CITY OF LAKELAND, FLORIDA

DEPARTMENT OF ELECTRIC UTILITIES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007 AND 2006

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the Department of Electric Utilities of the City of Lakeland, Florida, (the Department) as of September 30, 2007. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Department as of September 30, 2006, were audited by Carter, Belcourt & Atkinson, P.A., who combined with Crowe Chizek and Company LLC as of December 1, 2007, and whose report dated February 20, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Department of Electric Utilities of the City of Lakeland, Florida, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida, as of September 30, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Electric Utilities of the City of Lakeland, Florida, as of September 30, 2007 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

February 21, 2008
Lakeland, Florida

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES

Management's Discussion and Analysis

The Management's Discussion and Analysis section 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, 2007. Readers are encouraged to consider the information presented in this section in conjunction with additional information contained in the financial report. The following condensed Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets summarizes the financial condition and operations of Lakeland Electric for the year ended September 30, 2007 and the previous two fiscal years:

	(In Thousands)		
	September 30		
	2007	2006	2005
Assets			
Utility plant, net	$ 611,587	$ 605,533	$ 622,200
Current assets	122,962	159,104	137,549
Noncurrent assets	120,929	116,812	103,496
	$ 855,478	$ 881,449	$ 863,245
Liabilities and Net Assets			
Current liabilities	$ 29,365	$ 77,733	$ 91,740
Noncurrent liabilities	572,670	544,596	497,985
Net assets invested in capital assets, net of related debt	130,031	121,402	156,244
Unrestricted net assets	123,412	137,718	117,276
	$ 855,478	$ 881,449	$ 863,245
Revenues, Expenses and Changes in Net Assets			
OPERATING REVENUES			
Sales of energy - retail	$ 330,101	$ 332,168	$ 287,753
Sales of energy and capacity sales - wholesale	36,899	39,440	42,333
Other electric operating revene	7,571	5,439	6,134
	374,571	377,047	336,220
OPERATING EXPENSES			
Fuel and purchased power	234,344	245,648	200,563
Energy supply	21,400	21,145	22,279
Energy delivery	17,811	16,635	16,144
Customer service and accounting	7,347	7,727	7,408
Administrative and general	14,381	14,264	14,155
State tax on electric sales	8,689	8,342	7,327
Depreciation	37,482	38,712	37,502
	341,454	352,473	305,378
OPERATING INCOME	33,117	24,574	30,842
NON-OPERATING ACTIVITY			
Investment and other income	5,459	4,919	1,917
Interest and amortization	(27,653)	(25,784)	(25,815)
Transfers to/from other funds (net)	(16,600)	(18,109)	(17,366)
	(38,794)	(38,974)	(41,264)
CHANGE IN NET ASSETS	$ (5,677)	$ (14,400)	$ (10,422)

Financial Highlights

- Operating revenues for the fiscal year 2007 were $374.6 million, which was a decrease of $2.4 million from the previous fiscal year. The non-fuel component of retail revenues increased by approximately $3.8 million from 2006 to 2007 resulting from an overall base rate increase of approximately 8.5 percent that took affect in May 2007 and an increase of 2.0 percent in the customer base from the previous fiscal year, with the residential sector of the market growing at a slightly faster rate than the commercial and industrial customer base. Wholesale power sales declined by $2.5 million as a result of lower sales to the Florida Municipal Power Pool which are made on a fuel cost recovery basis.

- Lakeland Electric's non-fuel operating costs (excluding fuel, gross receipts tax, and depreciation) were $60.9 million in fiscal year 2007, a 2.0% increase from $59.8 million in the previous fiscal year. Operating and maintenance costs increased to an average of $21.29 per 1,000 Kwh in 2007, up from $20.52 in 2006. Practically all of this increase was associated with payroll, which rose by 6.0% from the previous fiscal year following a pay plan study.

- The profitability of retail operations (measured before transfers) increased by $2.1 million from the previous fiscal year, primarily because of the mid-year rate increase. The profitability of wholesale operations increased by $5.4 million from the previous year because of decreased losses associated with an unfavorable wholesale power contract (see Economic Factors).

- Fuel and purchased power expenses decreased by $11.3 million, or 4.6 percent from the previous fiscal year. The average cost of fuel to generate 1,000 Kwh of energy to serve the retail load decreased from $61.81 in fiscal year 2006 to $58.07 in fiscal year 2007 because of more favorable natural gas prices. The electric utility recovers 100 percent of fuel costs from retail customers in the form of a fuel charge that is revised quarterly as needed based on a forecast of fuel costs for the following twelve months.

- Depreciation expense in 2007 was $37.5 million, which was $1.2 million lower than 2006. A depreciation study of Lakeland Electric's generation units was completed during fiscal year 2007 resulting in a general increase in the estimated useful lives of Lakeland Electric's generation units. The effect of the life change adjustment was partially mitigated by the recommendation of the consultants to record *negative salvage value*, which represents the estimated future cost of removing the generation structures. The negative salvage is being amortized over the remaining estimated lives of each of the respective units. The eventual cost of removal will be charged against a liability account, *plant retirement obligations*. This standard industry accounting practice is based on the fact that generally, the cost of removing electric generation structures exceeds the salvage value.

- Deferred regulatory accounts represent the amount receivable from or payable to retail customers for the cumulative difference between fuel costs incurred to serve retail load and fuel revenues realized. As of September 30, 2007 a *deferred regulatory liability* of $2.7 million is recorded, representing an over-recovery of fuel charges. Comparatively, as of the end of the previous fiscal year a *deferred regulatory asset* of $7.7 million was included as a current asset because there was an under-recovery of fuel charges. As of the September 30, 2007 the retail customer fuel rate for all customer classes was $62.00 per 1,000 Kwh compared to $65.00 at the end of previous fiscal year. The fuel rate was subsequently decreased to $60.00 in January 2008.

- 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 approximately at an average of approximately $32 million over the next four years.

- Capital spending for the 2007 fiscal year totaled approximately $32 million compared to $21.3 in fiscal year 2006 and $24.6 million in 2005. Lakeland Electric has identified $90 million of EPA compliance and customer growth related capital improvements that will be financed from the proceeds of two bond issues; one issue sold in August 2006, and the second bond issue is now planned for fiscal year 2008.

- 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 2007 was $16.6 million, which amounted to 4.0 percent of gross operating revenues of Lakeland Electric, representing a decrease of $1.4 million from fiscal 2006. This dividend level was

Financial Highlights (Continued)

substantially below the industry median of 6.3 percent (as reported by the APPA). The reduced dividend level for both 2007 and 2006 was intended to offset a portion of the losses incurred in conjunction with an unfavorable wholesale power contract (see Economic Factors). The dividend is budgeted to increase to $24.0 million in 2008.

