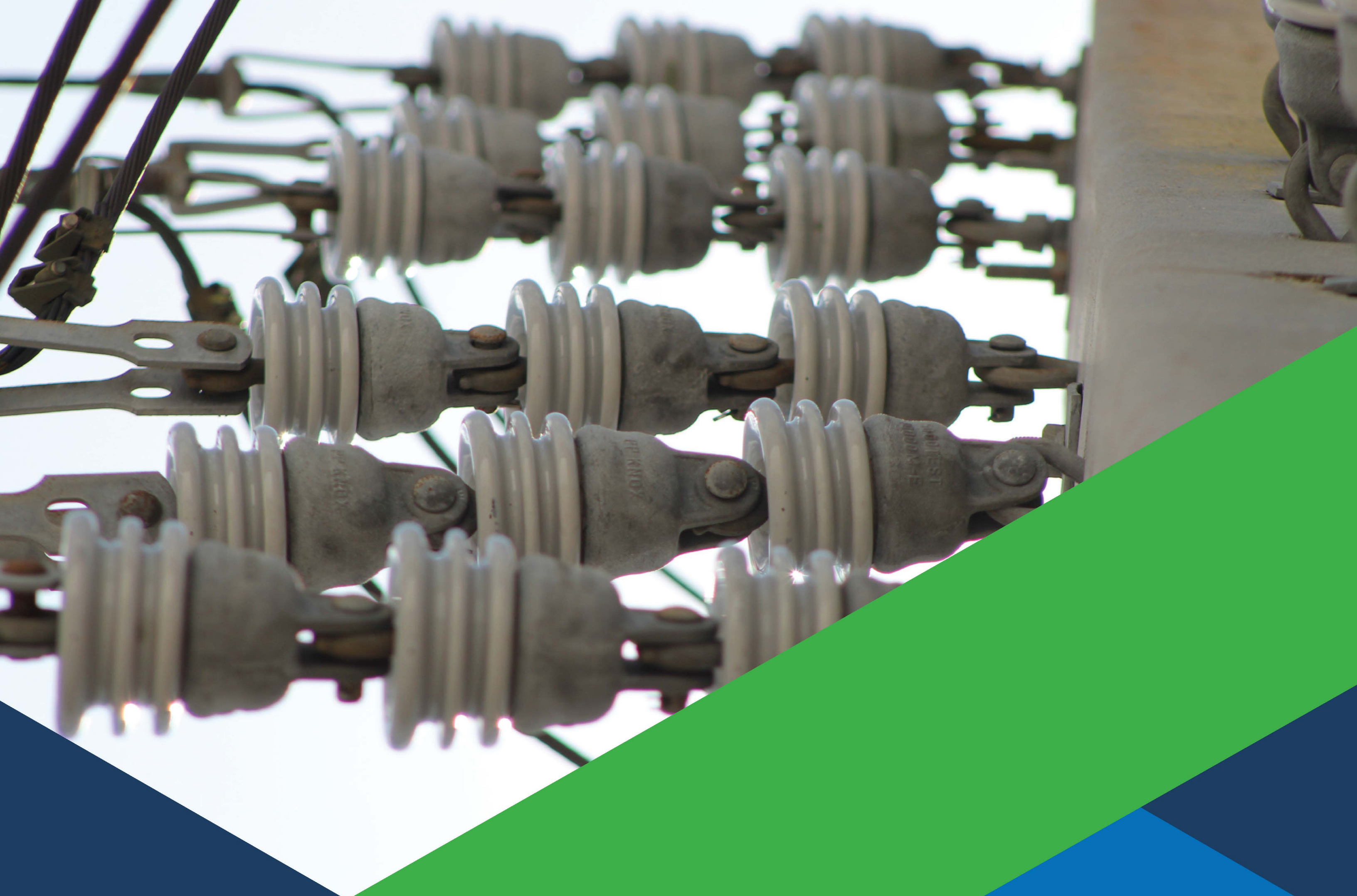

ANNUAL REPORT 2021

Audited Financial Statements
Sep. 30, 2021 & Sep. 30, 2020

LAKELAND ELECTRIC
POWERED FOR LIFE

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

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ELECTRIC MANAGEMENT

Joel Ivy
General Manager

Gina Jacobi
Assistant General Manager
Fiscal Operations

Joey Curry
Assistant General Manager
Delivery

David Kus
Assistant General Manager
Customer Service

Michael Beckham
Assistant General Manager
Production

LAKELAND CITY COMMISSION

William "Bill" Mutz
Mayor

Stephanie Madden
Commissioner At Large

Chad McLeod
Commissioner At Large

Mike Musick
Commissioner Southeast

Phillip Walker
Commissioner Northwest

Sara Roberts McCarley
Commissioner Southwest

Bill Read
Commissioner Northeast

TRANSMITTAL LETTER

March 31, 2022

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

It is our pleasure to submit this annual financial report for the fiscal year ended September 30, 2021 for the City of Lakeland, Florida's Department of Electric Utilities (Lakeland Electric, or "LE"). Management assumes full responsibility for the completeness and accuracy of the information contained in this report. We believe, to the best of our knowledge and belief, this report is complete and reliable in all material respects and the information fairly represents the Utility's financial condition.

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

PROFILE OF LAKELAND ELECTRIC

Lakeland Electric is an enterprise fund governed by a Utility Committee that consists of all seven members of the City Commission plus six citizens representing a cross-section of the customer base. LE is the largest department of the City. It has a budgeted staff of 411 full-time employees including approximately 170 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 2021, an average of 137,295 electric accounts was served, of which 84% were residential.

Lakeland Electric is a vertically integrated utility providing generation, transmission, and distribution services to its customers for more than 115 years. The utility has over 2,024 miles of distribution lines of which 751 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 718 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

Investing in New Generation – In order to replace the capacity lost following the shuttering of Lakeland Electric's aging coal unit, we are adding six natural gas-powered internal combustion generators (120 MW total) to our generation portfolio. These units will be more efficient and better able to manage capacity fluctuations typical of solar power. Construction of these peaking units began in 2021 and they should be commercially available by the end of 2023.

Promoting Sustainability – To further our commitment to reliable and sustainable energy, we plan to add additonal solar to our generation portfolio by 2030.

FINANCIAL HIGHLIGHTS

For fiscal year 2021, Lakeland Electric incurred a net gain of $68 thousand which included a $46.4 million non-cash charge associated with the retirement of the Utility's aging coal unit. Excluding this special loss, net income would have been $46.5 million, $33.7 million higher than that of the prior year. Most of the variance is attributable to a $21.5 million favorable variance in the fair market value of Lakeland Electric's share of the City's pooled investments.

In FY 2021, the utility recorded a gain of $5.5 million in its fair market adjustment while it incurred a $16.1 million loss in FY 2020. Fair market adjustments, up and down, are caused by the impact of interest rate changes on fixed income securities.

Operating income of $80.4 million was up $12.6 million due to solid load growth of 2.7% and lower depreciation associated with the retirement of the Utility's coal unit. Partially offsetting the favorable variance was the non-recurrence of $8.7 million in FEMA reimbursements related to Hurricane Irma that were received in 2020.

Other financial highlights include:

- Debt service coverage of 387%. Well above our covenant requirement.
- Days Cash on Hand of 257 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 and Assistant Finance Director, Deidra Joseph, for their support throughout the process. We appreciate the assistance and cooperation of Crowe, LLP for their completion of the independent audit. Special recognition is given to the employees of the Fiscal Operations Department who worked diligently to ensure the timeliness and accuracy of this report. We also express our appreciation to our General Manager, Joel Ivy and to the Utility Committee for the continued leadership they provide to ensure that Lakeland Electric is affordable, dependable and sustainable.

Respectfully Submitted,

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

Brent McLain,
Interim Controller

STATISTICAL AND FINANCIAL DATA (Unaudited)

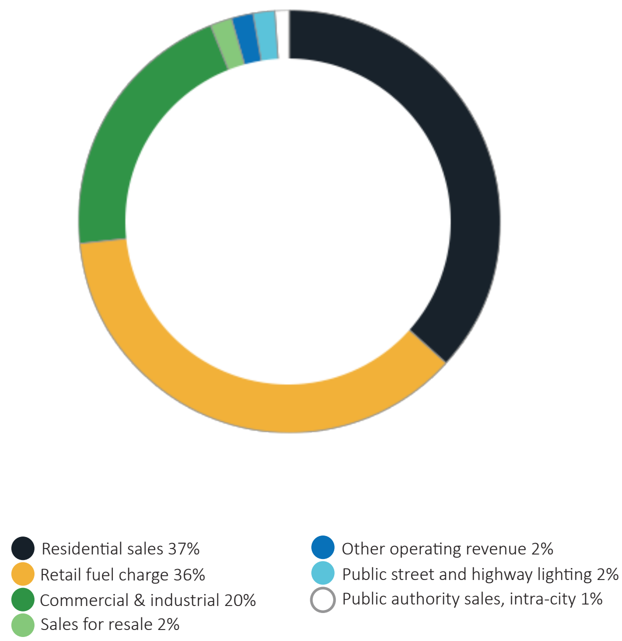
	FY2021	FY2020	Percent Incr/-Decr
Retail electric customers:			
Residential	114,966	112,240	2.4%
Commercial and Industrial	13,803	13,601	1.5%
Roadway and private area lights	8,526	8,520	0.1%
	137,295	134,361	2.2%
Number of employees (FTE's)	384	463	-17.1%
Electric plants	3	3	0.0%
Net normal generating capacity	718	950	-24.4%
Retail service territory (square miles)	246	246	0.0%
Substations	24	24	0.0%
Transmission lines (miles):			
69 KV	128	128	0.0%
230 KV	28	28	0.0%
Distribution lines (miles):			
Overhead	1,273	1,272	0.1%
Underground	751	732	2.6%
Retail sales (MWh)	3,251,208	3,165,831	2.7%
Average demand (MW)	376	369	1.9%
Summer peak (MW)	692	678	-2.5%
Winter peak (MW)	605	600	12.2%

	(Dollars in thousands)		Percent
	Current Year	Prior Year	Incr/-Decr
Retail sales of electricity	$ 197,619	$ 192,087	2.9%
Other retail revenue	5,544	5,509	0.6%
Retail fuel revenue	120,804	96,182	25.6%
Sales for resale	5,746	4,867	18.1%
Fuel and purchased power expenses	(125,551)	(101,536)	23.7%
Other operating expenses	(84,909)	(84,519)	0.5%
Depreciation expense (net)	(38,848)	(44,761)	-13.2%
Operating income	80,405	67,829	18.5%
Nonoperating revenue	12,879	(8,524)	-251.1%
Nonoperating expenses	(13,914)	(13,980)	-0.5%
Transfers to other funds	(32,884)	(32,557)	1.0%
Special Item	(46,417)	-	
Change in net position	$ 68	$ 12,768	-99.5%
Utility plant, net	$ 671,591	$ 702,266	-4.4%
Long-term bond debt, due beyond twelve months	$ 345,260	$ 364,920	-5.4%
Debt service coverage from operations	3.87	2.94	31.6%
Days cash (excluding restricted and sinking cash)	258	244	5.3%

OPERATING SUMMARY FY2021

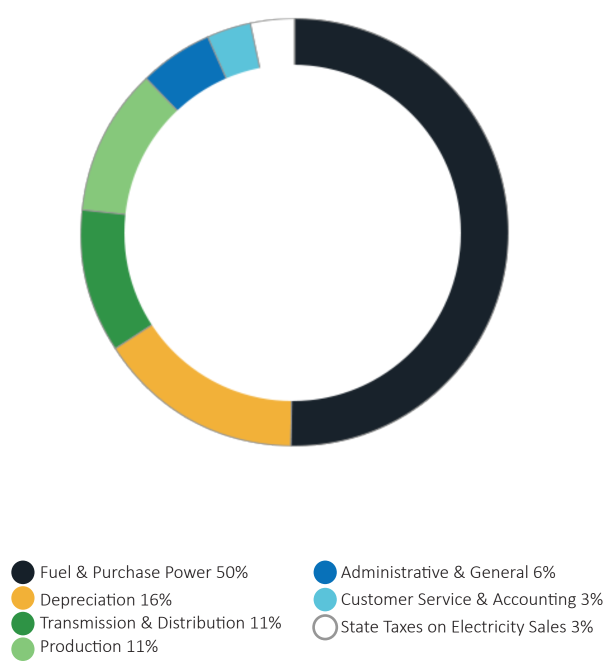
OPERATING REVENUE (in thousands)

Residential sales	$121,440
Retail fuel charges	120,804
Commercial & Industrial sales	67,606
Sales for resale	5,746
Other operating revenue	5,544
Public street and highway lighting	5,189
Public authority sales, intra-city	3,384
TOTAL	$329,713

