energy Authority (TEA) based on a contractual relationship created in March 2007. TEA performs the front and back office functions associated with such trades in accordance with overall hedging policies developed jointly by TEA and the aforementioned oversight committee of Lakeland Electric. The recording of fuel derivatives, when appropriate, is included on the Statement of Net Position as either an asset or liability measured at fair value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as part of Fuel and Purchased Power costs in the Statement of Revenues, Expenses and Changes in Net Position. The premiums associated with the purchase of options are expensed upon expiration of the option. Premiums associated with unexpired options are embedded in the valuation table displayed later in this note. The valuation of market changes for contracts entered into within Lakeland Electric's Risk Management Program resulted in a net increase of \$8,170,955 \$5,886,576 to the cost of fuel during the fiscal year ended September 30, 2015 and 2016, which was approximately 6.6 percent and 5 percent of the total fuel cost respectively.

Lakeland Electric's natural gas swaps and options have been evaluated using the regression analysis method cited above. According to this method, all of Lakeland Electric's derivatives were considered to be effective. Consequently, the R-Squared relationship between the derivative based on the NYMEX index as related to physical natural gas prices based on purchased gas from Florida Gas Transmission Zones 1, 2 and 3 was 0.8 or higher with a slope between -0.8 and -1.25 with a 95 percent confidence. In addition, the effectiveness of options was assessed consistent with the objective of the derivative instrument as mentioned in the goals of hedging above. With GASB compliance, the open swaps and options valuation of \$348,521 includes mark-to-market of the swaps and both intrinsic and extrinsic mark-to-market of the options.

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

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Natural Gas Derivate Instruments:

Lakeland Electric uses Over-the-Counter (OTC) swaps, put options, swing-swaps and fixed price firm physical purchases of natural gas as tools to stabilize the cost of natural gas that will be needed by the utility in the future. Any gain or loss of the value of these derivatives are ultimately rolled into the price of natural gas burned, offsetting the volatility in the price of that fuel. These derivative instruments are classified in Level 2 of the fair value hierarchy using the market approach of valuation. Derivative instruments classified as Level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives. As of September 2016, Lakeland Electric had the following options, swaps and physical contracts outstanding in the following amounts, covered fiscal year 2016 and beyond:

Fiscal Year	Options	Swaps	Market Value
2017	\$ 11,530,000	\$ 2,850,000	\$ (200,831)
2018	3,450,000	2,250,000	(92,967)
2019	1,000,000	400,000	(54,723)
	<u>\$ 15,980,000</u>	<u>\$ 5,500,000</u>	<u>\$ (348,521)</u>

Interest Rate Swaps:

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

In the case of Lakeland's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulated the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using all of the methods cited above except the dollar-offset method. All of the interest rate swaps employed by the City have passed at least one of the effectiveness tests prescribed by GASB Statement No. 53. Accordingly, the market values of the derivatives are recorded as offsetting items on the Statements of Net Position, and therefore the recognition of changes in fair market value are deferred. The first item on the table below is a \$159,265,000 basis swap entered in 2004 as a means to reduce borrowing costs of a portion of the Electric and Water Refunding Revenue Bonds Series 1999A. Settlement payments to the City have been positive in each fiscal year since inception. The remaining items on the table below are related to certain prior variable rate debt, which has been refunded. The City has elected to apply the existing swap agreements to hedge the new variable rate refunding debt as a means to hedge the variable rate risk exposure related to variable rate bonds. Lakeland Electric had interest rate swaps with the following mid-market value as of the close of the final business day of the fiscal year ending September 30, 2016:

Description	Maturity	Base Value	Accrued	Net Value
\$159.265M Basis Swap	10/01/2036	\$ 3,404,845	\$ 352,111	\$ 3,756,956
\$30M SIFMA Swap	10/01/2035	(6,057,946)	(130,466)	(6,188,412)
\$47.86 67% LIBOR Swap	10/01/2037	(21,861,234)	(103,720)	(21,964,954)
\$60M SIFMA Swap	10/01/2035	(10,846,815)	(229,980)	(11,076,795)
\$62.14M 67% of LIBOR Swap	10/01/2037	(458,337)	(3,447)	(461,784)
\$90M 74.12% of LIBOR Swap	05/01/2021	(726,640)	(34,019)	(760,659)
		<u>\$ (36,546,127)</u>	<u>\$ (149,521)</u>	<u>\$ (36,695,648)</u>

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

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Interest Rate Swaps (continued):

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

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

Interest rate swaps	\$ (36,695,648)
Prepaid fuel	3,289,947
Fuel hedges (deferred outflows)	<u>(348,521)</u>
	<u>\$ (33,754,222)</u>

