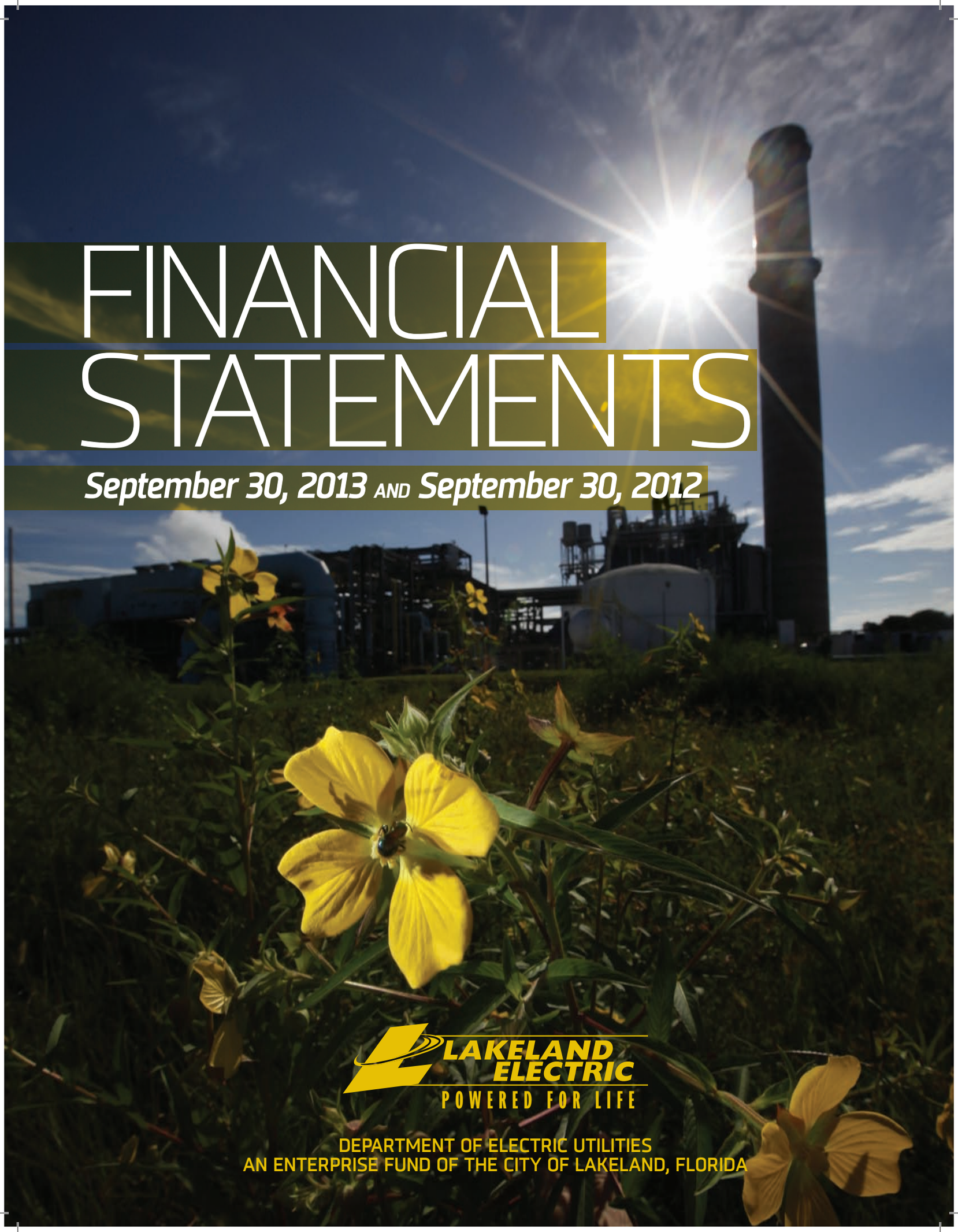

FINANCIAL STATEMENTS

September 30, 2013 AND September 30, 2012

LAKELAND ELECTRIC

POWERED FOR LIFE

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

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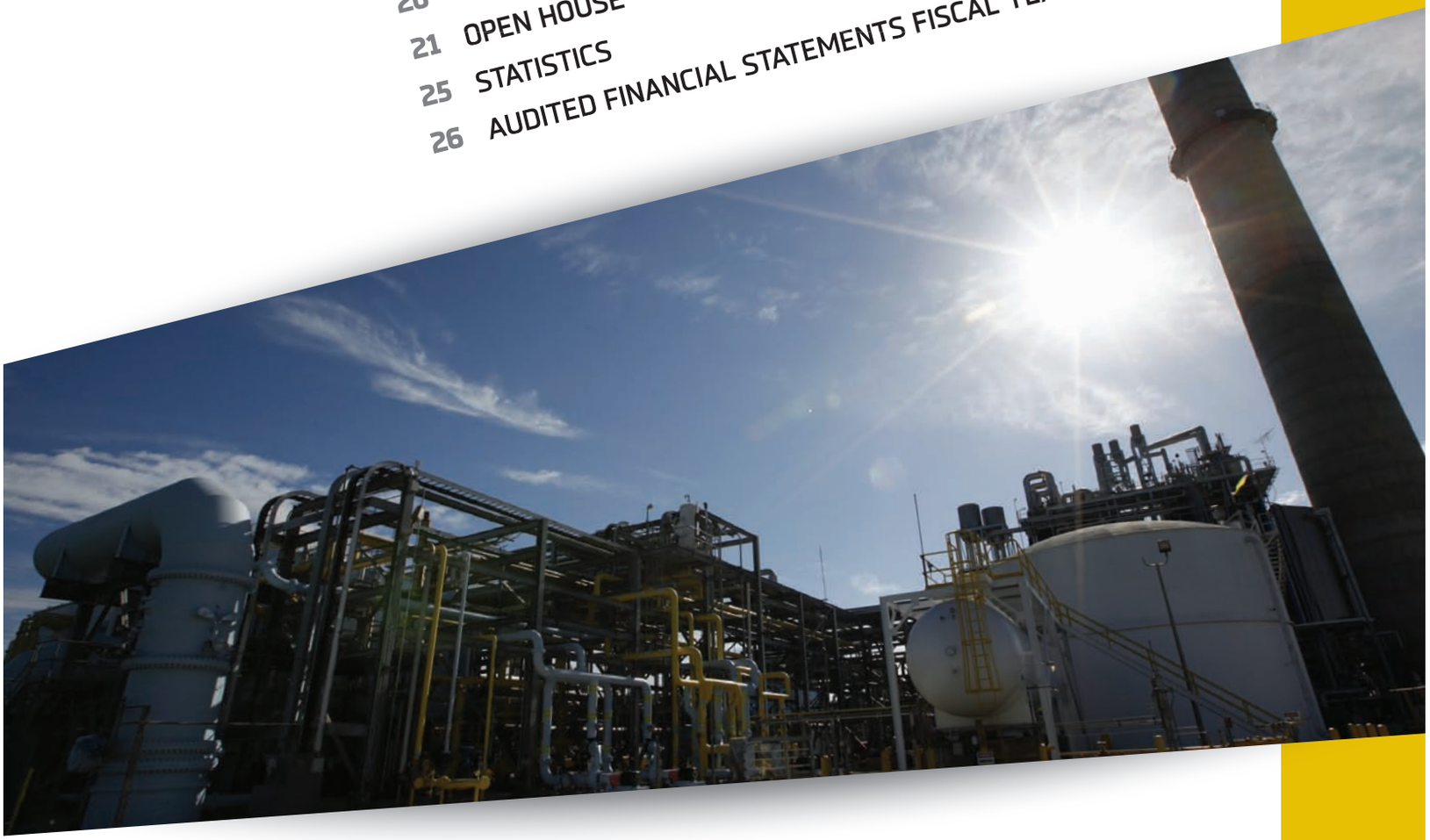
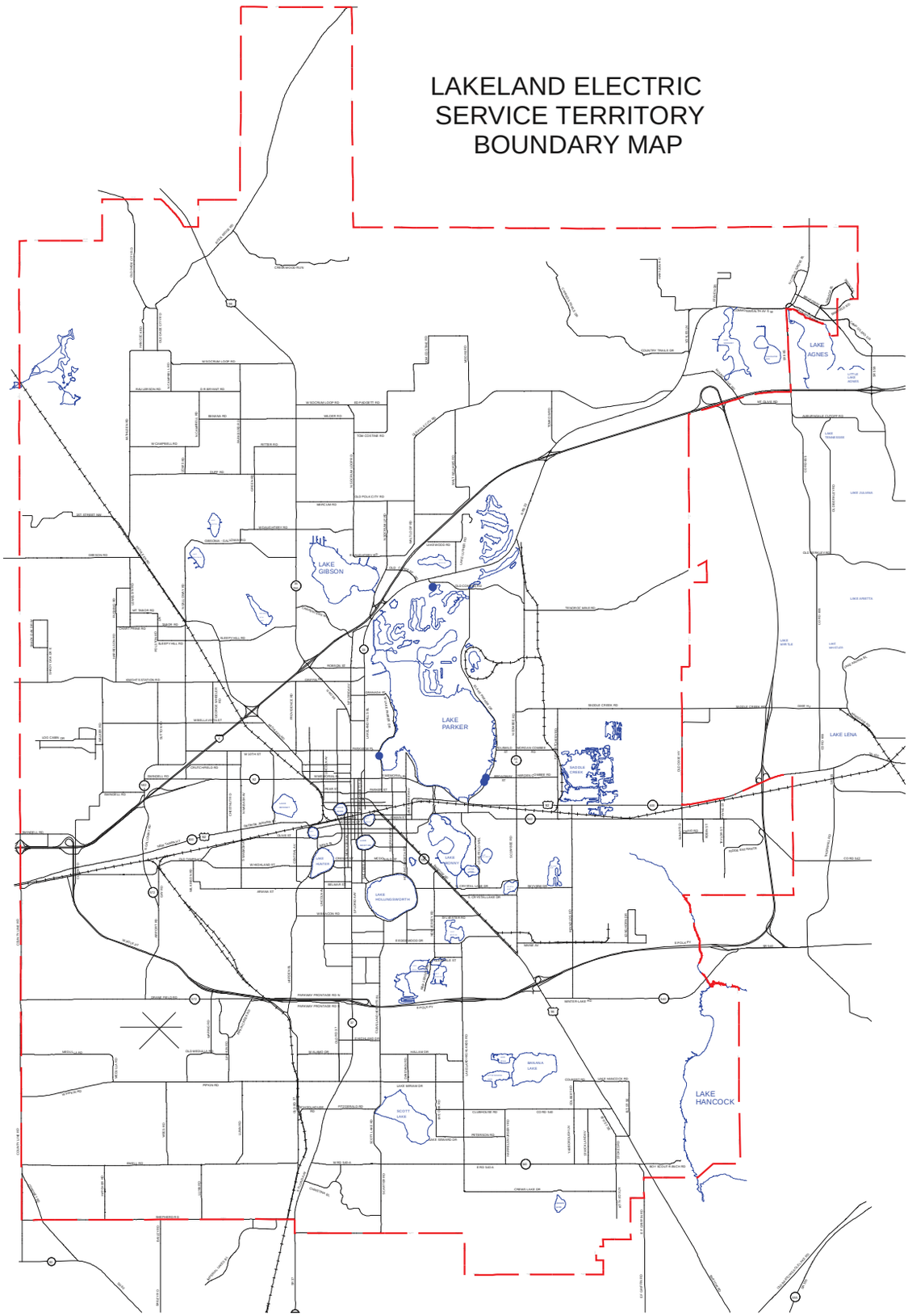


SERVICE AREA



VISION, MISSION & VALUES

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: Strive for excellence in meeting internal and external customer needs

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: Share information and work together to achieve more

At Lakeland Electric, we are truly Powered for Life.

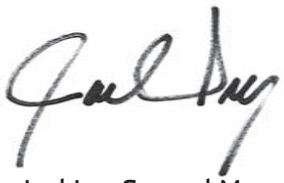
Joel Ivy
General Manager

As I look back over 2013, I cannot help but marvel at both the speed at which it passed, but also at the great accomplishments we achieved. The uncompromising search for efficiencies by our employees helps keep us at the forefront for affordability in Florida. We began 2013 with welcoming Matheson Tri-Gas to their in service date. We then moved to the construction and energization of electric service for COLO5, a high density co-location server farm. In the latter half of the year we announced a new Amazon distribution center to be in production by mid 2014. Our ability to burn 100% Illinois Basin coal significantly enhanced our competitive position with Unit 3 and with the benefit of favorable natural gas prices, we were able to keep a competitive fuel rate in our prices. In the fourth quarter, we installed 12,000 hour parts in our combined cycle natural gas generator that will help to extend future major outage periods by up to six months, thereby offsetting cost pressures in our base rates.

The spring of 2013 brought some welcome rain and not so welcomed wind. A saturated ground and high winds caused several beautiful oak trees to fall. Our trained and capable crews responded with their usual professionalism. Even with these unusual events, the dependability of our system and our customer service remains at first quartile levels. We completed our smart meter roll out, offering an opt-out for any customers who have concerns and are busy at collecting and figuring new uses for the so called "Big Data". Incorporating the meters into outage management has been a true operational bonus for managing unnecessary truck rolls. The prospect of an already smart grid, gaining greater intelligence holds promising benefits for our customers.

Our approximately 5.5 MW of solar photovoltaic generation, purchased from SunEdison, has been performing very well. During 2013 we successfully negotiated a more favorable price based on larger ground mounted systems being the norm, as opposed to the rooftop model. We also completed an agreement for an additional 6 MW to be installed in the northwest part of our service territory. Having geographical separation is desirable to the performance of a large amount of solar arrays. This installation of solar is being done without the mandate of a renewable portfolio standard and fits our long term sustainability vision, which is to have a healthy portfolio of generation of varying fuel sources.

I would like to congratulate our employees on a very successful 2013 and thank our customers for allowing us to be their energy provider. Our ability to execute on our annual plans and our long term focus will ensure that Lakeland Electric is Powered for Life!



Joel Ivy, General Manager

March 31, 2014

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

The annual financial report for the City of Lakeland, Florida's Department of Electric Utilities (Lakeland Electric, or "LE") for the fiscal year ended September 30, 2013, as prepared by the Utility's Fiscal Operations Department, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. I believe this report is accurate in all material respects and the information displayed and disclosed is presented in a manner that presents fairly the Utility's financial condition. All disclosures necessary to enable the reader to gain an understanding of the Utility's activities have been included. The Fiscal Operations Department is delighted to take this opportunity to provide you with an overview and summary of the Utility's finances, economic prospects, and achievements.

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

PROFILE OF LAKELAND ELECTRIC

Lakeland Electric is an enterprise fund governed by a Utility Committee that consists of all seven members of the City Commission plus five citizens representing a cross-section of the customer base. Lakeland Electric is the largest department of the City. It has a budgeted staff of 579 full time employees including over 300 employees who are members of the Utility Workers Union of America, Local 604.

The Utility's service territory consists of approximately 246 square miles including the incorporated area of the City and a number of unincorporated communities lying within a 15-mile radius of the City. During Fiscal Year 2013, an average of 122,460 electric accounts were served, of which 83% are residential.

The Utility's territory is bordered on the north by the Withlacoochee Rural Electric Cooperative, Inc., on the south by the City of Bartow, and on the east and west by Tampa Electric Company. Lakeland Electric is a vertically integrated utility as it provides generation, transmission, and distribution services to its customers. The Utility has 984 MW of generation capacity and is also a member of the Florida Municipal Power Pool (FMPP) that includes Orlando Utilities Commission (OUC) and Florida Municipal Power Authority (FMPA). Lakeland Electric has over 1,800 miles of distribution lines of which 628 miles are underground, 151 miles of transmission lines including 124 miles of 69 kV lines and 27 miles of 230 kV lines.

MAJOR INITIATIVES

Smart Grid – The project began in 2010. In Fiscal Year 2013, LE achieved 100% installation and billing from Smart Grid meters. With Smart Grid data, LE can now reduce customer outage time, customers can understand their usage better through the use of the web portal, and a reduction of theft. Future enhancements include rate options and mobile applications to transmit outage and usage through smart phones and tablets.

Fuel – After successful testing of an additive from GE, Lakeland Electric was able to switch to lower costs Illinois Basin coal in 2013. The results will be $8 million/year in reduced fuel costs to the ratepayers. Other accomplishments include the sale of fuel oil inventory and the increased sales of fly ash which reduces landfill size and creates revenue.

Power Academy – Lakeland Electric has expanded the successful power academy partnerships with the Polk County School Board by launching the first Middle School power academy in Florida in addition to the current programs with Tenoroc High School and Travis Career Center. To date, the utility has hired 5 graduates from the Power Academy and another 15 fill intern positions.

Solar Program – In 2013, Lakeland Electric successfully negotiated a reduction in price of solar power from Sun Edison in response to reduced costs in the industry. At full capacity of the program, the savings will be approximately $500,000 per year.