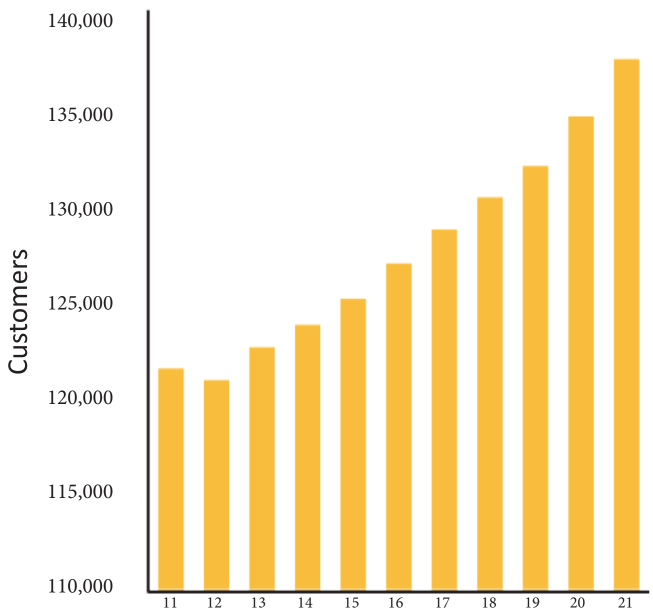


OPERATING EXPENSES (in thousands)

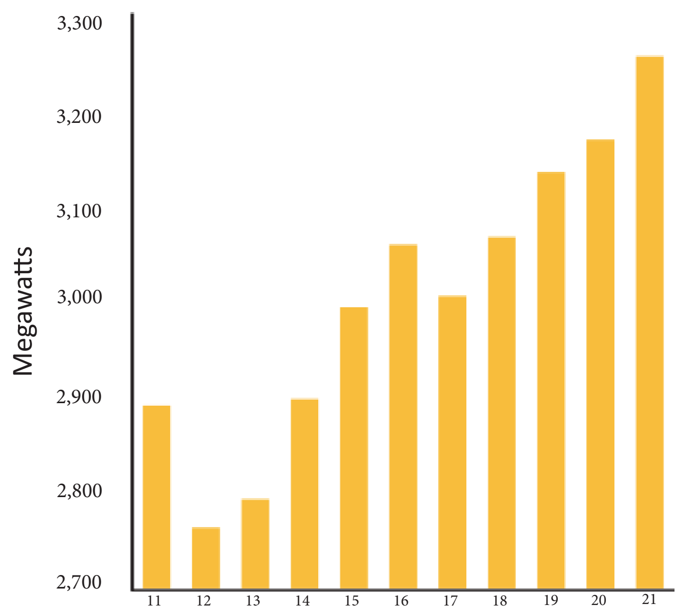
Fuel and Purchase Power	$125,551
Depreciation	38,848
Transmission & Distribution	27,540
Production	27,332
Administrative & General	14,047
Customer Service & Accounting	8,136
State Tax on Electric Sales	7,854
TOTAL	$249,308



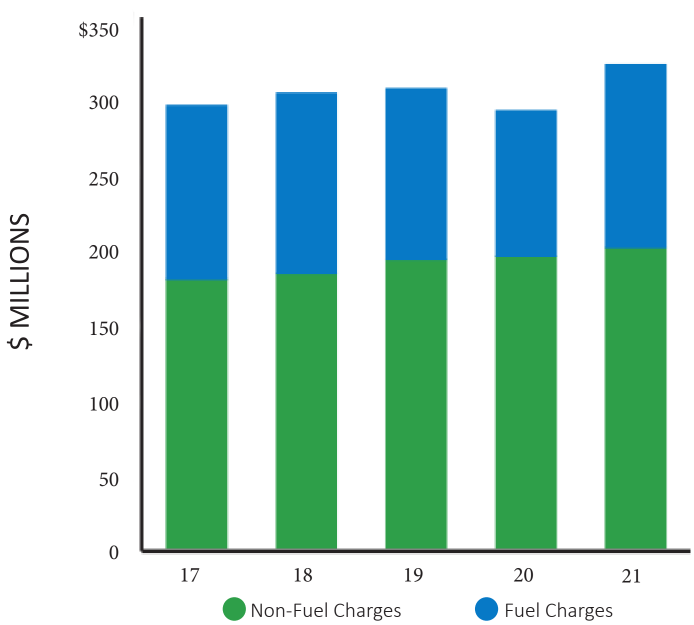
Retail Customer Count FY21 and Previous Ten Years



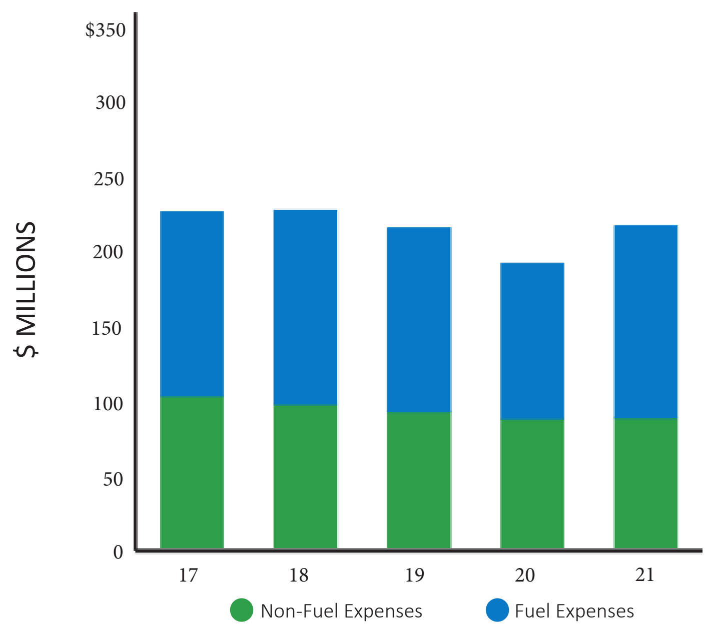
Net Retail Customer Load FY21 and Previous Ten Years



Retail Sales of Electricity FY21 and Previous Four Years



Operating Expenses FY21 and Previous Four Years



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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Electric Utilities (Department), of the City of Lakeland, Florida (City), as of and for the years ended September 30, 2021 and 2020, and the related notes to the 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, 2021 and 2020, 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, as of September 30, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance 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 City's net pension liability, schedule of Lakeland Electric's pension contributions, schedule of Lakeland Electric's proportionate share of the City's net OPEB liability, and schedule of Lakeland Electric's OPEB contributions on pages 11 through 15 and 77 through 79 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Department's financial statements as a whole. The Transmittal Letter and the Statistical and Financial Data are presented for purposes of additional analysis and are not a required part of the financial statements.

The Transmittal Letter and Statistical and Financial Data have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 11, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Tampa, Florida
April 11, 2022

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, 2021. 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, 2020 and the previous two fiscal years.

Condensed Statements of Net Position:

	Fiscal years ended September 30,		
(Dollars in thousands)	2021	2020	2019
Assets			
Current assets	$ 164,714	$ 152,014	$ 170,291
Utility plant, net	671,591	702,266	681,818
Other noncurrent assets	97,773	97,788	120,016
	934,078	952,068	972,125
Deferred outflows of resources	109,142	101,820	73,942
Liabilities			
Current liabilities	85,447	50,380	55,771
Noncurrent liabilities	497,154	557,682	543,970
	582,601	608,062	599,741
Deferred inflows of resources	94,414	79,689	92,957
Net position			
Net assets invested in capital assets, net of related debt	280,257	290,098	248,056
Restricted - capital improvement	-	-	16,648
Unrestricted	85,948	76,039	88,665
	$ 366,205	$ 366,137	$ 353,369

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

	Fiscal years ended September 30,		
(Dollars in thousands)	2021	2020	2019
Operating revenues			
Sales of energy - retail	$ 318,423	$ 288,269	$ 302,655
Sales of energy and capacity sales - wholesale	5,746	4,867	7,168
Other electric operating revenue	5,544	5,509	9,321
	329,713	298,645	319,144
Operating expenses			
Fuel and purchased power	125,551	101,536	120,231
Energy supply	27,332	29,658	29,155
Energy delivery	27,540	21,151	28,201
Customer service and accounting	8,136	8,894	8,610
State tax on electric sales	7,854	7,028	7,761
Administrative and general	14,047	17,788	15,415
Depreciation (net)	38,848	44,761	40,407
	249,308	230,816	249,780
Operating income	80,405	67,829	69,364
Non-operating activity			
Investment and other income	12,878	(8,524)	14,148
Interest and amortization expense	(13,914)	(13,980)	(16,062)
Net transfers (to) from other funds	(32,884)	(32,557)	(31,281)
Special item	(46,417)	-	-
Change in net position	$ 68	$ 12,768	$ 36,169

Net Position of Lakeland Electric

The net position of Lakeland Electric increase by $0.1 million during fiscal year 2021 compared to a $12.8 million increase in 2020 primarily reflecting the retirement of Lakeland Electric's coal-fired generating unit. Operating income was $80.4 million in 2021 compared to $67.8 million in the preceding year. The year-over-year increase in operating income is primarily attributable to lower depreciation associated with the retirement of the utility's coal generating unit, reduced non-fuel operating expenses and increased load partially offset by the non-recurrence of $8.7 million of FEMA reimbursements associated with Hurricane Irma.

Financial Highlights

- Lakeland Electric's 2021 non-fuel retail revenue was up $3.3 million from the previous year reflecting solid load growth of 2.7%. Residential load grew at 1.6% while commercial and industrial load grew 3.9% as the business sector recovered from the impact of the pandemic. Total year-over-year customer growth was 2.2%.

- Non-operating revenue increased by $21.4 million from the previous fiscal year. Investment revenue decreased $0.7 million. However, a $5.5 million favorable fair value adjustment on Lakeland Electric's share of the City's pooled investments was recognized in 2021, compared to an unfavorable adjustment of $16.1 recognized in the previous year. Fair value adjustments, up or down, are caused by the impact of interest rate changes on fixed income securities. Most of Lakeland Electric's investments are held through maturity.

- Lakeland Electric's non-fuel operating expenses, excluding gross receipts tax and depreciation, were down $0.4 million or 0.5% percent from $77.5 million in 2020 to $77.1 million in 2021. The favorable variance is primarily attributable to lower production, customer service and pension expenses, partially offset by the non-recurrence of $8.7 million of FEMA reimbursements recorded in 2020. Total operating expenses, excluding fuel, gross receipts tax and depreciation, averaged $23.70 per retail MWh in 2021, compared to $24.48 in 2020.

- Administrative and General expenses were $3.7 million below the previous year largely due to reduced pension costs.

- Fuel and purchased power expenses were up $24.0 million in 2021 primarily reflecting substantially higher natural gas prices.

- Lakeland Electric recovers fuel costs from retail customers in the form of a fuel charge that is subject to a quarterly revision based on a forecast of fuel costs for the following twelve months. As of September 30, 2021, the retail fuel charge was $40.00 per MWh, compared to $28.00 per MWh twelve months earlier. The fuel recovery balance represents, on an accrual basis, the cumulative difference between fuel expenses incurred to serve retail load and fuel revenues realized. Lakeland Electric began 2020 with a cumulative over-recovered fuel position of $23.3 million and ended the year at $22.7 million. The fuel reserve was over-funded to the extent of $3.9 million, for which a regulatory liability was recognized. See Note E, Regulatory Assets and Liabilities and Note S, Deferred Inflows of Resources – Fuel Reserve.

- Lakeland Electric recovers environmental compliance costs from retail customers in the form of an environmental compliance charge which is set annually, with the objective of achieving a zero cumulative recovery balance at the end of the subsequent budget year. Environmental compliance rates of $2.776 and $2.876 per MWh were in effect during 2020 and 2021, respectively. Lakeland Electric had a cumulative over-recovered environmental cost balance of $2.4 million, classified as a regulatory liability, as of the end of 2021. Based on sales and environmental compliance expense projections, a rate of $2.876 per MWh was recommended for 2022. See Note E.

Financial Highlights (continued)

- Lakeland Electric recovers energy conservation charges in a similar manner to environmental compliance charges. The conservation charge is currently a flat fee of $0.50 per month per customer. Lakeland Electric had a cumulative over-recovered energy conservation charge balance of $299 thousand, classified as a regulatory liability, as of the end of 2021. See Note E.

- Lakeland Electric provides a dividend at a rate of $9.96 per MWh to the City of Lakeland's General Fund in the form of monthly cash transfers. The total amount of the dividend in 2021 was $32.4 million, compared to $31.6 million in 2020.

Capital Assets

- Lakeland Electric has historically funded the cost of capital improvements through a combination of bond financing and cash generated from retail utility rates. Cash set aside from base rates provided funding for all capital spending during the year.

- Capital spending (net of contribution in aid of construction) totaled $49.0 million in 2021 compared to $47.1 million in 2020. Capital expenditures during 2021 included $30.7 million for energy supply projects, $17.4 million for energy delivery projects and $0.9 million for building improvements and equipment.

- Depreciation expense, net of amortization of contributions in aid of construction, was $42.6 million in 2021, down $5.9 million from 2020 reflecting the retirement of the utility's coal-fired generating unit.

- Lakeland Electric recorded contributions in aid of construction from outside the Department in the amount of $1.9 million during fiscal year 2021, compared to $2.2 million in 2020. 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, 2021 and 2020. Refer to Note H, Utility Plant, for more detailed information regarding utility plant assets.