Capital Assets

The following table contains a summary of Lakeland Electric plant investment net of accumulated depreciation as of the September 30, 2007 and 2006:

	(In Thousands)	
	September 30	
	2007	2006
Land	$ 15,502	$ 15,197
Construction in process	20,929	20,772
Buildings	19,367	20,048
Machinery and equipment	16,937	18,643
Electric transmission and distribution	228,923	218,063
Electric plants in service	309,928	312,810
	$ 611,587	$ 605,533

The generating capacity of the production units owned by the City is 984 megawatts (MW). The most cost effective unit in the generating fleet is the 365 MW McIntosh 3 coal unit, of which 60 percent or 218 MW is owned by Lakeland Electric. During the past five years Lakeland Electric has placed a 350 MW combined cycle natural gas unit and a 50 MW internal combustion peaking facility into service. 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, 2007, Lakeland Electric had $487.4 million in net long-term debt outstanding compared to $502.5 million at the end of 2006 as shown in the following table:

	(In Thousands)	
	September 30	
	2007	2006
Electric System Revenue Bonds:		
Series 1999A	$ 192,655	$ 193,230
Series 1999B	51,185	51,185
Series 1999C	64,525	64,525
Series 2001B	30,000	30,000
Series 2006	44,870	44,870
Series 2006A	139,475	139,475
	522,710	523,285
Less current portion	(17,300)	(575)
Less unamortized loss on refunding	(17,623)	(20,174)
Unamortized bond discount (net of premium)	(402)	(82)
	$ 487,385	$ 502,455

Economic Factors

As indicated in Note M, coverage on bonded debt of Lakeland Electric remains very strong at 2.24 times the annual debt service requirement for the fiscal year ended 2007. Per the enabling bond ordinance, an amount equal to 20 percent of the fund balance of Lakeland Electric is included as a component of net revenues in preparing this calculation. Removing this aspect of the coverage calculation yields a coverage ratio of 1.80.

In December 2000 Lakeland Electric entered into a contract with the Florida Municipal Power Association (FMPA) that allows FMPA the option of taking up to 100 MW of energy per hour at a fixed price. The contract contains a fuel escalation clause that has not kept pace with the rapid increase in natural gas prices, creating significant losses to Lakeland Electric. During fiscal year 2007 the FMPA purchased 643,600 megawatt-hours (MWH) under the contract, compared to 655,000 MWH in FY 2006. The total loss on the contract for the fiscal year 2007, including all fuel and variable O&M expenses, and including the capacity revenues associated with the contract was $23.8 million. The comparable fiscal year 2006 loss was $30.6 million.

The decreased FMPA loss resulted primarily from more favorable natural gas prices during 2007. Because the under-recovery of fuel on the FMPA contract is not being passed along to retail customers as a component of the fuel charge, these losses are being absorbed by Lakeland Electric. During fiscal year 2004 Lakeland Electric negotiated with FMPA to shorten the length of the contract by three years. The contract expired on December 14, 2007 with a loss of $5.2 million during the final three months of the contract, which will be reflected in the results of fiscal year 2008.

Significant natural gas and oil price fluctuations have occurred in recent years. Lakeland Electric has created a fuel hedging program that is intended to mitigate fuel price volatility over the near term. The program has historically allowed for the purchase of natural gas using financial and physical contract for a period of up to twelve months in the future. During fiscal year 2006, this program was expanded to provide for hedging of natural gas prices up to 30 months in advance. Lakeland Electric changed fuel hedging consultants during fiscal year 2007.

Lakeland Electric expects to see continued growth in retail revenue with an anticipated increase in the customer base of about 2.0 percent. The average demand for energy placed on the system from retail customers is approximately 350 MW, with peak demand during summer of 648 MW and winter of 596 MW.

Using This Annual Report

This annual report includes the Statement of Net assets, Statement of Revenues, Expenses and Change in net assets, 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 should be addressed to: Manager of Utilities Finance and Accounting, Lakeland Electric, 501 East Lemon St, Lakeland, FL 33801.

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES

STATEMENT OF NET ASSETS

	September 30	
ASSETS	2007	2006
UTILITY PLANT		
Utility plant in service	$ 1,074,589,359	$ 1,048,692,100
Less accumulated depreciation	483,931,133	463,930,468
	590,658,226	584,761,632
Construction in progress	20,929,195	20,771,784
Total utility plant, net	611,587,421	605,533,416
CURRENT ASSETS		
Cash and cash equivalents	19,297,179	20,755,524
Investments	-	2,684
Accounts receivable	58,548,975	56,627,544
Less allowance for uncollectibles	(1,261,954)	(1,208,002)
Inventories	38,652,604	30,268,188
Deferred regulatory assets	-	7,737,949
Other current assets	7,724,849	44,920,258
Total current assets	122,961,653	159,104,145
OTHER ASSETS		
Restricted assets	26,292,073	37,998,887
Asset apportionments	87,165,711	70,993,119
Other noncurrent assets	7,471,091	7,819,029
Total other assets	120,928,875	116,811,035
TOTALS	$ 855,477,949	$ 881,448,596
LIABILITIES		
CURRENT LIABILITIES, payable from current assets		
Accounts payable	$ 23,054,529	$ 32,565,773
Accrued liabilities	3,426,278	4,035,232
Due to other funds	137,473	41,131,508
Deferred regulatory liability	2,746,318	-
Total current liabilities, payable from current assets	29,364,598	77,732,513
OTHER LIABILITIES		
Long-term debt, due beyond twelve months	487,385,362	502,454,613
Accrued liabilities, less current portion	29,131,353	18,981,809
Advances from other funds, less current portion	549,892	687,365
Plant retirement obligations	14,275,886	-
Liabilities payable from apportioned assets, due within twelve months	28,205,643	12,783,925
Restricted liabilities, due within twelve months	13,122,137	9,688,249
Total other liabilities	572,670,273	544,595,961
Total liabilities	602,034,871	622,328,474
NET ASSETS		
Invested in capital assets, net of related debt	130,031,523	121,401,786
Unrestricted	123,411,555	137,718,336
Total net assets	253,443,078	259,120,122
TOTALS	$ 855,477,949	$ 881,448,596