New Customers – Lakeland Electric partnered with the City and the Lakeland Economic Development Council to recruit Matheson Tri-Gas into our territory. Matheson Tri-Gas became fully commercial in 2013 and is expected to be our 2nd highest energy usage customer. In 2014, Amazon's new warehouse in our territory will be one of the ten highest usage customers.

FINANCIAL HIGHLIGHTS

Fiscal Year 2013 was a financially challenging year for Lakeland Electric. The sluggish recovery from the Great Recession resulted in flat customer growth. Although more favorable than 2012, weather was below normal, especially during the winter. Energy consumption and revenues from base rates were flat to last year. Despite these challenges, LE was able to achieve strong financial performance through innovation and fiscal management. Highlights include:

- Change in net assets of $5.9 million.
- Debt service coverage of 194% (well above our covenant requirement).
- R eduction of long term debt.
- Flat gr owth in controllable operating expenses and capital spending.
- R eduction in natural gas hedge costs.
- Maintained strong credit ratings, including AA from Standard & Poor's.
- Ended the fiscal year with the lowest rates for residential customers in the state.

ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Electric Fiscal Operations Department. I would like to express my appreciation to all members of the staff who assisted and contributed to its preparation, with special thanks to the City's Finance Director, Mike Brossart, and also to Mark Meeks, the Utility's Controller. We also appreciate the assistance and cooperation of Crowe Horwath, LLP for their completion of the independent audit. I would also like to thank you for your interest in the Utility's financial matters and support for this report.

Respectfully Submitted,

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

Assistant General Manager – Fiscal Operations

CULTURE OF COMPLIANCE

HISTORY OF COMPLIANCE

In late 2003, North America experienced its worst blackout ever as 50 million people lost power in the Northeastern and Midwestern United States and Ontario, Canada. This blackout resulted in the United States government electing to make reliability standards mandatory and enforceable. In 2006, Federal Energy Regulatory Commission (FERC) certified North American Electric Reliability Corporation (NERC), a non-profit corporation, as the "electric reliability organization" for the United States. NERC delegated its authority to monitor and enforce compliance with NERC Reliability Standards in the United States to eight Regional Entities; Lakeland Electric's Regional Entity is the Florida Reliability Coordinating Council (FRCC).

On June 18, 2007, compliance with approved NERC Reliability Standards became mandatory and enforceable in the United States. The compliance program was designed to ensure that the right practices are in place so that the likelihood and severity of future system disturbances are substantially reduced, while recognizing that no standards or enforcement process can fully prevent all such disturbances from occurring.

MANDATORY STANDARDS

To date there are 91 Operations and Planning (O&P) Reliability Standards subject to enforcement, 59 of which are enforceable for Lakeland Electric. In addition to the O&P Reliability Standards there are 8 Critical Infrastructure and Protection (CIP) Reliability Standards subject to enforcement, 2 of which are enforceable for Lakeland Electric. Each Standard has requirements and sub-requirements which carry penalties directly related to the risk of the reliability to the Bulk Electric System for non-compliance. The penalty matrix for non-compliance ranges from $1,000 to $1,000,000 per day, per violation, per occurrence.

AUDIT RESULTS

Lakeland Electric is audited on a three year cycle. During the week of March 18th, 2013, Lakeland Electric was audited on 8 CIP Standards encompassing 31 requirements and sub-requirements and also audited during the week of April 22nd, 2013 on 27 O&P Standards encompassing 69 requirements and sub-requirements, by the Regional Entity. Lakeland Electric had extremely successful audit outcomes, all in part to the dedication of our skilled employees and the support of management. Lakeland Electric's next scheduled O&P and CIP audits are in 2016.

MAINTAINING COMPLIANCE

The Compliance division maintains an internal compliance program. This program was built around the idea of company-wide responsibility. This company-wide responsibility is guided by the Director of Electric System Compliance and Security, through interaction with all the divisions of Lakeland Electric. This interaction provides a company-wide perspective, which facilitates buy-in from each area and reduces the potential of non-compliance with the program's initiatives, policies, and procedures.

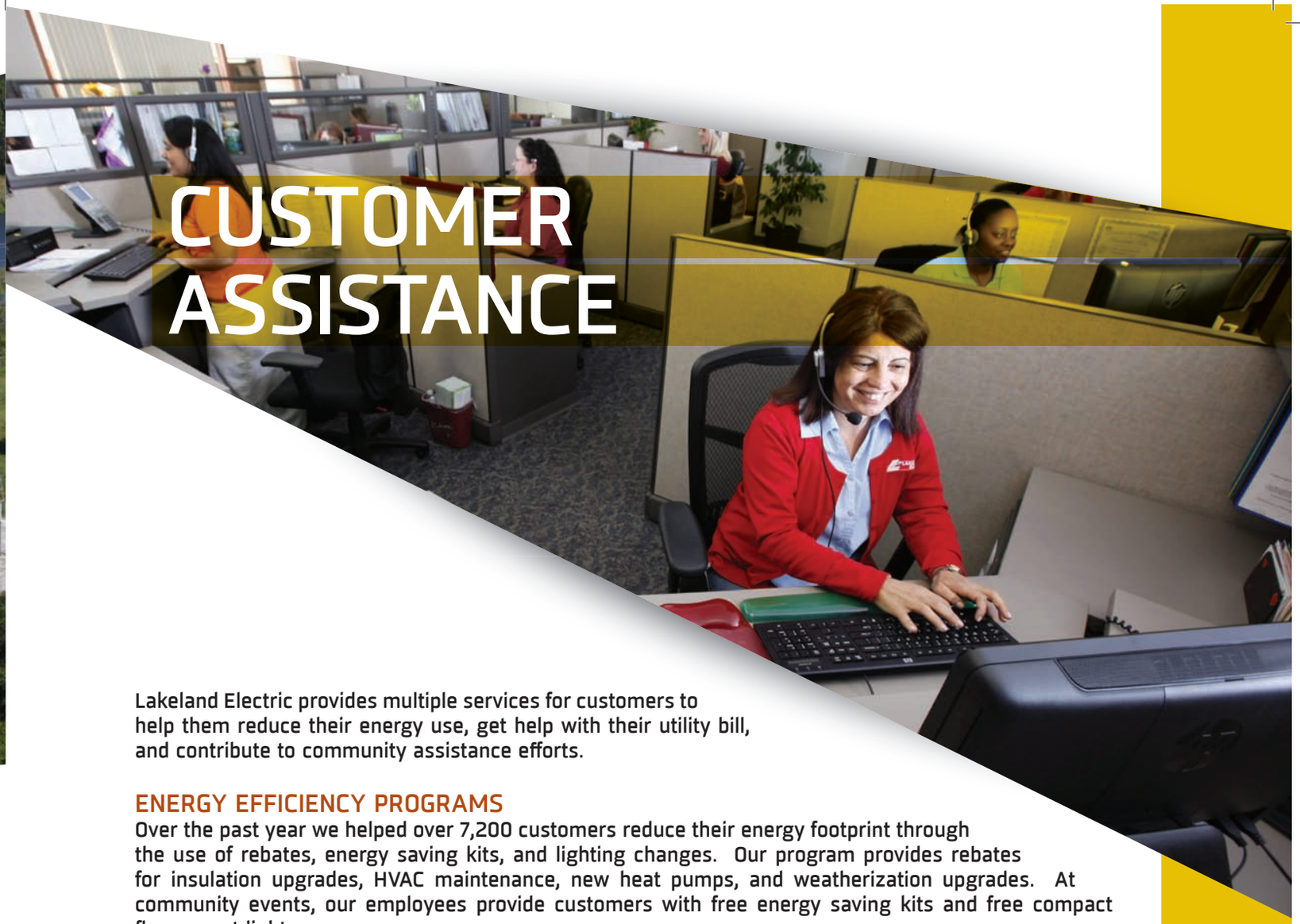
Additionally, the Director of Electric System Compliance and Security sets a goal to self-audit all reliability standards applicable to Lakeland Electric annually. The compliance staff evaluates documentation and evidence submitted by each division to validate compliance with standards and requirements.

ENVIRONMENTAL IMPACT

Lakeland Electric has reduced emissions of pollutants to the environment considerably over the years. The coal-fired Unit 3 has especially seen a large reduction in emissions of nitrogen oxides since the installation of selective catalytic reduction (SCR) system in 2009.

In 2013, Lakeland Electric was in compliance with all its environmental permits. Additionally, emissions of nitrogen oxides (NOx) and sulfur dioxide (SO2) from the large electric generating units did not exceed its respective NOx and SO2 allowances established by EPA's cap-and-trade program.

The air permit for Lakeland Electric's Winston Peaking Station was successfully modified so that the 20 peaking diesel engines at this plant can transition and remain compliant with respect to the RICE Rule diesel fuel requirements.



CUSTOMER ASSISTANCE

Lakeland Electric provides multiple services for customers to help them reduce their energy use, get help with their utility bill, and contribute to community assistance efforts.

ENERGY EFFICIENCY PROGRAMS

Over the past year we helped over 7,200 customers reduce their energy footprint through the use of rebates, energy saving kits, and lighting changes. Our program provides rebates for insulation upgrades, HVAC maintenance, new heat pumps, and weatherization upgrades. At community events, our employees provide customers with free energy saving kits and free compact fluorescent lights.

HOME ENERGY AUDITS

Our certified home energy auditors provided 3,100 customers with a free home energy audit. Our auditors review heating and cooling efficiency, insulation levels, lighting efficiency, and tips on how to reduce customer's energy use.

CUSTOMER ADVOCATE TEAM

Lakeland Electric staffs a Customer Advocate Team that is charged with handling complex customer transactions that typically require additional research, as well as interaction with multiple internal resources in order to complete a customer request. Over the past year the team resolved 170 complex customer cases.

PAYMENT ASSISTANCE

Lakeland Electric offers 24/7 payment assistance through our Call Center, web site, and interactive voice response unit (IVR). Last year Lakeland Electric created 29,000 payment assistance plans to help our customers work through temporary circumstances.

PROJECT CARE

Through contributions, drawings, and contests, Lakeland Electric customers and employees contributed over $38,500 to the Project Care fund that provides assistance for customer bills.

SOCIAL SERVICE PROGRAMS

By working with local social service agencies we helped allocate $518,000 in utility bill payment assistance.

ENERGY PRODUCTION

Fiscal Year 2013 was a stellar year for the Energy Production division. Accomplishments include:

- Lakeland Electrics' largest natural gas unit, McIntosh #5 (Mac #5), had an excellent year. The unit achieved a heat rate (measure of fuel efficiency) of 6,800 BTU/kWh and an available factor of 93%. This combination of low outage time and fuel efficiency heralded the unit as the best 501 G in the world.
- Amendment of the Long Term Maintenance Agreement with Siemens Westinghouse regarding Mac #5 to replace parts with longer lives will save millions of dollars over the life of the contract as intervals between planned outages will be extended.
- Partnering with General Electric, Lakeland Electric successfully implemented the use of a coal additive to allow for the burning of lower cost coal without the high maintenance side effects. After the spring outage, the coal burned at McIntosh #3 (Mac #3) was switched to 100% Illinois Basin coal. This allows options for transportation, and reduction of fuel costs to our ratepayers of $8 million per year.
- Lakeland Electric worked aggressively with potential buyers for the sale of fly ash and gypsum products that are the result of burning coal. The results have been a win-win-win. A win for buyers who receive low cost raw material that is used in the production of concrete and dry wall. A win for the ratepayers as Lakeland Electric receives revenues that help mitigate rate increases. A win for the environment as no new landfill space is needed and the current landfill is reduced.
- Several years ago, Lakeland Electric purchased fuel oil as reliability insurance in the event of natural gas or coal transportation disruption due to natural disasters. Aggressive solicitation resulted in the sale of some aged inventory; the proceeds were used to mitigate future base rate increases.
- Safety is always top priority. The division during 2013 implemented new safety procedures that have reduced lost time incidents by 50%.

Fiscal year 2014 will be an exciting year for the division. Three major outages and negotiations for new coal commodity and transportation contracts will provide many challenges.

ENERGY DELIVERY

Safety and reliability are priorities for the Energy Delivery Division. During 2013, the division replaced 571 transmission and distribution poles and performed vegetation management along 400 miles of transmission and distribution lines. The division also invested heavily in technology, including Smart Grid, as well as capital to enhance reliability. The division ended the year with an average of 1 outage incident per customer and an average of 77 minutes per incident. Both are excellent measures of reliability against industry benchmarks.

Working with electricity is dangerous and is exemplified in the division. Lakeland Electric invests in constant employee training and upgrades of equipment to minimize the risk of injury. The division ended the year with the lowest rate of lost time incidents in the past five years.

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. Lakeland Electric 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 the issuance of debt and equity. The thirty month project began in July 2010 and the last of the meters were installed in December 2012. The goal of the program is to give our ratepayers more information about their energy usage and more empowerment over their electrical costs, Lakeland Electric will have a more efficient electrical grid and defer new generation by reducing its peak demand.

BENEFITS INCLUDE:

- In February 2013, 100% of billing of our customers through electronic reads from the meters. This increases the accuracy of our billing and enhances payment flexibility. Lakeland Electric was able to redeploy our meter readers and save on fuel and maintenance of vehicles.
- Since full implementation, energy theft has been reduced by 30%.
- Customer outage time is reduced as the system reports power outages quickly and directs repair crews more efficiently by identifying outage cause.
- Launched the customer energy use portal for customers to view their energy usage and better understand their bill.
- Provides data to system planning, engineering, load forecasting, and finance to improve system designs and more efficiently allocate capital.

FUTURE BENEFITS INCLUDE:

- Pay-as-you-go option for customers.
- Launching a mobile application to send information directly to customers' smart-phones and tablets.
- Rate design options that will provide more choices for customer to control their energy costs.

COMMITMENT TO CLEAN, RENEWABLE ENERGY

Lakeland Electric is working hard to incorporate more solar power generation in the bulk of its total energy mix. Solar power represents a clean, renewable energy source that offers tremendous benefit to both the environment and the health of future generations. What's more, the development of solar photovoltaic (PV) energy plants creates many good local jobs for the new energy economy--more jobs per megawatt hour than any other energy type.

A leader in the development of solar PV systems, Lakeland Electric is committed to environmental sustainability and to providing innovative energy solutions to Floridians. Four years ago, Lakeland Electric laid out a long-term plan with solar developer SunEdison to integrate 24 megawatts of solar capacity into our energy mix by 2018. One of the largest utility-sponsored solar programs per metered customer in the United States, this system will produce enough zero-emission solar electricity over 20 years to offset nearly 807 million pounds of carbon dioxide and sustain approximately 7,200 homes with clean, environmentally-friendly energy.

SunEdison installations of solar PV systems at the Lakeland Civic Center and Lakeland Airport projects have a total of 5.6 MW. These facilities produced 11,465 MWh of solar energy in 2013. Lakeland Electric secured permanent price reductions through renegotiation of the Master Solar Power Program Agreement with SunEdison, LLC. Successful negotiation of a Solar Energy Purchase Agreement (SEPA), with SunEdison for the development of a 6.0 MW solar project located at the Sutton Substation. Upon completion of the Sutton project, solar generation will make up 2% of entire system-wide daytime summertime load. For its residential customers, Lakeland Electric offers a solar alternative to electricity. Now in its third full year of marketing support from our solar vendor, Regenesis Power, in 2013 Lakeland Electric added 32 new customers to the program, and produced over 500,000 KWh of solar thermal energy.

Continued participation with the US DOE, two universities and five other Florida utilities in SUNGRIN (Sunshine State Solar Grid Initiative), a federally-funded research project that will benefit the nation, providing valuable knowledge for the day when solar generation reaches high levels of penetration. During 2013, the SUNGRIN research team placed a heavy focus on Lakeland Electric, working closely with staff to install weather station instruments and monitor distribution circuits at the Lakeland Linder Airport solar farm. The Lakeland Electric Net Metering Program, with 29 new hookups during 2013, now has 100 customer-owned, grid-connected solar PV systems throughout the service territory. Customer PV systems have an aggregated total of 417 KW. Customer PV systems produced over 587,000 KWh of solar electricity during 2013.

PRICING & RATES

Lakeland Electric is well aware of its commercial value in comparison to other Florida Electric utilities. The graph below provides a fiscal year end Residential retail price comparison. Two competitive measures are followed. First is the relative value of the total bill paid by the customer, Green and Yellow pieces added together. This is an indication of long-term utility competitiveness. The second metric looks exclusively at the Base Charge portion of the bill. This is the customer bill net of any Fuel Charge, which is indicative of business operating efficiency. A review of the individual bars below shows how Lakeland compares to its Municipal peers on both of these measures. In addition, the dotted lines point out the difference in average cost/1200 Kwh between the Investor Owned and Municipal utility sub-groups.