	(In Thousands) September 30	
	2021	2020
Land	$ 16,081	$ 15,595
Construction in process	67,978	91,478
Buildings	6,155	6,598
Machinery and equipment	6,640	8,298
Electric transmission and distribution	331,427	332,879
Electric supply	243,310	247,417
	$ 671,591	$ 702,266

The total net dependable generating capacity of the production units owned by Lakeland Electric is 718 megawatts (MW). The most efficient unit in Lakeland Electric's fleet is McIntosh 5, a 398 MW combined cycle natural gas unit. McIntosh 3, a 342 MW coal-fired unit, jointly owned by Lakeland Electric and Orlando Utility Commission (OUC) was retired April 2021 due to economic reasons. Until new capacity is constructed and comes online, capacity and power previously provided by McIntosh 3 will be supplied through a 125 MW Power Purchase Agreement with OUC. In addition to its Power Purchase Agreement and 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 resources and transmission capacity to cover its projected load requirements for at least the next five years.

Long-Term Debt

As of September 30, 2021, Lakeland Electric had $327.3 million in net long-term bond debt outstanding compared to $345.8 million at the end of 2020, as shown in the table below. The current portion of the long-term debt is paid on the first day of the subsequent fiscal year (October 1st). Refer to Note L, Revenue Bonds, for more detailed information regarding long-term debt.

	(In Thousands) September 30	
	2021	2020
Electric System Revenue Bonds:		
Series 2010	$ 99,025	$ 103,720
Series 2016	117,285	122,055
Series 2017	88,205	95,205
Series 2018	41,315	43,945
	345,830	364,925
Less Current Portion	(18,540)	(19,095)
	$ 327,290	$ 345,830

As indicated in Note L (Revenue Bonds), the coverage on bonded debt of Lakeland Electric for 2021 was 3.87 times the annual debt service requirement for the fiscal year ended 2021. Lakeland Electric is not obligated to fund a Debt Service Reserve Fund, provided that "net revenues" equal or exceed 150 percent of the bond service requirement for each year.

Based on debt service requirements and forecasted revenues and expenses, debt service coverage is expected to remain greater than 2 times the annual debt service requirement in fiscal year 2022.

In 2020, the City of Lakeland issued its Florida Taxable Pension Liability Note, Series 2020, for purposes of reducing the unfunded liabilities in the City's three pension plans. The note is secured by a pledge to budget and appropriate non-ad valorem revenues of the City. The City allocated the liability to each fund according to the fiscal year 2020 pension contributions of each department. Lakeland Electric's share of the liability was 35.34% or $20,378,522. As of September 30, 2021, the balance of the Pension Liability Bond is $19,090,309 with a current portion payable of $1,120,819 (See Note M). This debt is not included in Lakeland Electric's Debt Service Coverage calculation; however, the expenses are included as part of the calculation.

Lakeland Electric sets aside apportioned funds to meet its current debt service requirements (see Note F, Asset Apportionments).

Economic Factors

- The average demand for energy placed on the system from retail customers during Fiscal Year 2021 was 376 MW, compared to 369 MW during the previous year. The peak demand during the winter was 605 MW on February 4, 2021 and a summer peak demand of 692 MW was reached on August 18, 2021. Lakeland Electric expects to see a growth of approximately 1.2 percent in the retail customer base during fiscal year 2022. Lakeland Electric's ten largest customers account for less than 20 percent of revenue and well over half of the annual revenue comes from residential customers.

- The bond ratings services of Fitch Ratings™, Moody's™, and Standard & Poors™ have assigned long-term ratings of AA, Aa3, and AA, respectively, to Lakeland Electric's energy system bonds.

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

- Lakeland Electric's rates, among all customer classes, have consistently been among the lowest in Florida for many years. Residential rates at September 2021 were the sixth lowest of any municipal and investor-owned electric utility in the state.

- Days cash is a key financial metric used as a measure of liquidity, essential for maintaining strong bond ratings. An internal goal of Lakeland Electric is to maintain 180 days of operating cash. At the end of 2021, Lakeland Electric had 258 days of cash compared to 244 in the previous fiscal year.

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

Using This Annual Report

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

LAKELAND ELECTRIC
POWERED FOR LIFE

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

	September 30 2021	September 30 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 62,888,748	$ 39,537,975
Accounts receivable	50,192,758	42,285,065
Less allowance for uncollectibles	(927,697)	(861,408)
Prepaid expenses	389,508	65,411
Inventories	24,614,700	38,434,342
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	18,540,000	19,095,000
Current Portion Pension Bonds Payable	1,120,819	1,288,124
Accrued interest payable	6,689,793	6,814,291
Accounts payable	969,134	5,066,620
Accrued liabilities	216,514	258,442
Restricted assets (cash and equivalents) set aside for		
Accounts payable	-	3,734
Accrued liabilities	20,216	26,575
Total current assets	164,714,493	152,014,171
NONCURRENT ASSETS		
Asset apportionments (including $83,071,791 and $79,461,629 of cash and cash equivalents in 2021 and 2020, respectively).	83,091,704	84,092,104
Restricted assets (including $13,604,353 and $12,449,088 of cash and cash equivalents in 2021 and 2020, respectively).	13,811,136	12,643,703
Utility plant		
Land	16,081,126	15,595,265
Construction in progress	67,977,590	91,477,687
Utility plant, facilities & equipment in service	1,144,686,197	1,445,692,273
Less accumulated depreciation	(557,153,676)	(850,499,723)
Total utility plant, net	671,591,237	702,265,502
OTHER ASSETS		
Regulatory assets	869,896	1,051,978
Total Assets	934,078,466	952,067,458
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding of bond debt	18,640,249	21,386,168
Unrealized loss on hedges	33,613,295	2,424,901
Hedge derivative outflows	30,409,827	39,933,744
Deferred outflows of resources related to pensions	4,512,170	27,159,970
Deferred outflows of resources related to OPEB	20,409,660	9,333,710
Asset retirement obligation outflows	1,556,638	1,581,521
Total deferred outflows of resources	109,141,839	101,820,014

See accompanying notes to financial statements

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

	September 30	
	2021	2020
LIABILITIES		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	$ 20,344,747	$ 12,876,145
Accrued liabilities	4,423,039	4,231,497
Fuel Hedges	33,123,145	719,751
Liabilities payable from apportioned assets		
Accrued interest payable	6,689,793	6,814,291
Current portion of bonds payable	18,540,000	19,095,000
Current portion pension bonds payable	1,120,819	1,288,124
Accounts payable	969,134	5,066,620
Accrued liabilities	216,514	258,442
Liabilities payable from restricted assets		
Accounts payable	-	3,734
Accrued liabilities	20,216	26,575
Total current liabilities	85,447,407	50,380,179
OTHER LIABILITIES		
Restricted liabilities	13,811,136	13,650,322
Regulatory liabilities	7,234,966	6,434,916
Interest rate swaps	30,409,827	39,933,744
Accrued liabilities, less current portion	3,430,662	4,198,513
Net OPEB liability	52,183,441	59,089,390
Net pension liability	21,915,494	43,759,627
Asset retirement obligation	1,757,691	1,742,100
Revenue bonds payable, less current portion	327,290,000	345,830,000
Pension bonds payable, less current portion	17,969,579	19,090,398
Unamortized bond premium	21,150,576	23,952,467
Total other liabilities	497,153,372	557,681,477
Total liabilities	582,600,779	608,061,656
DEFERRED INFLOWS OF RESOURCES		
Unamortized contributions in aid of construction	43,863,472	45,727,693
Fuel reserve	18,792,634	18,992,075
Deferred inflows of resources related to pensions	2,361,022	3,672,215
Deferred inflows of resources related to OPEB	29,172,437	11,296,843
Deferred inflows of resources related to CIAC	224,951	-
Total deferred inflows of resources	94,414,516	79,688,826
NET POSITION		
Net investment in capital assets	280,257,334	290,098,485
Unrestricted	85,947,676	76,038,505
	$ 366,205,010	$ 366,136,990

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, 2021	Year ended September 30, 2020
OPERATING REVENUES		
Sales of energy - retail	$ 318,422,889	$ 288,269,376
Sales of energy and capacity sales - wholesale	5,745,751	4,866,507
Other electric operating revenue	5,544,384	5,509,335
Total operating revenues	329,713,024	298,645,218
OPERATING EXPENSES		
Fuel and purchased power	125,550,619	101,535,736
Energy supply	27,331,547	29,658,121
Energy delivery	27,540,263	21,151,408
Customer service	8,135,647	8,893,604
State tax on electric sales	7,854,437	7,027,900
Administrative and general	14,048,052	17,787,598
Total operating expenses	210,460,565	186,054,367
OPERATING INCOME BEFORE DEPRECIATION	119,252,459	112,590,851
Depreciation expense	(42,581,188)	(48,438,446)
Depreciation - contributions in aid of construction	3,733,361	3,676,849
OPERATING INCOME	80,404,632	67,829,254
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less $0 and $289,396 capitalized in 2021 and 2020, respectively)	5,778,223	6,436,378
Net increase (decrease) in the fair value of cash equivalents	5,478,462	(16,051,118)
Miscellaneous revenue	1,621,857	1,090,504
Interest expense (less $3,128,869 and $3,482,865 capitalized in 2021 and 2020, respectively)	(13,745,639)	(13,801,788)
Amortization expense	(168,583)	(178,007)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,035,680)	(22,504,031)
INCOME BEFORE DIVIDENDS AND TRANSFERS	79,368,952	45,325,223
DIVIDEND TO GENERAL FUND	(32,438,947)	(31,588,683)
TRANSFERS TO OTHER FUNDS	(445,369)	(968,757)
SPECIAL ITEM	(46,416,616)	-
CHANGE IN NET POSITION	68,020	12,767,783
NET POSITION, beginning of year	366,136,990	353,369,207
NET POSITION, end of year	$ 366,205,010	$ 366,136,990

See accompanying notes to financial statements

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

	Year ended September 30	
	2021	2020
Cash flows from operating activities:		
Receipts from customers	$ 324,454,305	$ 300,287,859
Payments for interfund services	(13,343,312)	(14,027,136)
Payments to suppliers	(125,482,592)	(148,029,759)
Payments to employees	(47,692,143)	(41,123,933)
Net cash provided by operating activities	137,936,258	97,107,031
Cash flows used in noncapital financing activities:		
Interest paid on meter deposits	(586,734)	(689,132)
Operating transfers to other funds	(32,884,316)	(32,557,440)
Proceeds from issuance of pension liability note	-	20,378,522
Payments and maturities on pension obligation bonds	(1,288,124)	-
Interest paid on pension obligation bond	(511,821)	-
Cash flows used in noncapital financing activities	(35,270,995)	(12,868,050)
Cash flows used in capital financing activities:		
Interest paid on long-term debt issued to finance capital assets	(16,015,261)	(16,863,228)
Payments on and maturities of long-term debt	(19,095,000)	(20,195,000)
Debt issue costs	(2,801,891)	(2,936,001)
Purchase of capital assets	(52,889,907)	(69,040,853)
Cash flows used in capital financing activities:	(90,802,059)	(109,035,082)
Cash flows provided by (used in) investing activities:		
Investment revenue	5,778,223	6,725,774
Net increase (decrease) in the fair value of cash equivalents	5,478,462	(16,051,118)
Cash flows provided by (used in) investing activities	11,256,685	(9,325,344)
Net increase (decrease) in cash and cash equivalents	23,119,889	(34,121,445)
Cash and cash equivalents, beginning of year	164,001,479	198,122,924
Cash and cash equivalents, end of year	$ 187,121,368	$ 164,001,479
Classified as:		
Current	$ 62,888,748	$ 39,537,975
Apportioned	110,608,051	111,984,106
Restricted	13,624,569	12,479,397
Total	$ 187,121,368	$ 164,001,478

See accompanying notes to financial statements

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

	Year ended September 30	
	2021	2020
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	$ 80,404,632	$ 67,829,254
Depreciation	42,581,188	48,438,446
Depreciation - contributions in aid of construction	(3,733,361)	(3,676,849)
Miscellaneous revenue	1,621,857	1,090,504
Decrease (increase) in receivables, net	(7,841,404)	4,043,260
Decrease (increase) in inventory	13,819,642	599,664
Decrease (increase) in prepaid expenses	(324,097)	543,308
Decrease (increase) in regulatory assets	182,082	189,360
(Increase) decrease in deferred outflows related to pensions	25,393,719	(16,429,165)
(Increase) decrease in deferred outflows related to OPEB	(11,075,950)	(2,784,382)
Decrease (increase) in fair value of derivatives	1,215,000	538,956
(Decrease) increase in accounts payable	7,468,602	(3,822,370)
(Decrease) increase in accrued liabilities	(576,307)	(5,185)
(Decrease) increase in regulatory liabilities	600,609	(4,007,304)
Increase (decrease) in deposits payable	160,778	413,315
Increase (decrease) in net pension liability	(21,844,133)	6,405,989
(Decrease) increase deferred inflows of resources related to pensions	(1,311,193)	(6,174,206)
(Decrease) increase deferred inflows of resources related to OPEB	17,875,592	(3,282,821)
(Decrease) increase deferred inflows of resources related to CIAC	224,951	-
(Decrease) increase in net OPEB liability	(6,905,949)	7,197,257
Net cash used in operating activities	$ 137,936,258	$ 97,107,031
Noncash investing, capital, or financing activities:		
Capitalized interest expense	$ 3,128,869	$ 3,482,865
Less capital interest revenue	-	(289,396)
	$ 3,128,869	$ 3,193,469

See accompanying notes to financial statements

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting:

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

Regulatory Accounting:

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

Cash and Cash Equivalents:

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

Receivables:

Lakeland Electric bills customers monthly on a cyclical basis. Lakeland Electric has recognized, in its receivables, an estimated amount for services rendered but not yet billed as of September 30, 2021 and 2020, respectively. An estimate of uncollectible accounts is recognized based upon historical experience.

