

2012

POPULAR ANNUAL
FINANCIAL REPORT



POWERED FOR LIFE

AFFORDABLE • DEPENDABLE • SUSTAINABLE



DEPARTMENT OF ELECTRIC UTILITIES
AN ENTERPRISE FUND OF THE
CITY OF LAKELAND, FLORIDA



Vision

Powering our community with excellence in energy solutions

Mission

To enrich our community's quality of life with excellence in products and services through an engaged workforce

Values

Accountability: Take responsibility for our actions with an appropriate sense of urgency

Appreciation: Recognize and celebrate our successes, learn from our mistakes, and value the opinion of others

Customer Focus: Create a desire for others to do business with us

Diversity: Recognize and utilize our differences

Initiative: Encourage and value creativity, innovation, and sensible business risk

Integrity: Be sincere and honest in what we do

Open Communications: Speak from the heart and listen with respect

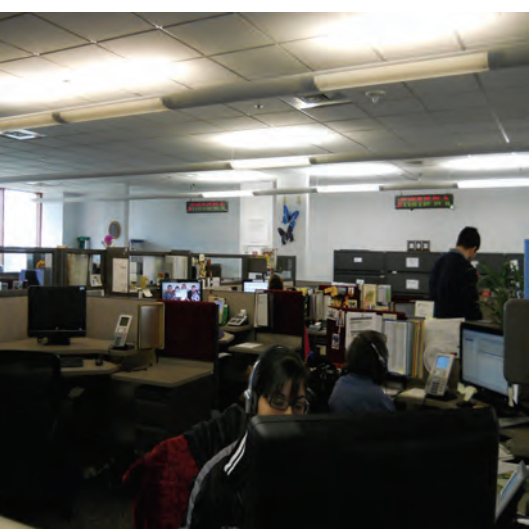
Safety: Prevent injury to our fellow employees and the general public

Teamwork: Work together and achieve more





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LETTER TO THE RATEPAYERS

March 2013

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our first Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Lakeland Electric (LE) for the fiscal year ended September 30, 2012. The following pages provide a summary of your Electric Utility's organizational structure, major initiatives, statistical data, and financial condition.

The financial information presented here is summarized and does not substitute for the Comprehensive Annual Financial Report (CAFR). Financial information included in the PAFR is for LE only, which is an enterprise fund of the City of Lakeland, Florida. The CAFR details the City of Lakeland's financial position and operating activities for each fiscal year, in conformity with Generally Accepted Accounting Principles (GAAP). This PAFR, by its summary nature, is not intended to conform to GAAP and associated reporting standards set forth by applicable governing bodies. The City of Lakeland's budget and CAFR have both received awards for outstanding financial reporting from the GFOA.

We hope this report will give you a better understanding of Lakeland Electric and its financial condition. We welcome your comments and suggestions.

You may find other information regarding Lakeland Electric, including this Popular Report (PAFR), annual budget and CAFR, and LE's audited stand-alone financial statements on the City of Lakeland's Web site: lakelandgov.net