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ended September 30	
	2007	2006
OPERATING REVENUES		
Sales of energy - retail	$ 330,101,590	$ 332,168,035
Sales of energy and capacity sales - wholesale	36,898,580	39,439,857
Other electric operating revenue	7,570,611	5,439,509
Total operating revenues	374,570,781	377,047,401
OPERATING EXPENSES		
Fuel and purchased power	234,343,932	245,648,555
Energy supply	21,399,592	21,144,815
Energy delivery	17,811,302	16,634,636
Customer service	7,346,642	7,726,693
State tax on electric sales	8,688,739	8,341,868
Administrative and general	14,381,590	14,263,781
Total operating expenses	303,971,797	313,760,348
OPERATING INCOME BEFORE DEPRECIATION	70,598,984	63,287,053
Less depreciation	37,482,304	38,712,207
OPERATING INCOME	33,116,680	24,574,846
NONOPERATING REVENUES (EXPENSES)		
Investment revenue (less $1,022,338 and $142,441 capitalized in 2007 and 2006, respectively)	4,208,904	2,707,143
Net increase in the fair value of cash equivalents	439,815	1,016,505
Miscelleous revenue	810,584	1,195,079
Interest expense and fiscal charges (less $509,080 and $453,631 capitalized in 2007 and 2006, respectively)	(25,150,023)	(23,292,244)
Amortization expense	(2,503,004)	(2,492,478)
	(22,193,724)	(20,865,995)
INCOME BEFORE TRANSFERS	10,922,956	3,708,851
TRANSFERS TO OTHER FUNDS	(16,600,000)	(18,140,000)
TRANSFERS FROM OTHER FUNDS	-	31,353
CHANGE IN NET ASSETS	(5,677,044)	(14,399,796)
NET ASSETS, beginning of year	259,120,122	273,519,918
NET ASSETS, end of year	$ 253,443,078	$ 259,120,122

See accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
DEPARTMENT OF ELECTRIC UTILITIES

STATEMENTS OF CASH FLOWS

	Year ended September 30	
	2007	2006
Cash flows from operating activities:		
Receipts from customers	$ 378,617,038	$ 353,074,306
Withdrawals from natural gas hedge accounts	41,352,233	-
Payments for interfund services	(9,141,472)	(8,290,354)
Payments to suppliers	(275,725,436)	(324,125,402)
Payments to employees	(31,000,117)	(26,533,144)
Net cash provided by operating activities	104,102,246	(5,874,594)
Cash flows used in noncapital financing activities:		
Increase in meter deposits payable, net	1,535,581	516,946
Operating transfers to other funds	(16,600,000)	(18,140,000)
Cash flows used in noncapital financing activities	(15,064,419)	(17,623,054)
Cash flows from (used in) capital and related financing activities:		
Interest paid on long-term debt issued to finance capital assets	(24,825,299)	(25,252,479)
Proceeds from issuance of long-term debt	7,680,000	184,345,000
Proceed from issuance of interfund loans	-	40,994,035
Proceeds from repayment of interfund loans	25,107	25,135
Payments on interfund loans	(41,131,508)	(137,473)
Payments on and maturities of long-term debt	(575,000)	(168,540,000)
Purchase of capital assets	(31,971,847)	(20,761,287)
Cash flows from (used in) capital and related financing activities:	(90,798,547)	10,672,931
Cash flows provided by investing activities:		
Investment transaction costs	(482,926)	-
Investment revenue	5,231,242	2,849,584
Net increase in the fair value of cash equivalents	442,499	1,016,505
Cash flows provided by investing activities	5,190,815	3,866,089
Net increase (decrease) in cash and cash equivalents	3,430,095	(8,958,628)
Cash and cash equivalents, beginning of year	115,123,230	124,081,858
Cash and cash equivalents, end of year	$ 118,553,325	$ 115,123,230
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income	$ 33,116,680	$ 24,574,846
Depreciation	37,482,304	38,712,207
Miscellaneous revenue	810,584	1,195,079
Decrease (increase) in receivables, net	489,355	(5,427,811)
Increase in inventory	(8,384,416)	(4,487,331)
Decrease (increase) in other current assets (including prepaid fuel)	37,678,335	(40,812,455)
Decrease in deferred regulatory accounts	10,484,267	4,429,721
Decrease (increase) in net pension obligation	75,791	(12,906)
Decrease in accounts payable	(9,511,244)	(8,156,732)
Increase in accrued liabilities	1,860,590	3,292,354
Increase (decrease) in deferred revenue	-	(19,740,363)
Increase in deposits	-	558,797
Net cash provided by operating activities	$ 104,102,246	$ (5,874,594)

See accompanying notes to financial statements

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present only the financial position, changes in net assets, 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 where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting:

Lakeland Electric uses the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) as prescribed for enterprise funds by the Governmental Accounting Standards Board (GASB). Lakeland Electric has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) for electric operations. Lakeland Electric is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Lakeland Electric has elected not to apply FASB pronouncements issued after that date.

Lakeland Electric applies the accounting principles required by Statement of Financial Accounting Standards No. 71 - Accounting for the Effects of Certain Types of Regulation (SFAS 71). 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. SFAS 71 requires Lakeland Electric to defer certain expenses and revenues, and record various regulatory assets and liabilities in accordance with rate actions of the Lakeland City Commission.

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 B). Additionally, Lakeland Electric's equity in the City's internal investment pool (see Note B) 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 Assets are valued at fair market 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, 2007 and 2006, respectively.

Inventories:

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

Asset Apportionments:

Lakeland Electric follows the practice of segregating assets that are set aside for a specific purpose. Apportionments can be rescinded at any time by City Commission approval. See Note G.

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 (see Note K).

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.

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility Plant:

Lakeland Electric is required to record the acquisition and disposition of assets in accordance with guidelines provided by the Federal Energy Regulatory Commission, including FERC order 631, Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations. Electric plant is recorded at historical cost. Electric plant does not include the cost or other value of electric plant that has been contributed to Lakeland Electric. Interest costs on funds used for the construction of utility plant are capitalized as part of the costs of these assets. In accordance with accounting regulations 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.

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.

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

Contributions in Aid of Construction:

Non-refundable payments received from consumers and developers for extension of electric services are accounted for as a reduction of utility plant cost in accordance with accounting procedures required by the Federal Energy Regulatory Commission.

Transfers to/From Other Funds:

Lakeland Electric accounts for subsidy payments to other funds as transfers to other funds in the statement of revenues, expenses and changes in net assets. Lakeland Electric makes annual transfers to the City of Lakeland as follows:

	Year Ended September 30	
	2006	2005
Annual dividend to the City of Lakeland	$ 16,600,000	$ 18,000,000
Transfers to City funds for fixed assets	-	125,000
Transfer to Fleet Management Fund for new vehicles	-	15,000
	$ 16,600,000	$ 18,140,000

A transfer of $31,353 for fixed assets was made to Lakeland Electric during fiscal year 2006 from the Department of Information Technology. There were no transfers from other funds during fiscal year 2007.

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).

Amortization:

Bond issue costs and bond discount are amortized over the life of the issue using the straight-line method.