Inventories and Prepaid Items:

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

Restricted and Apportioned Assets:

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

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

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

Routine maintenance and repairs, including additions and improvements of less than $2,500 are charged to operating expense as incurred. Individual equipment items with a cost of $5,000 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 3.7 percent and 3.4 percent in 2021 and 2020, respectively. Depreciation expense was lower in fiscal year 2021 due to the retirement of McIntosh Unit 3 during the year. 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. On January 19, 2021 the Lakeland City Commission voted to retire McIntosh Unit 3, Lakeland Electrics coal fired unit. Unit 3 ceased operations for commercial availability on April 4, 2021 after burning substantially all remaining coal inventory. Per GASB Statement No. 42, closing Unit 3 prior to the end of its useful life, resulted in an impairment loss of $46.4 million. Due to the unusual nature and infrequency of occurrence, Lakeland Electric elected to report this impairment loss as a Special Item per GASB Statement No. 62.

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.

Lakeland Electric also receives refundable payments from developers based upon a number of lots. The contributions are fully refundable if the developer meets certain occupancy percentages within a three-year period.

Deferred Outflows/Inflows of Resources:

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

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Unpaid Vacation and Sick Pay:

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

Derivatives and Interest Rate Swap Agreements:

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

Due to/from Other Funds:

Amounts receivable from or payable to other funds in the City of Lakeland are reflected in the accounts of the fund until liquidated by payment or authorized inter-fund transactions. Lakeland Electric had no amounts due to or receivable from other funds of the City of Lakeland as of September 30, 2021 or 2020.

Operating/Non-operating Revenue:

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

Use of Estimates:

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

Amortization:

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

Transfers to/From Other Funds:

Lakeland Electric accounts for subsidy payments to other funds as transfers to other funds in the Statements of Revenues, Expenses and Changes in Net Position. A dividend is paid to the General Fund at a rate of $9.96 per MWh. Lakeland Electric distributed annual transfers to the City of Lakeland as follows:

	September 30, 2021	September 30, 2020
Annual dividend to the City of Lakeland	$ 32,438,947	$ 31,588,683
Transfer to Other Funds	445,369	968,757
	$ 32,884,316	$ 32,557,440

Other Significant Accounting Policies:

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

NOTE B – ACCOUNTING AND REPORTING CHANGES

New Accounting Pronouncements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. However, in light of the COVID-19 pandemic, GASB 95 postponed the effective date to reporting periods beginning after December 15, 2019. However, implementation of GASB 84 had no effect on the financial statements of Lakeland Electric.

In June, 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Management has determined that this GASB statement will be implemented for the fiscal period ending September 30, 2022.

In June, 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. It also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management has determined that this GASB statement will be implemented for the fiscal period ending September 30, 2022.

In August, 2018, the GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. However, implementation of GASB 90 had no effect on the financial statements of Lakeland Electric for the period ending September 30, 2021.

NOTE B – ACCOUNTING AND REPORTING CHANGES (continued)

In May, 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2023.

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

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning December 15, 2021.
- The requirements related to application of Statement 84 post-employment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning June 15, 2021.
- The requirement related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for the government acquisitions occurring in reporting periods beginning December 15, 2021.

Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2022.

In March, 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. Some government entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR). Most notably, the London Interbank Offered Rate (LIBOR). Because of global reference rate reform, LIBOR is expected to cease to exist in its current form as the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provision related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications from the result from the replacement of IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended

NOTE B – ACCOUNTING AND REPORTING CHANGES (continued)

The removal of LIBOR as an appropriate benchmark interest rate is effective for the reporting period ending after December 31, 2021. Lease modifications exceptions for certain lease contracts that are amended to replace and IBOR is effective for the period after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2022 for LIBOR no longer being an appropriate benchmark interest rate and lease modifications. All other requirements of this Statements have been implemented for the financial statements ending September 30, 2021.

In March, 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). A PPP arrangement, as used in this Statement, is when a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of a service concession arrangement (SCA) or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2023.

In May, 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this Statement are to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Management has not determined what impact, if any, this GASB statement might have on its financial statements ending September 30, 2023.

In June, 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statements are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of (a) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (b) paragraph 5 of this Statement are effective immediately. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Management has determined that this GASB Statement will be implemented for the fiscal year ending September 30, 2022.

NOTE B – ACCOUNTING AND REPORTING CHANGES (continued)

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report.* The objective of this Statement is to establish the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of the Statement are effective for fiscal years ending after December 15, 2021. Management has implemented this GASB Statement for the fiscal period ending September 30, 2021.

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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 Annual Comprehensive Financial Report 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, 2021 was $23,897,211. The carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was $26,901,277.

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 Annual Comprehensive Financial Report of the City of Lakeland. Credit risk is the risk of loss due to the failure of the security issuer or other counterparty. The City of Lakeland's investment policy minimizes credit risk by limiting investments in securities that have higher credit risks, pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Lakeland Electric's cash consisted of equity in pooled investments in the amounts of $163,224,157 and $137,100,200 for September 30, 2021 and September 30, 2020, respectively. Lakeland Electric has elected to pool its cash with the City of Lakeland. At September 30, 2021, Lakeland Electric held a 30% interest in the investments of the pool compared to a 30% interest in the previous year. For additional information on the assets held by the pool, refer to Note 3 in the City of Lakeland's Annual Comprehensive Financial Report.

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

As of September 30, 2021, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Market	%
AAA	$ 5,452,847	3.34%
AA+ to AA-	35,160,023	21.54%
A+ to A-	27,861,182	17.07%
BBB+ to BBB-	19,184,916	11.75%
BB+ to BB-	2,772,930	1.70%
Below BB-	6,838,075	4.19%
NR	65,954,184	40.41%
	$ 163,224,157	100.00%
Moody's Rating:		
Aaa	$ 37,917,219	23.23%
Aa1 to Aa3	20,935,977	12.83%
A1 to A3	7,709,139	4.72%
Baa1 to Baa3	25,579,304	15.66%
Ba1 to Ba3	4,093,059	2.51%
Below Ba3	6,639,854	4.07%
NR	60,349,604	36.97%
	$ 163,224,156	100.00%

Concentration of Credit Risk:

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

The City of Lakeland's overall investment policy concentration limits and actual concentration limits in investment types as of September 30, 2021 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	10.00%
Local Government Investment Pools	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	20.30%
Asset Backed Securities	25%	38.20%
High Grade Corporate Debt & CP	25%	19.50%
State and Local Government Obligations*	25%	5.80%
Collateralized Repurchase Agreements	15%	0.00%
Certificates of Deposits	10%	0.00%
Other Investment Pools (rated "A" or better)	10%	6.20%
*Except as provided for in section IV.7.b		100.00%

The Asset Backed Securities exceeded the maximum percentage temporarily as investment policy provides discretion for temporary variances, such as due to market changes. No investments in a single security exceeded 5 percent of the fixed income portfolio.

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

As of September 30, 2020, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Market	%
AAA	$ 2,902,110	2.12%
AA+ to AA-	24,421,573	17.81%
A+ to A-	24,994,133	18.23%
BBB+ to BBB-	21,188,408	15.45%
BB+ to BB-	6,808,645	4.97%
Below BB-	5,952,518	4.34%
NR	50,832,813	37.08%
	$ 137,100,200	100.00%
Moody's Rating:		
Aaa	$ 25,869,344	18.87%
Aa1 to Aa3	16,505,868	12.04%
A1 to A3	9,155,622	6.68%
Baa1 to Baa3	29,951,497	21.85%
Ba1 to Ba3	8,168,314	5.96%
Below Ba3	6,192,531	4.52%
NR	41,257,024	30.08%
	$ 137,100,200	100.00%

Concentration of Credit Risk:

The City of Lakeland's overall investment policy concentration limits and actual concentration limits in investment types as of September 30, 2020 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	10.00%
Local Government Investment Pools	100%	0.00%
Federal Agency & Instrumentality Obligations	100%	20.30%
Asset Backed Securities	25%	38.20%
High Grade Corporate Debt	25%	19.50%
State and Local Government Obligations*	25%	5.80%
Collateralized Repurchase Agreements	15%	0.00%
Certificates of Deposits	10%	0.00%
Other Investment Pools (rated "A" or better)	10%	6.20%
*Except as provided for in section IV.7.b		100.00%

The Asset Backed Securities exceeded the maximum percentage temporarily as investment policy provides discretion for temporary variances, such as due to market changes. No investments in a single security exceeded 5 percent of the fixed income portfolio.

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

As of September 30, 2021 and 2020, the fair value of the total investment pool of the City of Lakeland and Lakeland Electric's share of the pool was as follows:

		Reported Amount Fair Value
As of September 30, 2021:		
Total Investment Pool	$	543,654,012
Lakeland Electric's Share of the Investment Pool	$	163,224,157
As of September 30, 2020:		
Total Investment Pool	$	456,836,886
Lakeland Electric's Share of the Investment Pool	$	137,100,200

As of September 30, 2021 and 2020, other amounts classified as cash equivalents and investments are as follows:

	September 30			
		2021		2020
Demand deposits	$	23,896,336	$	26,900,402
Petty cash		875		875
	$	23,897,211	$	26,901,277

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

	September 30			
		2021		2020
Current assets:				
Cash and cash equivalents	$	62,888,748	$	39,537,975
Asset Apportionments:				
Cash and cash equivalents		86,182,911		85,132,639
Cash with paying agent		24,425,140		26,851,466
Restricted assets:				
Cash and cash equivalents		13,624,569		12,479,397
	$	187,121,368	$	164,001,477

NOTE D - INVENTORIES

The major classes of inventory consist of the following:

	September 30, 2021	September 30, 2020
Fuel oil	$ 2,319,034	$ 2,500,893
Coal	-	10,857,476
Limestone	40,461	77,427
Spare parts	22,255,205	24,998,546
	$ 24,614,700	$ 38,434,342

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, 2021	September 30, 2020
Unamortized balance, beginning of year	$ 1,051,978	$ 1,241,338
Additions	-	-
Less: amortization	(182,082)	(189,360)
Unamortized balance, end of year	$ 869,896	$ 1,051,978

Environmental compliance, energy conservation and economic development charges:

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

Environmental compliance charge recovery	September 30, 2021	September 30, 2020
(Liability) balance, beginning of year	$ (1,624,147)	$ 55,386
Charges recovered through rates	9,388,743	8,901,886
Less environmental compliance expenses	8,647,463	7,222,353
(Liability) balance, end of year	$ (2,365,427)	$ (1,624,147)

Energy conservation charges recovery	September 30, 2021	September 30, 2020
(Liability) asset balance, beginning of year	$ (110,826)	$ 10,890
Charges recovered through rates	765,633	749,626
Less energy conservation charges	577,256	627,910
(Liability) balance, end of year	$ (299,203)	$ (110,826)

NOTE E – REGULATORY ASSETS AND LIABILITIES (CONTINUED)

	September 30,	
Economic development charges recovery	2021	2020
(Liability) asset balance, beginning of year	$ (436,747)	$ (227,050)
Charges recovered through rates	250,000	250,000
Less economic development costs	16,363	40,303
(Liability) balance, end of year	$ (670,384)	$ (436,747)

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) and is calculated as follows:

	September 30,	
	2021	2020
Fuel reserve balance	$ 18,792,634	$ 18,992,075
Less cumulative over-recovery of fuel charges	22,692,586	23,255,271
(Liability) balance	$ (3,899,952)	$ (4,263,196)

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

	September 30,	
Regulatory assets:	2021	2020
Unamortized debt issuance costs	$ 869,896	$ 1,051,978

	September 30,	
Regulatory liabilities:	2021	2020
Environmental compliance charges	$ 2,365,427	$ 1,624,147
Energy conservation charges	299,203	110,826
Economic development charges	670,384	436,747
Fuel charges	3,899,952	4,263,196
	$ 7,234,966	$ 6,434,916

NOTE F – ASSET APPORTIONMENTS

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

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

The Emergency Repair Fund is intended to fund large unbudgeted expenditures such as would be required for restoration from damage caused by a storm disaster. During fiscal year 2021, the Emergency Repair Fund recovered $0.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2021 and 2020 consist of the following:

September 30, 2021:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	$ 4,338,829	$ 66,533,031	$ 15,311,050	$ 86,182,911
Cash with paying agent/trustee	24,425,140	-	-	24,425,140
Accounts receivable	-	19,914	-	19,913
Accrued receivable	-	-	-	-
Asset apportionments	$ 28,763,969	$ 66,552,945	$ 15,311,050	$ 110,627,964
Accounts Payable	$ -	$ 969,134	$ -	$ 969,134
Accrued Expenses	-	216,514	-	216,514
Accrued interest payable	6,689,793	-	-	6,689,793
Current portion of long-term debt	19,660,819	-	-	19,660,819
Liabilities payable from apportioned assets, due within twelve months	$ 26,350,612	$ 1,185,648	$ -	$ 27,536,260

September 30, 2020:	Debt Service Sinking	Capital Expansion	Emergency Repair	Total
Cash and cash equivalents	$ 1,739,291	$ 72,407,108	$ 10,986,240	$ 85,132,639
Cash with paying agent/trustee	26,851,466	-	-	26,851,466
Accounts receivable	-	1,248,953	(5,493)	1,243,460
Accrued receivable	-	-	3,387,016	3,387,016
Asset apportionments	$ 28,590,757	$ 73,656,061	$ 14,367,763	$ 116,614,581
Accounts payable	$ -	$ 5,059,385	$ 7,235	$ 5,066,620
Accrued expenses	-	258,442	-	258,442
Accrued interest payable	6,814,291	-	-	6,814,291
Current portion of long-term debt	20,383,124	-	-	20,383,124
Liabilities payable from apportioned		-		
assets, due within twelve months	$ 27,197,415	$ 5,317,827	$ 7,235	$ 32,522,477

NOTE G - RESTRICTED ASSETS

The Reserve for Customer Deposits, which is completely offset by a liability payable from restricted assets reserves, 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).