Respectfully submitted,

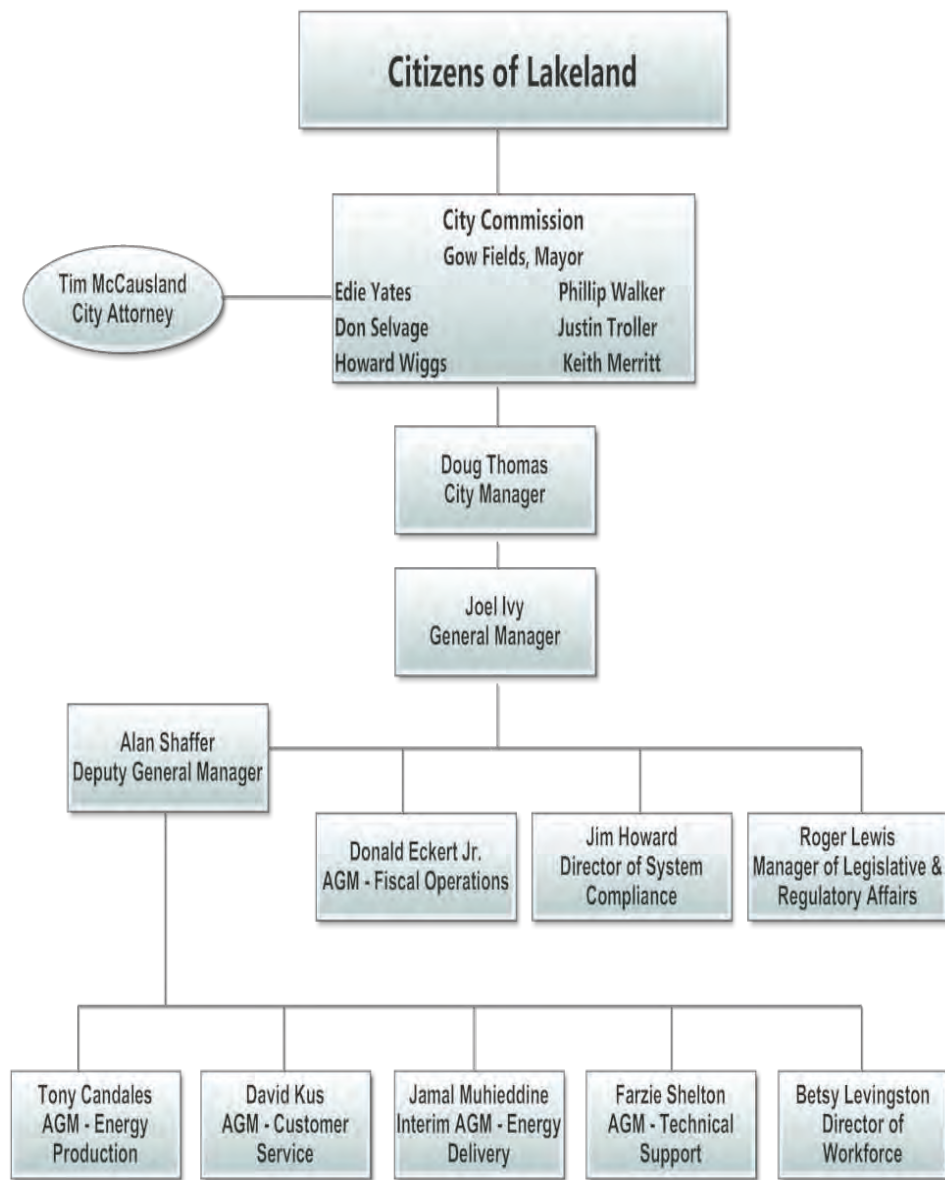


Donald Eckert Jr., CGFO, CTP, CPM

Assistant General Manager – Fiscal Operations



TABLE OF ORGANIZATION





LAKELAND CITY COMMISSION

KEITH MERRITT
COMMISSIONER
NORTHEAST DISTRICT

JUSTIN TROLLER
COMMISSIONER
AT LARGE

DON SELVAGE
COMMISSIONER
SOUTHWEST DISTRICT

PHILLIP WALKER
COMMISSIONER
NORTHWEST DISTRICT

EDIE YATES
COMMISSIONER
SOUTHEAST DISTRICT

GOW FIELDS
MAYOR

HOWARD WIGGS
COMMISSIONER
AT LARGE

LAKELAND ELECTRIC EXECUTIVE TEAM



JOEL IVY
GENERAL MANAGER



ALAN SHAFFER
DEPUTY GENERAL MANAGER



TONY CANDALES
ASSISTANT GENERAL MANAGER
PRODUCTION



FARZIE SHELTON
ASSISTANT GENERAL MANAGER
TECHNICAL SUPPORT



DONALD ECKERT JR.
ASSISTANT GENERAL MANAGER
FISCAL OPERATIONS



DAVID KUS
ASSISTANT GENERAL MANAGER
CUSTOMER SERVICE

OVERVIEW OF LAKELAND ELECTRIC

The System

The City of Lakeland's first power plant was built in 1889 and privately owned. Lakeland Electric (LE) was born in 1904, when the City Council agreed to purchase the power plant for \$7,500. Since then, LE has grown into the 3rd largest public power utility in the state of Florida. Today, LE serves over 120,000 customers and sells over 2.7 billion kWh's annually. LE is a vertically integrated utility as it provides generation, transmission and distribution services to its customers. LE is a department of the City and is 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's service territory consists of approximately 246 square miles including the incorporated area of the City and a number of unincorporated communities lying within a 15-mile radius of the City. The City is bisected by Interstate 4 connecting Tampa and Orlando and is located approximately halfway between the two cities. The System's service area is bordered on the north by Withlacoochee Rural Electric Cooperative, Inc., on the south by the City of Bartow, and on the east and west by Tampa Electric Company. The City has entered into territorial agreements with each of them.