The fair value of all of Lakeland Electric's derivatives as of September 30, 2015 was as follows:

Interest rate swaps	\$ (47,953,148)
Prepaid fuel	3,329,405
Fuel hedges (deferred outflows)	<u>(5,366,286)</u>
	<u>\$ (49,990,029)</u>

NOTE S – DEFERRED INFLOWS OF RESOURCES

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

Contributions in Aid of Construction

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

	September 30,	
	2016	2015
Contributions in aid of construction, beginning balance	\$ 46,112,503	\$ 46,441,709
Additions	2,454,232	2,468,746
Amortization as depreciation expense	<u>(2,974,785)</u>	<u>(2,797,952)</u>
	<u>\$ 45,591,950</u>	<u>\$ 46,112,503</u>

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,	
	2016	2015
Beginning balance	\$ 13,057,442	\$ (2,709,108)
Fuel revenues	123,071,900	140,895,453
Less fuel expenses	(109,465,694)	(125,128,903)
Less regulatory liability related to fuel charges	<u>(6,362,045)</u>	<u>-</u>
	<u>\$ 20,301,603</u>	<u>\$ 13,057,442</u>

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

NOTE S – DEFERRED INFLOWS OF RESOURCES (CONTINUED)

Unearned Revenue

During August 2009, Lakeland Electric received a \$3,823,875 termination fee in a natural gas discount settlement with Florida Gas Utility. Lakeland Electric has been amortizing the lump sum settlement as fuel revenue over a period of eight years, which is the approximate length of time that the natural gas discount would have otherwise been maintained. The unamortized portion of the unearned revenue classified as a deferred inflow of resources was \$398,321 and \$876,306, respectively, for the fiscal years ending September 30, 2016 and 2015.

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

	September 30,	
	2016	2015
Contributions in aid of construction	\$ 45,591,950	\$ 46,112,503
Fuel reserve balance	20,301,603	13,057,442
Unearned revenue	398,321	876,306
Deferred outflows - actuarial (see Note R)	-	5,366,286
Deferred inflows - actuarial (see Note N)	753,373	1,128,630
	\$ 67,045,247	\$ 66,541,167

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, 2016, have been accrued in the financial statements of the Self-Insurance Fund. An estimated liability for incurred-but-not-reported claims also has been accrued in the financial statements of the Self-Insurance Fund. This program provides coverage up to a maximum of \$400,000 per employee for worker's compensation claims. The City purchases commercial insurance for claims in excess of this amount up to \$1,000,000 per employee. The program provides coverage of up to a maximum of \$150,000 per employee for health insurance claims. The City purchases commercial insurance for claims in excess of this amount up to \$1,000,000 per employee. Refer to the City of Lakeland's CAFR for additional disclosures.

Contractual Commitments:

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

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

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

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contractual Commitments (continued):

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 2016, milestone payments of \$8,211,150 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
2017	\$ 367,320	\$ 7,267,796	\$ 7,635,116
2018	367,320	7,267,796	7,635,116
2019	367,320	6,238,946	6,606,266
2020	367,320	7,267,796	7,635,116
2021	367,320	7,267,796	7,635,116
2022-2025	1,836,600	46,053,723	47,890,323
	<u>\$ 3,673,200</u>	<u>\$ 81,363,853</u>	<u>\$ 85,037,053</u>

As of September 30, 2016, Lakeland Electric has entered into five Solar Energy Participation Agreements with Sun Edison, which have had their ownership interest assigned to new owners. EDF Renewable Services, Inc. is the owner of the Lakeland Center .25 MWs and Airport Phase I 2.25 MWs. TerraForm Utility Solar XIX, LLC is the owner of the Airport Phase II 2.75MWs and W. Bella Vista 6.00 MWs. NRG Renew, LLC is the owner of the Airport Phase III 3.15 MWs. The solar farm's locations are as follows: on 70 acres adjacent to the Sutton Substation, on the roof of the Lakeland Center and in the runway protection zones of the Lakeland Linder Regional Airport. Lakeland Electric has no equity interest in and assumes no financial responsibility for the solar generation systems. Each SEPA is in effect for twenty-five years at a fixed price per MWh with no price escalation clauses. Lakeland Electric's purchases under the SEPAs totaled \$3,242,903 and \$2,280,650 in 2016 and 2015. As of September 30, 2016, the five SEPA's totaled 14.40 megawatts of solar generation capacity under contract with Lakeland Electric. Airport Phase III 3.15 MWs did not become available to purchase power until December 21, 2016, with no price escalation clauses.