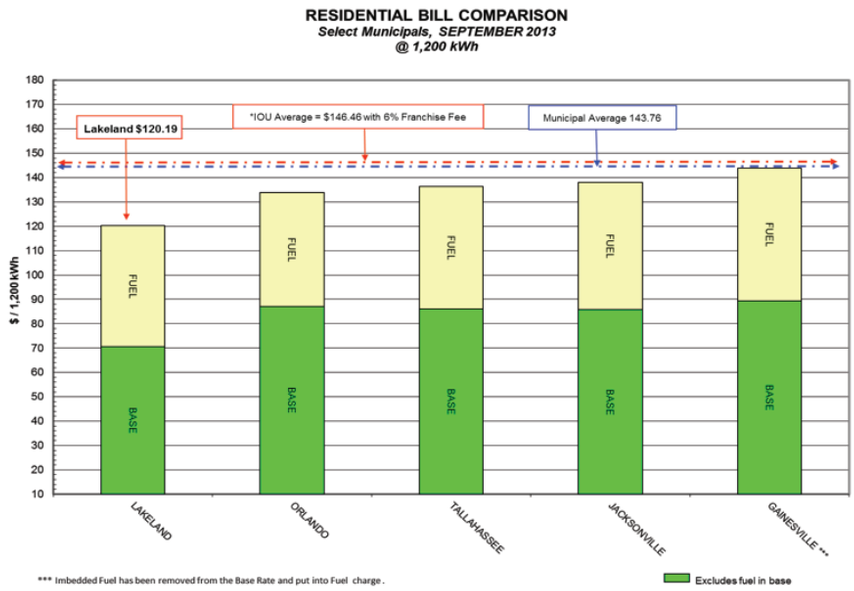


Figure X Residential Bill Comparison, Select Municipals, November 2013

Pricing and Rates highlights of FY 2013 included (1) following the performance of a new large demand interruptible, time-of-day customer, (2) transitioning the Load Research program to use interval data from the new smart meters, and (3) analyzing interval data from the first year of the Shift-to-Save time-of-day market trial for Residential customers. Additional staff resources allowed the resumption of periodic electric cost of service analyses. Fuel Charges fell throughout the year reducing customers' bills by 3%. Lakeland customers also saw a 4% decrease in the utilities Environmental charge for FY 2013 which is adjusted annually and is applied on a cents/Kwh bases.

During the upcoming year Lakeland Electric anticipates performing a comprehensive rate study. The initiating event will be the recommendations from a Lakeland Electric commissioned Sustainability Study. Any ensuing changes in pricing will not take effect before Fiscal Year 2015.

RAPID PROCESS IMPROVEMENTS

RAPID PROCESS IMPROVEMENT – THE LAKELAND ELECTRIC WAY

Rapid Process Improvement (RPI) is a methodology adopted to amplify a culture that empowers and engages its workforce and reinforces a continuous improvement mindset.

RPI was implemented to introduce change to many aspects of how work gets done. It is termed "rapid" because the work processes are examined, the problems are identified, and the recommended solutions are formulated within one week.

THE FOCUS IS ON RESULTS, DELIVERABLES AND ACCOUNTABILITY.

The RPI method is designed to bring employees who are performing and/or are impacted by the work together to identify solutions and actually change the way their work gets done so that it is more efficient. Therefore, Teamwork (one of Lakeland Electric's values) is an essential ingredient of a successful RPI event: Share information and work together to achieve more.

What happens during an RPI event?

Employees who actually perform the work identify:

1) How it is being done today,
2) Issues/problems encountered when getting it done, and
3) Recommendations for how to improve it.

All this happens in 5 days! The goal is to identify "Low to No Cost" solutions. Work processes can be improved very quickly since implementation of the approved recommendations begins immediately after the RPI "event" week.

How are work processes selected for an RPI event?

A vetting procedure is used to ensure that the processes identified meet the criteria for an RPI event. Some processes are beyond the scope of an RPI and require more traditional process improvement approaches.

- To date 28 RPI's have been completed with over 170 employees participating as team members.
- The corporate performance metric was successfully achieved with 90% of the approved recommendations implemented.
- For FY2014, the emphasis will expand and include traditional and hybrid models of process improvement to achieve significant cost savings for the utility and the City of Lakeland.

OUR CUSTOMERS

Customers of the system are predominantly residential in number (83% in FY 2013). Of the 122,460 average accounts in FY 2013, 12,438 are commercial and industrial accounts providing approximately 41% of retail sales revenue. 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 electrical energy as of September 30, 2013, which in total represents approximately 20.7% of electric retail sales volume:

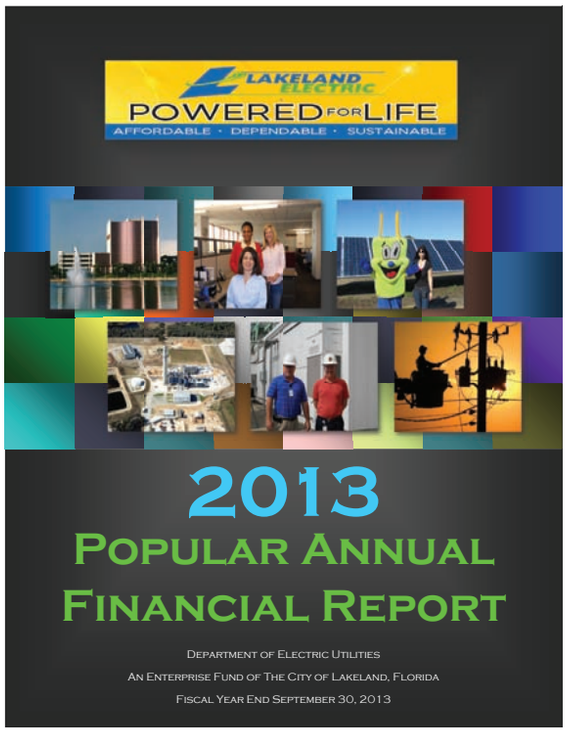
Summary of Top 15 Electric Customers
Ranked by Consumption (kWh)
Fiscal Year to Date thru September 2013

Customer Name		YTD Consumption (kWh)	YTD % of Total Consumption	YTD Max Demand	YTD Total Demand
Publix Super Markets Inc		193,340,452	6.91%	18,864	365,218
Col		68,952,587	2.47%	2,084	201,386
Lakeland Regional Medical Center, Inc	**	53,966,798	1.93%	2,057	102,830
Owens Corning Sales Llc		47,274,436	1.69%	6,437	74,534
Pcsb- Polk County School Board		41,479,460	1.48%	1,119	222,015
Florida Southern College		23,521,900	0.84%	3,722	40,928
Key Safety Systems Inc		22,075,200	0.79%	3,370	37,210
Matheson Tri Gas		20,730,491	0.74%	8,837	84,661
Pepperidge Farm Inc		18,236,539	0.65%	3,086	33,936
Keymark Corp Of Fl		16,639,871	0.59%	2,395	27,814
Juice Bowl Products Inc		16,288,692	0.58%	2,495	28,260
Watson Clinic Llp		16,094,196	0.58%	1,331	33,301
Tampa Maid Foods Inc		13,693,120	0.49%	1,549	31,839
Winn-Dixie Stores Inc		13,658,800	0.49%	493	26,213
Graham Packaging Co L P		12,864,000	0.46%	2,074	23,342
Totals for Top 15 Electric Customers		578,816,542	20.70%	59,912	1,333,488

Total Consumption (kWh) Billed YTD 2,796,710,845

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

POPULAR ANNUAL FINANCIAL REPORT



Lakeland Electric's Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), for the Fiscal Year ended September 30, 2013 has been created and available at multiple locations. Lakeland Electric received an award for outstanding achievement for their FY 2012 PAFR. The purpose of a PAFR is to give the general public, with limited to no background in public finance, an accessible and easily understood look at Lakeland Electric's financial condition, organizational structure, major initiatives and statistical data. The PAFR is an unaudited report, and is by its summary nature, not intended to conform to Generally Accepted Accounting Principles (GAAP).

Since 1991 the GFOA's PAFR award program has been encouraging the preparation of quality PAFR's from more than 140 governmental entities. Those participating in this program have access to technical materials that assist with the compliance requirements. A thorough review is performed to ensure the submitted PAFR is of the highest quality. Once it has been determined that the submitted PAFR has met the specific requirements and passed a thorough review, an award for outstanding achievement is presented to the participating entity.

A hard copy of Lakeland Electric's 2013 PAFR can be obtained in the administrative buildings lobby, Lakeland City Hall's lobby and the Lakeland Public Library. Also, other information on Lakeland Electric and the City of Lakeland, including the PAFR, Comprehensive Annual Financial Report (CAFR), annual budget, and Lakeland Electric's audited stand-alone financial statements can be found on the City of Lakeland's website: www.lakelandgov.net.

POWER ACADEMY

Lakeland Electric expanded its education programs in August, 2013, with the launch of Florida's first Middle School Power Academy at Lake Gibson Middle School. This academy was added to the two existing high school academies sponsored by Lakeland Electric, the Power Academy at Tenoroc High School and the Energy Academy at Traviss Career Center. The middle school program adds an earlier "leg" in the educational journey to careers in the energy industry. One of the final "legs" is the ninety-hour job shadowing experience, which is a highlight for seniors who have completed all other academy requirements. Seniors observe Lakeland Electric employees in three five-week job rotations for six hours a week during their final semester.

The support and involvement of Lakeland Electric employees is fundamental to the students' and programs' success. Numerous LE employees provide tours, teach technical curriculum, make presentations, conduct mock job interviews, and more. The utility has hired five academy graduates into full-time positions and fifteen into intern positions. These academies and the successful industry/education partnership enjoyed by Lakeland Electric and the Polk County School Board are models that industry representatives and educators from across the country have come to Lakeland to see, understand, and hope to replicate in their communities.

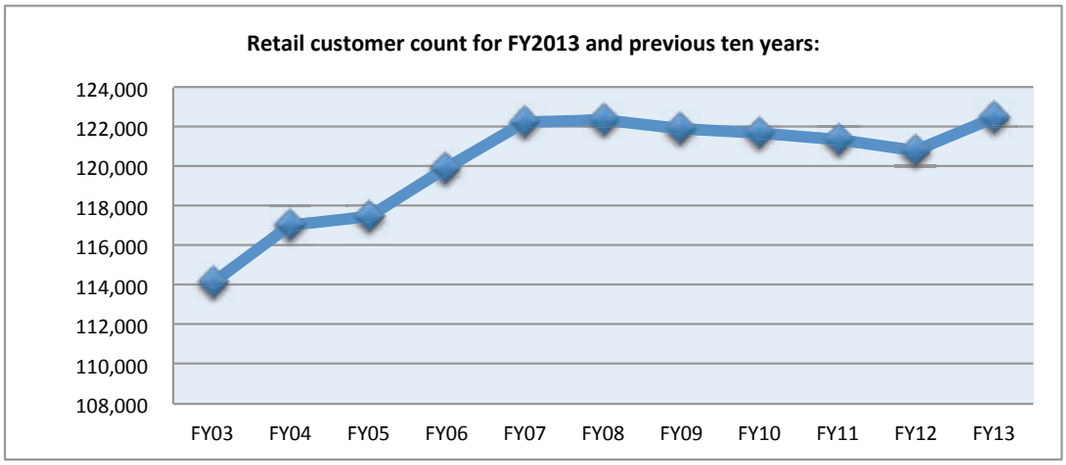
2013 OPEN HOUSE

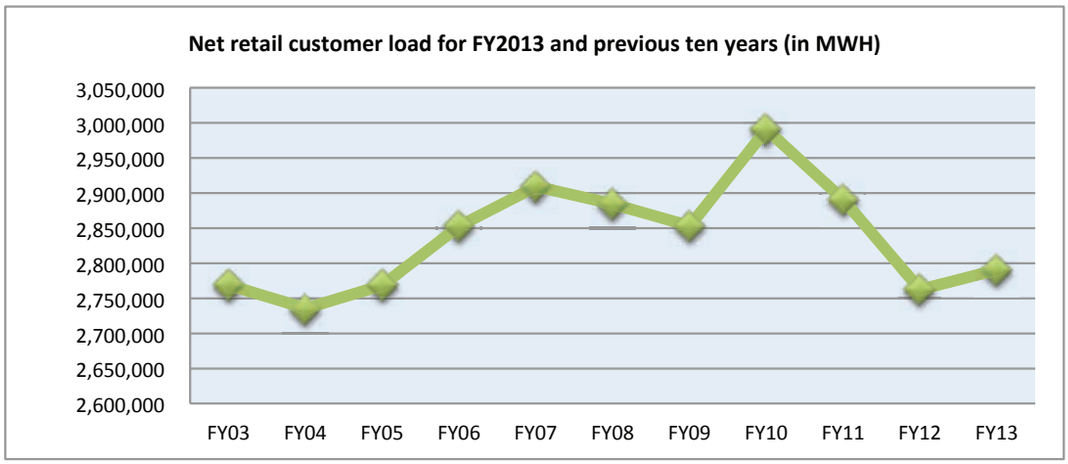
Lakeland Electric held its first Open House since 2008 on Saturday, October 12, 2013. Activities at the Technical Training Facility included bucket truck rides, "Think Hot" demonstrations, solar car races, bus tours of the power plant, substation's oil processing rig, exhibits on pricing & rates, energy efficiency, environmental regulations, hurricane preparedness, smart grid metering and protective relaying, solar hot water heaters. Children enjoyed arts and crafts including sand art and pictures with "Wattson".

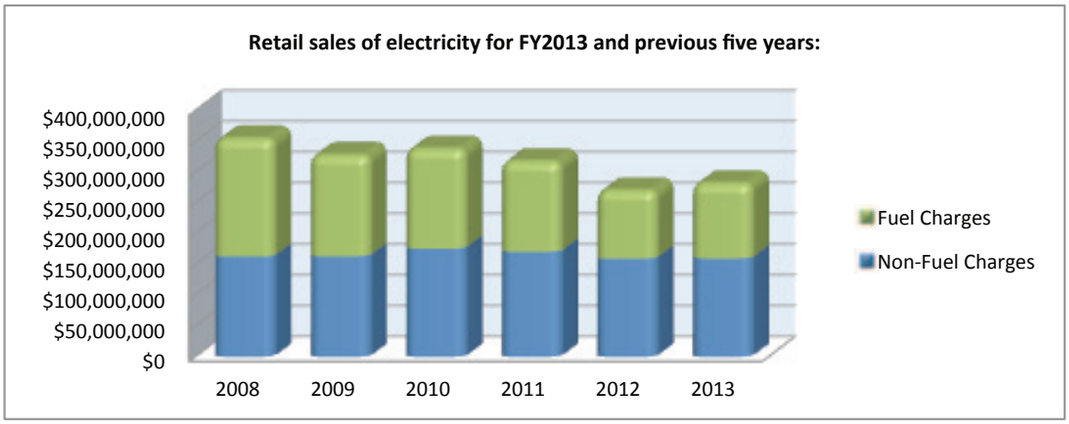
SELECTED STATISTICAL & FINANCIAL DATA

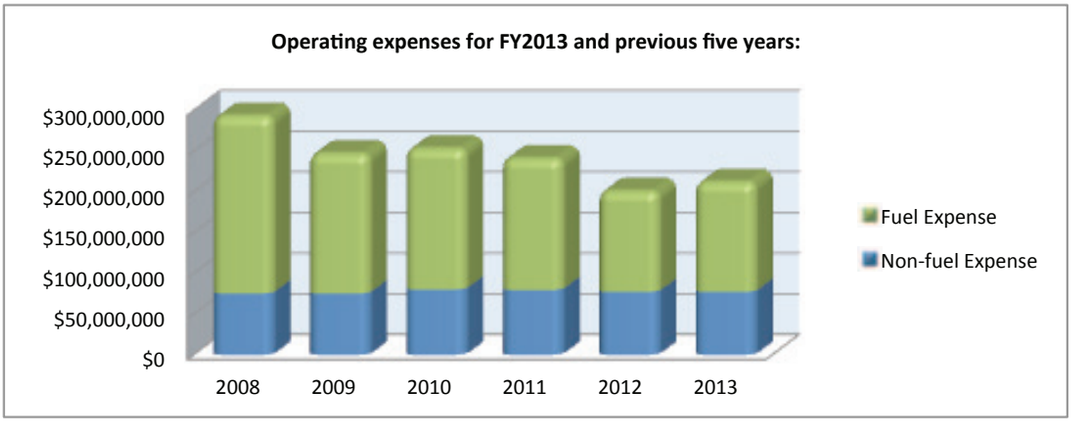
	FY2013	FY2012	Percent Incr/-Decr
Plants	3	3	0.0%
Nameplate Generation (MWH)	984	984	0.0%
Retail service territory (square miles)	246	246	0.1%
Substations	24	23	4.3%
Transmission lines (miles)			
69 KV	124	124	0.0%
230 KV	27	27	0.0%
Distribution lines:			
Overhead (miles)	1,276	1,277	-0.1%
Underground (miles)	633	628	0.8%
Retail electric customers:			
Residential	101,692	100,163	1.5%
Commercial and Industrial	12,438	12,324	0.9%
Roadway and private area lights	8,330	8,284	0.6%
Number of employees (FTE's)	556	566	-1.8%
Retail sales (MWH)	2,792,058	2,745,560	1.7%
Average Demand (MWH)	330	323	2.2%
Summer Peak (MWH)	602	588	2.4%
Winter Peak (MWH)	553	612	-9.6%

