



2013

POPULAR ANNUAL

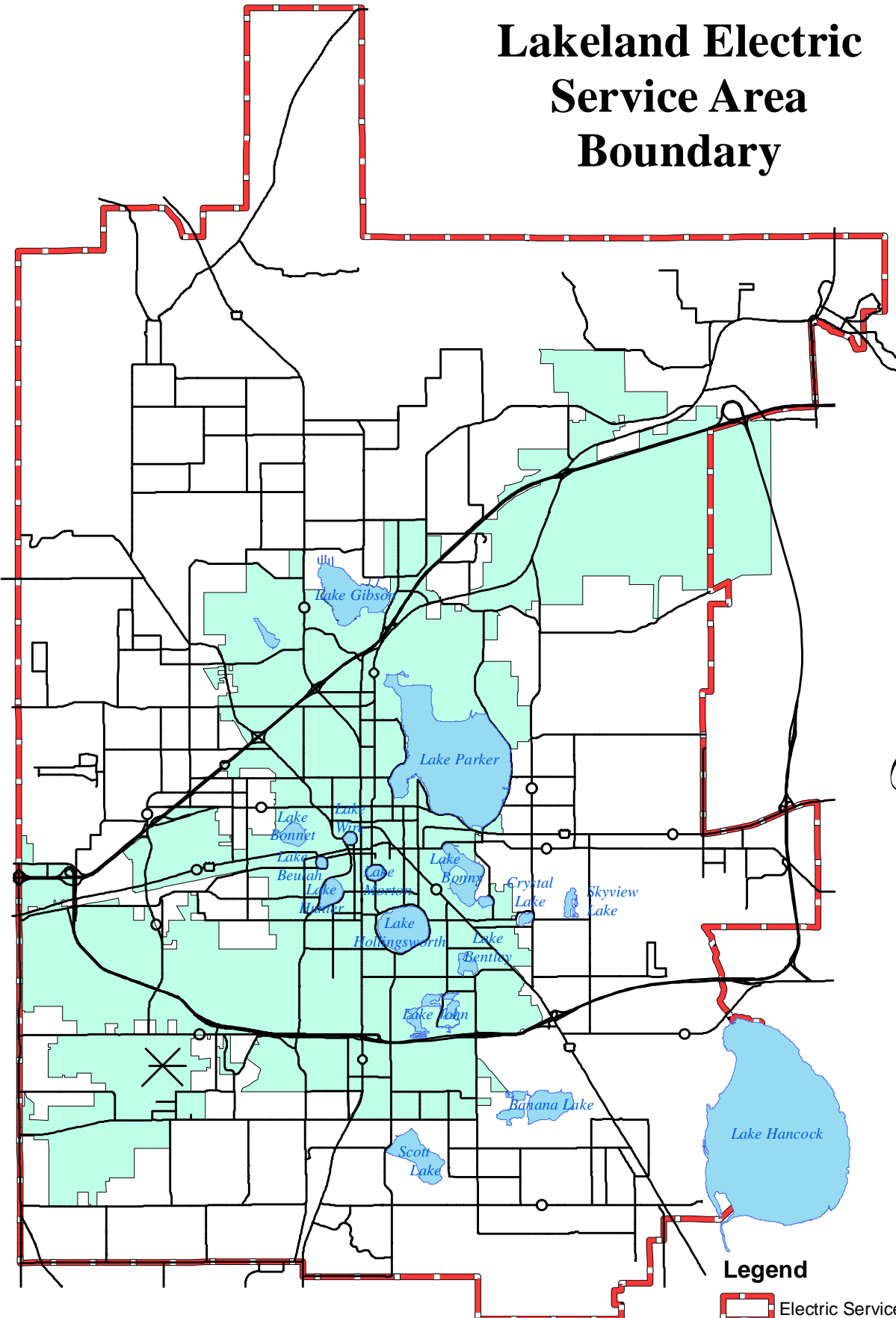
FINANCIAL REPORT




DEPARTMENT OF ELECTRIC UTILITIES

AN ENTERPRISE FUND OF THE CITY OF LAKELAND, FLORIDA

FISCAL YEAR END SEPTEMBER 30, 2013

Lakeland Electric Service Area Boundary



- Legend**
-  Electric Service Boundary
 -  City of Lakeland
 -  Lakes



Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

Presented to

City of Lakeland, Florida
Department of Electric Utilities

For its Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO



Vision

Powering our community with excellence in energy solutions

Mission

We are committed to provide safe, reliable, competitive and environmentally responsible energy solutions to enrich our customers' quality of life.

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 2014

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our second 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, 2013. 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). The CAFR details LE'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. Both the budget and CAFR have 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.