LE owns and operates 984 MW's of generation with a well diversified fuel mix of natural gas, coal, and fuel oil. The utility is also a member of the Florida Municipal Power Pool which includes Orlando Utilities Commission and Florida Municipal Energy Authority. The Power Pool allows LE to purchase a portion of its power needs that improves reliability and reduces costs. The available capacity in the Power Pool will result in LE deferring building new generation for the next 10 years.

LE also services over 1,800 miles of distribution lines of which 628 miles are underground. 230 and 60 kilovolt (kV) systems make up the primary transmission network for LE. There are currently 124 miles of 69 kV lines and 27 miles of 230 kV transmission lines connecting the West Substation to the McIntosh Plant, the McIntosh Plant to the Eaton Park Substation and the Eaton Park Substation to the Crews Lake Substation.





OVERVIEW OF LAKELAND ELECTRIC (CONTINUED)

Economic Outlook

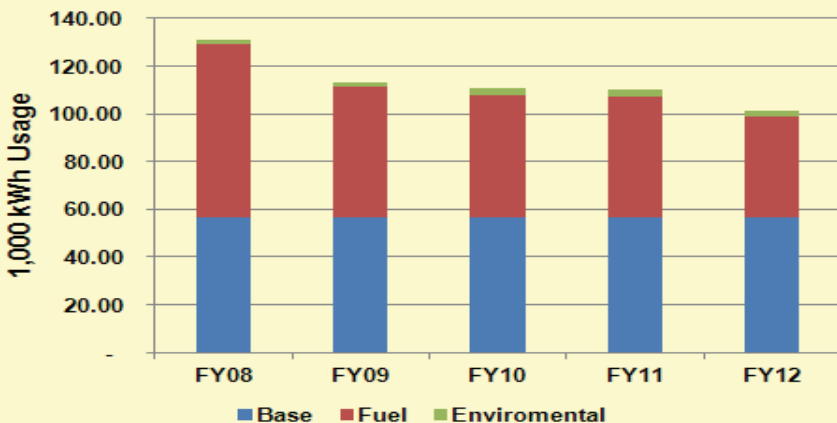
Central Florida felt a disproportionate negative impact from the Great Recession due to the sharp decline in construction and tourism. Lakeland Electric has forecasted less than 1% increase in customer growth per year over the next 3 years. Despite the flat growth and economically driven conservation of energy usage, LE has maintained a strong financial position while providing reliable service at a competitive price.

LE has not raised base rates since 2007 and has made a commitment to maintain our base rates through 2014. LE has and will continue to attain efficiencies to control our operating costs and utilize technology, such as Smart Grid, to provide increased service with fewer resources.

Ranking of Lakeland Electric Rates Compared to Electric Utilities in the State of Florida Total Rate (Ranked Lowest to Highest)

Year	Residential	Small Commercial	Mid-Size Commercial	Large Industrial
<u>2012</u>	4th	2nd	3rd	4th
<u>2011</u>	8th	6th	4th	6th

Lakeland Electric Residential Rate



MAJOR INITIATIVES

Smart Grid – In 2009, Lakeland Electric was one of 100 utilities in the country that was awarded a grant from the Department of Energy (DOE) for the installation and implementation of Smart Grid in our system. LE is also the largest municipal electric utility in the country selected. The \$35 million project was financed with \$15 million from the grant and the balance from issuing bonds. The project is scheduled to be completed December 2012.