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives and Interest Rate Swap Agreements:

In June 2003, the Governmental Accounting Standards Board issued Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets. This guidance addresses the disclosure requirements for derivative instruments not reported at fair value on the Statement of Net Assets including providing information related to the significance of the outstanding derivatives and their associated risks. Derivative instruments are used by Lakeland Electric in conjunction with debt financing and fuel purchases. Fuel related derivative information is included herein and in Note S – Derivatives and Hedging Activities. Debt related derivative information is included in Note M – Revenue Bonds.

Reclassification:

For comparability, certain fiscal year 2006 amounts have been reclassified to conform to the financial statement presentation for fiscal year 2007. Such reclassifications had no effect on previously reported net assets.

Other Significant Accounting Policies:

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

NOTE B - 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.

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, 2007 was $23,211,353. By comparison, the carrying amount of Lakeland Electric's pooled demand and time deposits in fiscal year 2006 was $54,799,542. Total cash and equivalents increased from fiscal year 2006 to fiscal year 2007 as shown in the accompanying Statement of Net Assets, as a greater amount was included in pooled investments.

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 of and interest are 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. Refer to Note V – Subsequent Events, for additional information regarding the Florida State Board of Administration.

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

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. As of September 30, 2007, Lakeland Electric's share of the City's Investment Pool debt security investments had the following credit quality ratings:

S&P Rating:

	Cost	% of Total	Market	% of Total
AAA	$ 66,500,398	69.93%	$ 66,249,131	69.80%
NR	28,589,078	30.07%	28,666,486	30.20%
	$ 95,089,476	100.00%	$ 94,915,617	100.00%

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	$ 72,572,288	76.32%	$ 72,333,847	76.21%
NR	22,517,189	23.68%	22,581,770	23.79%
	$ 95,089,477	100.00%	$ 94,915,617	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, 2007 are as follows:

Type of Security (Market)	% of Total Maximum	% of Total
U.S. Government Obligations	100%	0.20%
Local Government Investment Pools	100%	23.00%
Certificates of Deposits	25%	-
Federal Agency & Instrumentality Obligations	100%	73.92%
Collateralized Repurchase Agreements	15%	1.46%
Other Investment Pools (rated "A" or better)	10%	-
Mutual Funds	10%	0.25%
State and Local Government Obligations	5%	-
Bankers Acceptance	5%	-
Commercial Paper	5%	-
Money Market Mutual Funds	10%	1.17%

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

As of September 30, 2007 and 2006, 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, 2007:	
Total Investment Pool	$ 262,271,356
Lakeland Electric's Share of the Investment Pool	$ 91,937,960
As of September 30, 2006:	
Total Investment Pool	$ 213,472,197
Lakeland Electric's Share of the Investment Pool	$ 106,401,868

There were no violations of legal or contractual provisions for deposits and investments held directly by the investment pool during the year.

Pooled Investments – Swap Transaction:

In late October of 2006, the City entered into a series of forward starting, fixed receiver investment swap transactions with two counterparties that are intended to accommodate a laddered re-investment strategy for the City's pooled investment portfolio. The total notional amount of the swaps is $148,184,386 with commencement dates starting on February 7, 2007 and maturing no later than December 31, 2013.

The portfolio of swaps is intended to provide certainty over the fixed rate of return that will be realized upon the reinvestment of large amounts of investments held within the City's pooled investment fund that mature in four large blocks in February, August, and October of 2007, October of 2008, and January of 2009. The notional amounts and start dates of the swap transactions entered into correspond exactly to the maturity amount and maturity dates of these four investments.

It is anticipated that each swap transaction will be terminated at its then market value on the scheduled start date. Any termination payment made or received on each of those dates will enable the City to acquire government-backed fixed rate investments at effective yields which, considered together with any cash flow resulting from termination of the swap, will range between 5.00 and 5.06 percent rate.

Alternatively, the City could elect to accept delivery of each swap transaction on its scheduled start date, in which case the City will receive a fixed rate of interest ranging from 5.00 to 5.06 percent multiplied by the notional amount of each swap. The City would pay the counterparty a variable amount equal to the notional amount multiplied by 94.875 percent of 1 month LIBOR plus 17 basis points. Under this scenario, the City would re-invest the proceeds from the investment of the currently held fixed-rate investments in short term money market investment instruments held within the City's pooled investment program.

The swaps that were scheduled to start in February and August of 2007 were terminated at their market values on those start dates, yielding a positive cash flow to the City in the amount of $12,000 and $331,000 , respectively. As of September 30, 2007 the remaining swap transactions had positive market values of approximately $771,171.

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

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

	September 30	
	2007	2006
Current assets:		
Cash and cash equivalents	$ 19,297,179	$ 20,755,524
Asset Apportionments:		
Cash and cash equivalents	73,483,281	58,290,961
Restricted assets		
Cash and cash equivalents	25,772,865	36,076,745
	$ 118,553,325	$ 115,123,230

Investments:

The investment amount reported in Statement of Net Assets as of September 30, 2006 represents the fair value of donated stock in the Metals USA Corporation. The stock was sold as of September 30, 2007.

NOTE C - INVENTORIES

The major classes of inventory consist of the following:

	September 30	
	2007	2006
Fuel oil	$ 11,018,098	$ 11,346,706
Coal	10,945,915	4,199,318
Spare parts	16,688,591	14,722,164
	$ 38,652,604	$ 30,268,188

NOTE D - OTHER CURRENT ASSETS

Lakeland Electric maintains an index margin account used for fuel hedging which is classified under Other Current Assets, under the category of prepaid fuel. Total Other Current Assets are comprised of the following:

	September 30	
	2007	2006
Prepaid fuel	$ 124,728	$ 40,994,035
Prepaid Maintenance - McIntosh 5 Unit	7,500,729	3,926,223
Other prepaid expenses	99,392	-
	$ 7,724,849	$ 44,920,258

NOTE E – DEFERRED REGULATORY ACCOUNTS

SFAS No. 71 requires that public utilities recognize revenues provided either before or after the costs are incurred as assets or liabilities. Lakeland Electric's deferred regulatory assets/liabilities represents the amount due from (or payable to) retail customers for the cumulative difference between fuel costs incurred to serve retail load and fuel revenues realized.

As of September 30, 2007, cumulatively, Lakeland Electric had recovered fuel revenues in excess of fuel expenses in the amount of $2,746,318. The over-recovery of fuel costs is classified as a current liability on the Statement of Net Assets. Comparatively, as of September 30, 2006, Lakeland Electric had an under-recovery of fuel costs in the amount of $7,739,949, which was classified as a receivable in the Statement of Net Assets.