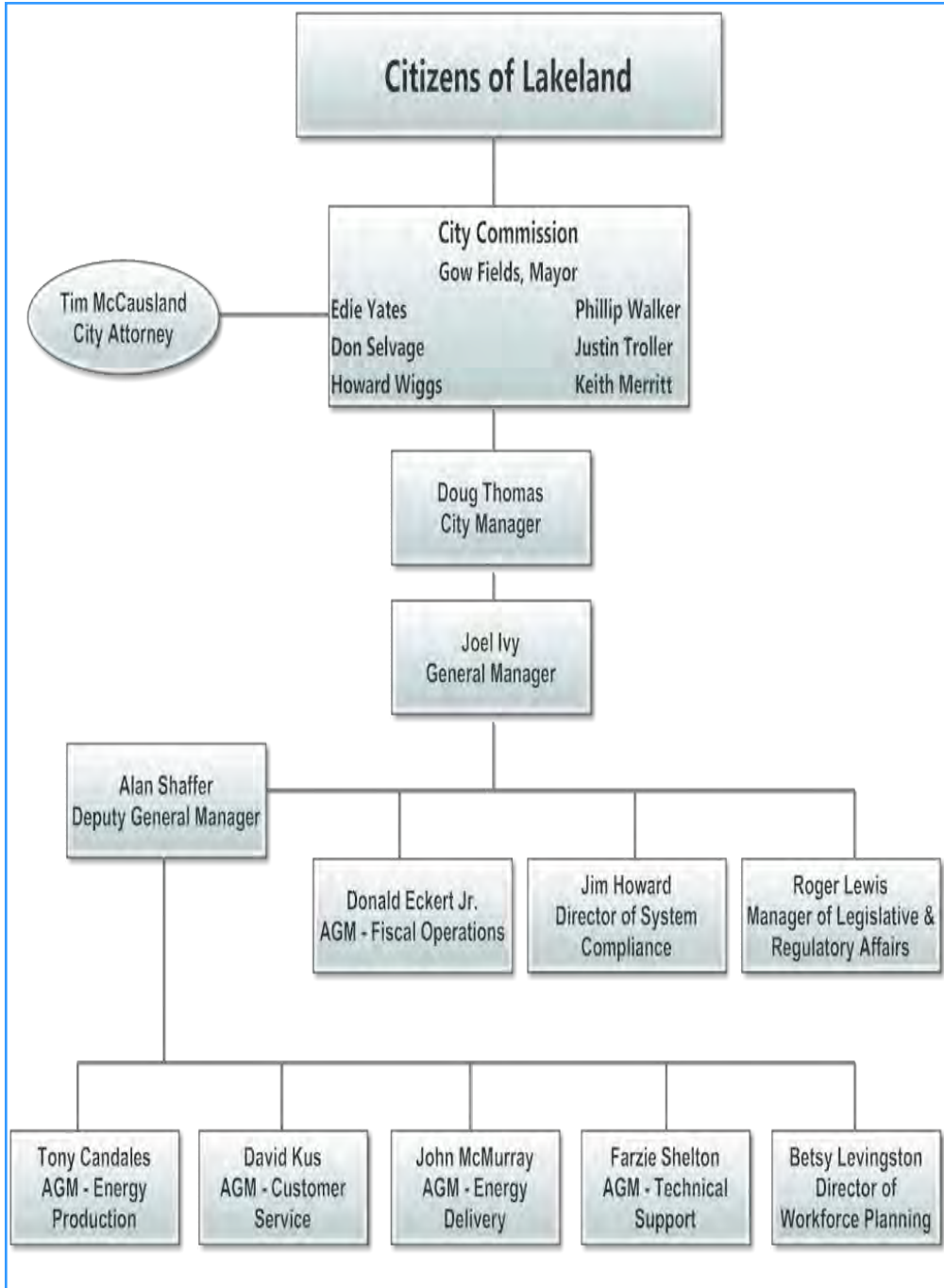
You may find other information regarding Lakeland Electric, including this PAFR, annual budget and CAFR, on the City of Lakeland's Web site: lakelandgov.net

Respectfully submitted,



Donald Eckert Jr., CGFO, CTP, CPPM, ERP, 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