	(Dollars in thousands)		Percent
	Current Year	Prior Year	Incr/-Decr
Retail sales, excluding fuel revenue	$ 159,975	$ 159,343	0.4%
Operating expenses, excluding fuel and taxes	$ 70,498	$ 70,153	0.5%
Fuel and purchased power expenses	$ 135,104	$ 124,143	8.8%
Depreciation expense (net)	$ 37,805	$ 36,886	2.5%
Operating income	$ 51,719	$ 52,171	-0.9%
Change in net position	$ 5,638	$ 10,120	-44.3%
Current assets	$ 153,401	$ 168,302	-8.9%
Current liabilities	$ 88,981	$ 114,097	-22.0%
Utility plant, net	$ 678,435	$ 682,761	-0.6%
Long-term bond debt, due beyond twelve months	$ 442,790	$ 463,104	-4.4%
Debt service coverage from operations	1.94	1.97	-1.5%
Cash coverage (days)	123.48	162.50	-24.0%


Retail customer count for FY2013 and previous ten years:
124,000
122,000
120,000
118,000
116,000
114,000
112,000
110,000
108,000
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13

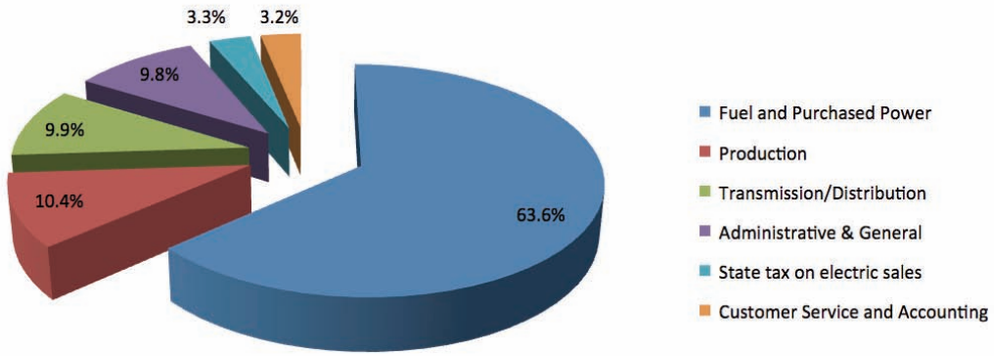

Net retail customer load for FY2013 and previous ten years (in MWH)
3,050,000
3,000,000
2,950,000
2,900,000
2,850,000
2,800,000
2,750,000
2,700,000
2,650,000
2,600,000
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13


Retail sales of electricity for FY2013 and previous five years:
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2008
2009
2010
2011
2012
2013
Fuel Charges
Non-Fuel Charges


Operating expenses for FY2013 and previous five years:
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2008
2009
2010
2011
2012
2013
Fuel Expense
Non-fuel Expense

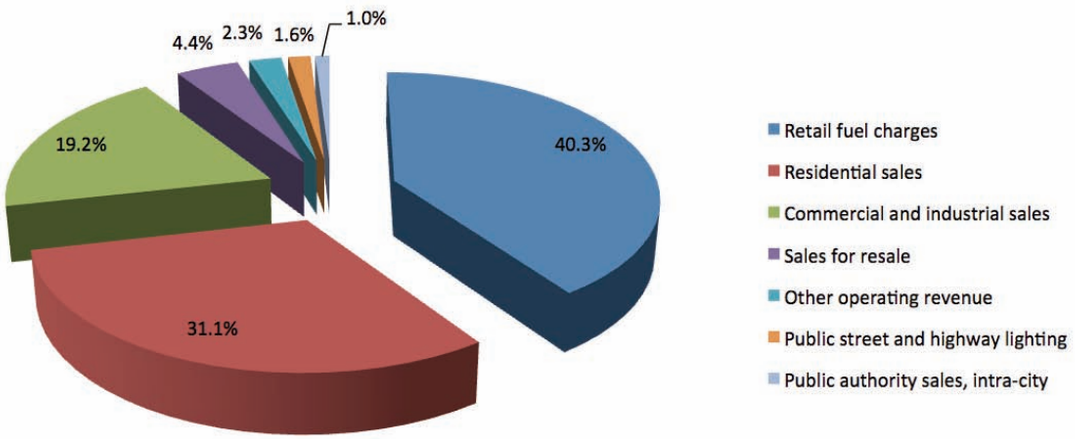
Lakeland Electric
Fiscal Year 2013
Operating Expenses

Fuel and Purchased Power	**$ 135,103,935**
Production	**22,044,653**
Transmission/Distribution	**20,958,767**
Administrative & General	**20,782,483**
State tax on electric sales	**6,928,592**
Customer Service and Accounting	**6,712,546**
Total	**$ 212,530,976**



Lakeland Electric
Fiscal Year 2013
Operating Revenue

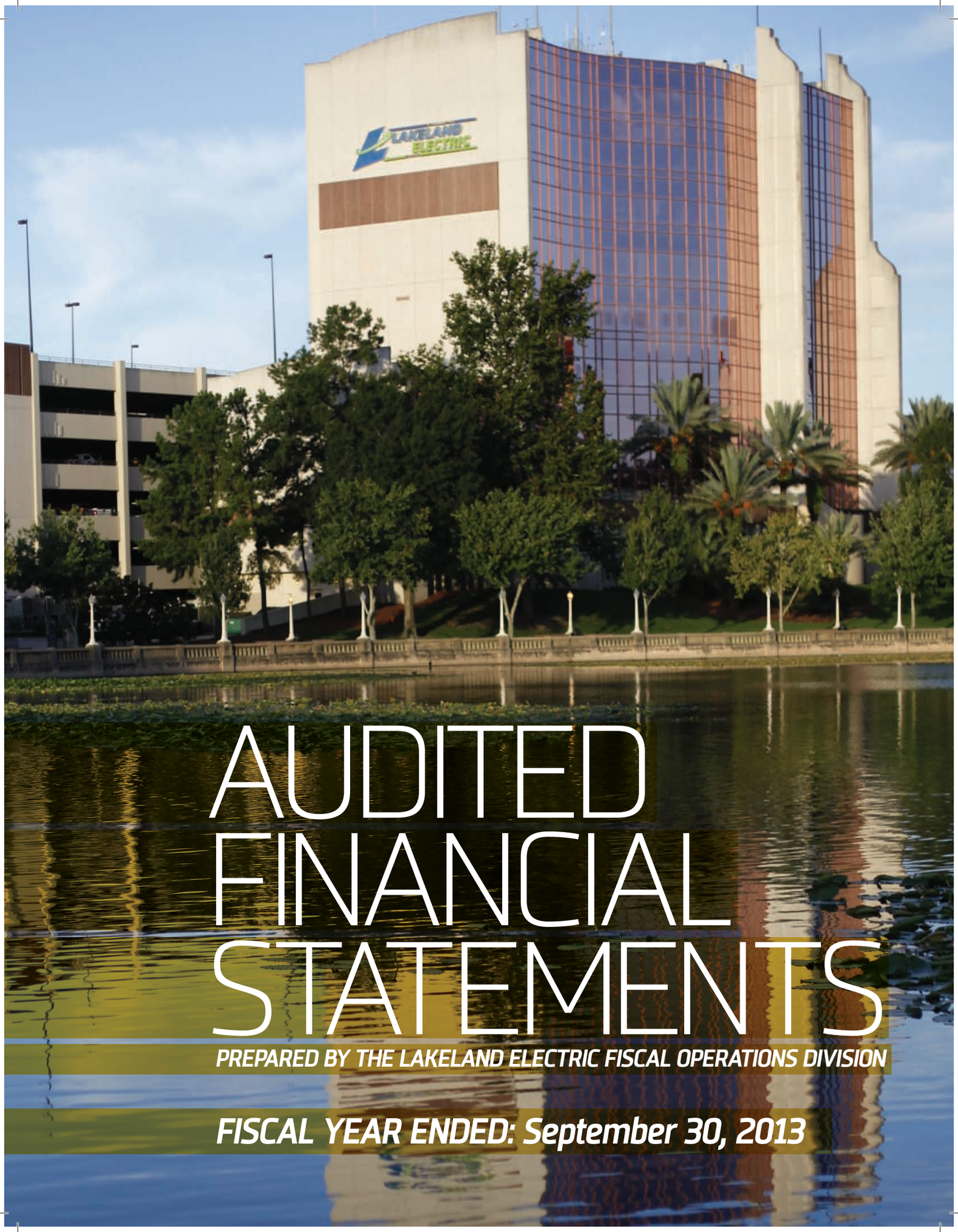
Retail fuel charges	**$ 121,822,652**
Residential sales	**94,055,789**
Commercial and industrial sales	**58,123,028**
Sales for resale	**13,372,122**
Other operating revenue	**6,885,873**
Public street and highway lighting	**4,739,732**
Public authority sales, intra-city	**3,056,517**
Total	**$ 302,055,713**



LAKELAND ELECTRIC

POWERED FOR LIFE

AN ENTERPRISE FUND OF THE CITY OF LAKELAND, FLORIDA



AUDITED FINANCIAL STATEMENTS

PREPARED BY THE LAKELAND ELECTRIC FISCAL OPERATIONS DIVISION

FISCAL YEAR ENDED: September 30, 2013

C O N T E N T S

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Electric Utilities of the City of Lakeland, Florida, (the Department), as of and for the years ended September, 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 respective financial position of the Department, as of September, 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Department, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida as of September 30, 2013 and 2012, the changes in the financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note B, during the year ended September 30, 2013, the Department adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of CPA's (AICPA) Pronouncements. This statement incorporates provisions that allow regulated utilities to offset certain contributed assets with a deferred inflow of resources. Our opinion is not modified with respect to this matter.

As discussed in Note B, during the year ended September 30, 2013, the Department adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement requires separate reporting as deferred outflows of resources and deferred inflows of resources certain amounts that were previously reported together with assets and liabilities, respectively. In addition, this statement introduces net position as the residual measure of assets, deferred outflows of resources, liabilities and deferred inflows of resources in government-wide and proprietary fund financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note B, during the year ended September 30, 2013, the Department adopted GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. The Department applied the provisions of this Statement retroactively by restating the financial statements for the year ended September 30, 2012. 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 as listed on the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated March 25, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Lakeland, Florida
March 25, 2014

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES
Management's Discussion and Analysis

Management's Discussion and Analysis provides a narrative overview of the City of Lakeland's Department of Electric Utilities' (Lakeland Electric) financial activities for the fiscal year ending September 30, 2013. Lakeland Electric's operations consist of electric generation, transmission and distribution. Readers are encouraged to consider the information presented in this section in conjunction with additional information contained in the financial report. The following condensed Summary of Financial Position and Summary of Revenues, Expenses and Changes in Net Position summarizes the financial condition and operations of Lakeland Electric for the year ended September 30, 2013 and the previous two fiscal years. For comparison, prior fiscal years have been restated to reflect a change in accounting principle that resulted from the implementation of a new accounting pronouncement. The change in accounting principle had no effect on the previously reported Net Position of Lakeland Electric.

	(In Thousands)		
	September 30		
		(as restated)	
	2013	2012	2011
Assets			
Current assets	$ 153,401	$ 168,382	$ 159,498
Utility plant, net	678,435	682,761	679,733
Other noncurrent assets	86,430	90,745	96,476
	$ 918,266	$ 941,888	$ 935,707
Deferred outflows of resources	$ 57,681	$ 82,993	$ 95,041
Liabilities			
Current liabilities	$ 88,981	$ 114,097	$ 116,970
Noncurrent liabilities	505,548	535,035	553,299
	$ 594,529	$ 649,132	$ 670,269
Deferred inflows of resources	$ 47,629	$ 47,599	$ 42,448
Net position			
Net assets invested in capital assets, net of related debt	$ 164,258	$ 140,206	$ 120,302
Unrestricted	169,531	187,944	197,729
	$ 333,789	$ 328,150	$ 318,031
Revenues, Expenses and Changes in Net Assets			
OPERATING REVENUES			
Sales of energy - retail	$ 281,798	$ 270,211	$ 317,542
Sales of energy and capacity sales - wholesale	13,372	13,606	15,875
Other electric operating revenue	6,886	6,520	7,465
	302,056	290,337	340,882
OPERATING EXPENSES			
Fuel and purchased power	135,104	124,143	161,967
Energy supply	22,045	23,409	23,925
Energy delivery	20,959	21,121	22,265
Customer service and accounting	6,713	6,520	6,904
Administrative and general	20,782	19,103	18,953
State tax on electric sales	6,929	6,984	7,971
Depreciation (net)	37,805	36,886	35,704
	250,337	238,166	277,689
OPERATING INCOME	51,719	52,171	63,193
NON-OPERATING ACTIVITY			
Investment and other income	748	8,597	8,768
Interest and amortization	(22,733)	(26,447)	(26,827)
Transfers to other funds	(24,095)	(24,201)	(24,962)
	(46,080)	(42,051)	(43,021)
CHANGE IN NET POSITION	$ 5,639	$ 10,120	$ 20,172

Financial Highlights

- For the second consecutive year, Lakeland experienced, on average, milder than normal weather conditions. Although retail kilowatt hours (kWh) increased by 1.7 percent from the previous fiscal year, sales were 5.2% lower than the original forecast. Retail revenues, excluding fuel, averaged $57.30 per 1,000 kWh in 2013 compared to $58.04 in the previous year. The decrease resulted from changes between commercial and industrial rate classifications as well as voluntary conservation with the residential rate classification resulting in higher than forecasted volumes in the lower tier rate. Lakeland Electric has not increased its base retail electric rates since 2007. The retail customer base increased by 1.4% during 2013, after falling slightly during the preceding three years.

- Lakeland Electric's non-fuel operating expenses, excluding gross receipts tax and depreciation, were $70.5 million in fiscal year 2013, compared to $70.2 million in 2012. Mid-year budget cuts were made in an effort to offset the weaker than forecasted sales. Energy Supply expenses decreased by 6 percent and Energy Delivery expenses by 1 percent from the previous fiscal year. Total operating and maintenance costs (excluding fuel, gross receipts tax, and depreciation) averaged $25.17 per 1,000 retail kWh in 2013, which was a slight decrease from $25.55 in 2012. Operating income was $51.7 million, compared to $52.2 million the previous fiscal year.

- Investment and other income was $0.7 million in 2013 compared to $8.6 million during 2012. Included in the $7.9 million reduction is a $6.8 million unrealized loss related to the fair value restatement of Lakeland Electric's share of the City of Lakeland's pooled investments. The fair market value adjustment is the result of a change in interest rates and the impact to fixed income securities. Most of the City's investments are held through maturity.

- Fuel and purchased power expenses increased by $11.0 million, primarily as a result of rising natural gas costs, as Lakeland Electric's average all-in cost of natural gas increased by 9.2 percent per MMBTU. The overall average fuel cost to generate 1,000 kWh of energy for retail load increased to $43.97, from $40.61 in the previous fiscal year. Lakeland Electric's weighted average cost of coal decreased by 9.5 percent from the previous fiscal year. In spite of the decrease in coal cost, natural gas remained the most efficient fuel to burn.

- Lakeland Electric recovers 100 percent of fuel costs from retail customers in the form of a fuel charge that is revised quarterly, as a result of rate actions of the City Commission, based on a forecast of fuel costs for the following twelve months. As of September 30, 2013, the retail fuel charge was $41.35 per 1,000 kWh, compared to a rate in effect of $42.30 twelve months earlier. Lakeland Electric had an over-recovery of fuel charges in the amount of $4.6 million, compared to a $10.0 million over-recovery at the end of the previous fiscal year. The fuel recovery represents, on a cumulative basis, the difference between fuel costs incurred to serve retail load and fuel revenues realized. Based on the fuel forecast, the fuel recovery balance is expected to continue to decrease during fiscal year 2014. See Note F, Regulatory Assets and Liabilities.

- Lakeland Electric recovers 100 percent of environmental compliance costs from retail customers in the form of an environmental compliance charge that is revised annually, based on a forecast of environmental compliance costs for the following fiscal year. The environmental compliance rate during fiscal year 2013 was $2.348 per 1000 kWh, compared to a rate of $2.456 in the previous fiscal year. As of September 30, 2013, Lakeland Electric has under-recovered environmental compliance charges, on a cumulative basis, in the amount of $221,033. Lakeland Electric recovers future conservation charges in the similar manner to environmental compliance charges. The future conservation charge has remained a flat 25 cents per month per customer, since the rate was implemented in 2007. As of September 30, 2013, Lakeland Electric had a cumulative under-recovery of future conservation charges in the amount of $162,191. Also, see Note F.

- Lakeland Electric provides a dividend to the General Fund each year in the form of a cash transfer. The total amount of the dividend in fiscal year 2013 was $23.5 million, compared to $23.2 million in 2012. The dividend rate for both years was $8.41 per 1,000 kWh of retail sales. The dividend in fiscal year 2013 was 7.8 percent of

Financial Highlights (continued)

gross operating revenues of Lakeland Electric, which is consistent with the industry median as reported by the American Public Power Association. The dividend for fiscal year 2014 is budgeted at $24.9 million.

