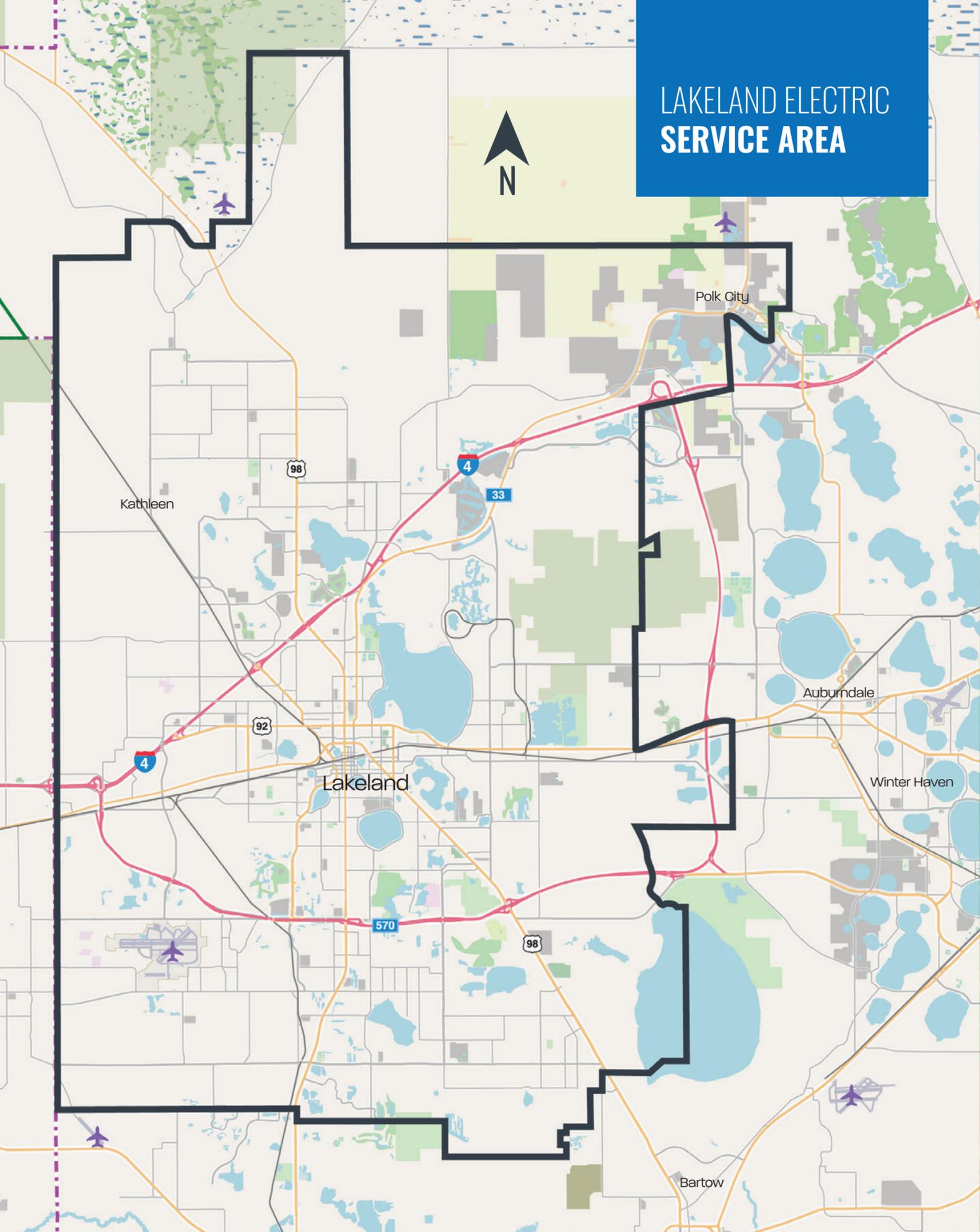


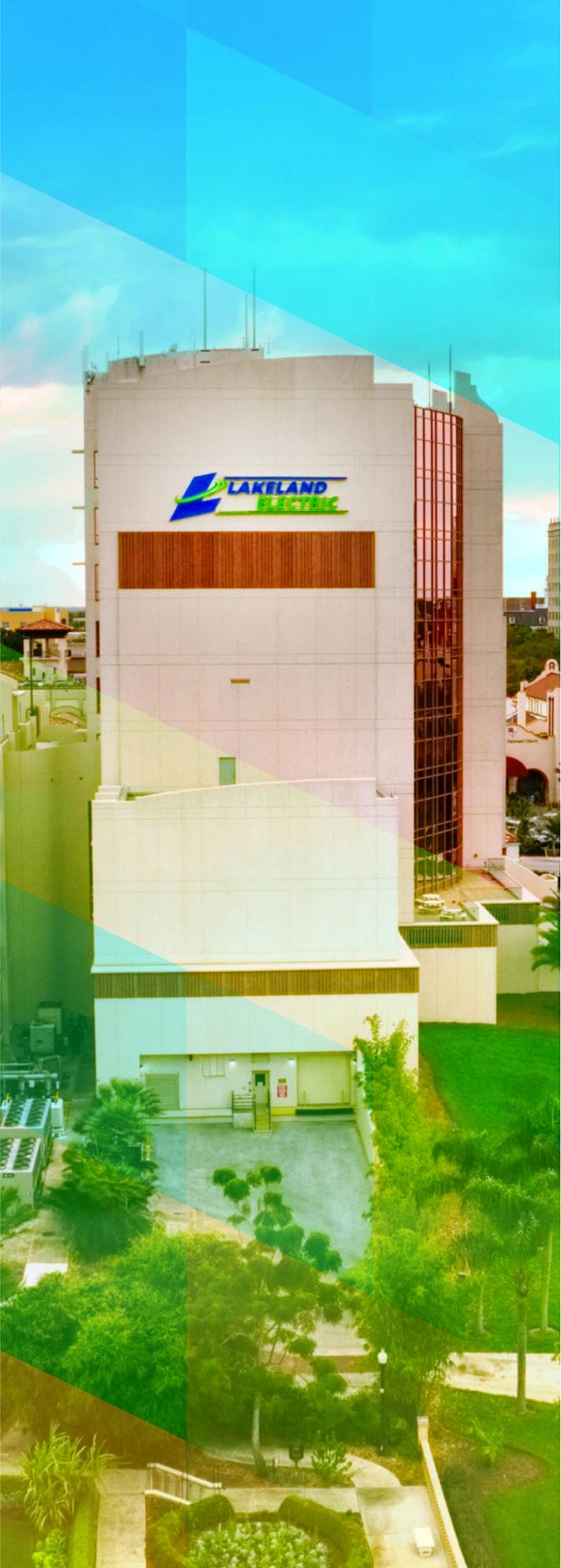


LAKELAND ELECTRIC ANNUAL REPORT 2018

*Department of Electric Utilities
An Enterprise Fund of the City of Lakeland, FL*



LAKELAND ELECTRIC
SERVICE AREA



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OUR VISION Powering our community with excellence in energy solutions.

OUR MISSION Committed to providing safe, reliable, competitive, and environmentally responsible energy solutions to enrich our customers' quality of life.

CORE VALUES Appreciation, customer focus, safety, diversity, accountability, initiative, teamwork, integrity, open communication.



LAKELAND ELECTRIC OVERVIEW

Municipal Electric Utility since **1904**

3rd Largest Municipally Owned Utility in FL

130,183 Customer Accounts
127,149 with Smart Meters

 **246** Square Miles of Service Area

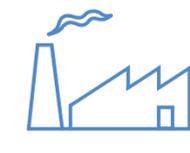
 **14.4 MWACs** of Utility Solar Power Capacity
Enough to Power **7,000 Homes**

 **503** Employees

360 ReEnergize Lakeland Loans Provided to Customers

 **59%** of Customers Pay Online

1,956 Miles of Wire

 **890 MWs** of Net Generating Capacity

 **804 MWh** Record Peak Demand

LAKELAND ELECTRIC EXECUTIVE TEAM



**JOEL
IVY**
General Manager



**MIKE
BECKHAM**
Assistant General
Manager - Production



**JOEY
CURRY**
Assistant General
Manager - Energy
Delivery



**GINA
JACOBI**
Assistant General
Manager - Fiscal
Operations



**DAVID
KUS**
Assistant General
Manager - Customer
Service



**JOEL
IVY**
General Manager



Dear Customer,

Affordable. Dependable. Sustainable. Three words that encompass everything Lakeland Electric is about. Fiscal Year (FY) 2018 saw us continue our mission of providing electricity at very competitive prices, having electricity available when you need it, and making good decisions and smart investments to continue providing business sustainability well into the future.

As a municipal utility, our business partners are the greater community we serve and our bondholders. Accordingly, we take a longer-term and more holistic approach to managing the electricity needs for our customers. We have maintained a long-standing and strong cost control mindset which helped us minimize a base rate increase beginning in FY 2019. We requested and were approved for a 3 percent overall increase. Even with the increase, we still rank as one of the lowest cost electric providers in the state. A ranking we are proud of and work hard to maintain.