DONALD ECKERT JR.
ASSISTANT GENERAL MANAGER
FISCAL OPERATIONS



DAVID KUS
ASSISTANT GENERAL MANAGER
CUSTOMER SERVICE



JOHN MCMURRAY
ASSISTANT GENERAL MANAGER
DELIVERY



FARZIE SHELTON
ASSOCIATE GENERAL MANAGER
TECHNICAL SUPPORT



BETSY LIVINGSTON
DIRECTOR OF TRAINING AND
WORKFORCE DEVELOPMENT



Overview of Lakeland Electric



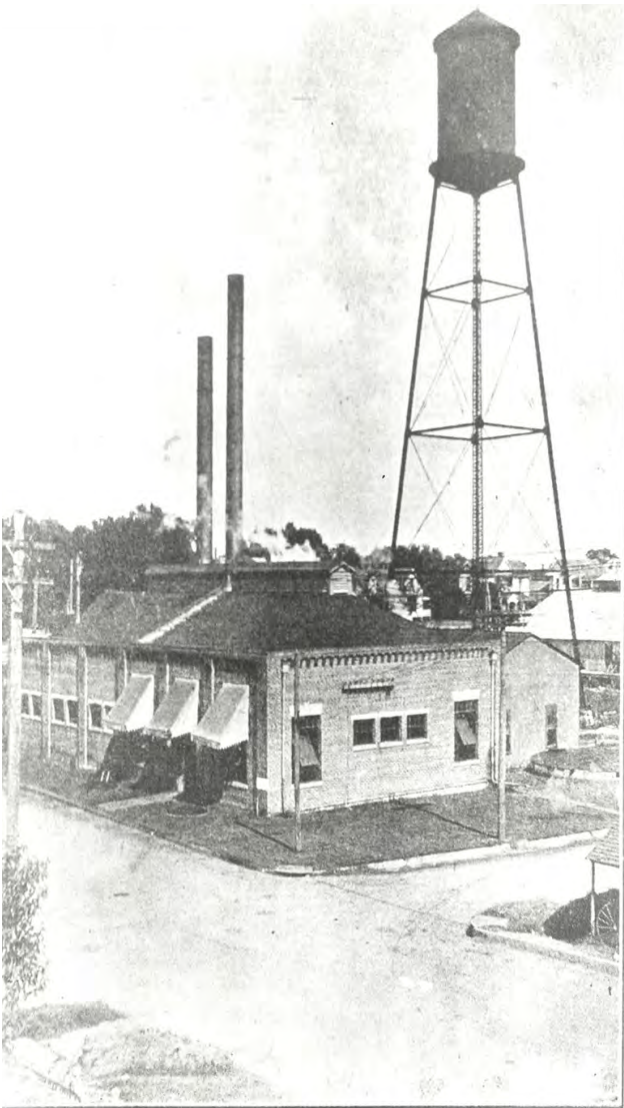
The System

The City of Lakeland's first power plant was built in 1889 and privately owned. Lakeland Electric 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 2.8 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 five 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 975 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 (FMPP) which includes Orlando Utilities Commission and Florida Municipal Power Agency. FMPP allows LE to purchase a portion of its power needs with less expensive natural gas generation, lowering our fuel rate, while providing reliable power during forced outage time of our fleet. The available capacity in FMPP also allows deferral of new generation for several years.

LE also services over 1,800 miles of distribution lines of which 628 miles are underground. 230 and 69 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.



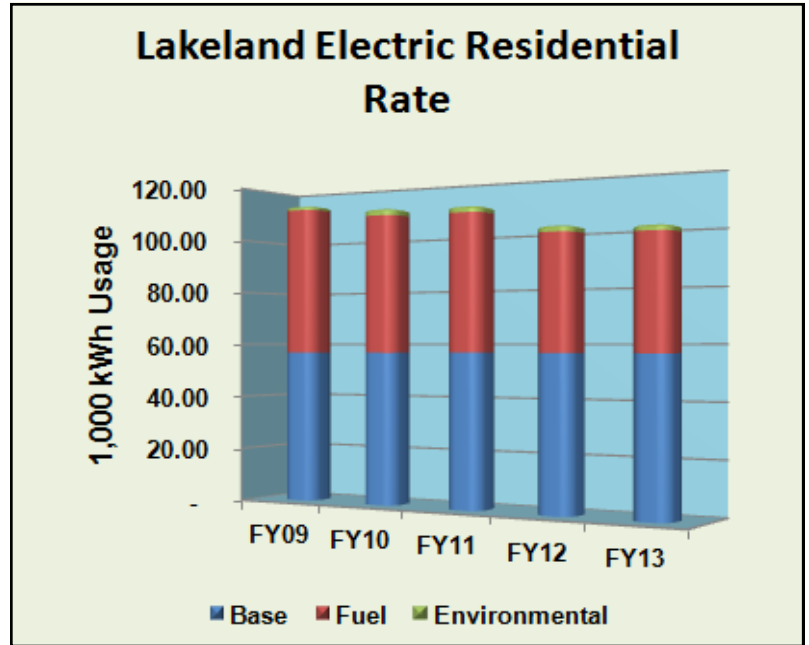
MUNICIPAL LIGHT AND WATER PLANT

Overview of Lakeland Electric (Continued)

Economic Outlook

The economy of LE's service territory has stabilized since the Great Recession and LE has projected approximately 1% growth in both number of customers and revenue over the next 3 years. Despite the slow growth and economically driven conservation of energy usage, LE has maintained a strong financial position while achieving one of the best reliability records in the state at a competitive price.