Smart Meters will have the following benefits:

- Allow customers to view their energy usage
- The meters will report power outages resulting in quicker restoration of service
- Reduce theft in the system that will have a positive impact to customer's rates
- Improve the quality of data to the utility that enhances resource planning resulting in the utility allocating capital to the best need
- Time-of-Use rates that will give customers an opportunity for both the customer to save money as well as the utility to defer new generation

Future features will include:

- In-home displays of energy usage
- Pay-as-you-go services

Commitment to Clean, Renewable Energy – Lakeland Electric has aggressively pursued incorporating solar power generation into its generation portfolio. Three years ago, LE began planning with SunEdison to integrate 24 megawatts (MW) of solar capacity into our system by 2018. During 2012, LE increased its photovoltaic (PV) capacity to 5.3 MW's by installing solar panels on unused land at the airport. This project employed nearly 200 local workers and will generate 8.3 million kWh's of electricity annually.

For residential customers, LE teamed with Regenes Power to provide solar hot water heaters. Nearly 200 homes have been equipped to date with continued new installation in 2013 and beyond.

At full implementation, these projects will produce enough electricity over the next 20 years to offset nearly 807 million pounds of carbon dioxide and sustain 7,200 homes with clean, environmentally-friendly energy with zero capital costs to the ratepayers.



MAJOR INITIATIVES (CONTINUED)

ReEnergize Lakeland – The City of Lakeland was awarded an Energy Efficiency & Conservation Block Grant from the DOE in 2009. The program allowed customers to obtain a zero-interest loan up to \$5,000 to install select energy efficiency and renewable energy measures in their home. The initial funding was \$250,000 and was awarded to 54 homes resulting in annual reduction of energy usage of 143,000,000 kWh.

Although the grant expired in 2012, due to the success of the program, LE provided an additional \$200,000 to allow more customers an opportunity to participate. LE also obligated \$150,000 for rebates to customers who replace their high energy consumption refrigerators with new Energy Star rated refrigerators.

Customer Assistance – LE provides multiple services for customers to help them reduce their energy usage and get help with their utility bill with the following programs:

- 3,100 customers in 2012 received a free home energy audit. Our certified home energy auditors review heating and cooling efficiency, insulation levels, lighting, and provide tips on how to reduce energy use
- LE employees contributed over \$41,000 to the Project Care fund that provides assistance to customers for their utility bills
- By working with local social service agencies, LE helped allocate \$1,060,000 in utility bill payment assistance

Fuel Cost Reduction – LE has combined efforts with General Electric in 2012 to test new technology that will allow the burning of cheaper coal in our coal plant. The results were amazing. In 2013, LE will be able to burn cheaper and more abundant Illinois Basin coal that will reduce fuel costs for our customers while making Unit #3 the lowest cost coal plant in Central Florida.

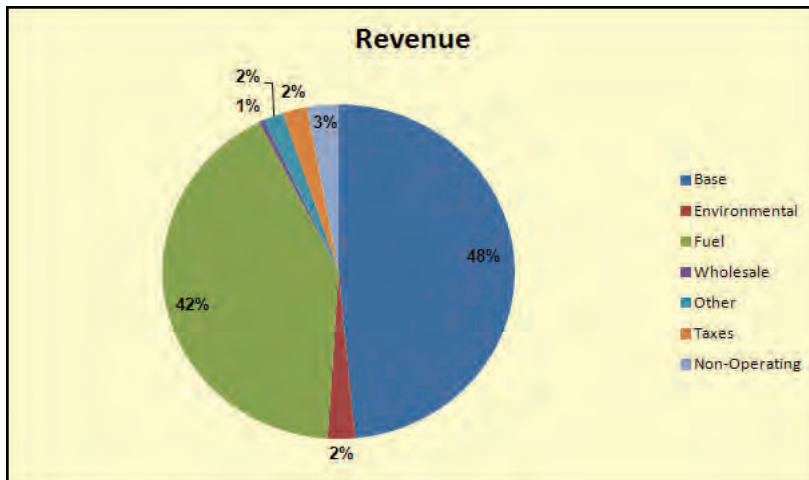
Rapid Process Improvements (RPI) – In an effort to control our costs and keep our rates competitive during these financially challenging times, Lakeland Electric began a rapid process improvement program. The goal is to identify 6 processes each year and identify inexpensive improvements that can be implemented quickly and improve our bottom line. To date, 25 RPI's have been completed with over 150 employees involved and has produced savings of nearly \$500,000.