Lakeland Electric's total restricted assets and restricted liabilities, as of September 30, 2021 and 2020 consist of the following:

September 30, 2021:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	$ 13,573,705	$ 50,864	$ -	$ 13,624,569
Accounts receivable	-	206,783	-	206,783
Restricted assets	$ 13,573,705	$ 257,647	$ -	$ 13,831,352
Accounts payable	$ -	$ -	$ -	$ -
Accrued expenses	-	-	-	-
Accrued interest payable	20,216	-	-	20,216
Advances	-	250,000	-	250,000
Customer deposits	13,561,136	-	-	13,561,136
Restricted liabilities, due within twelve months	$ 13,581,352	$ 250,000	$ -	$ 13,831,352

September 30, 2020:	Customer Deposits	Block Grant	Bond Proceeds	Total Restricted
Cash and cash equivalents	$ 12,422,224	$ 57,173	$ -	$ 12,479,397
Accounts receivable	-	194,615	-	194,615
Restricted assets	$ 12,422,224	$ 251,788	$ -	$ 12,674,012
Accounts Payable	$ -	$ -	$ 3,734	$ 3,734
Accrued expenses	-	-	(1,220)	(1,220)
Accrued interest payable	27,795	-	-	27,795
Advances	-	250,000	-	250,000
Customer deposits payable	13,400,322	-	-	13,400,322
Restricted liabilities, due within twelve months	$ 13,428,117	$ 250,000	$ 2,514	$ 13,680,631

NOTE H - UTILITY PLANT

Utility plant in service consists of the following:

Fiscal year 2021:	September 30, 2020	Additions	Deletions	September 30, 2021
Non-depreciable assets:				
Land	$ 15,595,265	$ 485,861	$ -	$ 16,081,126
Construction in progress	91,477,687	40,543,833	64,043,930	67,977,590
	107,072,952	41,029,694	64,043,930	84,058,716
Depreciable assets:				
Buildings	26,963,223	888,435	-	27,851,658
Machinery and equipment	23,067,503	456,433	1,863,583	21,660,353
Electric plants in service:				
Electric delivery	589,284,816	15,107,762	2,402,787	601,989,791
Electric supply	806,376,731	60,601,792	373,794,131	493,184,392
Total plant assets	1,445,692,273	77,054,422	378,060,501	1,144,686,194
Less Accumulated Depreciation:				
Buildings	20,365,333	1,331,623	-	21,696,956
Machinery and equipment	14,769,121	2,087,228	1,836,589	15,019,760
Electric plants in service:				
Electric delivery	256,405,541	16,242,329	2,085,189	270,562,681
Electric supply	558,959,728	22,920,008	332,005,460	249,874,276
Total plant assets	850,499,723	42,581,188	335,927,238	557,153,673
Total Utility plant net of accumulated depreciation	$ 702,265,502	$ 75,502,928	$ 106,177,193	$ 671,591,237

NOTE H - UTILITY PLANT (CONTINUED)

Fiscal year 2020:	September 30, 2019	Additions	Deletions	September 30, 2020
Non-depreciable assets:				
Land	$ 15,595,265	$ -	$ -	$ 15,595,265
Construction in progress	65,223,409	42,930,510	16,676,232	91,477,687
	80,818,674	42,930,510	16,676,232	107,072,952
Depreciable assets:				
Buildings	27,587,066	177,689	801,532	26,963,223
Machinery and equipment	23,052,386	477,137	462,020	23,067,503
Equipment under capital leases	-	-	-	-
Electric plants in service:				
Electric delivery	572,042,936	19,295,791	2,053,911	589,284,816
Electric supply	782,926,301	23,514,882	64,452	806,376,731
Total plant assets	1,405,608,689	43,465,499	3,381,915	1,445,692,273
Less Accumulated Depreciation:				
Buildings	18,731,183	1,677,401	43,251	20,365,333
Machinery and equipment	13,057,671	2,068,002	356,552	14,769,121
Equipment under capital leases	-	-	-	-
Electric plants in service:				
Electric delivery	242,893,948	15,565,503	2,053,910	256,405,541
Electric supply	529,926,790	29,127,539	94,601	558,959,728
Total plant assets	804,609,592	48,438,445	2,548,314	850,499,723
Total Utility plant net of accumulated depreciation	$ 681,817,771	$ 37,957,564	$ 17,509,833	$ 702,265,502

Allowance for Funds Used During Construction:

In accordance with GASB guidance regarding capitalized interest, Lakeland Electric has adopted the policy of capitalizing net interest costs on funds used for the construction of fixed assets. As required by the provisions of the related accounting guidance, interest charges are capitalized as part of capital costs during acquisition or construction of capital assets provided that Lakeland Electric has any outstanding debt. Interest earnings on borrowed funds, if any, are also capitalized.

	September 30 2021	September 30 2020
Interest cost on bonds was reduced by amounts capitalized as follows:		
Total interest expense on bonds payable	$ 16,277,774	$ 16,585,021
Capitalized interest revenue	-	289,396
Less capitalized interest expense	(3,128,869)	(3,482,865)
	$ 13,148,905	$ 13,391,552

NOTE I - UTILITY PLANT PARTICIPATION AGREEMENT

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

The City has operational control of this project and accounts for its undivided ownership interest based on its pro-rata share of the project's construction costs and operating expenses. Total capital costs related to renewal and replacement of Unit 3 were $149,505 with a Lakeland Electric share of $89,703 and an OUC share of $59,802 in fiscal year 2021. Total capital costs were $12,333,171 with a Lakeland Electric share of $7,399,903 and an OUC share of $4,933,268 in fiscal year 2020. Shared operating expenses for the fiscal years ending September 30, 2021 and 2020, were as follows:

Fiscal year 2021	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	$ 22,784,024	$ 15,189,349	$ 37,973,373
McIntosh unit #3 direct operating & maintenance expenses	6,235,024	4,156,683	10,391,707
Other shared operating and administrative expenses	4,860,933	3,240,622	8,101,555
	$ 33,879,981	$ 22,586,654	$ 56,466,635

Fiscal year 2020	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	$ 15,791,205	$ 10,527,470	$ 26,318,675
McIntosh unit #3 direct operating & maintenance expenses	8,755,169	5,836,779	14,591,948
Other shared operating and administrative expenses	5,982,792	3,988,528	9,971,320
	$ 30,529,166	$ 20,352,777	$ 50,881,943

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

Unit 3 was decommissioned in FY21. For more information regarding the decommissioning of Unit 3, see Note W.

NOTE J – DEFERRED OUTFLOWS OF RESOURCES

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

	September 30	
	2021	2020
Unamortized loss on refunding of debt, beginning balance	$ 21,386,168	$ 24,254,970
Amortization	(2,745,919)	(2,868,802)
	18,640,249	21,386,168
Fuel hedges (See Note R)	33,613,295	2,424,901
Interest rate swaps (See Note R)	30,409,827	39,933,744
Pension related (see Note N)	4,512,170	27,159,970
OPEB related (see Note P)	20,409,660	9,333,710
Asset retirement obligation outflow	1,556,638	1,581,521
Total deferred outflows of resources	$ 109,141,839	$ 101,820,014

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NOTE K – ACCRUED LIABILITIES AND LONG-TERM DEBT

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

	September 30 2021	September 30 2020
Current:		
Accrued taxes payable	$ 865,008	$ 719,901
Accrued payroll	2,758,960	2,511,347
Compensated absences	799,073	1,000,249
	$ 4,423,039	$ 4,231,497
Accrued liabilities, less current portion:		
Compensated absences	$ 3,430,662	$ 4,198,513
Other post-employment benefits	52,183,441	59,089,390
Net pension liability	21,915,494	43,759,627
	$ 77,529,597	$ 107,047,530

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

	September 30 2021	September 30 2020
Revenue bonds payable, less current portion	$ 327,290,000	$ 345,830,000
Pension Bonds Payable, less current portion	17,969,579	19,090,398
Plus unamortized bond discount (net of premium)	21,150,576	23,952,467
	$ 366,410,155	$ 388,872,865

The following is a summary of long-term obligation transactions for the year ended September 30, 2021:

	Balance October 1 2020	Incurred	Satisfied	Balance September 30 2021	Amount Due within One Year
Revenue notes from direct borrowing	$ 95,205,000	$ -	$ 7,000,000	$ 88,205,000	$ -
Revenue bonds payable	269,720,000	-	12,095,000	257,625,000	18,540,000
Direct borrowing - Pension bonds payable	20,378,522	-	1,288,124	19,090,398	1,120,819
Net pension liability	43,759,627	-	21,844,133	21,915,494	-
Net OPEB liability	59,089,390	-	6,905,949	52,183,441	-
Asset retirement obligation	1,742,100	15,591	-	1,757,691	-
Compensated absences	5,198,762	31,222	1,000,249	4,229,735	799,073
Unamortized bond premium	23,952,467	-	2,801,891	21,150,576	-
	$ 519,045,868	$ 46,813	$ 52,935,346	$ 466,157,335	$ 20,459,892

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, 2020:

	Balance October 1 2019	Incurred	Satisfied	Balance September 30 2020	Amount Due within One Year
Revenue notes from direct borrowing	$ 97,000,000	$ -	$ 1,795,000	95,205,000	$ 7,000,000
Revenue bonds payable	288,120,000	-	18,400,000	269,720,000	12,095,000
Direct borrowing - Pension bonds payable	-	20,378,522	-	20,378,522	1,288,124
Net pension liability	37,353,638	6,405,989	-	43,759,627	-
Net OPEB liability	51,892,133	7,197,257	-	59,089,390	-
Asset retirement obligation	1,730,000	12,100	-	1,742,100	-
Compensated absences	4,971,621	1,247,104	1,019,963	5,198,762	1,000,249
Unamortized bond premium	26,888,444	-	2,935,977	23,952,467	-
	$ 507,955,836	$ 35,240,972	$ 24,150,940	$ 519,045,868	$ 21,383,373

NOTE L - REVENUE BONDS

Lakeland Electric's revenue bonds payable as of September 30, 2021 consists of the following:

	Series	Purpose	Interest Rate %	Final Maturity	September 30, 2020	Additions	Deletions	September 30, 2021
Direct Borrowings:								
Energy System Refunding Bonds	2017	Refunding	Variable	10/1/22	$ 95,205,000	$ -	$ 7,000,000	$ 88,205,000
Bonds:								
Energy System Revenue and Refunding Bonds	2010	Refunding	4.00% to 5.25%	10/1/36	103,720,000	-	4,695,000	99,025,000
Energy System Revenue and Refunding Bonds	2016	Refunding	2.50% to 5.00%	10/1/36	122,055,000	-	4,770,000	117,285,000
Energy System Revenue and Refunding Bonds	2018	Refunding	3.25% to 5.00%	10/1/37	43,945,000	-	2,630,000	41,315,000
					364,925,000	$ -	$ 19,095,000	345,830,000
Less current portion					(19,095,000)			(18,540,000)
					$ 345,830,000			$ 327,290,000

NOTE L - REVENUE BONDS (CONTINUED)

Lakeland Electrics events of default and subjective acceleration clauses as of September 30, 2021 consist of the following:

	Direct Borrowing		Bonds		
	Energy System Refunding Bonds, Series 2017	Florida Taxable Pension Liability Reduction Note, Series 2020	Energy System Revenue Bonds, Series 2010	Energy System Bonds, Series 2016	Energy System Bonds, Series 2018
Events of Default with finance-related consequences:					
Non-payment of principal and/or interest when due	X	X	X	X	X
Failure to make required sinking/reserve fund deposits			X		
Bankruptcy filings, not discharged	X	X	X	X	X
Proceedings effecting the composition of debts or claims to pledged revenues	X	X	X	X	X
Final judgement that would materially affect the ability to meet obligations	X		X	X	X
Non-performance of or compliance with any term, provision or convenant not cured	X	X	X	X	X
Adjudged insolvent, not set aside or stayed	X			X	X
Additional indebtedness that results or entitles any creditor to cause the acceleration of payment on additional indebtedness	X			X	X
Long-term credit rating on non-ad valorem revenues obligations is less than a Baa/BBB+/-		X			
Issuer shall file petition seeking reorganization	X			X	X
Payment of or security for the bonds materially adversely affected, not remedied	X			X	X