- In May 2010, the City of Lakeland was awarded a grant from the U.S. Department of Energy (DOE) for Smart Grid metering technology, which will ultimately result in improved reliability and efficiency, as well as providing a variety other benefits to retail electric customers. The total project budget is $35.1 million, of which $14.9 million is funded by the grant. As of September 30, 2013, approximately 97.5% of the project budget had been spent at a total net cost of $19.7 million to Lakeland Electric, and a $14.5 million DOE share. The project is expected to be fully implemented during fiscal year 2014, on or below budget.

Capital Assets

- Lakeland Electric funds the cost of capital improvements through a combination of bond financing and cash generated from retail utility rates. The capital improvements plan prepared by Lakeland Electric projects future spending at an average of approximately $32 million over the next 4 years.

- Capital spending in 2013 totaled $31.5 million compared to $34.7 million during fiscal year 2012 and $41.3 million in 2011. Capital spending (net of contributions in aid of construction) during 2013 included: approximately $14.0 million each, for Energy Supply and Energy Delivery projects, and $1.8 million for the City's share of the Smart Grid project. $13.5 million of Energy Supply projects were completed, including $7.1 million for plant equipment related to the McIntosh Unit 5 long-term service agreement. $10.0 million of Energy Delivery projects were placed in service. Other capital projects placed in service during fiscal year 2013 included $1.1 million of Smart Grid assets.

- Lakeland Electric recorded contributions in aid of construction from outside the Department totaling $2.8 million during fiscal year 2013 and $7.9 million during fiscal year 2012. These amounts are reflected in the plant in service balance in the Statements of Net Position.

- Depreciation expense, net of amortization of contributions in aid of construction (see Note T, Deferred Inflows of Resources), was $37.8 million in fiscal year 2013 compared to $36.9 million in 2012.

The table below contains a summary of Lakeland Electric plant investment net of accumulated depreciation as of the September 30, 2013 and 2012 (as restated). Please refer to Note I of the Financial Statements for more detailed information regarding utility plant assets.

	(In Thousands)	
	September 30	
	2013	2012
Land	$ 15,595	$ 15,260
Construction in process	19,099	15,689
Buildings	12,382	12,999
Machinery and equipment	11,371	12,348
Equipment under capital leases	1,676	308
Electric transmission and distribution	299,672	300,549
Electric supply	318,640	325,608
	$ 678,435	$ 682,761

Capital Assets (continued)

The generating capacity of the production units owned by the City is 984 megawatts (MW). The most efficient unit in the fleet is a 350 MW combined cycle natural gas unit (McIntosh 5). The most cost effective unit in the generating fleet, when natural gas prices are above $5.50/MMBTU, is the 365 MW McIntosh 3 coal fired unit, of which 60 percent, or 218 MW is owned by Lakeland Electric. In addition to base load and peaking units, Lakeland Electric shares a power pool with Florida Municipal Power Agency (FMPA) and the Orlando Utility Commission (OUC), which provides access to relatively low-cost natural gas generated power to supply peak demand. Lakeland Electric has sufficient generation and transmission capacity to cover its projected load requirements for at least the next five years.

Debt

At September 30, 2013, Lakeland Electric had $463.1 million in net long-term bond debt outstanding compared to $487.6 million at the end of 2012 as shown in the table below. Please refer to Note L of the Financial Statements for more detailed information regarding long-term debt.

	(In Thousands)	
	September 30	
	2013	2012
Electric System Revenue Bonds:		
Series 1999A	$ 10,329	$ 15,955
Series 1999B	15,310	15,310
Series 1999C	-	17,240
Series 2006	40,290	41,175
Series 2009	99,225	99,225
Series 2010	197,950	198,655
Series 2012	100,000	100,000
	463,104	487,560
Less Current Portion	(20,313)	(24,456)
Unamortized bond discount (net of premium)	19,859	22,110
	$ 462,650	$ 485,214

The remaining $99,225,000 of Series 2009 Bonds will be refunded during Fiscal Year 2014. As indicated in Note M, the coverage on bonded debt of Lakeland Electric is 1.94 times the annual debt service requirement for the fiscal year ended 2012. Lakeland Electric is not obligated to fund a Debt Service Reserve Fund, provided that Net Ret Revenues equal or exceed 150 percent of the bond service requirement for each year, however, Lakeland Electric sets aside apportioned funds on a monthly basis to pay current bond principal and interest requirements (see Note H).

Economic Factors

During fiscal year 2013, the average demand for energy placed on the system from retail customers was approximately 330 MWH, with peak demand during winter of 553 MWH on February 18, 2013, and a summer peak demand of 602 MWH reached on August 12, 2013. Lakeland Electric expects to see minimal (less than 1 percent) growth in the retail customer base during fiscal year 2014.

Lakeland Electric's base rate has been consistently among the lowest in Florida, and management's financial forecast shows continuing strong financial metrics without the benefit of base rate increases through 2014. Lakeland Electric's ten largest customers account for less than 20 percent of revenue, and over half of the annual revenue comes from residential customers.

During the previous fiscal year (fiscal year 2012), Standard & Poors upgraded Lakeland Electric's bond rating from AA- to AA. Moody's, which gives Lakeland Electric's bonds an A1 rating, changed Lakeland Electric's outlook to positive. Fitch reaffirmed Lakeland Electric's rating at AA-.

Using This Annual Report

This annual report includes the Statement of Net Position, Statement of Revenues, Expenses and Change in Net Position, Statement of Cash Flows and notes to the financial statements for Lakeland Electric, which is an enterprise fund of the City of Lakeland. Please refer to the annual report of the City of Lakeland for more information about 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: Controller, Lakeland Electric, 501 East Lemon Street, Lakeland, FL 33801. mark.meeks@lakelandelectric.com

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

	September 30	
		(as restated)
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 39,439,707	$ 51,890,646
Accounts receivable	43,377,223	44,261,707
Less allowance for uncollectibles	(1,065,679)	(928,126)
Fuel hedges	1,064,035	(1,651,248)
Inventories	36,092,502	35,980,877
Asset apportionments (cash and equivalents) set aside for		
Current portion of bonds payable	20,313,195	24,456,267
Accrued interest payable	13,051,866	11,937,808
Accrued liabilities	851,342	2,098,833
Restricted assets (cash and equivalents) set aside for		
Accrued interest payable	27,003	26,488
Accrued liabilities	250,000	308,939
Total current assets	153,401,194	168,382,191
NONCURRENT ASSETS		
Asset apportionments (including $66,168,126 and $68,364,683 of cash and cash equivalents in 2013 and 2012, respectively)	66,450,539	70,461,529
Restricted assets (including $13,335,876 and $11,764,719 of cash and cash equivalents in 2013 and 2012, respectively)	13,528,509	13,293,529
Utility plant		
Utility plant in service	1,243,948,796	1,215,414,739
Less accumulated depreciation	(584,612,638)	(548,342,330)
	659,336,158	667,072,409
Construction in progress	19,099,006	15,689,069
Total utility plant, net	678,435,164	682,761,478
OTHER ASSETS		
Net pension asset	4,254,742	4,246,537
Regulatory assets	2,195,773	2,743,222
Total Assets	918,265,921	941,888,486
DEFERRED OUTFLOWS OF RESOURCES		
Loss on fuel hedges	2,733,710	3,846,425
Unamortized loss on refunding of bond debt	19,696,554	21,397,350
Hedge derivative outflows	35,250,903	57,749,456
Total Deferred Outflows of Resources	57,681,167	82,993,231

See accompanying notes to financial statements

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

	September 30	
		(as restated)
	2013	2012
LIABILITIES		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	15,622,314	14,404,562
Accrued liabilities	2,708,403	2,520,444
Unearned revenue	477,984	477,984
Obligation under capital leases	427,781	115,854
Interest rate swaps	35,250,903	57,749,456
Liabilities payable from apportioned assets		
Accrued liabilities	851,342	2,098,833
Current portion of bonds payable	20,313,195	24,456,267
Accrued interest payable	13,051,866	11,937,808
Liabilities payable from restricted assets		
Accrued liabilities	27,003	85,427
Advances	250,000	250,000
Total current liabilities	88,980,791	114,096,635
OTHER LIABILITIES		
Restricted liabilities	13,527,587	13,419,808
Regulatory liabilities	4,647,688	10,048,904
Accrued liabilities, less current portion	22,173,700	24,302,416
Obligation under capital leases, less current portion	1,196,590	217,825
Unearned revenue, less current portion	1,354,291	1,832,275
Long-term debt, due beyond twelve months	462,649,190	485,214,017
Total other liabilities	505,549,046	535,035,245
Total liabilities	594,529,837	649,131,880
DEFERRED INFLOWS OF RESOURCES		
Unamortized contributions in aid of construction	47,628,702	47,599,529
NET POSITION		
Net investment in capital assets	164,258,374	140,206,484
Unrestricted	169,530,175	187,943,824
	$ 333,788,549	$ 328,150,308

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,	
	2013	2012
OPERATING REVENUES		
Sales of energy - retail	$ 281,797,718	$ 270,211,005
Sales of energy and capacity sales - wholesale	13,372,122	13,605,585
Other electric operating revenue	6,885,873	6,520,295
Total operating revenues	302,055,713	290,336,885
OPERATING EXPENSES		
Fuel and purchased power	135,103,935	124,142,801
Energy supply	22,044,653	23,409,306
Energy delivery	20,958,767	21,120,531
Customer service	6,712,546	6,520,358
State tax on electric sales	6,928,592	6,984,277
Administrative and general	20,782,483	19,102,875
Total operating expenses	212,530,976	201,280,148
OPERATING INCOME BEFORE DEPRECIATION	89,524,737	89,056,737
Depreciation expense	(40,602,636)	(39,600,362)
Depreciation - contributions in aid of construction	2,797,267	2,714,368
OPERATING INCOME	51,719,368	52,170,743
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less $13,561 capitalized in 2012)	6,864,176	7,949,898
Net (decrease) increase in the fair value of cash equivalents	(6,779,663)	58,668
Miscelleous revenue	663,304	588,176
Interest expense and fiscal charges (less $479,983 and $954,025 capitalized in 2013 and 2012, respectively)	(22,353,749)	(23,369,341)
Amortization expense	(379,980)	(3,077,920)
TOTAL NONOPERATING REVENUES (EXPENSES)	(21,985,912)	(17,850,519)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	29,733,456	34,320,224
TRANSFERS TO OTHER FUNDS	(24,095,215)	(24,200,556)
CHANGE IN NET POSITION	5,638,241	10,119,668
NET POSITION, beginning of year	328,150,308	318,030,640
NET POSITION, end of year	$ 333,788,549	$ 328,150,308

See accompanying notes to financial statements

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

	Year ended September 30	
	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 297,969,633	$ 299,409,388
Payments for interfund services	(10,725,033)	(32,852,065)
Payments to suppliers	(164,305,516)	(136,565,992)
Payments to employees	(35,614,739)	(35,552,289)
Net cash provided by operating activities	87,324,345	94,439,042
Cash flows used in noncapital financing activities:		
Interest paid on Customer Deposits	(757,700)	(638,615)
Operating transfers to other funds	(24,095,215)	(24,200,556)
Cash flows (used in) noncapital financing activities	(24,852,915)	(24,839,171)
Cash flows used in capital and related financing activities:		
Interest paid on long-term debt issued to finance capital assets	(26,618,206)	(28,658,141)
Proceeds from capital grant programs	1,309,889	317,788
Payments on interfund loans	-	(137,473)
Proceeds from issuance of long-term debt	-	100,000,000
Debt issue costs	(383,371)	-
Payments on and maturities of long-term debt	(24,737,860)	(123,742,494)
Purchase of capital assets	(29,537,663)	(35,497,373)
Cash flows (used in) capital and related financing activities:	(79,967,211)	(87,717,693)
Cash flows provided by investing activities:		
Investment revenue	6,864,176	7,949,898
Net (decrease) increase in the fair value of cash equivalents	(6,779,663)	58,668
Cash flows provided by investing activities	84,513	8,008,566
Net (decrease) in cash and cash equivalents	(17,411,268)	(10,109,256)
Cash and cash equivalents, beginning of year	170,848,383	180,957,639
Cash and cash equivalents, end of year	$ 153,437,115	$ 170,848,383
Classified as:		
Current	$ 39,439,707	$ 51,890,646
Apportioned	100,384,529	106,857,591
Restricted	13,612,879	12,100,146
Total	$ 153,437,115	$ 170,848,383

See accompanying notes to financial statements

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

	Year ended September 30	
	2013	2012
Adjustments to reconcile operating income to net		
cash provided by operating activities:		
Operating income	$ 51,719,368	$ 52,170,743
Depreciation expense	40,602,636	39,600,362
Depreciation - contributions in aid of construction	(2,797,267)	(2,714,368)
Miscellaneous revenue	663,304	588,176
Decrease in receivables, net	1,022,036	541,013
(Increase) in inventory	(111,625)	(3,837,696)
Decrease in other current assets	-	47,137
(Decrease) in net pension asset	(8,206)	(395,658)
(increase) in fair value of derivatives	(1,602,570)	(92,400)
(Decrease) increase in regulatory liabilities	(5,401,216)	8,191,830
Increase (decrease) in accounts payable	1,217,752	(1,306,412)
Increase in net other post employment benefit obligation (OPEB)	2,171,296	1,916,783
(Decrease) in deferred revenue	(477,983)	(477,983)
(Decrease) in accrued liabilities	219,041	(21,952)
Increase in deposits payable	107,779	229,467
Net cash provided by operating activities	$ 87,324,345	$ 94,439,042
Noncash investing, capital, or financing activities:		
Capitalized interest	$ 479,983	$ 954,025

See accompanying notes to financial statements

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present only the financial position, changes in net position, and cash flows of the City of Lakeland, Department of Electric Utilities (Lakeland Electric) 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 accounting principles generally accepted in the United States of America (GAAP) 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, but does not follow accounting methods prescribed by FERC that conflict with GASB.

Lakeland Electric applies the accounting principles allowed by 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 requires 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 F.

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 valued at fair value.

Receivables:

Lakeland Electric bills customers monthly on a cyclical basis. An estimate of uncollectible accounts is recognized based upon historical experience. Lakeland Electric has recognized in receivables an estimated amount for services rendered but not yet billed as of September 30, 2013 and 2012, respectively.

Inventories:

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

Restricted and Apportioned Assets:

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

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Unearned Revenue:

Lakeland Electric records revenue as earned. During August 2009, Lakeland Electric received a $3,823,875 termination fee in a natural gas discount settlement with Florida Gas Utility. Lakeland Electric is amortizing the lump sum settlement as fuel revenue over a period of eight years, which is approximately the length of time that the natural gas discount would have been otherwise maintained. The unamortized long-term portion of unearned revenue was $1,354,291 as of September 30, 2013.

Contributions in Aid of Construction:

Lakeland Electric receives nonrefundable payments from consumers and developers for extension of electric services, and funds received from developers and customers for assets owned and maintained by Lakeland Electric. 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.

Utility Plant:

Utility plant is valued at historical cost, or estimated historical cost, if actual historical cost is not available. The cost or 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.

Impaired assets are recorded in accordance with GASB 42. No impairment losses were identified during the fiscal year ending September 30, 2013 or September 30, 2012.

Routine maintenance and repairs, including additions and improvements of less than $2,500 are charged to operating expense as incurred. Individual equipment items with a cost of $1,000 or more are capitalized. In accordance with accounting requirements of the Federal Energy Regulatory Commission, electric transformers and certain specialty plant replacement components which are critical in nature are classified as utility plant and are depreciated prior to being placed in service. Total depreciation expense as a percentage of depreciable assets was approximately 3.1 percent in both 2013 and 2012. 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 Utility plant, and are depreciated according to Lakeland Electric's policy.

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. GASB 65, which was implemented by Lakeland Electric for FY2013, generally requires unamortized debt issuance costs to be expensed in the current period. However, Lakeland Electric elects to follow accounting for regulated operations under GASB 62, which allows debt issuance costs to be classified as a regulatory asset, and recovered through rates 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. Lakeland Electric made annual transfers to the City of Lakeland as follows:

	September 30	
	2013	2012
Annual dividend to the City of Lakeland	$ 23,481,207	$ 23,191,507
Transfer to Fleet Management Fund for new vehicles	-	128,877
Transfers to other funds	614,008	880,172
	$ 24,095,215	$ 24,200,556

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 non-current 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 L, Long-Term Debt – Accrued Liabilities).

Derivatives and Interest Rate Swap Agreements:

Derivative instruments are used by Lakeland Electric in conjunction with debt financing and fuel purchases. Changes in fair value of hedges are reported as either deferred inflows or deferred outflows in the statement of net position. See Note S, Derivative and Hedging Activities.