At Lakeland Electric we continually look for ways to be more efficient and provide customers with the best service possible. For example, we added an interactive power outage map feature to our web site. While outside of storms, outages are rare, they do occur and we know they are frustrating to our customers. This tool gives our customers a self-help option and provides information on the cause and expected duration so they can make better decisions for themselves. This is just another example of delivering on our pledge of dependability.

In 2018 we closed on the purchase of an additional generator at well below market prices. The unit will be known as the McIntosh Gas Turbine 2 (MGT2). The MGT2 is a peaking unit which can operate on natural gas or diesel. The MGT2 is replacing capacity lost from shuttering McIntosh

Unit 2 after a critical high-pressure water line rupture in 2017. It will also provide a beneficial addition to our power pool and add flexibility for the future to choose the most efficient methods of providing electricity to our customers. To purchase MGT2, we raised \$44M in the bond market and the ranking agencies affirmed our strong AA- financial rating.

Lakeland Electric is looking forward to creating viable ways to provide our community's electricity needs well into the future. We invested in renewable energy early on and have since been piloting battery storage for future grid scale installations. We invest in conservation and work with customers to save money on their energy costs through prudent energy efficiency improvements. We look at current trends to be prepared for new technologies and changing customer needs and behaviors so that our business is environmentally and financially sustainable for the long term.

Our tag-line "Powered for Life" still rings very true for the customers in our service area. We are seeing solid growth in both residential homes and our commercial and industrial sectors. Our great employees are poised and ready to take on all challenges. The City's leadership team and the City Commission/Utility Committee are critical to our success and have been very supportive in a healthy balance. I especially want to thank our customers for their participation in the public power processes. Lakeland Electric stands ready to serve now and in the future.

Yours sincerely,

Joel Ivy
General Manager



CITY OF LAKELAND
COMMISSION



WILLIAM "BILL"
MUTZ
Mayor



STEPHANIE
MADDEN
Commissioner
at Large



BILL
READ
Commissioner
Northeast District



JUSTIN
TROLLER
Commissioner
at Large



SARA
McCARLEY
Commissioner
Southwest District



PHILLIP
WALKER
Commissioner
Northwest District



SCOTT
FRANKLIN
Commissioner
Southeast District

CITY OF LAKELAND
MANAGEMENT



TONY
DELGADO
City Manager



SHAWN
SHERROUSE
Deputy City Manager

UTILITY COMMITTEE
CITIZENS



ASHLEY
TROUTMAN



DARYL
JOHNSON



JACK
ENGLISH



JOE
CHILDS



MIKE
McGEE



TERRY
DENNIS

GINA JACOBI
 Assistant General Manager -
 Fiscal Operations



March 2019

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Lakeland Electric for the fiscal year ended September 30, 2018. The following pages provide a summary of your Electric Utility's major initiatives, statistical data, and financial condition.

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

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

You may find other information regarding Lakeland Electric, including this Annual Report (PAFR), annual budget and CAFR, on the City of Lakeland's website: www.lakelandgov.net

Respectfully submitted,

Gina Jacobi, MBA, CGFM
 Assistant General Manager - Fiscal Operations

BY THE NUMBERS

RETAIL kWh
 SOLD

**3.1
 BILLION**

NUMBER OF
 EMPLOYEES

503

Government Finance Officers Association
Award for Outstanding Achievement in Popular Annual Financial Reporting
 Presented to
 City of Lakeland, Florida
 Department of Electric Utilities
 For its Annual Financial Report for the Fiscal Year Ended
 September 30, 2017
 Christopher P. Morill
 Executive Director/CEO



CUSTOMERS 130,138

NUMBER OF
CUSTOMERS

83% Residential | 10% Commercial & Industrial | 7% Private Area Lighting

CUSTOMER
CONSUMPTION

48% kWh Residential | 51% kWh Commercial & Industrial | 1% kWh Private Area Lighting

OPERATIONAL REVENUES \$315.0 MILLION

CUSTOMER
REVENUE

59% Residential | 36% Commercial & Industrial | 5% Private Area Lighting

OPERATIONAL EXPENSES \$220.9 MILLION

GENERAL
EXPENSES
 (excluding depreciation)

127.1M Fuel | 93.8M Non-Fuel

NON-FUEL EXPENSES
BY CATEGORY

32.0%	32.0%	19.0%	9.0%	8.0%
Production	Delivery	Admin & General	Customer Service	Taxes

FUEL EXPENSES
BY CATEGORY

49.2%	29.7%	18.1%	2.6%	0.4%
Gas	Coal	Purchase Power	Solar	Oil

PROUD TO SERVE YOU

Since its establishment as a municipal utility in 1904, Lakeland Electric has been a vital part of greater Lakeland's growth and transformation into a vibrant and dynamic region. The utility is owned by you, our customers, not by outside shareholders, making your interest our top priority. Our employees work hard to provide affordable, dependable and sustainable power that you deserve. We pledge to stay focused on the future and to continue providing the high level of service you've come to depend on.