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NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of the debt service requirements, excluding the current portion of outstanding revenue bonds and excluding the impact of interest swaps on variable rate bonds, as of September 30, 2021:

	Series 2010		**Series 2016**		**Floating Rates Notes**	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal*	Interest
2023	$ 5,140,000	$ 4,710,763	$ 10,020,000	$ 4,188,669	$ -	$ 1,197,383
2024	5,355,000	4,481,050	10,480,000	3,676,169	-	1,197,383
2025	5,595,000	4,220,688	10,955,000	3,140,294	-	1,197,383
2026	5,885,000	3,933,688	11,480,000	2,579,419	-	1,197,383
2027	6,180,000	3,624,338	12,005,000	1,992,294	-	1,197,383
2028-2032	28,775,000	13,688,719	42,030,000	4,883,384	10,375,000	5,985,591
2033-2037	37,170,000	5,077,800	10,695,000	1,389,375	58,065,000	3,377,053
2038-2042	-	-	-	-	19,765,000	268,310
	$ 94,100,000	$ 39,737,046	$ 107,665,000	$ 21,849,604	$ 88,205,000	$ 15,617,869

	Series 2018		**TOTAL**		
Fiscal Year(s)	Principal	Interest	Principal	Interest	Total
2023	$ 2,930,000	$ 1,547,813	$ 18,090,000	$ 11,644,628	$ 29,734,628
2024	1,985,000	1,424,938	17,820,000	10,779,540	28,599,540
2025	1,520,000	1,337,313	18,070,000	9,895,678	27,965,678
2026	855,000	1,277,938	18,220,000	8,988,428	27,208,428
2027	380,000	1,247,063	18,565,000	8,061,078	26,626,078
2028-2032	16,475,000	4,690,844	97,655,000	29,248,538	126,903,538
2033-2037	10,820,000	1,157,963	116,750,000	11,002,191	127,752,191
2038-2042	2,355,000	94,200	22,120,000	362,510	22,482,510
	$ 37,320,000	$ 12,778,072	$ 327,290,000	$ 89,982,591	$ 417,272,591

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

NOTE L - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage from operations for fiscal year 2021 and the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2021	$ 132,131,001	$ 18,540,000	$ 15,584,792	$ 34,124,792	3.87
2020	104,066,615	19,095,000	16,304,194	35,399,194	2.94
2019	123,918,400	20,195,000	17,306,668	37,501,668	3.30
2018	99,553,538	22,300,000	15,806,087	38,106,087	2.61
2017	89,581,341	21,250,000	17,299,223	38,549,223	2.32
2016	110,517,658	20,875,000	17,567,094	38,442,094	2.87
2015	99,751,104	16,530,000	18,575,791	35,105,791	2.84

Bond coverage was calculated as follows for the year ended September 30, 2021:

Charges for services	$ 329,713,024	
Investment and other revenue	12,878,542	
Total revenue		$ 342,591,566
Less cost of operations		(210,460,565)
Net revenues from operations available for debt service		132,131,001
Debt service requirement:		
Interest on bonds payable		15,584,792
Current portion of bonds payable		18,540,000
Total debt service requirement		$ 34,124,792
Bond coverage from operations		3.87

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, 2021, Lakeland Electric is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Energy System Revenue and Refunding Bonds, Series 2010:

In October 2010, the City issued the Energy System Revenue and Refunding Bonds, Series 2010 in the amount of $199,300,000 to (1) finance certain capital improvements to the electric power system of the City, (2) to refund on a current basis, a portion of the City's outstanding Electric and Water Refunding Revenue Bonds, Series 1999A and to refund on an advance basis, all of the City's outstanding Energy System Revenue Bonds, Series 2001B, (3) to pay costs associated with the termination of a conditional bond warrant agreement, and (4) to pay certain costs and expenses related to the issuance of the Bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. As of September 30, 2021, the remaining principal and interest requirement for these bonds aggregate to $143,686,688

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

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

Energy System Revenue and Refunding Bonds, Series 2016:

In February 2016, the City issued the Energy System Revenue and Refunding Bonds, Series 2016 in the amount of $138,650,000. The Series 2016 bonds refunded all of the Series 2014 bonds, a portion of the outstanding Series 2006 bonds, and provided $37.4 million in proceeds to fund Electric System capital projects. The Series 2016 bonds bear fixed interest rates ranging from 2.00 to 5.00 percent, and mature from October 1, 2016 through October 1, 2036. In concert with the refunding of the 2014 bonds, which were variable rate obligations, the City terminated portions of three associated floating-to-fixed interest rate swaps. The refunding portion of the transaction did not produce net present value savings or a material economic gain or loss. Rather, it was designed to restructure and simplify the Electric System's debt profile. The remaining principal and interest requirements for these bonds aggregate to $143,814,272.

Variable Rate Energy System Refunding Bond, Series 2017:

In August 2017, the City issued the Variable Rate Energy System Refunding Bond, Series 2017 in the amount of $97,000,000 to refund the City's outstanding Variable Rate Energy System Revenue and Refunding Bonds, Series 2012 that were scheduled to mature on October 1, 2017. Immediately prior to this 2017 refunding, the City paid down $3,000,000 of outstanding principal on the Series 2012 Bonds. The 2017 bonds mature on October 1, 2022. The bonds bear a variable rate of interest equal to the one-month LIBOR index plus 0.52 percent. A principal payment of $7,000,000 was paid in October 2020. Interest payments are payable on the first business day of each month. Although the 2017 bonds bear a variable rate of interest, they have been effectively converted to a fixed rate as a result of pre-existing interest rate swap agreements. There was no gain or loss on refunding of the debt. The remaining principal and interest requirements for these bonds aggregate to $104,901,266.

NOTE L - REVENUE BONDS (CONTINUED)

Energy System Revenue Bonds, Series 2018:

In September 2018, the City issued the Energy System Revenue Bonds, Series 2018 in the amount of $43,945,000. Proceeds of the bonds will be used to fund various capital projects for Lakeland Electric, including the acquisition and installation of a 125 megawatt peaking unit. The 2018 bonds mature in serial installments on October 1, 2020 through October 1, 2037. The bonds bear interest rates of between 3.25% and 5.00%, with interest payable on April 1 and October 1 of each year. The remaining principal and interest requirements for these bonds aggregate to $55,814,006.

The Electric and Energy bonds series are secured by a pledge of operating revenues of the Electric Utility. The total principal and interest remaining to be paid on all of the Electric Revenue Bonds is $488,216,234. Principal and interest paid for the current year and total net customer revenues were $34,124,792 and $132,131,001 respectively.

As of September 30, 2021, the City is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Interest Rate Swaps:

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

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

In the case of the City’s interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulate the City from changes in the market rate of interest payable on the bonds. The City of Lakeland’s interest rate swaps have been evaluated using all of the methods outlined by GASB Statement No. 53, except the dollar-offset method, and have passed at least one of the prescribed effectiveness tests. Accordingly, the market values of the derivatives are recorded as offsetting items on the Statements of Net Position. The fair value of Lakeland Electric’s interest rate swaps as of September 30, 2021 was $(30,409,827). Also see Note R, Derivative and Hedging Activities.

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

NOTE L - REVENUE BONDS (CONTINUED)

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

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

Variable Rate Hedges:

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

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

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

The swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or rating downgrades to either counterparty. As of September 30, 2021, 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 – FLORIDA TAXABLE PENSION LIABILTY REDUCTION NOTE, SERIES 2020

In March 2020, the City issued its Taxable Pension Liability Reduction Note, Series 2020 in the amount of $81,000,000. The Note is secured by a pledge to budget and appropriate non-ad valorem revenues of the City. The Note, which was issued in the form of a bank loan from Toronto Dominion Bank, N.A, pays interest on April 1 and October 1 of each year at a fixed rate of 2.42%. The note amortizes, paying interest on October 1 of each year, with a final maturity of October 1, 2040. Proceeds of the Note were used to reduce the unfunded liabilities in the City's three pension plans and to pay associated cost of issuance. Issuance of the note resulted in present value savings of approximately $27.1 million, in that required contributions to the various pension plans will be reduced by amounts exceeding the allocable debt service on the bonds. The remaining principal and interest payments for these bonds aggregate to $90,043,421.

The City allocated the note payable amounts to its funds based upon contributions made in fiscal year 2020. Accordingly, Lakeland Electric's share of the liability was 35.34% or $20,378,522. Lakeland Electric's share of the pension reserve payments also created a Deferred Outflow (see Note J). The balance of the Pension Liability Note allocated to Lakeland Electric as of September 30, 2021 is $19,090,398 with a current portion payable of $1,120,819.

The following is a schedule of the debt service requirements, excluding current portion, related to the Pension Liability Note as of September 30, 2021:

	Series 2020	
Fiscal Years	Principal	Interest
2023	$ 1,167,362	$ 420,739
2024	1,213,906	391,926
2025	1,262,965	361,956
2026	1,312,025	330,798
2027	1,363,600	298,423
2028-2032	6,863,284	970,520
2033-2037	3,890,789	310,889
2038-2042	895,648	29,651
	$ 17,969,579	$ 3,114,902

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.

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, 2021, Lakeland Electric had a total of 52 participants.

Cost of Living Adjustment:

No cost of living increase was awarded for fiscal year 2021.

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NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy, Contributions Required, and Contributions Made:

Under Ordinance 5287, section 23.1.1, the Plan grants the authority to the City Commission to establish and modify contribution requirements of the City and active plan members. The Plan is subject to periodic review by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute at least quarterly to the fund in an amount equal to the required city contribution as shown by the applicable actuarial valuation system.

The City Contribution Rate is calculated as follows:

Contribution Rate Last Year	19.26	%
Change in Cost Sharing	(0.03)	
Change in Normal Cost Rate	(0.01)	
Amortization Payment on UAAL	(0.52)	
Actuarial Experience	0.65	
Actuarial Experience from DROP Variable Interest Rate Option	(0.02)	
Contribution Rate This Year	19.33	%

Contributions to the pension plan from Department of Electric Utilities were $3,126,224 for the year ended September 30, 2021 and $24,053,611 for the year ended September 30, 2020.

At September 30, 2021, the Department of Electric Utilities reported a liability of $21,915,494 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, 2020, 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, 2020 was $43,759,627. The Department of Electric Utilities' portion of the net pension liability was based on the Department of Electric Utilities' share of the actual contributions to the pension plan relative to the actual total contributions of the City of Lakeland. The Department of Electric Utilities' proportion was 35.4% and 35.7%, measured as of September 30, 2020 and September 30, 2019, respectively. The Department of Electric Utilities recognized pension expenses of $2,618,693 and $4,987,427 in fiscal year 2021 and 2020, respectively.

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

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 510,772	$ 935,736	$ 412,219	$ 1,353,787
Changes of Assumptions	365,606	-	974,949	-
Net difference between projected and actual earnings	509,568	-	1,719,191	-
Cost Share Change	-	1,425,286	-	2,318,428
Proportionate share of contributions subsequent to the measurement date	3,126,224	-	24,053,611	-
Total	$ 4,512,170	$ 2,361,022	$ 27,159,970	$ 3,672,215

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

An amount of $3,126,224 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, 2022. 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:	
2022	$ (2,137,352)
2023	198,778
2024	1,436,646
2025	(473,148)
	$ (975,076)

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 both fiscal years ended September 30, 2020, and 2021.:

Investment rate of return	7.25%
Salary increases	4.0% to 12.50% depending on service, including inflation
Inflation rate	2.50%
Post-retirement benefit increases	N/A
Retirement rate	(1)
Mortality table	The RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years using Scale BB. (2)

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The projected long-term real rate of return for the Plan net of investment expenses is 6.29 percent. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of measurement date September 30, 2020 and September 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following tables as required by GASB 67 and 68:

Asset Class (Market)	Target Allocation	Long-Term Expected Real Rate of Return	Asset Group Contribution
Domestic Equity	30.00%	7.50%	2.25%
International Equity	15.00%	8.50%	1.28%
Domestic Bonds	10.00%	2.50%	0.25%
International Bonds	5.00%	3.50%	0.18%
Real Estate	10.00%	4.50%	0.45%
Alternate Assets	30.00%	6.29%	1.89%
Total Investments	100.00%		6.29%

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

NOTE N - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

As of September 30, 2021	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	$ 49,445,786	$ 21,915,494	$ (1,247,363)

As of September 30, 2020	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	$ 70,896,709	$ 43,759,627	$ 20,922,067

Pension Plan Fiduciary Net Position:

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

Termination of Benefits:

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

Additional Information:

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

NOTE O - BUSINESS SEGMENT

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

NOTE P - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the City Commission has agreed to offer subsidized post-employment health care benefits to former employees who are receiving retirement benefits from the City in conjunction with the Employees' Pension and Retirement System Plan.

Effective October 1, 2017, the Retiree Healthcare Trust Fund adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement replaces Statements No. 45, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. In addition to the relevant disclosures within this note, Lakeland Electrics financial statements reflect its proportionate share of the total City's long-term liability for fiscal years ending September 30, 2021 and September 30, 2020, resulting from the adoption.