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 December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of CPA's (AICPA) Pronouncements. Statement 62 incorporates into GASB's authoritative literature, applicable guidance issued by FASB and the AICPA prior to November 30, 1989, greatly reducing the need to refer to sources other than GASB for accounting information. Lakeland Electric implemented GASB Statement No. 62 retroactively as of September 30, 2012.

NOTE B – ACCOUNTING AND REPORTING CHANGES (continued)

New Accounting Pronouncements (continued):

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB No. 63 requires a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The objective of this statement is to provide guidance for reporting deferred outflows of resources, and net position in a statement of financial position and related disclosures. GASB Statement No. 63 requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. Lakeland Electric implemented GASB Statement No. 63 for year ended September 30, 2013.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 provides other financial reporting guidance, such as limiting the use of the term "deferred" in the financial statements. GASB Statement No. 65 also amends certain provisions of GASB Statement No. 34, and related pronouncements, to change the label of the residual measure in the statement of financial position as "net position", rather than "net assets". Lakeland Electric implemented GASB Statement No. 65 retroactively as of September 30, 2012.

Change in accounting principle for new accounting pronouncements:

As mentioned above, during the fiscal year ended September 30, 2013, Lakeland Electric implemented the requirements of new accounting standards, and accordingly, has modified its financial statement presentation to incorporate these requirements. Prior to the implementation of the new accounting guidance, Lakeland Electric was substantially in conformity with the plant accounting methods set forth by the Federal Energy Regulatory Commission, whereby electric plant was recorded at Lakeland Electric's net cost, which excluded the value of contributed capital. As required by GASB, Lakeland Electric has classified the value of contributed assets, as additions to plant in service, and in accordance with the regulatory accounting treatment allowed by GASB, Lakeland Electric has classified the related contributions in aid of construction as a deferred inflow of resources. As allowed under accounting for regulated operations, unamortized debt issuance costs have been reclassified from "other noncurrent assets" to a regulatory asset. GASB now requires unamortized losses on refunding of debt to be classified as a deferred outflow of resources, rather than a component of long-term debt. The changes resulting from the new accounting guidance have no effect on the net position, or changes in net position of the prior year. The prior year amounts that are affected have been adjusted in Statement for Net Position for comparative purposes. The following table reconciles those balances to the amounts previously reported for the fiscal year ending September 30, 2012:

	Utility Plant in Service	Accumulated Depreciation	Unamortized Bond Issue Costs	Regulatory Assets
Balance as previously reported	$ 1,149,959,971	$ (530,487,091)	$ 2,743,222	$ -
Change in accounting principle	65,454,768	(17,855,239)	(2,743,222)	2,743,222
Prior year balance, as adjusted	$ 1,215,414,739	$ (548,342,330)	$ -	$ 2,743,222

	Unamortized Loss on Refunding	Long-Term Debt beyond 12 Months	Contributions in aid of Construction
Balance as previously reported	$ -	$ (463,816,667)	$ -
Change in accounting principle	21,397,350	(21,397,350)	(47,599,529)
Prior year balance, as adjusted	$ 21,397,350	$ (485,214,017)	$ (47,599,529)

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 Statutes, 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, Florida comprehensive annual 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 deposits in a financial institution be collateralized and requires the use of only authorized dealers and institutions, 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, 2013 was $32,016,323. By comparison, the carrying amount of Lakeland Electric's pooled demand and time deposits in the previous fiscal year was $45,736,265.

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 or 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 comprehensive annual financial report for the City. 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.

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

Deposits (continued):

As of September 30, 2013, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:	Cost	%	Market	%
AAA	$ 1,002,870	0.81%	$ 1,009,165	0.83%
AA+ to AA-	68,855,463	55.68%	65,786,414	54.18%
A+ to A-	15,208,035	12.30%	16,041,644	13.21%
BBB+ to BBB-	23,548,418	19.04%	23,764,052	19.57%
BB+ to BB-	2,520,157	2.04%	2,358,462	1.94%
Below BB-	430,251	0.35%	405,089	0.33%
NR	12,107,602	9.79%	12,054,442	9.93%
	$ 123,672,797	100.00%	$ 121,419,267	100.00%
Moody's Rating:				
Aaa	$ 58,802,117	47.55%	$ 55,249,875	45.50%
Aa1 to Aa3	3,219,488	2.60%	3,554,750	2.93%
A1 to A3	23,390,357	18.91%	24,454,296	20.14%
Baa1 to Baa3	19,011,535	15.37%	19,162,527	15.78%
Ba1 to Ba3	6,850,292	5.54%	6,788,398	5.59%
Below Ba3	-	0.00%	-	0.00%
NR	12,399,009	10.03%	12,209,422	10.06%
	$ 123,672,797	100.00%	$ 121,419,267	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, 2013 are as follows:

Type of Security (Market)	Maximum % of Total	% of Total
US Government Obligations	100%	1.59%
Federal Agency & instrumentality Obligations	100%	43.46%
Local Government Investment Pools	100%	0.18%
Certificates of Deposits	25%	0.24%
Collateralized Repurchase Agreements	15%	1.09%
Other Investment Pools (rated "A" or better)	10%	8.49%
Mutual Funds	0%	0.00%
High Grade Corporate Debt	15%	19.03%
Investment Grade Obligations of State and Local Govts	15%	25.10%
Money Market Mutal Funds	N/A	0.82%
		100.00%

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

As of September 30, 2013 and 2012, the fair value of the total investment pool and Lakeland Electric's share of the pool was as follows:

	Reported Amount Fair Value
As of September 30, 2013:	
Total Investment Pool	$ 310,690,987
Lakeland Electric's Share of the Investment Pool	$ 121,419,267
As of September 30, 2012:	
Total Investment Pool	$ 330,281,741
Lakeland Electric's Share of the Investment Pool	$ 125,111,593

As of September 30, 2013 and 2012, other amounts classified as cash equivalents and investments are as follows:

	September 30	
	2013	2012
Demand deposits	$ 32,016,323	$ 45,735,265
Petty cash	1,525	1,525
	$ 32,017,848	$ 45,736,790

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

	September 30	
	2013	2012
Current assets:		
Cash and cash equivalents	$ 39,439,707	$ 51,890,646
Asset Apportionments:		
Cash and cash equivalents	100,384,529	106,857,591
Restricted assets:		
Cash and cash equivalents	13,612,879	12,100,146
	$ 153,437,115	$ 170,848,383

NOTE D - INVENTORIES

The major classes of inventory consist of the following:

	September 30	
	2013	2012
Fuel oil	$ 6,107,995	$ 9,368,590
Coal	11,308,876	8,800,547
Spare parts	18,675,631	17,811,740
	$ 36,092,502	$ 35,980,877

NOTE F – REGULATORY ASSETS AND LIABILITIES

GASB accounting guidance for regulated operations requires the recognition of revenues provided either before or after the costs are 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. The regulatory rates are adjusted annually in the case of retail environmental compliance charges and on a quarterly basis for retail fuel charges. The future conservation charge is a flat 25 cent per month charge for each customer.

	September 30,	
Environmental compliance charge recovery:	2013	2012
Beginning (liability) balance	$ (29,033)	$ (42,086)
Charges recovered through rates	6,547,227	6,741,424
Less environmental compliance expenses	6,797,437	6,754,477
Ending asset (liability) balance	$ 221,177	$ (29,033)

	September 30,	
Future conservation charges recovery:	2013	2012
Beginning (liability) balance	$ (18,468)	$ (395,795)
Charges recovered through rates	341,803	339,441
Less future conservation charges	522,462	716,768
Ending asset (liability) balance	$ 162,191	$ (18,468)

	September 30,	
Fuel Recovery:	2013	2012
Beginning (liability) balance	$ (10,001,403)	$ (1,419,193)
Fuel charges recovered through rates	129,395,875	132,725,011
Less Fuel expenses	134,749,590	124,142,801
Ending (liability) balance	$ (4,647,688)	$ (10,001,403)

NOTE F – REGULATORY ASSETS AND LIABILITIES (CONTINUED)

As mentioned in the summary of significant accounting policies, Lakeland Electric treats unamortized debt issuance costs as a regulatory asset, as allowed under GASB No. 62, for regulated operations that recover their debt issuance costs through rates over the life of the bonds.

	September 30,	
Unamortized debt issue costs	2013	2012
Beginning balance	$ 2,743,222	$ 3,418,852
Less amortization	930,817	675,630
	$ 1,812,405	$ 2,743,222

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

	September 30,	
Regulatory assets	2013	2012
Environmental compliance charges	$ 221,177	$ -
Future conservation charges	162,191	-
Unamortized debt issuance costs	1,812,405	2,743,222
	$ 2,195,773	$ 2,743,222

	September 30,	
Regulatory liabilities	2013	2012
Environmental compliance charges	$ -	$ 29,033
Future conservation charges	-	18,468
Fuel recovery charges	4,647,688	10,001,403
	$ 4,647,688	$ 10,048,904

NOTE G - RESTRICTED ASSETS

Bond ordinances and contractual agreements require the restriction of certain assets for specific purposes. Bond Proceeds from series 2010 revenue and refunding bonds, issued on October 19, 2010, funded Lakeland Electric's share of the Smart Grid project, which is 42.33 percent funded by the Department of Energy (DOE). As of September 30, 2013, all bond proceeds were exhausted. The customer deposits balance represents cash held from electric customers, which is completely offset by a liability payable from restricted assets. Guarantees from customers, other than cash, are not recorded as assets or liabilities on Lakeland Electric's Statements of Net Position. Lakeland Electric is participating in a three-year energy efficiency revolving loan program, which was began in December 2009, and was funded by a DOE block grant.

Lakeland Electric's total restricted assets and restricted liabilities, as of September 30, 2013 and 2012 consist of the following:

	Bond Proceeds	Customer Deposits	Block Grant	Total Restricted
September 30, 2013				
Cash and cash equivalents	$ -	$ 13,554,590	$ 58,289	$ 13,612,879
Accounts receivable	-	-	192,633	192,633
Restricted assets	$ -	$ 13,554,590	$ 250,922	$ 13,805,512
Accrued interest payable	$ -	$ 27,003	$ -	$ 27,003
Advances	-	-	250,000	250,000
Customer deposits	-	13,527,587	-	13,527,587
Restriced liabilities, due within twelve months	$ -	$ 13,554,590	$ 250,000	$ 13,804,590

	Bond Proceeds	Customer Deposits	Block Grant	Total Restricted
September 30, 2012				
Cash and cash equivalents	$ (1,317,589)	$ 13,446,296	$ (28,561)	$ 12,100,146
Accounts receivable	-	-	284,584	284,584
Due from other governments	1,244,226	-	-	1,244,226
Restricted assets	$ (73,363)	$ 13,446,296	$ 256,023	$ 13,628,956
Accounts payable	$ 53,353	$ -	$ 5,000	$ 58,353
Accrued expenses	586	-	-	586
Accrued interest payable	-	26,488	-	26,488
Advances	-	-	250,000	250,000
Customer deposits	-	13,419,808	-	13,419,808
Restriced liabilities, due within twelve months	$ 53,939	$ 13,446,296	$ 255,000	$ 13,755,235

NOTE H – ASSET APPORTIONMENTS

The City of Lakeland and Lakeland Electric have established long range plans concerning the utility. As part of the plan to achieve its objectives, the City Commission has set aside certain assets that will be used to fund its plans for future expansion. Debt service funds are also set aside monthly and apportioned for the purpose of paying current principal and interest requirements.

Total asset apportionments and related liabilities of Lakeland Electric as of September 30, 2013 and 2012 consist of the following:

September 30, 2013:	Debt Service Funds	Capital Expansion	Emergency Repair	Total Designated
Cash and cash equivalents	$ 30,993,248	$ 22,509,704	$ 14,865,254	$ 68,368,206
Cash with paying agent/trustee	32,016,323	-	-	32,016,323
Accounts receivable	-	22,872	-	22,872
Accrued receivable	-	37,626	-	37,626
Due from other governments	-	221,915	-	221,915
Asset apportionments	$ 63,009,571	$ 22,792,117	$ 14,865,254	$ 100,666,942
Accounts payable	$ -	$ 689,794	$ -	$ 689,794
Accrued expenses	-	161,528	-	161,528
Accrued interest payable	13,051,886	-	-	13,051,886
Current portion of revenue bonds payable	20,313,195	-	-	20,313,195
Liabilities payable from apportioned assets, due within twelve months	$ 33,365,081	$ 851,322	$ -	$ 34,216,403

September 30, 2012:	Debt Service Funds	Capital Expansion	Emergency Repair	Total Designated
Cash and cash equivalents	$ 27,734,759	$ 27,765,049	$ 14,963,724	$ 70,463,532
Cash with paying agent/trustee	36,394,059	-	-	36,394,059
Accounts receivable	-	460,832	-	460,832
Accrued receivable		1,334,608		1,334,608
Due from other governments		301,406		301,406
Asset apportionments	$ 64,128,818	$ 29,861,895	$ 14,963,724	$ 108,954,437
Accounts payable	$ 1,325,660	$ 616,097	$ -	$ 1,941,757
Accrued expenses	-	157,076	-	157,076
Accrued interest payable	11,937,808	-	-	11,937,808
Current portion of revenue bonds payable	24,456,267	-	-	24,456,267
Liabilities payable from apportioned assets, due within twelve months	$ 37,719,735	$ 773,173	$ -	$ 38,492,908

NOTE I - UTILITY PLANT

Utility plant in service consists of the following:

Fiscal year 2013:	September 30, 2012	Additions	Deletions	September 30, 2013
Non-depreciable assets:				
Land	$ 15,260,188	$ 335,077	$ -	$ 15,595,265
Construction in process	15,689,069	24,999,002	21,589,065	19,099,006
	30,949,257	25,334,079	21,589,065	34,694,271
Depreciable assets:				
Buildings	23,380,561	-	-	23,380,561
Machinery and equipment	32,405,982	2,324,244	3,182,340	31,547,886
Equipment under capital leases	671,161	1,572,300	-	2,243,461
Electric plants in service:				
Electric delivery	446,244,850	11,834,891	318,784	457,760,957
Electric supply	697,451,997	22,086,858	6,118,189	713,420,666
Total plant assets	1,231,103,808	63,152,372	31,208,378	1,263,047,802
Less Accumulated Depreciation:				
Buildings	10,381,927	617,035	-	10,998,962
Machinery and equipment	20,058,656	2,638,214	2,519,324	20,177,546
Equipment under capital leases	363,554	203,579	-	567,133
Electric plants in service:				
Electric delivery	145,695,562	12,493,848	100,633	158,088,777
Electric supply	371,842,631	24,649,960	1,712,371	394,780,220
Total plant assets	548,342,330	40,602,636	4,332,328	584,612,638
Total Utility plant net of accumulated depreciation	$ 682,761,478	$ 22,549,736	$ 26,876,050	$ 678,435,164

NOTE I - UTILITY PLANT (CONTINUED)

The previous fiscal year balances below have been restated to reflect contributions in aid of construction, in accordance with a change in accounting principle implemented during the fiscal year ending September 30, 2013. See Note B, Accounting and Reporting Changes.

Fiscal year 2012:	September 30, 2011	Additions	Deletions	September 30, 2012
Non-depreciable assets:				
Land	$ 15,882,889	$ 396,103	$ 1,018,804	$ 15,260,188
Construction in process	21,245,958	33,468,871	39,025,760	15,689,069
	37,128,847	33,864,974	40,044,564	30,949,257
Depreciable assets:				
Buildings	24,067,148	504,897	1,191,484	23,380,561
Machinery and equipment	33,628,183	1,891,345	3,113,546	32,405,982
Equipment under capital leases	671,161			671,161
Electric plants in service:				
Electric delivery	427,518,580	28,508,036	9,781,766	446,244,850
Electric supply	686,295,950	17,809,839	6,653,792	697,451,997
Total plant assets	1,209,309,869	82,579,091	60,785,152	1,231,103,808
Less Accumulated Depreciation:				
Buildings	10,554,277	737,638	909,988	10,381,927
Machinery and equipment	20,931,879	2,779,764	3,652,987	20,058,656
Equipment under capital leases	251,691	111,863	-	363,554
Electric plants in service:				
Electric delivery	143,904,671	11,983,451	10,192,560	145,695,562
Electric supply	353,934,647	23,987,646	6,079,662	371,842,631
Total plant assets	529,577,165	39,600,362	20,835,197	548,342,330
Total Utility plant net of accumulated depreciation	$ 679,732,704	$ 42,978,729	$ 39,949,955	$ 682,761,478

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 pronouncements, interest charges are capitalized as long as Lakeland Electric has any outstanding debt. Interest earnings on borrowed funds are also capitalized. Lakeland Electric had no unspent bond proceeds during the year ending September 30, 2013.

	September 30 2013	2012
Net capitalized interest		
Interest expense capitalized	$ 479,983	$ 954,025
Interest revenue capitalized on bond proceeds	-	(13,561)
	$ 479,983	$ 940,464
Interest cost was reduced by amounts capitalized as follows:		
Total interest paid	22,833,732	24,323,366
Less capitalized interest expense	(479,983)	(954,025)
	$ 22,353,749	$ 23,369,341

NOTE J - 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. The Orlando Utilities Commission constructed, at its expense, a 230 KV transmission line to deliver its share of the output to its service area.