LE has not raised base rates since 2007 and will maintain our current base rates through 2014. LE does adjust the fuel rate quarterly and the environmental rate annually based on twelve month projected costs. Low natural gas prices due to shale drilling technology as well as the lowering of coal costs resulted in a reduction of the fuel rate by 3 ½% this year. Stability in the regulatory sector, with a focus on coal generation, also resulted in a 4 ½% reduction in the environmental rate. Overall, LE ended the year with the lowest rates in the state for residential customers and in the lowest 3 in all the major customer classes as compared to all Investor Owned and Public Power Utilities in Florida.



| Year | Residential | Small Commercial | Mid-Size Commercial | Large Industrial |
|------|-------------|------------------|---------------------|------------------|
| 2013 | 1st | 3rd | 1st | 2nd |
| 2012 | 2nd | 2nd | 1st | 2nd |



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. 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 financed from debt and equity. In spring of 2013, LE achieved 100% installation and billing from Smart Grid meters.

Smart Grid 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.
- Rate options 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:

- Display energy usage and outage information through the development of mobile applications for smartphones and tablets.
- Pay-as-you-go services.

Commitment to Clean, Renewable Energy – Lakeland Electric has aggressively pursued incorporating solar photovoltaic power generation into its generation portfolio. Four years ago, LE began planning with Sun Edison to integrate 24 megawatts (MW) of solar capacity into our system by 2018. To date, the capacity of the program has reached 5.6 MW with systems at both Linder Airport and the Lakeland Center. These systems produced 11.5 million kWh of clean electricity in 2013.

In response to decreasing costs of solar technology and equipment, LE reopened negotiations with Sun Edison to reduce the cost of solar energy to our ratepayers. Successful negotiations resulted in a revised power purchase agreement that will save the ratepayers \$500,000 annually when new capacity is installed.

An agreement was reached with Sun Edison to build a 6 MW capacity solar farm at the Sutton Substation area in the future. When complete, solar energy will account for 2% of LE's summer peak generation.

For residential customers, LE teamed with Regenes Power to provide solar hot water heaters. This past year, an additional 32 homes were equipped with solar hot water heaters and the program in total accounted for 500,000 kWh of thermal energy.

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)

Energy Production – The Energy Production group which includes the Power Plant and Fuels had a stellar year in 2013. Accomplishments include:

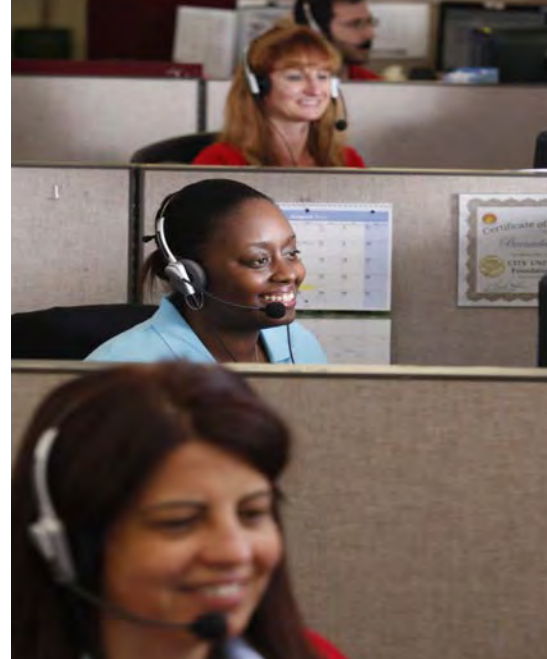
- Mac #5, LE's largest natural gas unit in the fleet, achieved 93% availability in 2013 with a heat rate (measure of fuel efficiency) of 6,800 BTU/kWh resulting in the unit being the most efficient 501G unit in the world.
- In 2012, LE partnered with General Electric to test new technology that would allow the burning of lower quality of coal without the expensive maintenance side effects. The results were amazing. Upon completion of the planned outage in Spring 2013, LE switched to 100% burning of Illinois Basin coal. By switching to a lower cost fuel, LE has saved the ratepayers \$8 million/year in fuel costs while heralding Mac #3 as the most cost efficient coal plant in Central Florida.
- Several years ago, LE purchased fuel oil as insurance for reliability if a major storm disrupted natural gas and/or coal supply. After an aggressive marketing endeavor, LE was able to sell some of the older inventory of fuel oil for \$2.6 million. The proceeds were placed in cash reserves that will help mitigate future base rate increase.

Reliability – Customer reliability is LE's top priority. By investing in new technology, replacing 571 transmission and distribution poles, and vegetation management of over 400 square miles of area near power lines, excellent customer reliability is maintained. In 2013, an average of 1 outage per customer was achieved with an average outage time of 77 minutes. Both are excellent achievements compared to LE's peers in Florida.

Compliance – In response to the power blackout of 2003 which left 50 million people without power in the northern US and Canada, the North American Electric Reliability Corporation (NERC) developed reliability standards to prevent future occurrences. These standards are enforced with penalties that range from \$1,000 - \$1,000,000 per incident, per day. LE is currently in a 3 year rotation for audits from NERC with our last audit in spring of 2013. Due to our culture of compliance and dedicated men and women of LE, no significant findings were identified and no fines were levied.