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

Funding Policy**:**

The contribution percentages are set forth by City ordinance. The City subsidy is equal to $5 per month for each year of service accumulated at retirement (maximum 30 years of service or $150 per month). The City will fund the benefit by placing 1.5% of annual covered payroll into a trust. Retirees are required to make an election as to participation in the City-sponsored health insurance plan upon retirement. Effective January 1, 2003, any employee, who wishes to have his/her spouse and dependents insured on the City of Lakeland's Health Insurance Plan prior to retirement, will be required to have them on the plan one year prior to retirement. Should a participant at any time elect not to purchase coverage from the City-sponsored plan, all eligibility for future participation in that plan, including rights to the subsidy, is terminated. Plan provisions may be amended by city ordinance.

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

At September 30, 2021, the Department of Electric Utilities reported a liability of $52,183,441 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The proportionate share of the net OPEB liability at September 30, 2020 was $59,089,390. The Department of Electric Utilities' portion of the net OPEB liability was based on the Department of Electric Utilities' share of the actual contributions to the plan relative to the actual total contributions of the City of Lakeland. Lakeland Electric contributed $1,379,305 and $1,499,704 to the plan in fiscal year 2021 and 2020, respectively. September 30, 2021, the Department of Electric Utilities' proportion was 26%, compared to 28% as of September 30, 2020.

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions:

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

Significant Assumptions:

The date of the actuarial valuation on which the plan's liability was determined is September 30, 2021. The following actuarial assumptions were applied.

	2021	2020
Actuarial cost method	Entry age normal based on level percentage of projected salary	Entry age normal based on level percentage of projected salary
Valuation Date	September 30, 2021	September 30, 2020
Projected benefit payment period	8.5 years	6.2 years
Discount rate		
Implicit	2.26%	2.21%
Explicit	7.22%	7.21%
Health care cost trend rate:		
Medical and Rx benefits		
Select	7.00%	6.00%
Ultimate	4.00%	4.50%
Medical benefits		
Select	6.00%	N/A
Ultimate	4.00%	N/A
Stop loss fees		
Select	7.00%	6.00%
Ultimate	4.00%	4.50%
Administrative		
Select	4.00%	5.00%
Ultimate	4.50%	4.50%
Inflation rate	2.0% per annum	2.0% per annum
Salary changes	3.5% per annum	3.5% per annum
Post-employment benefit changes	N/A	N/A
Mortality rates	Pub-2010 base table scaled generationalling using MP-2019 and applied on a gender-specific basis	Pub-2010 base table scaled generationalling using MP-2019 and applied on a gender-specific basis
Long-term expected rate of return	tax-exempt, high quality municipal bond	tax-exempt, high quality municipal bond
Asset valuation	fair market value	fair market value
Date of experience study	24 months ending September 30, 2021	24 months ending September 30, 2020

The total OPEB liability was determined by an actuarial valuation as of September 30, 2021, using the previously listed actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The discount rate is the only applicable change in the simplified evaluation.

Change in assumptions:

The discount rate for the implicit subsidy was increased from 2.21% to 2.26%.

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Interest rates:

Discount (or interest) rates are used to reflect the time value of money. Discount rates are used in determining the present value of the valuation date of future cash flows currently expected to be required to satisfy the post-retirement benefit obligation. The long-term expected rate of return using arithmetic mean on OPEB investments was determined using the rate of return on tax-exempt, high quality municipal bonds (20 year, tax-exempt municipal bond - 2.26%) blended with the expected rate of return on trust assets.

The discount rate used to measure the total OPEB liability was 2.26% for the implicit subsidy and 7.22% for the explicit subsidy. The discount rate for fiscal year 2020 was 2.21%. The municipal bond rate used in the discount rate is the Bond Buyer 20-Bond GO Index.

The annual money-weighted rate of return that expresses investment performance, net of investment expense, adjusted for changes in the amount actually invested was 21.1%.

Investments:

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

Concentration:

The rate of return for the assets of the Trust as of September 30, 2021 and September 30, 2020 are summarized in the following tables.

September 30, 2021:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	99.41%	7.25%	$ 11,677,433	99%
Money market funds	0.00%	0.49%	-	0%
Accounts receivable	0.59%	0.00%	69,268	1%
Total	100.00%		$ 11,746,701	100%

September 30, 2020:

Asset Allocation:	%	Returns (with inflation)	Balance	% of Net Position
Consolidated funds	99.16%	7.21%	$ 9,776,494	99%
Money market funds	0.00%	1.50%	-	0%
Accounts receivable	0.84%	0.00%	70,311	1%
Total	100.00%		$ 9,846,805	100%

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Rate of Return:

For the year ended September 30, 2021, the annual rate of return (with inflation) was 7.22%.

Projected Benefit Payments:

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

Net OPEB Liability:

The components of the Net OPEB Liability for the Health Insurance Trust Fund for Lakeland Electrics proportionate share as September 30, 2021 and September 30, 2020 were as follows:

	2021	2020
Total OPEB Liability	$ 55,221,594	$ 61,816,543
Fiduciary Net Position	3,038,153	2,727,153
Net OPEB Liability	$ 52,183,441	$ 59,089,390
Fiduciary Net Position as a percentage of the total OPEB liability	5.50%	4.41%

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NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

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

The sensitivity of the net OPEB liability for Lakeland Electrics proportionate share to a discount rate 1% (3.26%) higher and 1% lower (1.26%) than the discount rate of 2.26% as of September 30, 2021 is as follows:

	1% Decrease Rate (1.26%)	Current Discount Rate (2.26%)	1% Increase Rate (3.26%)
Lakeland Electric's proportionate share of the net OPEB liability	$ 64,712,527	$ 52,183,441	$ 42,912,094

The sensitivity of the net OPEB liability for Lakeland Electrics proportionate share to a discount rate 1% (3.21%) higher and 1% lower (1.21%) than the discount rate of 2.21% as of September 30, 2020 is as follows:

	1% Decrease Rate (1.21%)	Current Discount Rate (2.21%)	1% Increase Rate (3.21%)
Lakeland Electric's proportionate share of the net OPEB liability	$ 72,089,109	$ 59,089,390	$ 49,044,146

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

The sensitivity of the net OPEB liability using healthcare cost trend rates 1% higher and 1% lower than the current trend rates as of September 30, 2021 is as follows:

	1% Decrease Trend Rate	Current Trend Rate	1% Increase Trend Rate
Lakeland Electric's proportionate share of the net OPEB liability	$ 41,935,057	$ 52,183,441	$ 65,739,336

The sensitivity of the net OPEB liability using healthcare cost trend rates 1% higher and 1% lower than the current trend rates as of September 30, 2020 is as follows:

	1% Decrease Trend Rate	Current Trend Rate	1% Increase Trend Rate
Lakeland Electric's proportionate share of the net OPEB liability	$ 48,453,413	$ 59,089,390	$ 73,861,863

NOTE P - POST-EMPLOYMENT BENEFITS (CONTINUED)

Plan Fiduciary Net Position:

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

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

The Department of Electric Utilities recognized OPEB expenses of $1,272,998 and $2,629,758 for fiscal year 2021 and 2020, respectively. Lakeland Electric reported deferred inflows of resources related to OPEB from the following sources as of September 30, 2021 and 2020:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings	$ -	$ 335,241	$ -	$ 92,391
Difference between actual and expected experience	-	21,205,915	-	5,088,581
Changes in assumptions	20,409,660	22,255,642	9,333,710	3,887,254
Change in cost share allocation	-	(14,624,361)	-	2,228,617
Total	$ 20,409,660	$ 29,172,437	$ 9,333,710	$ 11,296,843

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in Other Post-Employment Benefits expense as follows:

Fiscal year ended September 30th:	
2022	$ (2,676,637)
2023	(1,573,034)
2024	18,957
2025	89,756
2026	(1,321,334)
Thereafter	(3,300,483)
	$ (8,762,775)

NOTE Q - DEFINED CONTRIBUTION PENSION PLAN

The City has a Defined Contribution Pension Plan pursuant to Chapter 75-295, as amended by Chapter 76-279, Florida Statutes. In accordance with the Defined Contribution Pension Plan, 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.

The assets of the City's Alternate Pension Plan were transferred to a third-party administrator in the name of the participants. The City no longer has any fiduciary responsibilities concerning the plan. The City's involvement in the plan is limited to remitting the amounts paid by the participants to a third party.

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES

Accounting for Derivatives and Hedging Activities:

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

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

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

Fuel Hedges:

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

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

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

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

TEA performs the front and back office functions associated with such trades in accordance with overall hedging policies developed jointly by TEA and the aforementioned oversight committee of Lakeland Electric. The recording of fuel derivatives, when appropriate, is included on the Statement of Net Position as either an asset or liability measured at fair value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as part of Fuel and Purchased Power costs in the Statement of Revenues, Expenses and Changes in Net Position. The premiums associated with the purchase of options are expensed upon expiration of the option. Premiums associated with unexpired options are embedded in the valuation table displayed later in this note. The valuation of market changes for contracts entered into within Lakeland Electric's Risk Management Program resulted in a net decrease of $7,597,500 to the cost of fuel during the fiscal year ended September 30, 2021.

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 $33,613,295 includes mark-to-market of the swaps and both intrinsic and extrinsic mark-to-market of the options.

Natural Gas Derivative Instruments:

Lakeland Electric uses Over-the-Counter (OTC) swaps, put options, swing-swaps and fixed price firm physical purchases of natural gas as tools to stabilize the cost of natural gas that will be needed by the utility in the future. Any gain or loss of the value of these derivatives are ultimately rolled into the price of natural gas burned, offsetting the volatility in the price of that fuel. These derivative instruments are classified in Level 2 of the fair value hierarchy using the market approach of valuation. Derivative instruments classified as Level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivatives. As of September 30, 2021, Lakeland Electric had options, swaps and physical contracts outstanding in the following amounts, covered fiscal year 2021 and beyond:

Fiscal Year	Options	Swaps	Market Value Gain / (Loss)
2022	$ 3,150,000	$ 13,070,000	$ (26,892,880)
2023	-	5,800,000	(4,919,894)
2024	-	3,650,000	(1,800,521)
	$ 3,150,000	$ 22,520,000	$ (33,613,295)

NOTE R – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Interest Rate Swaps:

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

In the case of Lakeland's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulated the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using regression analysis. All of the interest rate swaps employed by the City have passed at least one of the effectiveness tests prescribed by GASB Statement No. 53. Accordingly, the market values of the derivatives are recorded as offsetting items on the Statements of Net Position, and therefore the recognition of changes in fair market value are deferred. The interest rate swaps on the table below are related to certain prior variable rate debt, which has been refunded. The City has elected to apply the existing swap agreements to hedge the new variable rate refunding debt as a means to hedge the variable rate risk exposure related to variable rate bonds.

Lakeland Electric had interest rate swaps with the following mid-market value as of the close of the final business day of the fiscal year ending September 30, 2021:

Description	Maturity	Net Value
$24.772M 67% of LIBOR Swap	10/01/2035	$ (8,163,809)
$14.053M 67% of LIBOR Swap	10/01/2035	(4,517,290)
$47.86M 67% of LIBOR Swap	10/01/2037	(17,387,352)
$1.520M 67% of LIBOR Swap	10/01/2035	(341,376)
		$ (30,409,827)

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, 2021 was as follows:

Interest rate swaps	$	(30,409,827)
Prepaid fuel		490,150
Fuel hedges (deferred outflows)		(33,613,295)
	$	(63,532,972)

The fair value of all of Lakeland Electric's derivatives as of September 30, 2020 was as follows:

Interest rate swaps	$	(39,933,744)
Prepaid fuel		1,705,150
Fuel hedges (deferred outflows)		(2,424,901)
	$	(40,653,495)

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,			
	2021		2020	
Contributions in aid of construction, beginning balance	$	45,727,693	$	47,249,282
Additions		1,869,140		2,155,260
Amortization as depreciation expense		(3,733,361)		(3,676,849)
	$	43,863,472	$	45,727,693

NOTE S – DEFERRED INFLOWS OF RESOURCES (CONTINUED)

Fuel Reserve

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

	September 30,	
	2021	2020
Beginning balance	$ 18,992,075	$ 19,094,941
Fuel revenues	129,251,130	105,696,066
Less fuel expenses	(125,550,619)	(101,535,736)
Less regulatory liability related to fuel charges	(3,899,952)	(4,263,196)
	$ 18,792,634	$ 18,992,075

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

	September 30,	
	2021	2020
Contributions in aid of construction	$ 43,863,472	$ 45,727,693
Fuel reserve balance	18,792,634	18,992,075
Deferred inflows - OPEB (see Note P)	29,172,437	11,296,843
Deferred inflows - contributions in aid of construction	224,951	-
Deferred inflows - actuarial (see Note N)	2,361,022	3,672,215
	$ 94,414,516	$ 79,688,826

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, 2021, have been accrued in the financial statements of the Self-Insurance Fund. An estimated liability for incurred-but-not-reported claims also has been accrued in the financial statements of the Self-Insurance Fund. This program provides coverage up to a maximum of $350,000 per claim for worker's compensation claims. The City purchases commercial insurance for claims in excess of this amount up to $1,000,000 per claim. The program provides coverage of up to a maximum of $435,000 per individual for health insurance claims. The City purchases commercial insurance for claims in excess of this amount. Refer to the City of Lakeland's Annual Comprehensive Financial Report for additional disclosures.