The City of Lakeland issued revenue bonds to cover a portion of its initial investment in the plant. OUC also issued revenue bonds to cover a portion of its investment in the plant and the cost of its 230 KV transmission line. Each participant is solely responsible for its debt issued.

The City has operational control of this project and accounts for its undivided ownership interest based on its pro- rata share of the project's construction costs and operating expenses. Capital costs related to renewal and replacement of McIntosh Unit #3 during fiscal year 2013 were $3,828,381 with an OUC share of $1,531,352. Shared operating expenses for the fiscal years ending September 30, 2013 and 2012, were as follows:

Fiscal year 2013:

	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	$ 35,172,937	$ 23,448,625	$ 58,621,561
McIntosh unit #3 direct operating & maintenance expenses	7,059,034	4,706,023	11,765,057
Other shared operating and administrative expenses	3,018,145	2,012,097	5,030,242
	$ 45,250,116	$ 30,166,744	$ 75,416,861

Fiscal year 2012:

	City Share	OUC Share	Total
McIntosh unit #3 fuel expense	$ 32,831,008	$ 21,887,339	$ 54,718,347
McIntosh unit #3 direct operating & maintenance expenses	8,918,810	5,945,873	14,864,683
Other shared operating and administrative expenses	3,489,841	2,326,561	5,816,402
	$ 45,239,659	$ 30,159,773	$ 75,399,432

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

NOTE K – DEFERRED OUTFLOWS OF RESOURCES

GASB 65, implemented during fiscal year 2013, requires that certain items which were previously reported as assets and liabilities be reclassified as outflows of resources or inflows of resources. The unamortized loss on refunding of debt is required to be 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 S, Derivative and Hedging Activities, for details regarding hedge derivative outflows.

	September 30	
	2013	2012
Unamortized loss on refunding of debt, beginning balance	$ 21,397,350	$ 24,995,034
Less amortization	1,700,796	3,597,684
	19,696,554	21,397,350
Loss on fuel hedges	2,733,710	3,846,425
Hedge derivative outflows	35,250,903	57,749,456
Total deferred outflows of resources	$ 57,681,167	$ 82,993,231

NOTE L - LONG-TERM DEBT

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

	September 30		
	2013	2012	2011
Current:			
Accrued taxes payable	$ 727,188	$ 685,847	$ 758,722
Accrued payroll	1,015,828	892,712	819,759
Compensated absences	965,387	941,883	966,499
	$ 2,708,403	$ 2,520,442	$ 2,544,980
Accrued liabilities, less current portion:			
Compensated absences	$ 4,626,989	$ 4,595,913	$ 4,593,324
Other post employment benefits	12,452,050	10,280,754	8,363,971
Accrued capital appreciation interest payable	5,094,661	9,425,749	12,988,393
	$ 22,173,700	$ 24,302,416	$ 25,945,688

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

	September 30		
	2013	2012	2011
Revenue bonds payable, less current portion	$ 442,790,499	$ 463,103,694	$ 487,559,961
Plus unamortized bond discount (net of premium)	19,858,691	22,110,323	23,960,728
	$ 462,649,190	$ 485,214,017	$ 511,520,689

The following is a summary of long-term obligation transactions of Lakeland Electric for the year ended September 30, 2013:

	Balance October 1 2012	Incurred	Satisfied	Balance September 30 2013	Amount Due within One Year
Revenue bonds payable	$ 487,559,961	$ -	$ 24,456,267	$ 463,103,694	$ 20,313,195
Loans payable	333,679	1,572,285	281,593	1,624,371	427,781
Net OPEB obligation	10,280,754	2,171,296	-	12,452,050	-
Compensated absences	5,537,796	996,463	941,883	5,592,376	965,387
Accreted interest payable	9,425,949	-	4,331,288	5,094,661	-
	$ 513,138,139	$ 4,740,044	$ 30,011,031	$ 487,867,152	$ 21,706,363

NOTE L - LONG-TERM DEBT (CONTINUED)

For comparison to the table on the previous page, the following is a summary of long-term obligation transactions of Lakeland Electric for the year ended September 30, 2012:

	Balance October 1 2011	Incurred	Satisfied	Balance September 30 2012	Amount Due within One Year
Revenue bonds payable	$ 511,192,471	$ 100,000,000	$ 123,632,510	$ 487,559,961	$ 24,456,267
Loans payable	443,663	-	281,593	333,679	115,854
Net OPEB obligation	8,363,971	1,916,783	-	10,280,754	-
Compensated absences	5,559,823	944,472	966,499	5,537,796	941,883
Accreted interest payable	12,988,593	-	3,562,644	9,425,949	-
	$ 538,548,521	$ 102,861,255	$ 128,443,246	$ 513,138,139	$ 25,514,004

NOTE M - REVENUE BONDS

Lakeland Electric revenue bonds payable as of September 30, 2013:

	Interest Rate %	Final Maturity	September 30, 2012	Additions	Deletions	September 30, 2013
Series 1999A	3.05% to 5.00%	10-01-2036	$ 15,954,961	$ -	$ 5,626,267	$ 10,328,694
Series 1999B	5.3% to 6.55%	10-01-2014	15,310,000	-		15,310,000
Series 1999C	5.3% to 6.55%	10-01-2012	17,240,000	-	17,240,000	-
Series 2006	4.00% to 5.00%	10-01-2036	41,175,000	-	885,000	40,290,000
Series 2009	Variable	10-01-2014	99,225,000	-		99,225,000
Series 2010	4.00% to 5.25%	10-01-2036	198,655,000	-	705,000	197,950,000
Series 2012	Variable	10-01-2017	100,000,000	-		100,000,000
			$ 487,559,961	$ -	$ 24,456,267	$ 463,103,694
			(24,456,267)			(20,313,195)
			$ 463,103,694			$ 442,790,499

The remaining $99,225,000 of Series 2009 Variable Rate Energy System Refunding Bonds, scheduled to mature on October 1, 2014, will be replaced with a five-year bank loan during Fiscal Year 2014 (see Note W, Subsequent Events). $100,000,000 of the Series 2009 Bonds, which were scheduled to mature on October 1, 2012, were previously refunded by the Series 2012 Variable Rate Energy System Refunding Bonds.

NOTE M - REVENUE BONDS (CONTINUED)

The following is a schedule of the debt service requirements, excluding the current portion for outstanding revenue bonds and excluding the impact of interest swaps on variable rate bonds as of September 30, 2013:

	Series 1999A Sr.		Series 1999B Sr.		Series 2006 Sr.	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 5,020,499	$ 5,599,501	$ 8,495,000	$ 513,948	$ 975,000	$ 1,906,944
2015	-	-	-	-	1,020,000	1,867,944
2016	-	-	-	-	1,055,000	1,827,144
2017	-	-	-	-	1,105,000	1,774,394
2018	-	-	-	-	1,155,000	1,728,813
2019-2023	-	-	-	-	6,705,000	7,717,313
2024-2028	-	-	-	-	8,550,000	5,866,313
2029-2033	-	-	-	-	10,900,000	3,510,025
2034-2038	-	-	-	-	7,895,000	761,663
	$ 5,020,499	$ 5,599,501	$ 8,495,000	$ 513,948	$ 39,360,000	$ 26,960,550

	Series 2009		Series 2010		Series 2012	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ -	$ 1,055,974	$ 6,285,000	$ 9,612,550	$ -	$ 1,064,222
2015	1,312,375	1,055,974	15,510,000	9,298,300	1,322,625	1,064,222
2016	1,352,219	1,039,373	16,280,000	8,522,800	1,362,781	1,047,491
2017	1,397,044	1,022,267	17,105,000	7,708,800	1,407,956	1,030,252
2018	1,441,869	1,004,595	17,950,000	6,853,550	1,453,131	1,012,441
2019-2023	22,952,863	4,458,539	33,955,000	25,670,925	23,132,137	4,493,363
2024-2028	25,177,176	2,831,607	28,290,000	18,880,213	25,373,824	2,853,723
2029-2033	21,833,733	1,607,122	31,885,000	11,343,150	22,004,267	1,619,674
2034-2038	23,757,720	585,313	23,430,000	2,502,150	23,943,280	589,885
	$ 99,225,000	$ 14,660,764	$ 190,690,000	$ 100,392,438	$ 100,000,000	$ 14,775,272

	TOTAL		
Fiscal Year(s)	Principal	Interest	Total
2014	$ 20,775,499	$ 19,753,139	$ 40,528,638
2015	19,165,000	13,286,440	32,451,440
2016	20,050,000	12,436,807	32,486,807
2017	21,015,000	11,535,713	32,550,713
2018	22,000,000	10,599,398	32,599,398
2019-2023	86,745,000	42,340,139	129,085,139
2024-2028	87,391,000	30,431,855	117,822,855
2029-2033	86,623,000	18,079,971	104,702,971
2034-2038	79,026,000	4,439,010	83,465,010
	$ 442,790,499	$ 162,902,472	$ 605,692,971

The Series 2009 and 2012 Bonds mature on October 1, 2014 and 2017, respectively. It has been assumed for debt service purposes, that the replacement debt retains the same maturity schedules that convert these obligations to a synthetic fixed rate.

NOTE M - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage from operations for fiscal year 2013 and as reported in the previous five years:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Bond Coverage
2013	$ 90,272,554	$ 20,313,195	$ 26,313,189	$ 46,626,384	1.94
2012	97,653,479	24,456,267	25,040,946	49,497,213	1.97
2011	108,053,867	23,632,510	27,423,459	51,055,969	2.11
2010	109,966,644	21,992,217	27,974,283	49,966,500	2.20
2009	106,015,433	28,180,719	28,309,330	56,490,049	1.88
2008	95,251,355	18,760,000	25,661,622	44,421,622	2.14

For the year ended September 30, 2013, bond coverage was calculated as follows:

Charges for services	$ 302,055,713	
Investment and other income	747,817	
Total revenue		$ 302,803,530
Less cost of operations		(212,530,976)
Net revenues from operations available for debt service		$ 90,272,554
Debt service requirement:		
Interest on bond debt		$ 26,313,189
Current portion of bonds payable		20,313,195
Total		$ 46,626,384
Bond coverage from operations		1.94

NOTE M - REVENUE BONDS (CONTINUED)

All of the outstanding revenue bonds are secured by a first lien on and pledge of the net revenues of the Electric system. As of September 30, 2013, the City is in compliance with all required covenants of the bond ordinances, including compliance with federal arbitrage regulations.

Electric Revenue Refunding Bonds, Series 1999 A, B, & C:

In April 1999, the City issued the Electric Revenue Refunding Bonds, Series 1999A in the amount of $195,635,409 to provide funds to refund all of the City's outstanding Electric & Water Revenue Bonds, Series 1989, the Electric & Water Revenue Bonds, Series 1996, and the Electric & Water Revenue Bonds, Series 1996B, and to pay certain costs and expenses related to the issuance of the Series 1999A Bonds. These bonds will 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. The majority of the 1999B Bonds were refunded in October of 2010. The final principal payment for the 1999C Bonds was made on October 1, 2012. The remaining principal and interest requirement on the 1999A and B Bonds, in aggregate as of September 30, 2013, was $37,527,075.

Energy System Revenue and Refunding Bonds, Series 2006:

In August 2006, the City issued the Energy System Revenue and Refunding Bonds, Series 2006 in the amount of $44,870,000 to finance certain capital improvements for the electric power system of the City, to refund, on a current basis, a portion of the City's outstanding Energy System Refunding Revenue Bonds, Series 1999B, and to pay certain costs and expenses related to the issuance of the bonds. The bonds mature on October 1, 2036. Principal payments are payable October 1 of each year and interest payments are payable October 1 and April 1 of each year. The remaining principal and interest requirement for these bonds, in aggregate as of September 30, 2013, was $68,227,272.

Variable Rate Energy System Refunding Bonds, Series 2009:

In October 2009, the City issued the Energy System Variable Rate Refunding Bonds, Series 2009 in the amount of $199,225,000 to refund on a current basis all of the City's outstanding Variable Rate Energy System Revenue and Refunding Bonds, Series 2008A and Variable Rate Energy System Revenue and Refunding Bonds, Series 2008B and to pay certain costs and expenses related to the issuance of the bonds. The $100,000,000 portion of the Series 2009 Bonds which was due on October 1, 2012, was fully refunded by Series 2012 Bonds. The remaining $99,225,000 portion matures on October 1, 2014. The City intends to refinance the bond maturity with replacement debt (see Note W, Subsequent Events – Debt Refinancing). The debt service schedule assumes these bonds are refinanced based on amortization schedules associated with the interest rate swaps that convert these obligations to a synthetic fixed rate.

Energy System Revenue and Refunding Bonds, Series 2010:

On October 19, 2010, the City issued Series 2010 Energy System Revenue and Refunding Bonds to refund all ($30,000,000) of the Series 2001B Bonds and a portion ($156,515,000) of the Series 1999A Bonds. The bonds also paid costs associated with the termination of a conditional bond warrant agreement, and certain costs and expenses related to the issuance of the bonds. Additionally, the Series 2010 Bonds provided $15,900,000 to finance a portion of the City's share of installing a smart metering system for use within the service territory of Lakeland Electric. The Series 2010 bonds mature 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. The remaining principal and interest requirement for these bonds, in aggregate as of September 30, 2013, was $303,293,913.

Energy System Refunding Bonds, Series 2012:

On September 13, 2012, the City issued the Energy System Variable Rate Refunding Bonds, Series 2012, in the amount of $100,000,000, to refund that portion of the Series 2009 Variable Rate Bonds due on October 1, 2012. The bond principal is payable on October 1, 2017. The City intends to refinance the bond maturity with replacement debt, and it is assumed, for debt service schedule purposes, that the replacement bonds will retain the same maturity schedules that have been incorporated into the underlying swap transactions.

NOTE M - REVENUE BONDS (CONTINUED)

Interest Rate Swaps:

As a means to reduce borrowing costs, and to hedge the variable rate exposure related to certain bonds, Lakeland Electric has entered into a number of interest rate swap agreements. Lakeland Electric entered into an interest rate swap in June 2004 in order to reduce borrowing costs on a portion of the Electric and Water Refunding Revenue Bonds Series 1999A. 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.

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

In the case of the City's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulated the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using all of the methods cited above except the dollar-offset method. All of the interest rate swaps employed by the City have passed at least one of the effectiveness tests prescribed by the GASB 53. Accordingly, the market values of the derivatives are recorded as offsetting items on the balance sheet i.e. recognition of changes in fair market value are deferred.

The fair value of Lakeland Electric's interest rate swaps as of September 30, 2013 was ($35,250,903). Also see Note S, Derivative and Hedging Activities.

Variable Rate Hedges:

As a result of the swap agreements, the City will receive (on a combined basis) variable rate payments equal to between 67% and 74.125% 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 2009 and 2012 variable rate bonds. In return, the City will make fixed rate payments of between 3.163% and 4.283% times the notional amount of the swap agreements. These agreements fix the variable rate exposure of the 2009 and 2012 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 2009 and 2012 Bonds. The City is subject to the basis risk between the LIBOR based variable rates it receives and the actual rates paid on the 2009 and 2012 bonds, which are based on SIFMA. Over time the variable rates paid and received are expected to be equivalent.

The swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or rating downgrades to either counterparty. As of September 30, 2013, the City was not subject to credit risk with its counterparties because the fair market values of the swap agreements were negative.

Accordingly, the market values of the derivatives are recorded as offsetting items on the balance sheet i.e. recognition of changes in fair market value are deferred.

NOTE N – CAPITAL LEASE

On June 12, 2009, Lakeland Electric entered into a contract with Caterpillar Financial Services Corporation for the lease of a coal loader at McIntosh Unit 3 for a period of 72 months. Lakeland Electric's 60 percent share of the present value of the future minimum lease payments at the inception of the contract, using the implicit interest rate of 5.21 percent per the agreement, was $671,176. On November 5, 2012, Lakeland Electric entered into a lease-purchase agreement with Leasing 2, Inc, for a caterpillar medium wheel loader and for interconnection communication equipment. Lakeland Electric's share of the present value of the future minimum lease payments at the inception of the contract, with an interest rate of 2.36%, was $1,572,285. The following is a schedule of Lakeland Electric's long-term lease obligations:

Fiscal Year	Total
2014	$ 408,833
2015	320,526
2016	328,184
2017	139,047
	$ 1,196,590

NOTE O - EMPLOYEE RETIREMENT SYSTEM

The City of Lakeland maintains and administers an Employee Pension and Retirement System Plan which is a single employer, defined benefit pension plan. It covers substantially all full-time, regular employees of the City. The Plan is funded from contributions provided by both the employer and employees. The plan is subject to periodic review by an independent actuary to determine the required funding level upon which the City bases the annual contributions.