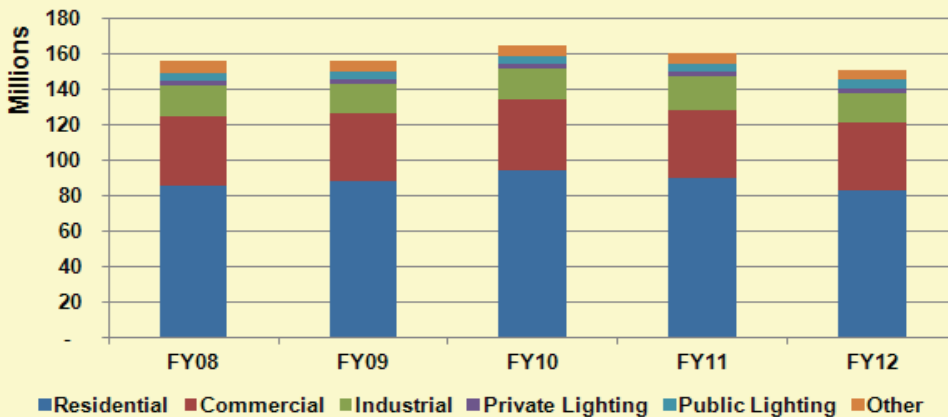
FINANCIAL ACTIVITY

Total Revenues - \$298,933,627

Overall revenues declined by \$50.7 million or 14.5% compared to 2011. The driver was fuel revenues as we lowered our fuel rate twice during the year in response to low natural gas prices and ended the year with our lowest fuel rate in nearly 8 years. Our base rates remained flat while we lowered our environmental rate by 4% at the beginning of the year. Consumption was down 5% compared to last year due to abnormal weather. Most of the globe experienced an unusually warm winter while central Florida also had a below average summer for heat that included tropical storm Debbie. Other operating revenues, which includes items such as pole attachment fees, fly ash sales, and surge protection, remained flat. Investment income exceeded expectations due to strong liquidity and better than forecasted interest rates.



Operating Revenues (Excluding Fuel) FY08 - FY12

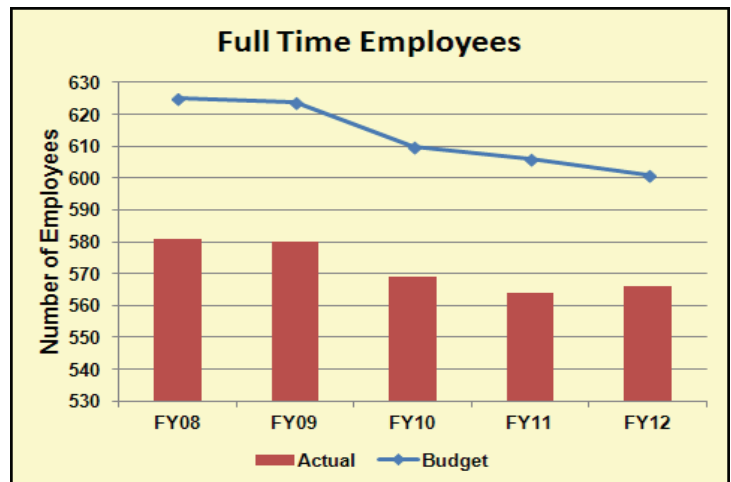
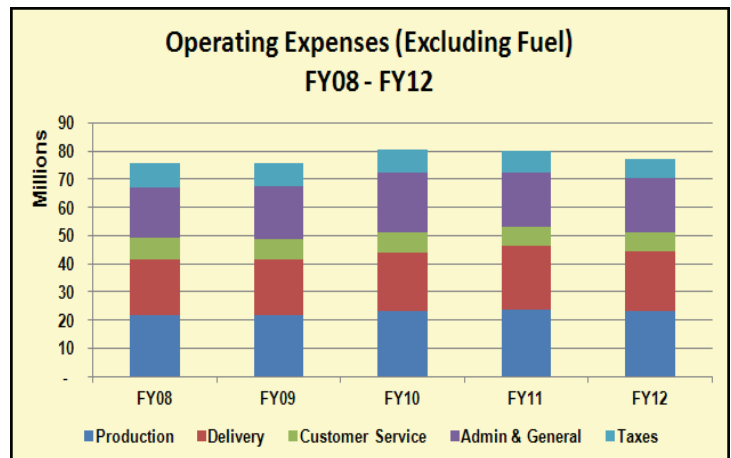
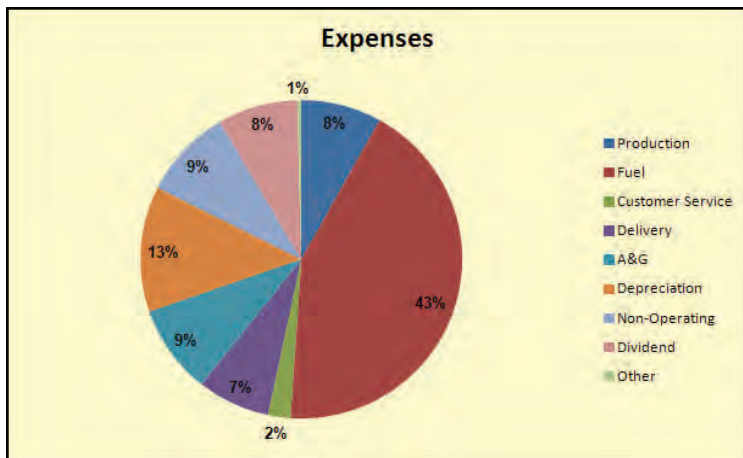