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 and achievements in 2013:

- 3,100 customers 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 \$518,000 in utility bill payment assistance.
- LE offers 24/7 payment assistance through our Call Center, web site, and interactive voice response unit (IVR). During the year, LE created 29,000 payment assistance plans to help our customers work through temporary circumstances.





LAKELAND OPEN ELECTRIC HOUSE

FREE EVENT 10.12.13 10AM-2PM

**POWER PLANT TOURS
BUCKET TRUCK RIDES
PHOTOS WITH WATTSON
CHILDREN'S ACTIVITIES
GIVEAWAYS
FOOD & REFRESHMENTS
DEMOS & DISPLAYS**

**LAKELAND ELECTRIC
TRAINING FACILITY
2727 CENTURION DRIVE**

SMART METERS | HURRICANE/STORM PREP | NEW LE WEBSITE
ELECTRIC SAFETY | CUSTOMER SERVICE PROGRAMS
SOLAR POWER | LIVE WIRE COOKED HOTDOGS



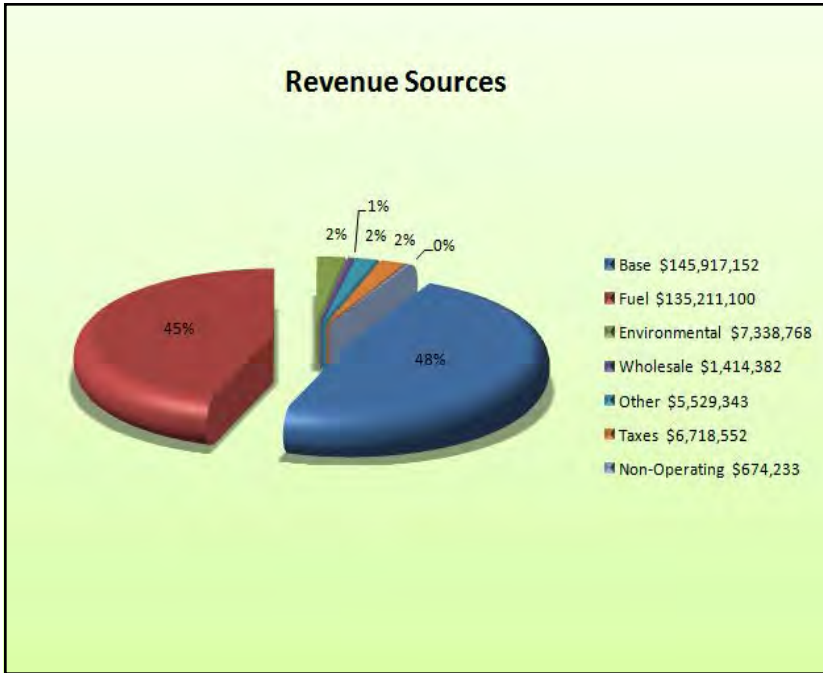
POWERED FOR LIFE

AFFORDABLE | DEPENDABLE | SUSTAINABLE

**LAKELAND
ELECTRIC**

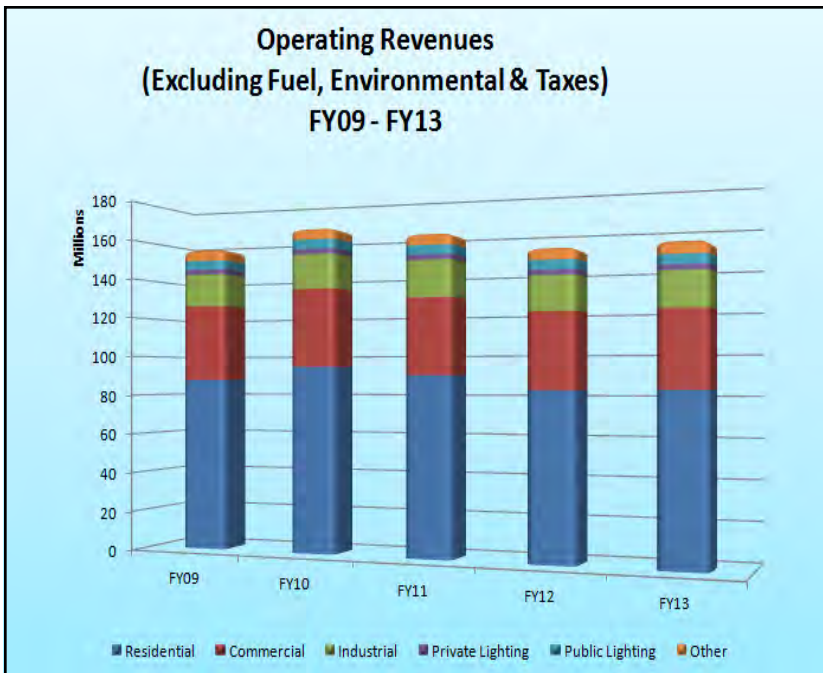


Financial Activity



Total Revenues - \$302,803,530

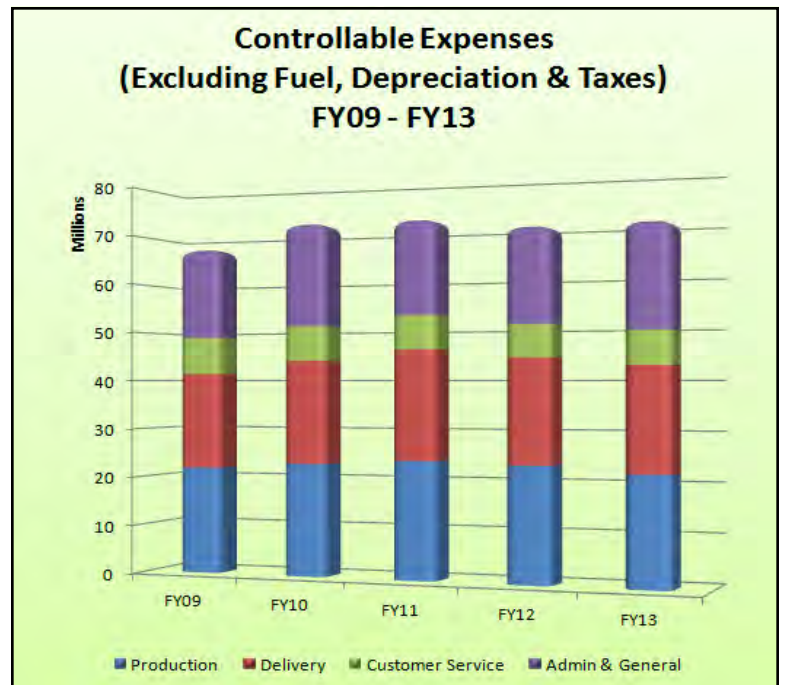
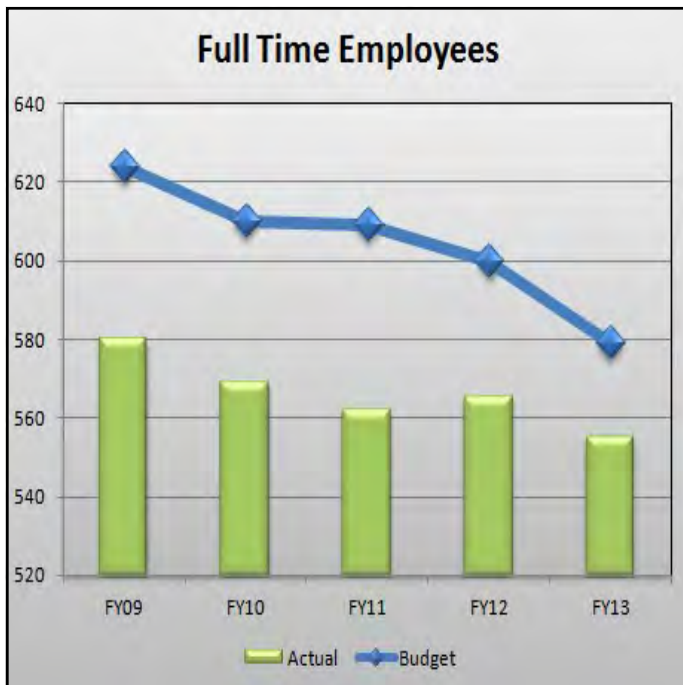
Operating revenues increased by \$3.7 million or 1% compared to 2012. The driver for the slight increase was weather. Heating and cooling degree days were below average but favorable to last year. The fuel rate was lowered twice during the year in response to low natural gas prices and coal technology implementation and LE ended the year with our lowest fuel rate in nearly 10 years. Our base rates remained flat while the environmental rate was lowered 4% at the beginning of the year. Energy consumption increased 1% compared to last year. Other operating revenues, which include items such as pole attachment fees, fly ash sales and surge protection, remained flat. Investment income was impacted by a non-cash fair market value adjustment due to higher interest rates lowering the resale value of LE's fixed income securities.



Financial Activity (Continued)

Total Expenses - \$297,165,293

Operating expenses increased by \$8 million or 2.8%. This was due primarily to increased fuel expense due to increased consumption. Operating expenses, excluding fuel and taxes, remained flat. Lakeland Electric worked diligently to control expenses while maintaining the appropriate level of maintenance during these financially challenging times. In response to the below average weather, LE implemented mid-year budget cuts in operating, capital expenses and the dividend to the City to preserve our liquidity. We continue to operate at a staffing level well below our approved budget. Non-operating expenses improved by 16% as a result of reduction in debt service while our dividend to the City increased by 1% due to higher retail sales but was \$1.2 million below budget.