Contributions:

Employee contributions are recorded in the period in which they are payroll deducted from plan participants. Contributions from the City are made and recorded at the same time. As of September 30, 2013 the contribution rates were 11.0 percent for the employee portion and 19.54 percent for the City portion. Lakeland Electric's contributions to the City of Lakeland's pension fund totaled $ 5,921,919 and $5,170,063 during fiscal years 2013 and 2012, respectively.

Pension Benefits:

Plan participants as of September 30, 2003 may retire, without penalty, after attaining age 60 and contributing 10 or more years to this plan. The monthly benefit is determined by multiplying the average monthly salary by a service and benefit factor. The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months. The service factor is based on the length of continuous service determined as follows: 3 percent per year for the first 25 years of service plus 1 percent per year for all service above 25 years.

Plan participants who enter the plan on or after October 1, 2003 with 10 years or more of service may retire at normal retirement age of 62. The retirement income for an employee who retires on the normal retirement date will equal 2 percent of the highest total earnings over a consecutive period of 60 months multiplied times the number of years of credit service up to 10 years, 3 percent of the same average earnings for the next 20 years of credited service, and 1 percent per year of the same average for each year of service in excess of 30 years.

The Plan includes a provision for an annual across-the-board increase in the benefit paid to all retirees if certain conditions occur. The amount of the annual increase, if any, is a factor of the investment performance of the Plan for the preceding year considered in relation to the actuarially assumed rate of investment return.

NOTE O - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Termination Benefits:

If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable: If the employee has less than 10 years of credited service, the employee shall be entitled to a refund of amounts contributed by the employee. If the employee has ten or more years credited service, 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.

For the following information, 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:

Annual pension cost
Dollar amount of contributions
Date of Actuarial valuation
Identification of actuarial method and assumptions
Required supplemental information

NOTE P - 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 Q - POST-EMPLOYMENT BENEFITS

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

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

On September 18, 1989, the City Commission agreed to subsidize the cost of health insurance coverage offered to any person receiving retirement benefits from the City of Lakeland. Effective September 22, 2002 the retirees' health insurance premium subsidy of 50 percent was reduced as follows: in fiscal year 2004 to 45 percent, in fiscal year 2005 to 40 percent, and in subsequent fiscal years to 35 percent. Effective October 1, 2002, the health insurance premium subsidy is based on years of service. Lakeland Electric's annual cost of this benefit was $472,759 and $515,609 during fiscal years 2013 and 2012, respectively, funded on a pay-as-you-go basis.

Effective January 1, 2004 any employee who wishes to have his/her spouse and dependents insured will be required to have them on the plan for one year prior to retirement. Should a participant at any time elect not to purchase coverage from the City-sponsored plan, all eligibility for future participation in that plan, including rights to the subsidy, are terminated. The subsidy program can be terminated by the City at any time. During the fiscal year ended September 30, 2013, there were more than 200 retired employees of Lakeland Electric participating in the program.

NOTE Q - POST-EMPLOYMENT BENEFITS (CONTINUED)

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

The Net OPEB obligation represents the excess of the annual required contribution necessary to amortize both the explicit and implicit subsidies on an actuarially sound basis over the amount actually funded on a pay-as-you go basis for the City of Lakeland. The portion of the liability attributable to the operations of Lakeland Electric was $12,452,050 as of September 30, 2013, and $10,280,754 as of September 30, 2012.

NOTE R - DEFERRED COMPENSATION PROGRAM

The City has a Deferred Compensation Program pursuant to Chapter 75-295, as amended by Chapter 76-279, Florida Statutes. In accordance with the Deferred Compensation Program, the City may, by contract and/or collective bargaining agreement, agree with any City employee to defer up to 25 percent of an employee's gross salary (not to exceed $17,000 in one year).

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

NOTE S – 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 53, Accounting and Financial Reporting for Derivative Instruments. Under GASB 53, derivatives are either categorized as 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 53 outlines five methods for evaluating hedge effectiveness:

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

NOTE S – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Accounting for Derivatives and Hedging Activities (continued):

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:

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 thru 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% hedged
2nd quarter will be 75% hedged
3rd quarter will be 50% hedged
4th quarter will be 25% hedged

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

The recording of fuel derivatives, when appropriate, is included on the Statement of Net Position as either an asset or liability measured at fair value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as part of Fuel and Purchased Power costs in the Statement of Revenues, Expenses and Changes in Net Position. The premiums associated with the purchase of options are expensed upon expiration of the option. Premiums associated with unexpired options are embedded in the valuation table displayed later in this note. The valuation of market changes for contracts entered into within Lakeland Electric's Risk Management Program resulted in a net increase of $6,542,065 to the cost of fuel during the fiscal year ended September 30, 2013.

NOTE S – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Lakeland Electric's natural gas swaps and put 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% confidence. With GASB 53 compliance, the open swaps and options valuation of $2,733,710 includes mark to market of the swaps and both intrinsic and extrinsic mark to market of the options

Natural Gas Derivate Instruments:

Lakeland Electric uses Over-the-Counter (OTC) swaps, put options, swing-swaps and fixed price firm physical purchases of natural gas as tools to stabilize the cost of natural gas that will be needed by the utility in the future. Any gain or loss of the value of these derivatives are ultimately rolled into the price of natural gas burned, offsetting the volatility in the price of that fuel. As of September 30, 2013, Lakeland Electric had options, swaps and physical contracts outstanding in the following amounts, covered fiscal year 2014 and beyond:

Fiscal Year	Options	Swaps	Physicals	Market Value
2014	11,800,000	5,105,000	-	$ (2,635,650)
2015	1,600,000	1,600,000	-	(98,060)
	13,400,000	6,705,000	-	$ (2,733,710)

Interest Rate Swaps:

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

In the case of Lakeland's interest rate swaps, effectiveness testing measures the extent to which the terms of the interest rate swaps insulated the City from changes in the market rate of interest payable on the bonds. The City of Lakeland's interest rate swaps have been evaluated using all of the methods cited above except the dollar-offset method. All of the interest rate swaps employed by the City have passed at least one of the effectiveness tests prescribed by the GASB 53. Accordingly, the market values of the derivatives are recorded as offsetting items on the balance sheet i.e. recognition of changes in fair market value are deferred. 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, 2013:

Description	Maturity	Base Value	Accrued	Net Value
$159.265M Basis Swap	10/01/2036	$ (434,043)	$ 432,464	$ (1,579)
$30M SIFMA Swap	10/01/2035	(5,522,058)	(313,415)	(5,835,473)
$47.86 67% LIBOR Swap	10/01/2037	(10,922,142)	(125,047)	(11,047,189)
$60M SIFMA Swap	10/01/2035	(11,044,108)	(626,829)	(11,670,937)
$62.14M 67% of LIBOR Swap	10/01/2037	(5,621,922)	(120,984)	(5,742,906)
$90M Basis Swap	05/01/2021	(971,818)	18,999	(952,819)
		$ (34,516,091)	$ (734,812)	$ (35,250,903)

NOTE S – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Note M, 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 53.

The fair value of all of Lakeland Electric's derivatives as of September 30, 2013 was as follows:

Interest rate swaps	$	(35,250,903)
Prepaid fuel		3,797,745
Fuel hedges		(2,733,710)
	$	(34,186,868)

The fair value of all of Lakeland Electric's derivatives as of September 30, 2012 was as follows:

Interest rate swaps	$	(57,749,456)
Prepaid fuel		2,195,175
Fuel hedges		(3,846,425)
	$	(59,400,706)

NOTE T – DEFERRED INFLOW OF RESOURCES

Deferred inflows of resources represent acquisitions applicable to future accounting periods, and typically have a credit balance, similar to liabilities. 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,	
	2013	2012
Contributions in aid of construction, beginning balance	$ 47,599,529	$ 42,447,615
Additions	2,826,440	7,866,282
Less amortization as depreciation expense	(2,797,267)	(2,714,368)
	$ 47,628,702	$ 47,599,529

NOTE U – 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 V - 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, 2013, have been accrued in the financial statements of the Self-Insurance Fund. An estimated liability for incurred-but-not-reported claims also has been accrued in the financial statements of the Self-Insurance Fund. This program provides coverage up to a maximum of $400,000 per employee for worker's compensation claims. The City purchases commercial insurance for claims in excess of this amount up to $1,000,000 per employee. The program provides coverage of up to a maximum of $150,000 per employee for health insurance claims. The City purchases commercial insurance for claims in excess of this amount up to $1,000,000 per employee. Refer to the City of Lakeland, Florida comprehensive annual financial report for additional disclosures.

Contractual Commitments:

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

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

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

Lakeland Electric has a long-term service agreement with Siemens/Westinghouse to provide labor, parts, and materials to cover all planned annual outages for McIntosh Unit 5, a 350 MW combined cycle gas turbine unit. During fiscal year 2013, a milestone payment of $7,499,640 was made under the revised payment schedule. In December 2013, the Lakeland City Commission approved changes to the contract. The revised agreement, which is scheduled to run through 2025, includes annual milestone payments, and an escalation factor based on the IEF Index. Expected future payments, excluding any escalation, are as follows:

Fiscal Year	Operating	Capital	Total
2014	$ 367,320	$ 7,267,796	$ 7,635,116
2015	367,320	7,267,796	7,635,116
2016	367,320	7,267,796	7,635,116
2017	367,320	7,267,796	7,635,116
2018	367,320	7,267,796	7,635,116
2019-2023	1,836,600	35,310,130	37,146,730
2024-2025	734,640	31,518,131	32,252,771
	$ 4,407,840	$ 103,167,241	$ 107,575,081

Contractual Commitments (continued):

As of September 30, 2013 Lakeland Electric had three solar energy purchase agreements (SEPA) with Sun Edison, LLC for the purchase of one-hundred percent of the power generated from solar equipment systems operated by Sun Edison under the agreements. Sun Edison is the sole owner/operator of the installations, which are located on the roof of the Lakeland Center and in the runway protection zones of the Lakeland Linder Regional Airport. Lakeland Electric has no equity interest in, and assumes no financial responsibility for the solar generation systems. Each SEPA is in effect for twenty-five years at a fixed price per MWH with no price escalation clauses. Lakeland Electric's purchases under the SEPAs totaled $2,161,848 and $840,721 in 2013 and 2012, respectively. As of September 30, 2013, Sun Edison had 5.25 megawatts of solar generation capacity under contract with Lakeland Electric, and there are plans for Sun Edison to integrate as much as 18.75 more megawatts of solar energy into Lakeland Electric's energy mix by 2018.

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, 2013. Commitments for construction contracts and other capital outlay as of September 30, 2013 are as follows:

Energy supply projects	$ 1,229,143
Energy delivery projects	486,097
Smart grid	385,300
Call center telecommunications server	262,216
Building improvements	176,481
Software updates	130,611
Other	1,957
	$ 2,671,806

Encumbrances:

In addition to the commitments for capital projects, Lakeland Electric had other outstanding purchase orders in the amount of $101,128,633 as of September 30, 2013, of which $99,371,654 represents contracts for the procurement and transportation of fuel and purchased power.

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

NOTE W – SUBSEQUENT EVENTS

Debt Refinancing:

On February 3, 2014, the City Commission approved the issuance of a bank loan in the amount of $95 million to pay down a portion of Lakeland Electric's FRNs maturing on October 1, 2014. As of September 30, 2013 Lakeland Electric had $442,790,499 in long term debt outstanding, including $199,225,000 of floating rate notes (FRNs). The outstanding FRNs mature in two separate portions: $99,225,000 million on October 1, 2014, and $100,000,000 on October 1, 2017. As an alternative to using FRNs to refund the portion due in October 2014, Lakeland Electric will use reserves to pay down $4,225,000 of the debt and execute a five-year bank loan for $95,000,000. This alternative will save approximately $400,000 in underwriting and rating agency fees, as well as approximately $600,000 per year in interest costs.

NOTE W – SUBSEQUENT EVENTS (CONTINUED)

New Accounting Pronouncements:

In March 2012, the GASB issued GASB Statement 66, Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for the City's fiscal year ended September 30, 2014, with earlier application being encouraged. Management has not determined what impact, if any, this Statement may have on its financial statements.

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for the City's Pension Funds fiscal year ending September 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement are effective for the City's financial year ending September 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

NOTE W – SUBSEQUENT EVENTS (CONTINUED)

New Accounting Pronouncements (continued):

In January 2013, the GASB issued Statement 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values as well as provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold as well as requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in fiscal year ending September 30, 2015, and should be applied on a prospective basis. Earlier application is encouraged. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In April 2013, the GASB issued Statement 70, Accounting and Financial Reporting for non-exchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This liability should be reported until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity non-exchange financial guarantees involving blended component units by specifying the information required to be disclosed by governments that extend non-exchange financial guarantee as well as new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of this Statement are effective for the City's fiscal year ended September 30, 2015, with earlier application being encouraged. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

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

JOHN MCMURRAY
ASSISTANT GENERAL MANAGER
ENERGY DELIVERY

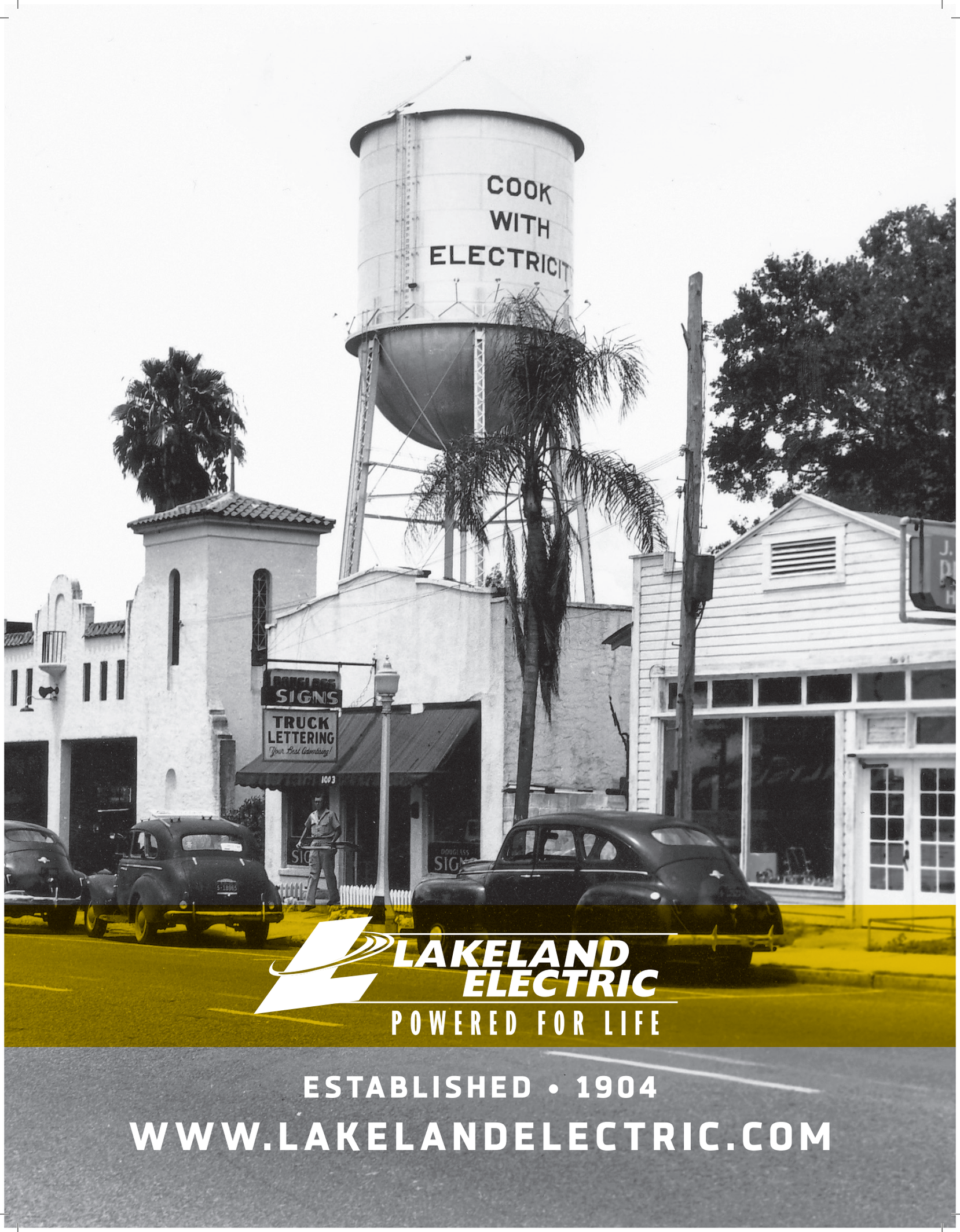
DAVID KUS
ASSISTANT GENERAL MANAGER
CUSTOMER SERVICE

TONY CANDALES
ASSISTANT GENERAL MANAGER
PRODUCTION

DON ECKERT
ASSISTANT GENERAL MANAGER
FISCAL OPERATIONS

FARZIE SHELTON
ASSISTANT GENERAL MANAGER
TECHNICAL SUPPORT

BETSY LEVINGSTON
DIRECTOR OF TRAINING AND
WORKFORCE DEVELEOPMENT



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