FINANCIAL ACTIVITY (CONTINUED)

Total Expenses - \$288,813,959

Operating expenses declined by \$40.6 million or 14.2%. This was due primarily to decreases in fuel costs. Operating expenses, excluding fuel and taxes, declined by 2.6%. Lakeland Electric worked diligently to control expenses while maintaining the appropriate level of maintenance during these financially challenging times. In response to the mild winter, LE implemented mid-year budget cuts in both operating and capital expenses to preserve our liquidity. We continue to operate at a staffing level well below our approved budget. Non-operating expenses remained flat while our dividend to the City declined by 4.2% due to lower retail kWh sales.



FINANCIAL ACTIVITY (CONTINUED)

Financial Status

For the 2012 fiscal year, the overall financial condition of Lakeland Electric improved slightly as revenues exceeded expenses even with abnormal weather and slow economic recovery for our service territory. Total Net Assets, or Equity, increased \$10.1 million in 2012.

Abbreviated Statements of Net Assets

Year	Total Assets	Total Liabilities	Total Net Assets
<u>2008</u>	\$ 896,356,987	636,539,361	259,817,626
<u>2009</u>	\$ 903,791,750	625,146,110	278,645,640
<u>2010</u>	\$ 928,826,502	630,967,547	297,858,955
<u>2011</u>	\$ 948,666,518	630,635,878	318,030,640
<u>2012</u>	\$ 949,303,347	621,153,040	328,150,308

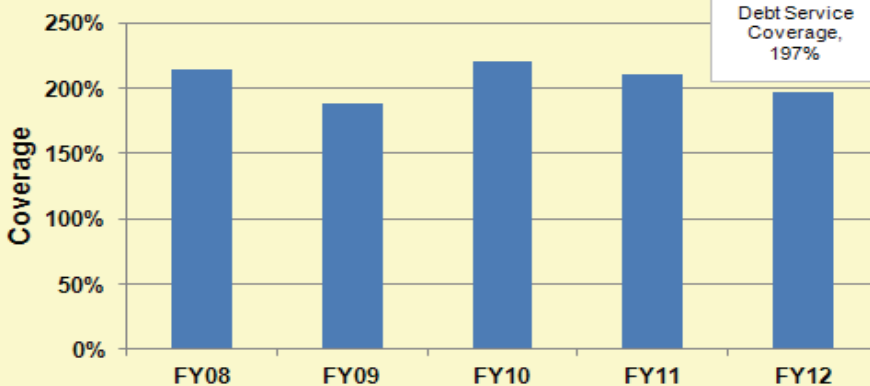


Debt Service Coverage

This ratio is a measurement that demonstrates an entity's ability to pay its annual debt service made up of both principal and interest. LE's bond covenants require a debt service coverage of at least 150% but through our conservative approach to finances an internal benchmark of 200% has been long established. Debt Service coverage remained strong at 197% in 2012