The following table details the change in the regulatory account balances from September 30, 2006 to September 30, 2007:

	September 30	
	2007	2006
Deferred regulatory assets, beginning balance	$ 7,737,949	$ 12,167,670
Fuel expenses	234,343,932	245,648,555
Less fuel charges recovered	244,828,199	250,078,276
Deferred regulatory assets (liabilities), ending balance	$ (2,746,318)	$ 7,737,949

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NOTE F - RESTRICTED ASSETS

The revenue bond ordinances and certain other agreements require the restriction of certain assets for specific purposes. Lakeland Electric's unspent bond proceeds as of September 30, 2007 are entirely from a bond issue in the amount of $45,000,000 issued during fiscal year 2006 to finance certain capital improvements and refunding $10,000,000 of outstanding debt. 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 Statement of Net Assets.

Lakeland Electric's restricted assets and restricted liabilities due within twelve months, as of September 30, 2007 and 2006 consist of the following:

	Bond Proceeds	Customer Deposits	Total Restricted
September 30, 2007:			
Cash and cash equivalents	$ 14,603,135	$ 11,169,730	$ 25,772,865
Accounts receivable	519,208	-	519,208
Restricted assets	15,122,343	11,169,730	26,292,073
Accounts payable	$ 1,900,116	$ -	$ 1,900,116
Accrued expenses	52,291	-	52,291
Accrued interest payable	-	14,497	14,497
Meter deposits payable	-	11,155,233	11,155,233
Restriced liabilities, due within twelve months	$ 1,952,407	$ 11,169,730	$ 13,122,137

	Bond Proceeds	Customer Deposits	Total Restricted
September 30, 2006:			
Cash and cash equivalents	$ 26,444,380	$ 9,632,365	$ 36,076,745
Accounts receivable	1,922,142	-	1,922,142
Restricted assets	28,366,522	9,632,365	37,998,887
Accounts payable	$ 13,964	$ -	$ 13,964
Accrued expenses	41,920	-	41,920
Accrued interest payable	-	12,714	12,714
Meter deposits payable	-	9,619,651	9,619,651
Restriced liabilities, due within twelve months	$ 55,884	$ 9,632,365	$ 9,688,249

NOTE G – ASSET APPORTIONMENTS

The City of Lakeland and Lakeland Electric have established long range plans concerning Lakeland Electric. 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.

Asset apportionments and related liabilities of Lakeland Electric as of September 30, 2007 and 2006 consist of the following:

September 30, 2007:	Debt Service Funds	Capital Expansion	Emergency Repair	Total Designated
Cash and cash equivalents	$ 498,601	$ 36,798,012	$ 9,572,826	$ 46,869,439
Cash paying agent/trustee	26,613,842	-	-	26,613,842
Accounts receivable	-	98,723	-	98,723
Due from/(to) other governments	-	199,929	-	199,929
Advances to other funds	13,383,778	-	-	13,383,778
Asset apportionments	$ 40,496,221	$ 37,096,664	$ 9,572,826	$ 87,165,711
Current portion of revenue bonds payable	$ 17,300,000	$ -	$ -	$ 17,300,000
Accounts payable	-	1,052,571	-	1,052,571
Accrued expenses	-	397,514	-	397,514
Accrued interest payable	9,455,558	-	-	9,455,558
Liabilities payable from apportioned assets, due within twelve months	$ 26,755,558	$ 1,450,085	$ -	$ 28,205,643

September 30, 2006:	Debt Service Funds	Capital Expansion	Emergency Repair	Total Designated
Cash and cash equivalents	$ 488,930	$ 40,338,476	$ 8,741,034	$ 49,568,440
Cash paying agent/trustee	8,722,521	-	-	8,722,521
Due from/(to) other governments	105,340	(812,067)	-	(706,727)
Advances to other funds	13,408,885	-	-	13,408,885
Asset apportionments	$ 22,725,676	$ 39,526,409	$ 8,741,034	$ 70,993,119
Current portion of revenue bonds payable	$ 575,000	$ -	$ -	$ 575,000
Accounts payable	13,006	3,350,805	-	3,363,811
Accrued expenses	-	221,669	-	221,669
Accrued interest payable	8,623,445	-	-	8,623,445
Liabilities payable from apportioned assets, due within twelve months	$ 9,211,451	$ 3,572,474	$ -	$ 12,783,925

NOTE H - OTHER NONCURRENT ASSETS

Other Assets (noncurrent) of Lakeland Electric as of September 30, 2007 and 2006 consist of the following:

	September 30	
	2007	2006
Unamortized bond issue costs	$ 4,179,617	$ 4,451,764
Net pension obligation	3,291,474	3,367,265
	$ 7,471,091	$ 7,819,029

NOTE I - UTILITY PLANT

Utility plant in service consists of the following::

Fiscal year 2007:	September 30, 2006	Additions	Deletions	September 30, 2007
Non-Depreciable Assets:				
Land	$ 15,197,098	$ 305,175	$ -	$ 15,502,273
Construction in process	20,771,784	26,484,221	26,326,810	20,929,195
Total capital assets not being depreciated	35,968,882	26,789,396	26,326,810	36,431,468
Depreciable Assets:				
Buildings	29,889,580	51,617	-	29,941,197
Machinery and equipment	35,063,142	2,750,415	192,638	37,620,919
Electric transmission and distribution	340,191,129	7,393,425	3,287,914	344,296,640
Electric production plant in service	628,351,151	19,810,664	933,485	647,228,330
Total plant assets	1,069,463,884	56,795,517	30,740,847	1,095,518,554
Less accumulated depreciation:				
Buildings	9,841,586	732,341	-	10,573,927
Machinery and equipment	17,677,854	3,357,152	351,063	20,683,943
Electric transmission and distribution	122,128,471	10,019,553	16,774,830	115,373,194
Electric production plant in service	314,282,557	23,373,258	355,746	337,300,069
	463,930,468	37,482,304	17,481,639	483,931,133
Total utility plant net of accumulated depreciation	$ 605,533,416	$ 19,313,213	$ 13,259,208	$ 611,587,421

Fiscal year 2006:	September 30, 2005	Additions	Deletions	September 30, 2006
Non-Depreciable Assets:				
Land	$ 15,254,331	$ 92,767	$ 150,000	$ 15,197,098
Construction in process	20,385,220	39,836,965	39,450,401	20,771,784
Total capital assets not being depreciated	35,639,551	39,929,732	39,600,401	35,968,882
Depreciable Assets:				
Buildings	30,184,466	-	294,886	29,889,580
Machinery and equipment	37,256,614	1,536,860	3,730,332	35,063,142
Electric transmission and distribution	330,508,195	12,536,051	2,853,117	340,191,129
Electric production plant in service	622,201,668	27,249,758	21,100,275	628,351,151
Total plant assets	1,055,790,494	81,252,401	67,579,011	1,069,463,884
Less accumulated depreciation:				
Buildings	9,268,096	734,153	160,663	9,841,586
Machinery and equipment	17,557,707	3,874,219	3,754,072	17,677,854
Electric transmission and distribution	114,365,678	9,830,847	2,068,054	122,128,471
Electric production plant in service	292,398,941	24,272,988	2,389,372	314,282,557
	433,590,422	38,712,207	8,372,161	463,930,468
Total utility plant net of accumulated depreciation	$ 622,200,072	$ 42,540,194	$ 59,206,850	$ 605,533,416

NOTE I - UTILITY PLANT (CONTINUED)

Salvage Value:

Electric production plant in service for the year ending September 30, 2007 includes negative salvage value in the amount of $14,275,866 for estimated future plant retirement obligations (see Note N – Plant Retirement Obligations), in accordance with FERC order 631, as recommended in a depreciation study that was conducted during fiscal year 2007. The negative salvage value is being depreciated over the remaining useful lives of the respective units.