BUILDING COMMUNITY

Beyond providing affordable, dependable and sustainable electric service, Lakeland Electric is committed to connecting the communities throughout the Lakeland Electric territory. The funds generated by electricity usage, over and above capital investment, are put right back into the community by supporting our area's beautiful parks, roadways, recreational amenities, and community organizations, as well as outstanding police and fire emergency services.

SUPPORTING THE FUTURE

Lakeland Electric partnered with public schools, through the Polk Education Foundation, and with private schools to offer ten scholarships for high school seniors who intend to major in Science, Technology, Engineering, Arts and Mathematics (S.T.E.A.M.) in college. We're proud to support the bright minds of our community's future through education.



PUTTING YOU IN CONTROL

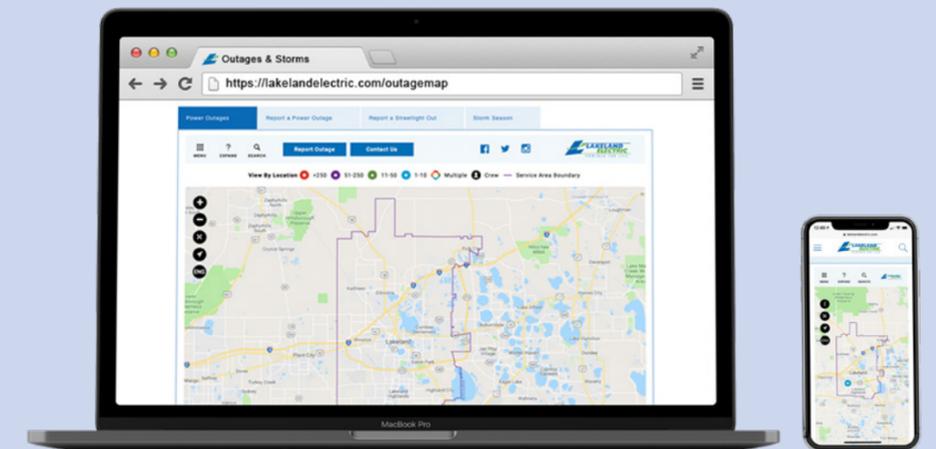
With online tools utilizing smart grid data, customers are in control of their home's energy usage. With a one-step rate comparison tool, bill prediction and personalized savings tips, it's easier than ever for customers to make choices that fit their personal energy goals. Through investments in our employees and technology, we are creating better ways to meet the demands of our customer's busy lives, encouraging environmentally responsible energy solutions and providing reliable service.



OUTAGE MAP

Our new interactive outage map is the first place our customers turn when there is a power outage.

We work hard to keep the lights on, but when they do go off customers can stay informed with our new outage map. The map provides customers with detailed outage information, estimated time of restoration, crew status and live weather radar. The outage map information is available in English and Spanish.



OUTSTANDING CUSTOMER SERVICE

According to the Annual National Customer Service Benchmarking survey that compares cost, operations, and safety data with utilities all over the country. We ranked in the top quartile in over forty categories, including:

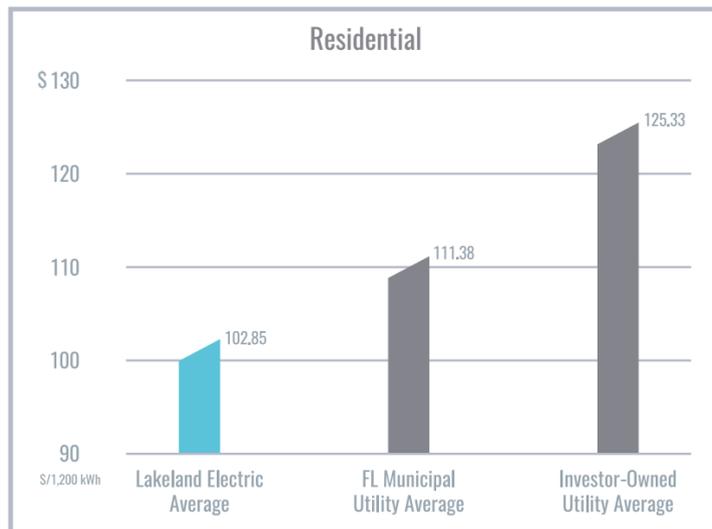
- 31 seconds average call center wait time
- 97% of calls resolved on 1st contact
- 89% overall customer satisfaction

We're proud of these results and are continually trying to do even better.