Financial Activity (Continued)



Financial Status

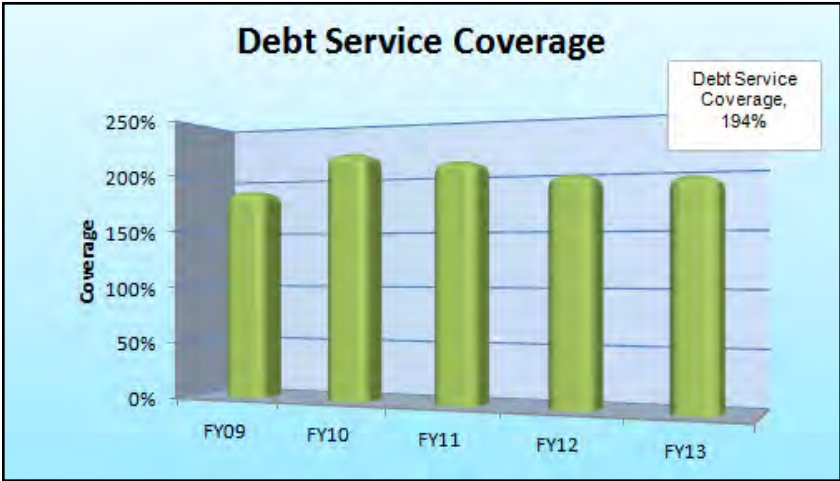
For Fiscal Year 2013, the overall financial condition of Lakeland Electric improved slightly as revenues exceeded expenses even though weather impacted residential sales and commercial activity was below expectations. Total Net Assets or Equity increased \$5.7 million in 2013.

Abbreviated Statement of Net Position

| Year | Total Assets & Deferred Outflows | Total Liabilities & Deferred Inflows | Net Position |
|------|----------------------------------|--------------------------------------|--------------|
| 2009 | \$ 890,961,982 | 612,316,497 | 278,645,485 |
| 2010 | \$ 890,770,499 | 592,911,711 | 297,858,788 |
| 2011 | \$ 906,714,797 | 588,684,323 | 318,030,474 |
| 2012 | \$ 1,024,881,717 | 696,731,409 | 328,150,308 |
| 2013 | \$ 975,947,088 | 642,158,539 | 333,788,549 |

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 covenant requires 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 194% in 2013.



Financial Activity (Continued)

Bond Ratings

In 2012, Lakeland Electric received an upgrade by Standard and Poor's of AA rating placing LE in the top 15% in the country within the public power sector. Moody's also upgraded LE's outlook from negative to positive. In 2013, there were no changes to our ratings status. Maintaining these ratings is critical to LE achieving low interest rates on future debt issues or refinancing thereby lowering interest costs to our ratepayers.

| Bond Ratings / Outlook | | | |
|------------------------|------------------|--------|----------|
| 2013 | Standard & Poors | Fitch | Moody's |
| Rating | AA | AA- | A1 |
| Outlook | Stable | Stable | Positive |



Long Term Debt

At the end of Fiscal Year 2013, the amount of debt outstanding totaled \$442.8 million. Approximately 45% of LE's debt is floating rate notes and the remainder is fixed rate. Slow customer growth combined with available generation capacity with the Florida Municipal Power Pool results in projected deferral of new generation and no anticipated debt issue in the near future. The next refinancing of floating rate notes is in 2017.



Customers

Lakeland Electric's average customer base for 2013 was 122,460 accounts of which the majority are residential. All City owned facilities are metered and pay Lakeland Electric for services rendered on a current basis. The following table lists the fifteen largest users of electricity for 2013. There has been little change to this list representing stability in Lakeland Electric's customer base. A new customer to this list is Matheson Tri-Gas. This was a result of a successful partnership with the City and the Lakeland Economic Development Council. Matheson Tri-Gas is expected to be the 2nd largest user of electricity at full capacity. In 2014, Amazon will be adding a warehouse facility expected to be on this list next year. Other notable new accounts next year will be O'Reilly Auto Parts facility and Brew Hub.

Summary of Top 15 Electric Customers

Ranked by Consumption (kWh)