Contractual Commitments:

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

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

Lakeland Electric has a long-term service agreement with Siemens/Westinghouse to provide labor, parts, and materials to cover all planned annual outages for McIntosh Unit 5, a 395 MW combined cycle gas turbine unit. In April 2020, the Lakeland City Commission approved changes to the contract, which included a revised payment schedule. During fiscal year 2021, milestone payments of $7,288,862 were made under the contract. The agreement, which is scheduled to run through 2031, includes annual milestone payments, and an economic index escalation factor. Future base payments per the schedule, including escalation, are as follows:

Fiscal Year	Operating	Capital	Total
2022	$ 412,600	$ 7,510,616	$ 7,923,216
2023	417,964	7,608,254	8,026,218
2024	423,398	7,707,161	8,130,559
2025	428,902	6,702,123	7,131,025
2026-2031	2,693,071	29,676,523	32,369,594
	$ 4,375,935	$ 59,204,677	$ 63,580,612

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lakeland Electric entered into a total of five Solar Energy Participation Agreements (SEPAs) with Sun Edison, LLC from 2009 through 2016. As of September 30, 2021, Sun Edison's former ownership interests were assigned as follows:

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

Lakeland Electric has no equity interest in and assumes no financial responsibility for the solar generation systems, four of which, are located on properties owned by the City of Lakeland. The West Bella Vista property is owned by the vendor. Solar energy system installations are as follows: the roof of the RP Funding Center, the runway protection zones of the Lakeland Linder Regional Airport, and 70 acres adjacent to the Sutton Electric Substation. Four of the SEPA are in effect for twenty-five years and one is twenty years at a fixed price per MWh with no price escalation clauses.

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

	2021	2020
Sales Revenue	$ 2,809,557	$ 3,323,872
MegaWatts Sold	21,381.22	23,939.03
Average Per MW	$ 131.40	$ 138.85

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, 2021. Commitments for construction contracts and other capital outlays as of September 30, 2021 are as follows:

McIntosh unit 5 renewal and replacement projects	$ 1,128,333
McIntosh gas turbine 2 projects	187,879
Larsen unit 8 renewal and replacement projects	568,752
McIntosh New Generation	75,389
Other power production plant improvements	60,239
Energy delivery capital projects	604,059
Building improvement projects	132,861
Equipment	47,255
	$ 2,804,767

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 $58,419,286 as of September 30, 2021, of which $51,950,141 represents contracts for the procurement and transportation of fuel and purchased power.

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

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NOTE V – ASSET RETIREMENT OBLIGATIONS

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

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

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

Procedures:

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

The following types of assets were determined to have AROs:

Item	Asset	Deferred Outflow Amortization Period	ARO Cost Estimate (9/30/2021)	ARO Cost Estimate (9/30/2020)
1	Water Wells	17 Years	$ 438,148	$ 415,700
2	Septic Tanks	17 Years	21,396	20,300
3	PCB Fluid-Containing Electrical Equipment	10 Years	-	30,400
4	Radiological Devices	5 Years	10,645	10,100
5	Natural Gas Pipeline	17 Years	416,857	395,500
6	Office Trailers	17 Years	10,645	10,100
			$ 897,691	$ 882,100

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Non-Amortizing, Non-Accreting Obligation*

Item	Asset	Deferred Outflow Amortization Period	ARO Cost Estimate (9/30/2021)	ARO Cost Estimate (9/30/2020)
1	McIntosh Plant Unit 3	N/A	$ 860,000	$ 860,000

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

Water Wells:

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

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

No. of Wells	Well Type	Average Depth (ft)	Unit Cost	Cost Estimate
McIntosh Plant				
7	10-inch drinking water wells	600	$ 24,045	$ 168,315
3	24-inch drinking water wells	732	73,096	219,288
42	2-inch extraction/monitoring wells	22	475	19,950
18	4-inch monitoring wells	43	1,368	24,624
Larsen Plant				
8	2-inch extraction wells	12	475	3,800
2	4-inch extraction wells	9	428	856
	Miscellaneous costs			1,315
				$ 438,148

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

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

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

Septic Tanks:

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

Number of Septic Tanks	Abandonment Cost per Tank	Cost Estimate
6	$ 3,209	$ 19,254
Miscellaneous costs		2,142
		$ 21,396

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

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NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Radiological Devices:

Federal regulations 49 CFR § Part 173, Subpart I provide specific requirements for the shipment of Type A radioactive materials. Lakeland Electric uses radiation-based measurement at the McIntosh Plant to determine the density of stockpiled coal piles, which requires radioactive sources. Retirement of these gauges is anticipated in 2021 when the coal-fired electric generating unit (Unit 3) is deactivated. Upon retirement of these sources, shipment of these sources will be required, and the devices that house them, to the manufacturer as Type A radioactive materials.

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

Radiological Device	Number of Devices	Shipping Cost	Cost Estimate
Troxler 3430	1	$ 258	$ 258
Ohmart SH-F1	5	724	3,620
Thermo Fisher 5197	12	327	3,924
Miscellaneous costs			2,843
			$ 10,645

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

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

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Natural Gas Pipeline:

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

Lakeland Electric engineers prepared the cost estimate of $417,000 to perform the necessary work. The components of this cost estimate are provided in the following table:

Description	Cost Estimate
Labor (1,638 man-hours)	$ 171,123
Equipment Rental (1,941 hours)	39,786
Materials (grout and 16" piping caps)	53,551
Pipeline Purging	149,641
Miscellaneous costs	2,756
	$ 416,857

Office Trailers:

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

Trailer Size (square ft)	Cost
64X48	$ 4,897
64X24	2,023
Miscellaneous costs	3,725
	$ 10,645

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

NOTE V – ASSET RETIREMENT OBLIGATIONS (CONTINUED)

McIntosh Plant Unit 3:

Lakeland Electric was given Utility Committee approval to decommission Unit 3 in March of 2021 (a deconstructing and demolishing timeframe is currently unknown), Lakeland Electric is contractually obligated to acquire OUC's 40% ownership share of land for the amount that OUC originally paid, according to Section 19 of the *Participation Agreement Between City of Lakeland and Orlando Utilities Commission for the Joint Ownership of McIntosh Unit Three Generation Project.*

The cost to repurchase OUC's 40% share of land will be approximately $860,000 based on the original purchase price of $2,152,000. Because this cost is based upon a contractually agreed upon amount, these costs are considered certain, and probability weighting is not considered necessary. For more information regarding the decommission of Unit 3 see Note W.

Safeguarding Public Health and Safety:

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

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

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

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

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NOTE W - SPECIAL ITEM – IMPAIRMENT LOSS

Lakeland Electric, as part of its NextGen strategic plan for future generation needs, had made a decision in 2019 to mothball its generation asset, McIntosh Unit #3 - a coal-fired generator co-owned with Orlando Utilities Commission (see Note I) in fiscal year 2024. Economic factors such as increased maintenance costs on the generation unit led management to alter that decision. Lakeland Electric recommended to the Utility Committee in January 2021 to shutter the plant effective March 31, 2021. The Lakeland City Commission voted on January 19, 2021 to retire McIntosh Unit #3 effective March 31, 2021.

On April 4, 2021, McIntosh Unit #3 ceased operations and was retired. Because some of the component assets of the unit had significant remaining book value and useful life, the assets were treated as an impairment loss and recorded as a Special Item on the Statements of Revenue, Expenses and Changes to Net Position.

NOTE X – SUBSEQUENT EVENTS

On December 21, 2021, the City issued the Energy System Revenue Bonds, Series 2021 in the amount of $123,295,000. Proceeds of the bonds will be used to fund the acquisition, construction and installation of six 20-MW reciprocating internal combustion engine generators to be located at the McIntosh Power Plant. Installation of the new generation units is due to commence in July 2022 with start-up anticipated to occur in December 2023. The new generation is intended to replace the generation capacity previously provided by the retired McIntosh Unit #3. (See Note I.) Other energy delivery and production projects to be financed with the proceeds of the Bonds include, but are not limited to, the replacement of certain hot gas path parts for the McIntosh Gas Turbine 2 and construction of a new distribution sub-station.

The 2021 bonds mature in serial installments starting October 1, 2022 through October 1, 2041. The bonds bear interest rates between 4.00% and 5.00%, with interest payable on April 1 and October 1 of each year. Because the bonds were sold at a significant premium, the all-in true interest cost of the issue was 2.09%. Total principal and interest requirements for these bonds aggregate to $212,640,872.

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CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2021

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

Employees' Pension & Retirement System

Measurement date:	2020	2019	2018	2017	2016	2015	2014
Lakeland Electric's proportion of the net pension liability	35.4471%	35.6524%	36.1712%	37.9290%	39.6375%	39.7567%	39.7567%
Lakeland Electric's portion of the net pension liability	$ 21,915,494	$ 43,759,627	$ 37,353,637	$ 43,697,119	$ 53,534,111	$ 58,777,353	$ 48,261,275
Lakeland Electric's covered payroll	$ 31,185,106	$ 30,679,287	$ 31,899,370	$ 31,867,657	$ 31,951,564	$ 31,696,314	$ 31,094,405
Lakeland Electric's proportionate share as a % of covered payroll	70.28%	142.64%	117.10%	137.12%	167.55%	185.44%	155.21%
Plan fiduciary net position as a % of total pension liability	91.65%	83.03%	85.51%	83.36%	79.69%	77.14%	80.60%

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

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES

REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE PENSION FUND
SEPTEMBER 30, 2021

SCHEDULE OF LAKELAND ELECTRIC'S PENSION CONTRIBUTIONS

Employees' Pension & Retirement System

Year Ended Sep 30th	Actuarially Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2021	$ 5,777,782	$ 3,126,224	$ 2,651,558	$ 31,447,357	9.94%
2020	6,091,836	24,053,611	(17,961,775)	31,185,106	77.13%
2019	6,226,537	5,627,295	599,242	30,679,310	18.34%
2018	6,353,623	5,596,901	756,722	31,899,370	17.55%
2017	7,094,755	5,590,678	1,504,077	31,867,657	17.54%
2016	6,035,644	11,436,475	(5,400,831)	31,951,564	35.79%
2015	5,876,490	6,240,823	(364,333)	31,696,314	19.69%
2014	5,596,993	6,120,777	(523,784)	31,094,405	19.68%

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

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

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

The City issued a Pension Liability Reduction Note and contributed the proceeds, $57.7 million - Employees Pension Plan in FY 2020 as an advanced payment against the employer's and employees' unfunded share of the unfunded pension liability. In return the advance payment, the City (as the employer) and the employees will receive an annual credit against the regular payment into the fund. As a result of the advance payment, a contribution deficiency will be reflected in future years thru FY 2040 as a credit amortized each year. The actual employer contribution for the Employee reflects the proceeds from the Pension Liability Reduction Note deposited into the Plan's assets.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS (OPEB)
SEPTEMBER 30, 2021

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

Other Post-Employment Benefits (OPEB)

Measurement date:	2021	2020	2019	2018	2017
Lakeland Electric's proportion of the net OPEB liability	25.9230%	27.7600%	27.7600%	29.3824%	29.8280%
Lakeland Electric's portion of the net OPEB liability	$ 52,183,441	$ 59,089,390	$ 51,892,133	$ 52,325,012	$ 55,594,556
Lakeland Electric's covered payroll	$ 31,185,106	$ 30,679,287	$ 31,899,370	$ 31,867,657	$ 31,867,657
Lakeland Electric's proportionate share as a % of covered payroll	167.33%	192.60%	162.67%	164.19%	174.45%
Plan fiduciary net position as a % of total OPEB liability	4.41%	4.41%	4.63%	4.45%	3.82%

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

SCHEDULE OF LAKELAND ELECTRIC'S OPEB CONTRIBUTIONS

Other Post-Employment Benefits (OPEB)

Year Ended Sep 30th	Statutorily Determined Contribution	Annual Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2021	$ 467,777	$ 1,379,305	$ (911,528)	$ 31,185,106	4.42%
2020	460,189	1,499,704	(1,039,515)	30,679,287	4.89%
2019	478,491	1,720,376	(1,241,885)	31,899,370	5.39%
2018	478,015	2,424,179	(1,946,164)	31,867,657	7.61%
2017	479,273	506,009	(26,736)	31,951,564	1.58%

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

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Changes in assumptions/inputs:

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

September 30, 2021

- The discount rate was updated from 2.21% to 2.26% for the implicit liability.

September 30, 2020

- The discount rate was updated from 2.66% to 2.21% for the implicit liability.

September 30, 2019

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

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

Crowe LLP
Independent Member Crowe Global

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Electric Utilities (Department), of the City of Lakeland, Florida (City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2022. 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, the changes in its financial position, or, where applicable, its cash flows in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Crowe LLP

Crowe LLP

Tampa, Florida
April 11, 2022

LAKELAND ELECTRIC
POWERED FOR LIFE

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Audited Financial Statements
September 30, 2021 and September 30, 2020

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

www.lakelandelectric.com