Capitalized interest:

In accordance with Statements of Financial Accounting Standards (SFAS) Nos. 34 and 62, Lakeland Electric has adopted the policy of capitalizing net interest costs on funds used for the construction of fixed assets. In accordance with the provisions of these statements interest costs and interest earnings have been capitalized as follows:

	September 30	
	2007	2006
Net capitalized interest		
Interest expense capitalized	$ 509,080	$ 453,631
Interest revenue capitalized on bond proceeds	(1,022,338)	(142,441)
	$ (513,258)	$ 311,190
Interest cost was reduced by amounts capitalized as follows:		
Total interest paid	25,659,103	23,745,875
Less capitalized interest expense	(509,080)	(453,631)
	$ 25,150,023	$ 23,292,244

NOTE J - UTILITY PLANT PARTICIPATION AGREEMENT

On April 4, 1978, the City entered into a fifty-year participation agreement with the Orlando Utilities Commission. Under the terms of this agreement, the City of Lakeland has a 60 percent interest and Orlando Utilities Commission a 40 percent interest in McIntosh Unit #3, a 364-megawatt 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 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.

The City of Lakeland issued revenue bonds to cover a portion of its investment in the plant. Orlando Utilities Commission 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.

NOTE K - DUE TO OTHER FUNDS

Due to other funds consists of the following:

	September 30	
	2007	2006
Fleet Management Fund	$ -	$ 22,500,000
Wastewater Renewal and Replacement Fund	-	10,000,000
Lakeland Linder Regional Airport Fund	-	3,244,035
Water Renewal and Replacement Fund	-	5,250,000
Department of Information Technology Fund	137,473	137,473
	$ 137,473	$ 41,131,508

NOTE K - DUE TO OTHER FUNDS (CONTINUED)

An inter-fund loan of $137,473 from the Department of Information Technology represents the current portion of an advance in each of fiscal years 2007 and 2006 related to the purchase of computer equipment. The remaining $40,994,035 as of September 30, 2006 was provided from other City of Lakeland funds as means of improving liquidity within Lakeland Electric's operating fund. The $40,994,035 in loans was repaid to the other funds on November 6, 2006.

NOTE L - LONG-TERM DEBT

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

	September 30		
	2007	2006	2005
Current:			
Accrued taxes payable	$ 1,002,677	$ 1,693,292	$ 833,991
Compensated absences	2,423,601	2,341,940	2,231,247
	$ 3,426,278	$ 4,035,232	$ 3,065,238
Accrued liabilities, less current portion:			
Compensated absences	$ 4,707,859	$ 4,597,107	$ 4,525,765
Accrued capital appreciation interest payable	16,743,494	14,384,702	12,133,730
Advance bond refunding receipts	7,680,000	-	-
	$ 29,131,353	$ 18,981,809	$ 16,659,495

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

	September 30		
	2007	2006 (as restated)	2005
Revenue bonds payable, less current portion	$ 505,410,409	$ 522,710,409	$ 492,385,409
Less unamortized loss on refunding	(17,623,426)	(20,173,964)	(22,148,686)
Plus (less) unamortized bond discount (net of premium)	(401,621)	(81,832)	1,152,901
	$ 487,385,362	$ 502,454,613	$ 471,389,624

NOTE M - REVENUE BONDS

Lakeland Electric revenue bonds payable as of September 30, 2007:

	Interest Rate %	Final Maturity	September 30, 2006	Additions	Deletions	September 30, 2007
Series 1999A	3.05 to 5.00	10-01-2036	$ 193,230,409	$ -	$ 575,000	$ 192,655,409
Series 1999B	5.30 to 6.05	10-01-2014	51,185,000	-	-	51,185,000
Series 1999C	5.30 to 6.05	10-01-2012	64,525,000	-	-	64,525,000
Series 2001B	5.00 to 5.50	10-01-2018	30,000,000	-	-	30,000,000
Series 2006	4.00 to 5.00	10-01-2036	44,870,000	-	-	44,870,000
Series 2006A	Variable	10-01-2037	139,475,000	-	-	139,475,000
			$ 523,285,409	$ -	$ 575,000	$ 522,710,409
Less current portion			(575,000)			(17,300,000)
			$ 522,710,409			$ 505,410,409

A portion of series 1999A bonds was allocated from Lakeland Electric to the Water Utility Fund in fiscal year 2001. During fiscal year 2002, Lakeland Electric assumed long-term debt from the Water Utility Fund in the amount of $13,434,020, which was offset by an Advance to Other Funds (asset apportionments, Note G).

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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 the 1999A Sr. and Series 2006A bonds, as of September 30, 2007:

	Series 1999A Sr.		Series 1999B Sr.		Series 1999C Sr.	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 625,000	$ 7,795,294	$ 12,005,000	$ 2,469,020	$ 5,370,000	$ 3,595,515
2009	6,700,719	11,683,794	12,740,000	1,760,725	5,775,000	3,270,630
2010	6,307,218	12,082,295	-	926,255	14,865,000	2,921,243
2011	5,952,510	12,437,003	-	926,255	16,180,000	2,021,910
2012	5,626,268	12,758,244	-	926,255	17,240,000	1,043,020
2013-2017	44,048,693	48,180,169	15,310,000	1,440,203	-	-
2018-2022	37,195,000	25,711,250	-	-	-	-
2023-2027	24,140,000	19,103,250	-	-	-	-
2028-2032	30,800,000	12,435,500	-	-	-	-
2033-2037	30,660,000	3,925,750	-	-	-	-
	$ 192,055,409	$ 166,112,548	$ 40,055,000	$ 8,448,713	$ 59,430,000	$ 12,852,318