Debt Service Coverage





FINANCIAL ACTIVITY (CONTINUED)

Bond Ratings

Lakeland Electric attained a hallmark achievement in 2012 regarding our bond ratings. We were awarded an AA rating by Standard and Poor's which placed LE in the top 15% in the country for public power bond ratings. In addition, Moody's followed with an upgrade of our outlook from negative to positive. These credit ratings are significant in that lower interest rates on future transactions will be available to LE thereby lowering our cost of borrowing.

Bond Ratings / Outlook

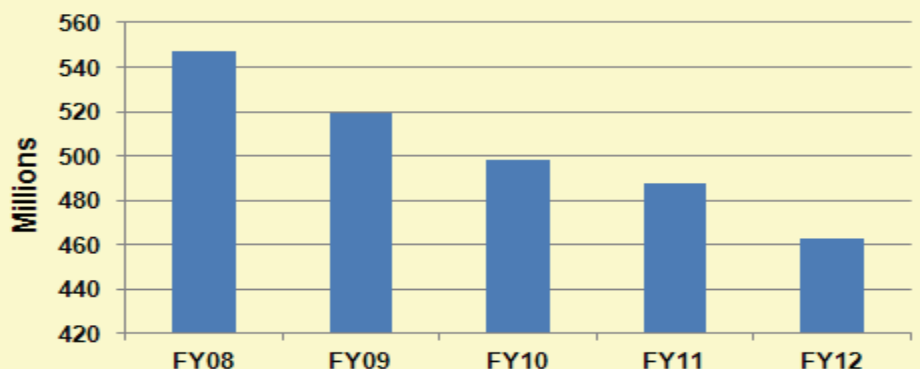
Year	Standard & Poors	Fitch	Moody's
<u>2012</u>	AA Stable	AA- Stable	A1 Positive
<u>2011</u>	AA- Stable	AA- Stable	A1 Negative



Long Term Debt

In September 2012, LE issued refunding of variable rate bonds in the amount of \$100,000,000. At the end of 2012, the amount of long-term bond debt outstanding totaled \$463,103,694. With available generation capacity to meet customer demand, LE does not anticipate issuing new debt in the near future.

Long Term Debt



CUSTOMERS

Lakeland Electric's average customer base for 2012, was 120,771 accounts which the majority of our customers are residential. All City owned facilities are metered and pay Lakeland Electric for services rendered on a current basis. The following table lists the ten largest users of electricity for 2012. There has been little change to this list representing stability in Lakeland Electric's customer base. Of note, LE successfully partnered with the City of Lakeland and Lakeland's Economic Development Council to recruit Matheson Tri-Gas into our territory. When fully operational in 2013, Matheson Tri-Gas will be Lakeland Electric's 2nd largest user of electricity.