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, 2016. Commitments for construction contracts and other capital outlay as of September 30, 2016 are as follows:

McIntosh unit 5 renewal and replacement projects	\$ 2,871,944
McIntosh unit 3 renewal and replacement projects	833,885
Other power production plant improvements	286,834
Energy delivery capital projects	894,636
Building Improvement projects	125,999
Equipment	207,116
	<u>\$ 5,220,414</u>

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

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Encumbrances:

In addition to the commitments for capital projects, Lakeland Electric had other outstanding purchase orders in the amount of \$144,495,610 as of September 30, 2016, of which \$138,980,346 represents contracts for the procurement and transportation of fuel and purchased power.

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

NOTE V – SUBSEQUENT EVENTS

New Accounting Pronouncements:

In June 2015 GASB Issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The effective date for this Statement is for fiscal years beginning after June 15, 2017. Management has not determined what effect if any this Statement may have on its financial statements.

In August 2015 GASB Issued GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. This Statement is effective for financial statements for fiscal years beginning after December 15, 2015. Management has not determined what effect if any this Statement may have on its financial statements.

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

NOTE V – SUBSEQUENT EVENTS (CONTINUED)

New Accounting Pronouncements (continued)

In December 2015 GASB Issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement is effective for financial statements for fiscal years beginning after December 15, 2015. Management has not determined what effect if any this Statement may have on its financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial presentation of component units for all state and local governments which was established in GASB Statement No. 14, *The Financial Reporting Entity*. The provisions for this Statement are effective for the City's fiscal year ending September 30, 2017. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. The objective of Statement No. 81 is to improve financial reporting and accounting by providing recognition and measurement guidance involving situations in which the government is the beneficiary in an agreement. Split interest agreements are used by donors to provide resources to two or more beneficiaries including governments. Some examples include charitable remainder trusts and charitable lead trusts. The Statement provides guidance on the recognition of assets, liabilities, deferred inflows of resources, and revenues resulting from such agreements. The requirements of Statement No. 81 are effective for the City's fiscal year ending September 30, 2018 and should be applied retroactively. Management has not determined what impact, if any, this Statement might have on its financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of Statement No. 82 is to address certain issues raised concerning Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 82 addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The requirements of Statement No. 82 are effective for reporting periods beginning after June 15, 2016, except for the selection of assumptions in a circumstance in which the pension liability is measured as of a date other than the most recent fiscal year-end. In that circumstance, the assumptions are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not determined what impact this Statement might have on its financial statements.

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

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

NOTE V – SUBSEQUENT EVENTS (CONTINUED)

New Accounting Pronouncements (continued)

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during the implementation of certain GASB statements, including: blending of component units, reporting amounts previously reported as goodwill and negative goodwill, classifying real estate held by insurance companies, measuring certain money market investments and participating interest earning investment contracts at amortized costs, timing of the measurement of pension or OPEB liabilities and expenditures, recognizing on-behalf payments for pension or OPEB in employer financial statements, payroll related measures in required supplemental information for the purpose of reporting OPEB plans, classifying employer paid member contributions for OPEB, and accounting and reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2016**

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

Employees' Pension & Retirement System

Measurement date:	30-Sep	
	2015	2014
Lakeland Electric's proportion of the net pension liability	39.7567%	39.7567%
Lakeland Electric's portion of the net pension liability	\$ 58,777,353	\$ 48,261,275
Lakeland Electrics covered payroll	\$ 31,696,277	\$ 31,094,405
Lakeland Electric's proportionate share as a % of covered payroll	185.44%	155.21%
Actual covered payroll	\$ 79,725,716	\$ 78,211,736
Plan fiduciary net position as a % total pension liability	77.14%	80.60%

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

SCHEDULE OF LAKELAND ELECTRIC'S CONTRIBUTIONS

Employees' Pension &
Retirement System

Year Ended Sep 30th	Actuarily Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
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%

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, 2014, 2 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 as an advance payment against the employer's share of the unfunded pension liability. In return for this advance payment, the City (as the employer) will receive an annual credit against its regular payment into the fund. As a result of the \$15 million advance payment, a contribution deficiency will be reflected in future years.

**CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND (CONTINUED)
SEPTEMBER 30, 2016**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Budgets of the City are adopted on a modified accrual basis of accounting, which is consistent with Generally Accepted Accounting Principles (GAAP). In cases where appropriations and estimated revenues have been revised during the year, budget data represents final authorized amounts. As of September 30, 2016 there were no material violations of budgetary requirements.



Audited Financial Statements
September 30, 2016 and September 30, 2015

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

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