	Series 2001B Sr.		Series 2006 Sr.		Series 2006A	
Fiscal Year(s)	Principal	Interest	Principal	Interest	Principal	Interest*
2008	$ -	$ 1,561,100	$ 760,000	$ 2,126,494	$ -	$ 5,725,449
2009	-	1,561,100	785,000	2,096,094	-	5,725,449
2010	-	1,561,100	820,000	2,064,694	-	5,725,449
2011	-	1,561,100	855,000	2,031,894	-	5,725,449
2012	-	1,561,100	885,000	1,997,694	-	5,725,449
2013-2017	25,225,000	4,798,875	5,085,000	9,329,869	-	28,627,244
2018-2022	4,775,000	238,750	6,385,000	8,036,563	9,300,000	28,439,440
2023-2027	-	-	8,140,000	6,273,313	26,775,000	24,610,501
2028-2032	-	-	10,390,000	4,023,813	32,925,000	18,632,595
2033-2037	-	-	10,290,000	1,250,438	70,475,000	9,407,634
	$ 30,000,000	$ 12,843,125	$ 44,395,000	$ 39,230,863	$ 139,475,000	$ 138,344,658

	TOTAL		
Fiscal Year(s)	Principal	Interest	Total
2008	$ 18,760,000	$ 23,272,871	$ 42,032,871
2009	26,000,719	26,097,791	52,098,510
2010	21,992,218	25,281,035	47,273,253
2011	22,987,510	24,703,610	47,691,120
2012	23,751,268	24,011,762	47,763,030
2013-2017	89,668,693	92,376,359	182,045,053
2018-2022	57,655,000	62,426,003	120,081,003
2023-2027	59,055,000	49,987,064	109,042,064
2028-2032	74,115,000	35,091,908	109,206,908
2033-2037	111,425,000	14,583,821	126,008,821
	$ 505,410,409	$ 377,832,223	$ 883,242,631

*Series 2006A bonds assumes a BMA rate of 3.65% which was the average rate paid in fiscal year 2007

NOTE M - REVENUE BONDS (CONTINUED)

The following is a schedule of combined senior and junior lien revenue bond coverage for fiscal year 2007 and the previous five years per the current senior lien ordinance:

Fiscal Year	Net Revenues Available	Debt Service Principal	Debt Service Interest	Total Debt Service	Coverage from Operations	Bond Ordinance Coverage
2007	$ 76,058,287	$ 17,300,000	$ 24,885,697	$ 42,341,849	2.58	1.80
2006	68,237,133	575,000	23,093,002	23,668,002	4.01	2.88
2005	70,275,504	15,095,000	22,439,513	37,534,513	1.87	2.77
2004	78,217,987	13,250,000	22,416,570	35,666,570	2.19	3.08
2003	83,203,722	11,745,000	23,940,421	35,685,421	2.33	3.03
2002	74,687,403	12,550,000	25,037,914	37,587,914	1.99	2.82

Bond debt coverage for the year ended September 30, 2007 was calculated as follows:

Charges for services	$ 374,570,781	
Investment and other income	5,459,303	
Total revenue		$ 380,030,084
Less cost of operations		(303,971,797)
Net revenues from operations available for debt service		76,058,287
Fund balance (as defined by bond ordinance):		
Cash and equivalents	$ 19,297,179	
Asset apportionments	87,165,711	
Accounts receivable (net of uncollectables)	57,287,021	
	$ 163,749,911	
20% of fund balance		32,749,982
Net available revenues plus 20% of fund balance		$ 108,808,269
Debt service requirement:		
Interest		$ 24,885,697
Principal		17,300,000
Total		$ 42,185,697
Bond coverage		2.58
Bond coverage from operations		1.80

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, 2007, all funds and accounts required by the bond ordinance were being maintained in conformance with the ordinance.

Interest Rate Swaps:

As a means to partially hedge the variable rate risk exposure associated with the issuance of the $90,000,000 2001A Energy System Variable Rate Revenue Bonds in April of 2001, the City entered into a basis swap in May of 2001. Under the swap, the city pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to $90,000,000 (the notional amount) times an interest rate equal to the BMA Municipal Bond Index. In return, the counterparty pays the City an amount equal the notional amount times 74.125% of the monthly USD-LIBOR-BBA rate. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 25.9 percent; the net borrowing cost on the underlying 2001 debt issue will be reduced as a result of this swap. The notional amount remains unchanged over the term of the swap, which ends May 1, 2021. Settlement payments are made quarterly. As of September 30, 2007, the swap had a positive fair value of $607,031 developed using the Market Quotation method. As of September 30, 2007, the City was exposed to credit risk to the extent of the positive market value of the swap. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 74.1 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

In order to reduce borrowing costs when compared to the market rates paid by issuers of fixed–rate bonds as of November 2002, the City entered into a forward swap in connection with the issuance of the Energy System Variable Rate Refunding Revenue Bonds Series 2003, which were sold in January 2003. Under the swap, the City pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to $47,860,000 (the notional amount) times a fixed interest rate of 3.74 percent. In return, the counterparty pays the City an amount equal the notional amount times 67 percent of the monthly USD-LIBOR-BBA. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 33 percent; the synthetically fixed rate paid on underlying bonds is equal to 3.74 percent plus the cost of liquidity and remarketing fees on the underlying variable rate issue. The notional amount of the swap corresponds with the maturity schedule on the Series 2003 bonds. Settlement payments on this swap are made monthly. As of September 30, 2007, the swap had a negative fair value of $911,848 developed using the Market Quotation method. The negative fair value may be countered by reductions in total net interest payments on the underlying debt resulting from the swap. As of September 30, 2007, the City was not exposed to credit risk because the swap had a negative fair value. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 33 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. An additional termination event also occurs in the event of a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

In August of 2006, the City retired the both the Energy System Variable Rate Revenue Bonds, Series 2001A and the System Variable Rate Refunding Revenue Bonds Series 2003. These two bond issues were replaced by the Energy System Refunding Revenues Bonds Series 2006A. The replacement bonds take the form of Period Auction Rate Securities (PARS) versus the Variable Rate Demand Obligations (VRDO's) they replaced. The City elected to retain the financial benefits of the basis risk associated with the aforementioned swap transactions and integrate those swaps into the refunding bond issue. Accordingly, the annual maturity dates and maturity amounts for the refunding and refunded bonds are essentially identical.