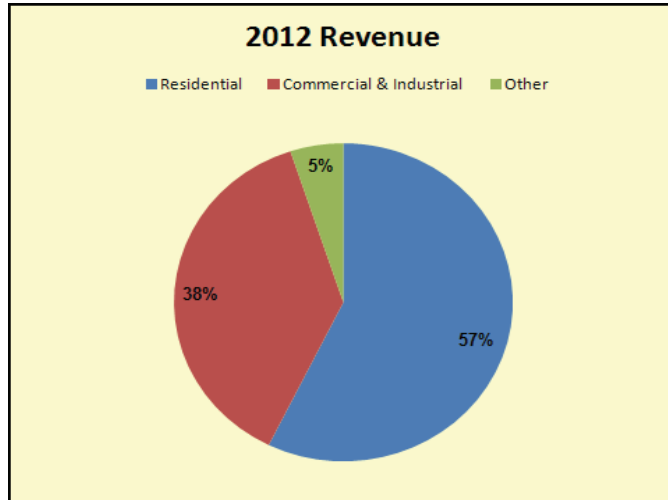
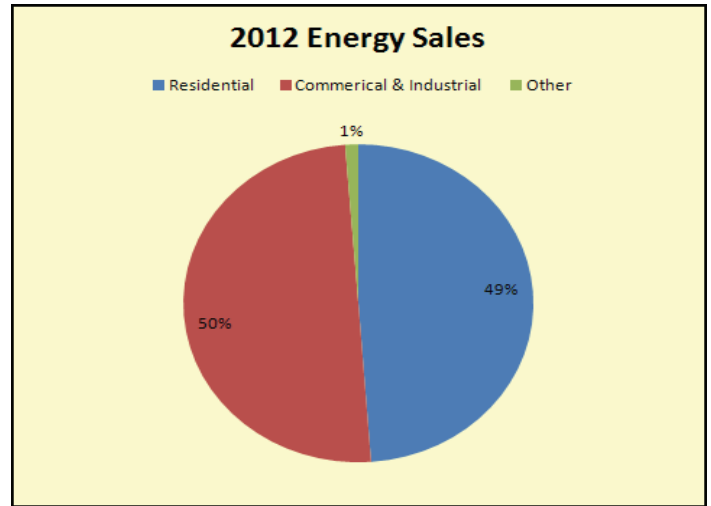
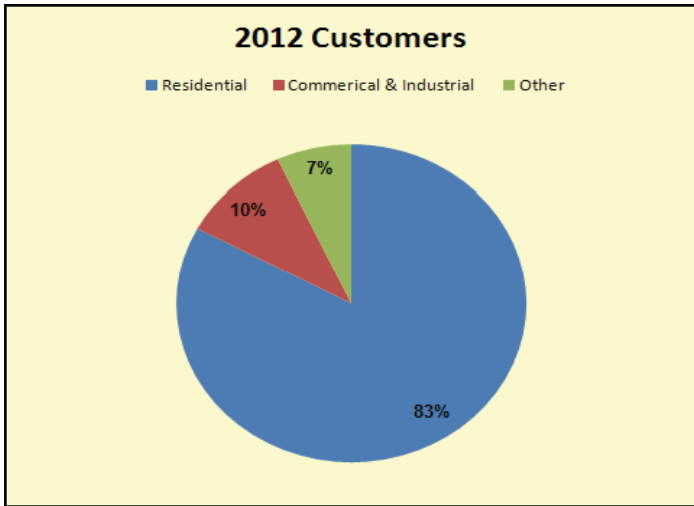
TEN LARGEST ELECTRIC CUSTOMERS

(AS OF SEPTEMBER 30, 2012)

<u>Customer</u>	kWh Used in Fiscal Year 2012	kWh Used in Fiscal Year 2011	Percent Change from 2011	% Total 2011 kWh Sold	Peak Demand 2011 (Mw)
Publix	192,569,081	188,205,662	2.32%	6.97%	30.5
City of Lakeland	69,343,889	71,573,419	-3.12	2.51	18.5
Lakeland Regional Medical	53,101,703	52,507,173	1.13	1.92	9
Polk County School Board	43,957,118	45,715,040	-3.85	1.59	23.5
Owens Corning Sales	32,148,000	38,916,000	-17.39	1.16	11.9
Key Safety Systems, Inc	23,522,400	25,574,400	-8.02	0.85	3.8
Florida Southern College	23,431,808	23,134,403	1.29	0.85	3.9
Pepperidge Farms	17,722,952	16,759,364	5.75	0.64	3
Watson Clinic LLP	16,148,000	16,379,935	-1.42	0.58	3
Winn Dixie Stores Inc	15,267,200	15,595,600	-2.11	0.55	2.4
Totals	487,212,184	494,360,996	-25.41	17.63	109.5



CUSTOMERS (CONTINUED)



CONTACT INFORMATION

Out of State Toll Free	1-800-929-4876
Lakeland Electric Switch Board	(863) 834-6300
Customer Service (Electric or Water)	(863) 834-9535
Payment 24 Hour Hotline	(866) 534-2670
After Hour Outages	(866) 834-4248
General Manager	(863) 834-6541
Deputy General Manager	(863) 834-6505
Fiscal Operations AGM	(863) 834-8343
Lakeland Electric Controller	(863) 834-6422
Lakeland Electric Budget Manager	(863) 834-6207
City of Lakeland Accounts Payable Office	(863) 834-6232





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