SUSTAINING OUR COMPETITIVE EDGE

RATE COMPARISON

Lakeland Electric continues to have some of the lowest electric rates in Florida, remaining in the lowest quartile in all categories.



NEW RATES KEEP US SUSTAINABLE AND COMPETITIVE

We requested and received a 3% base rate increase in August 2018. The increase was required to maintain and upgrade Lakeland Electric's power plants, poles, wires, substations, as well as cover operational costs that rose over the last three years. Average residential customers saw a total bill increase of only 1.5%. We're proud to state that Lakeland Electric's rates remain some of the lowest in the state, something we work hard to maintain.



STAYING SAFE

Keeping people safe around power is a responsibility we take very seriously. Our focus on safety training is the best line of defense in preventing accidents and saving lives.

NEW POWER UNIT ADDS FLEXIBILITY

Lakeland Electric purchased the McIntosh Gas Turbine 2 (MGT2), a 125-megawatt natural gas turbine unit, which will serve as a peaker unit during times of day when energy demand is high. MGT2 can reach operating speed in just 30 minutes, unlike the 12 hours required for some other generating units, making us more flexible in responding to peak energy demand and to integrating renewable energy in our portfolio. The new purchase will allow us to meet our customer's power demands quickly and efficiently. The unit is expected to be in operation by 2020.

PREPARED FOR WHAT'S NEXT

READY, SET, VIEW

System control's 1960's era vintage tape-and-board display was replaced with a high tech video wall display. The new video wall increases situational awareness and accuracy for system operators. The display is powered by the integration of our management systems and smart meter data allowing

crews in the field, system operators and call center representatives to share information with greater efficiency. The improved system means accurate dispatching, faster power restoration, improved safety, and better information for our employees and customers.



BEING PREPARED

We strive to provide the highest power reliability to customers. This means constant attention and investment in our infrastructure system. Every year, Florida is subject to the probability of hurricane force winds that can cause extensive damage to electric utility infrastructure. In 2018, we completed transmission line upgrades as part of a system-wide, storm hardening effort to prepare Lakeland Electric's grid for major storm events. The projects also increase line capacity for future growth and improved reliability.

READY TO HELP

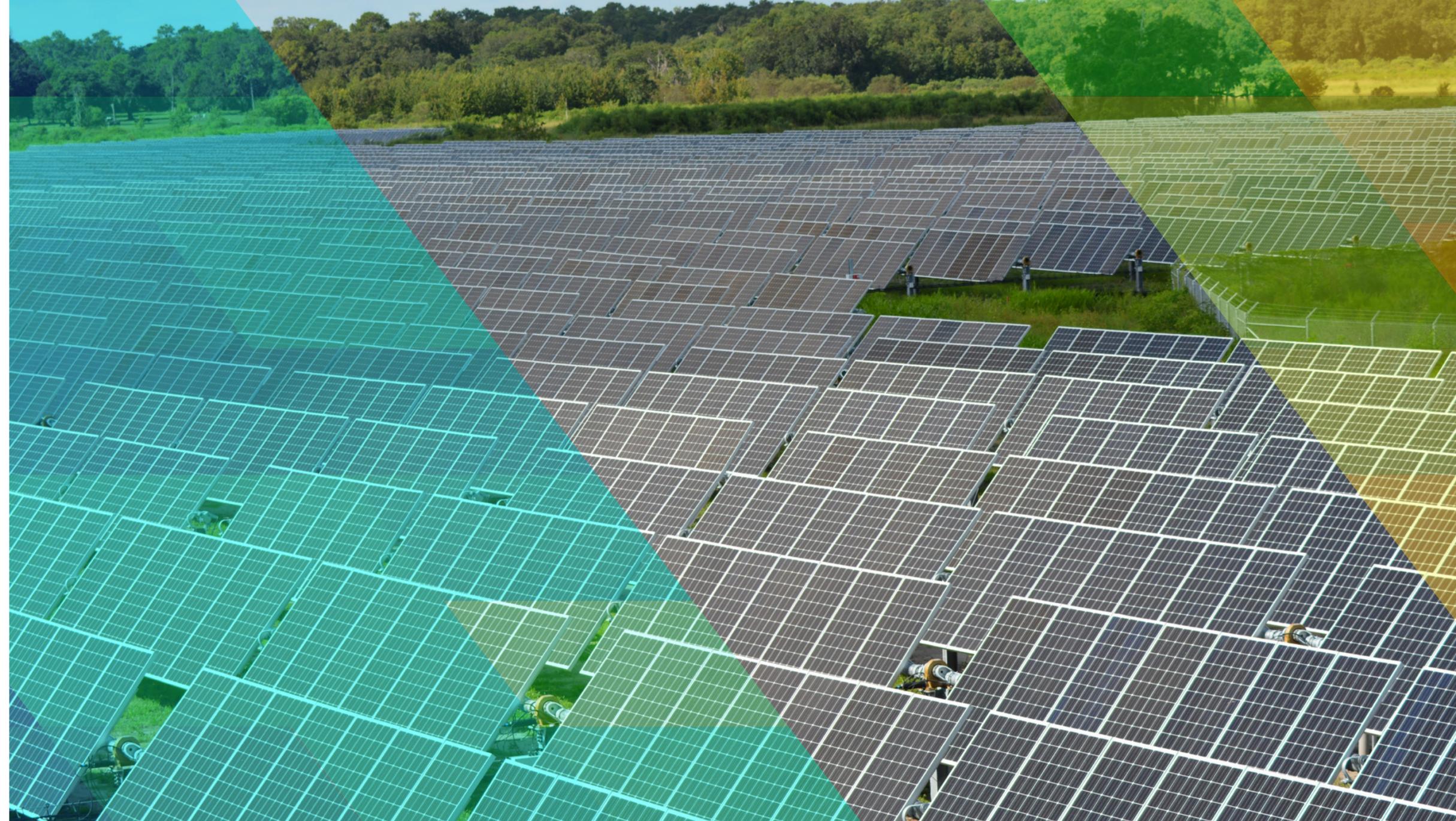
As a member of the Florida Municipal Electric Association, we are always ready to help other communities restore power after storm damage. Lakeland Electric crew members traveled to North Carolina and the Florida Panhandle this year to provide mutual aid following Hurricane Florence and Hurricane Michael.