Fiscal Year to Date thru September 2013

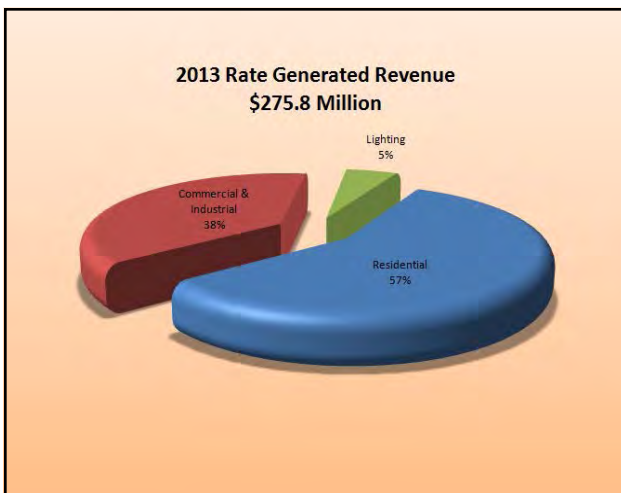
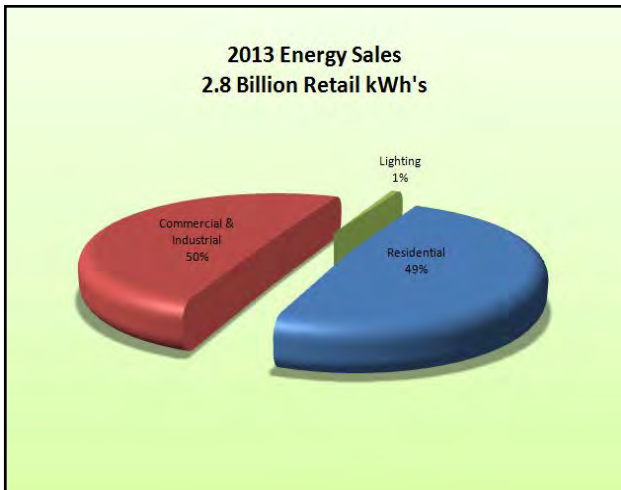
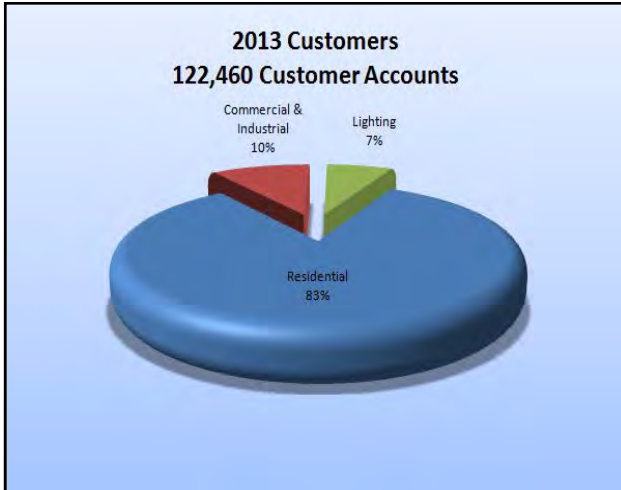
| Customer Name | YTD Consumption (kWh) | YTD % of Total Consumption | YTD Max Demand | YTD Total Demand |
|--|-----------------------------|----------------------------------|----------------------|------------------------|
| Publix Super Markets Inc Col | 193,340,452 | 6.91% | 18,864 | 365,218 |
| Lakeland Regional Medical Center, Inc ** | 68,952,587 | 2.47% | 2,084 | 201,386 |
| Owens Corning Sales Llc | 53,966,798 | 1.93% | 2,057 | 102,830 |
| Pcsb- Polk County School Board | 47,274,436 | 1.69% | 6,437 | 74,534 |
| Florida Southern College | 41,479,460 | 1.48% | 1,119 | 222,015 |
| Key Safety Systems Inc | 23,521,900 | 0.84% | 3,722 | 40,928 |
| Matheson Tri Gas | 22,075,200 | 0.79% | 3,370 | 37,210 |
| Pepperidge Farm Inc | 20,730,491 | 0.74% | 8,837 | 84,661 |
| Keymark Corp Of Fl | 18,236,539 | 0.65% | 3,086 | 33,936 |
| Juice Bowl Products Inc | 16,639,871 | 0.59% | 2,395 | 27,814 |
| Watson Clinic Llp | 16,288,692 | 0.58% | 2,495 | 28,260 |
| Tampa Maid Foods Inc | 16,094,196 | 0.58% | 1,331 | 33,301 |
| Winn-Dixie Stores Inc | 13,693,120 | 0.49% | 1,549 | 31,839 |
| Graham Packaging Co L P | 13,658,800 | 0.49% | 493 | 26,213 |
| Totals for Top 15 Electric Customers | 578,816,542 | 20.70% | 59,912 | 1,333,488 |

Total Consumption (kWh) Billed YTD 2,796,710,844.99

** As of July 1, 2013, LPMC acquired all Clark and Daughtery accounts.



Customers (Continued)



Contact Information

| | |
|--|----------------|
| Out of State Toll Free | (800) 929-4876 |
| Lakeland Electric Switch Board | (863) 834-6300 |
| Customer Service (Electric or Water) | (863) 834-9535 |
| Payment 24 Hour Hotline | (863) 834-9535 |
| After Hour Outages | (863) 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 |





501 East Lemon Street

Lakeland , FL 33801

www.lakelandelectric.com