CREATING A SUSTAINABLE FUTURE

REENERGIZE LAKELAND

Lakeland Electric has been investing in environmentally friendly solutions and alternative energy sources since 1994 when we first installed solar-powered streetlights. Today, we have five solar farms which are capable of producing over 14 megawatts of power. The battery storage pilot project completed this year will help us look at how new technology can help our customers and the environment. We encourage customers to be more energy efficient with rebates and loan programs to help them make energy efficient changes to their home, while free home energy audits can help them with energy saving habits and practices.



RESIDENTIAL SOLAR

We know installing residential rooftop solar is a big decision and you have questions. We've trained our Electric Energy Analysts to help customers make an informed decision. New online solar tools for customers are coming in 2019.

STRATEGIES THAT REDUCE COSTS AND HELP THE ENVIRONMENT

McIntosh Unit 5 is consistently ranked as one of the most efficient generating units in the Florida Municipal Power Pool, helping us keep costs low. Also, the unit collects reclaimed water from the City of Lakeland and uses it for cooling in our power generating process. This water is then sent to the City of Lakeland's Se7en Wetlands, a constructed wetland treatment system. This innovative program benefits our customers by reducing our operating expenses, and the environment by using reclaimed water.



KEY FINANCIAL TERMS

Operating Revenues:	Revenues that are earned as a result of the utility's business operations
Operating Expenses:	Expenditures that the utility incurs as a result of business operations
Depreciation:	Allocation of the cost of an asset over its useful life
Investment Income:	Earnings on the utility's investments
Transfer to Other Funds:	Yearly payment from the utility to city government based on MWh consumption
Asset:	Resources that the utility owns
Liability:	The utility's legal debts or obligations
Net Position:	The difference between the utility's assets and deferred outflows, and liabilities and deferred inflows
Deferred Inflows/Outflows:	Flow of resources into and out of the utility during the fiscal year that are related to future periods

FINANCIAL ACTIVITY

Condensed Statement of Revenue, Expenses and Changes in Net Position September 30, 2014 through 2018 - In thousands

OPERATING REVENUES	2018	2017	2016	2015	2014
Sale of energy - retail	\$299,669	\$291,555	\$283,302	\$296,955	\$295,628
Sale of energy and capacity sales - wholesale	7,952	4,643	5,789	5,521	3,840
Other electric operating revenue	7,421	7,286	7,462	7,027	6,870
	315,042	303,484	296,553	309,503	306,338
OPERATING EXPENSES					
Fuel and purchased power	127,076	120,510	109,466	124,528	134,396
Non fuel expenses	93,834	99,225	83,364	89,451	81,469
Depreciation (net)	35,945	38,267	41,784	40,734	39,482
	256,855	258,002	234,614	254,713	255,347
OPERATING INCOME	58,187	45,482	61,939	54,790	50,991
NON-OPERATING ACTIVITY					
Investment and other income	5,421	5,832	6,795	4,227	15,549
Interest and amortization	(15,828)	(17,660)	(18,385)	(18,786)	(21,578)
Transfer to other funds	(30,139)	(28,448)	(30,678)	(29,506)	(25,517)
	(40,546)	(40,276)	(42,268)	(44,065)	(31,546)
CHANGE IN NET POSITION	\$17,641	\$5,206	\$19,671	\$10,725	\$19,445

OVERVIEW

Lakeland Electric's operating income in Fiscal Year 2018 was up 28% from the previous year's results, which had reflected the adverse effects of Hurricane Irma. (In 2017, Hurricane Irma slammed into Lakeland Electric's service territory and inflicted widespread damage to the utility's system. Restoring power to its customers cost the utility a total of \$10.4 million.) Although Lakeland Electric anticipates that a substantial percentage of these storm recovery costs will be eligible for reimbursement from the Federal Emergency Management Agency, no funds had been received before the end of the fiscal year.

In 2018, operating revenues were up \$11.6 million year-over-year reflecting a 2% growth in retail sales volume and higher fuel revenues. (Fuel revenue is a pass-through and its increase was associated with higher fuel and purchased power costs.) Total operating expenses were down \$1.1 million as increased infrastructure maintenance expenses and higher fuel and purchased power costs were more than offset by the non-recurrence of the \$10.4 million in hurricane restoration costs.

CREDIT RATINGS

AA-
POSITIVE
Fitch™

Aa3
STABLE
Moody's™

AA
STABLE
Std & Poor's™

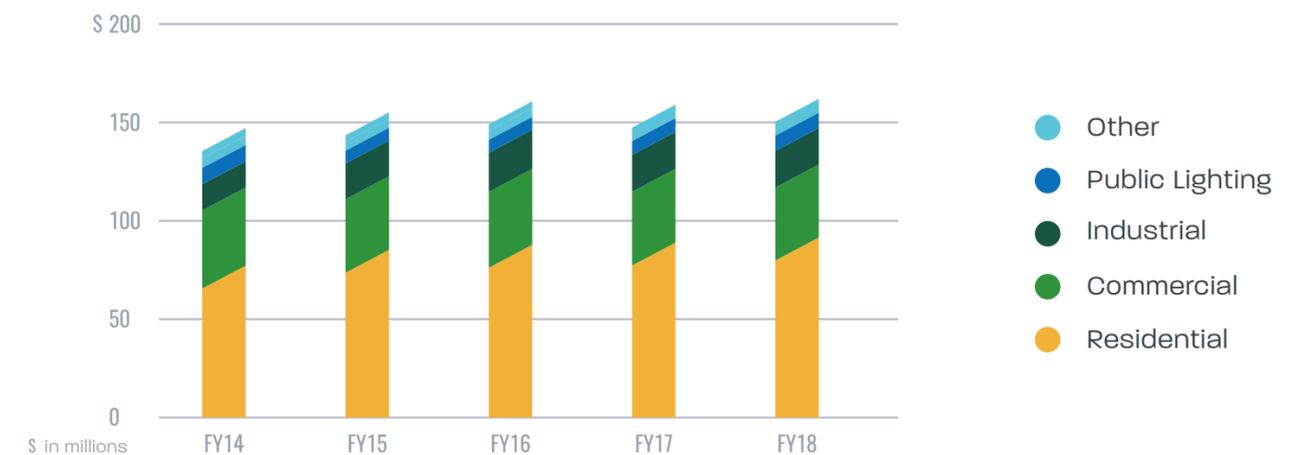
FINANCIAL ACTIVITY

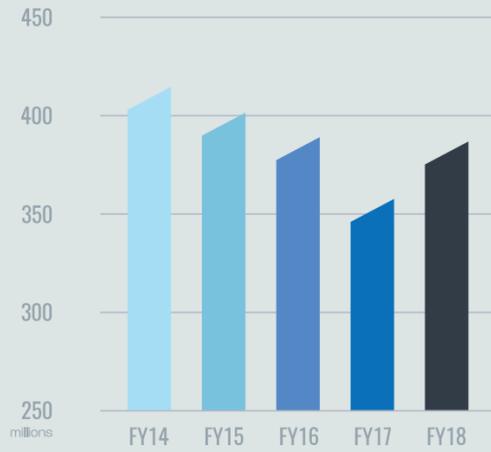
Condensed Statement of Net Position
September 30, 2014 through 2018 - In thousands

ASSETS	2018	2017	2016	2015	2014
Current assets	\$156,794	\$167,326	\$165,568	\$150,372	\$147,139
Utility plant, net	665,301	649,740	656,497	666,644	675,503
Other noncurrent assets	127,892	90,183	96,469	86,158	83,799
	949,987	907,249	918,534	903,174	906,441
DEFERRED OUTFLOWS OF RESOURCES	56,033	70,391	92,266	70,498	63,891
LIABILITIES					
Current liabilities	50,508	56,990	49,636	42,995	59,337
Other noncurrent assets	556,838	552,941	560,461	550,149	559,938
	607,346	609,931	610,097	593,144	619,275
DEFERRED INFLOWS OF RESOURCES	81,421	68,097	67,045	66,541	47,796
NET POSITION					
Net assets invested in capital assets, net of related debt	209,309	222,755	211,864	203,263	192,567
Restricted - Capital Improvement	28,328	-	6,955	-	-
Unrestricted	79,616	76,857	114,839	110,724	110,694
NET POSITION	\$317,253	\$299,612	\$333,658	\$313,987	\$303,261

REVENUE SOURCES

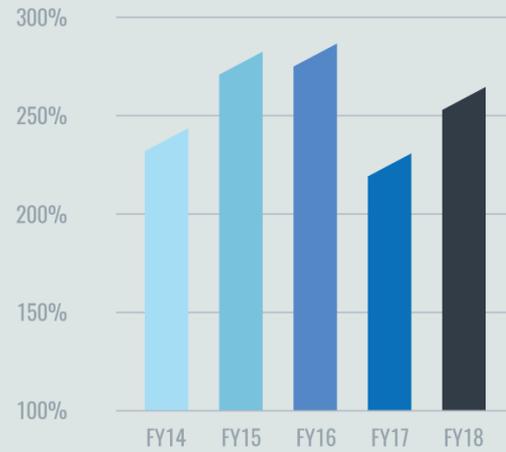
in millions





LONGTERM DEBT

At the end of 2018, the amount of debt outstanding totaled \$385.1 million. In 2018, Lakeland Electric issued \$44 million of debt to purchase and install the MGT2 peaking unit. Approximately 25% of Lakeland Electric's debt is floating rate notes and the remainder is fixed rate.



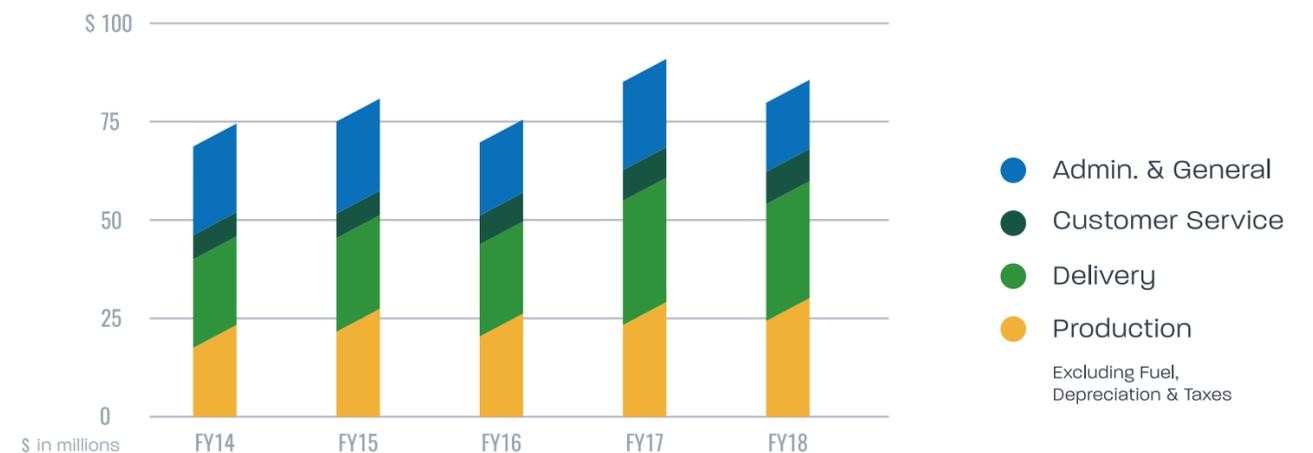
DEBT SERVICE COVERAGE

This ratio is a measurement that demonstrates an entity's ability to pay its annual debt service made up of both principal and interest. Lakeland Electric's bond covenant requires debt service coverage of at least 150%, but through a conservative approach to finances, an internal benchmark of 200% has been long established. Debt service coverage exceeded the benchmark at 261% in 2018.



EXPENSE BREAKDOWN

in millions





*Department of Electric Utilities
An enterprise fund of the City of Lakeland, Florida*

WWW.LAKELANDELECTRIC.COM