NOTE M - REVENUE BONDS (CONTINUED)

Interest Rate Swaps (continued):

In March of 2006 the City entered into two forward-starting floating to fixed rate swaps having notional amounts of $90,000,000. The purpose of these swaps was to hedge the exposure to changes in variable interest rates by synthetically establishing a fixed interest rate on $90,000,000 of the Energy System Refunding Revenues Bonds Series 2006A issued in August 2006. Under the swap, the City pays the counterparty a payment equal to $90,000,000 (the notional amount) times a fixed interest rate of 4.283 percent (annualized). In return, the counterparty pays the City an amount equal the notional amount times the weighted average BMA Municipal Bond Index. This exchange of cash flows occurs quarterly. This swap transaction was split between two counterparties; Goldman Sachs in the amount of $60,000,000 and CitiGroup Financial Products Inc in the amount of $30,000,000. The combined notional amount of the swaps decreases over time based on the bond maturity schedule associated with at portion of the million of Energy System Refunding Revenues Bonds Series 2006A allocated to refunding the Energy System Variable Rate Revenue Bonds, Series 2001A. As of September 30, 2007, the two swaps had a combined negative fair value of $3,295,739 developed using the Market Quotation method. The negative fair value may be countered by reductions in future net interest payments on the underlying debt resulting from the swap. As of September 30, 2006, the City was not exposed to credit risk because the swap had a negative fair value.

The City is exposed to basis risk to the extent the relationship of BMA the actual interest rate paid on the underlying bonds varies over time. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. An additional termination event also occurs in the event of a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

As of September 30, 2007, future debt service requirements on the $139,475,000 of variable-rate debt issued in conjunction with the Series 2006A bond issue and net swap payments based on the terms in each of the underlying swaps appear as follows. These calculations are based on an average rate of interest paid on the underlying bonds of 3.84 percent as of September 30, 2007; and effective LIBOR interest rate of 5.124 percent as of September 30, 2007. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending September 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2008	$ -	$ 5,725,449	$ 583,490	$ 6,308,939
2009	-	5,725,449	583,490	6,308,939
2010	-	5,725,449	583,490	6,308,939
2011	-	5,725,449	583,490	6,308,939
2012	-	5,725,449	583,490	6,308,939
2013-2017	-	28,627,244	2,917,452	31,544,696
2018-2022	9,300,000	28,439,440	2,843,695	40,583,135
2023-2027	26,775,000	24,610,501	2,296,989	53,682,490
2028-2032	32,925,000	18,632,595	1,663,477	53,221,072
2033-2037	70,475,000	9,407,634	763,862	80,646,496
	$ 139,475,000	$ 138,344,659	$ 13,402,925	$ 291,222,584

As a means to reduce borrowing costs on a portion of the Electric and Water Refunding Revenue Bonds Series 1999A the City entered into an interest rate swap in June 2004. Under the swap, the City pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to $159,000,000 million (the notional amount) times an interest rate equal to the BMA Municipal Bond index. In return, the counterparty pays the City an amount equal the notional amount

NOTE M - REVENUE BONDS (CONTINUED)

Interest Rate Swaps (continued):

times an interest rate equal to 67 percent of the three-month USD-LIBOR-BBA index, plus a spread of .046%. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 33 percent; the net borrowing costs on the underlying debt will be reduced. The notional amount of the swap will always equal the amount of the outstanding amount of that component of the underlying issue consisting of term bonds which mature serially from October 2004 thru October 2036. Settlement payments are made semi-annually. As of September 30, 2007, the swap had a positive fair value of $3,245,445 developed using the Market Quotation method. The positive fair value may be countered by changes in total net interest payments on the underlying debt resulting from the swap. As of September 30, 2007, the City was not exposed to credit risk because the swap had a negative fair value. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 33 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

In March of 2006 the City entered into a forward-starting floating to fixed rate swaps having a notional amount of $45,000,000. The purpose of this swap was to hedge the exposure to changes in variable interest rates by synthetically establishing a fixed interest rate on $45,000,000 of energy system refunding revenue bonds anticipated to be issued in during fiscal year 2008. Under the swap, the City pays the counterparty a payment equal to $45,000,000 (the notional amount) times a fixed interest rate of 3.637 percent (annualized). In return, the counterparty pays the City an amount equal the notional amount times 67 percent of the weighted average on month LIBOR rate. This exchange of cash flows occurs quarterly. The counterparty on this swap transaction is Goldman Sachs. The notional amount of the swap decreases over time based on the bond maturity schedule anticipated to be associated with the Energy System Refunding Revenues Bonds Series 2007. As of September 30, 2007, the swap had a negative fair value of $394,925 developed using the Market Quotation method. The negative fair value may be countered by reductions in future net interest payments on the underlying debt resulting from the swap. As of September 30, 2007, the City was not exposed to credit risk because the swap had a negative fair value.

The City is exposed to basis risk to the extent the relationship of BMA the actual interest rate paid on the underlying bonds varies over time. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. An additional termination event also occurs in the event of a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

Bond Warrant Agreement:

On January 16, 2007, the City of Lakeland entered into a Bond Warrant Agreement with an underwriter, Goldman, Sachs & Co, in which the City granted an irrevocable option to the underwriter which, if exercised, would cause the City of Lakeland to issue parity revenue bonds of the Energy System in the amount of approximately $158,600,000. The new bonds would be issued at terms and fixed interest rates that would generate an annual debt service requirement that equals the annual debt service requirement on the existing Energy System Revenue bonds Series 1999A. If the option is exercised, the bonds would be issued with effective dates of either October 1, 2009; October 1, 2010; October 1, 2011; or October 1, 2012 at the discretion of the underwriter. In exchange for granting this option, the underwriter made a single, up-front payment of $7,680,000 to the City of Lakeland.

Should the underwriter exercise their option under this agreement, the City can use the proceeds of the new bond issue to either call the Series 1999A bonds (which are callable any time after October 1, 2009) or use the proceeds to finance qualified capital improvements projects of the Electric Utility System.

NOTE M - REVENUE BONDS (CONTINUED)

Bond Warrant Agreement (continued):

The City has recognized the proceeds of this transaction on the Statement of Net Assets of the Department of Electric Utilities as a deferred credit. To the extent the underwriter exercise their option to require issuance of new bonds that deferred credit will be amortized to the income statement of Department of Electric Utilities over the life of the new bond issue. The underwriter may exercise their option anytime between the dates of August 1, 2009 and August 1, 2012. In the event the underwriter does not exercise that option, the deferred credit will be a charge against income in it's entirety in the fiscal year ending September 30, 2012.

NOTE N – PLANT RETIREMENT OBLIGATIONS

During the fiscal year ended September 30, 2007, Lakeland Electric recorded a liability for Plant Retirement Obligations, resultant from a recommendation included in a depreciation study of the electric generation units (per FERC order 631). The liability of $14,275,866 represents the estimated future cost of removing the existing electric generation structures. The actual future costs of such removals are to be charged against the Plant Retirement Obligation account. The liability corresponds to $14,275,866 of negative salvage, which is included in Utility Plant and is being amortized over the remaining estimated lives of the units. See note I - Utility Plant.

NOTE O - EMPLOYEE RETIREMENT SYSTEM

The City 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. The contribution rates are 8 percent for the employee portion and 14.89 percent for the City portion. Lakeland Electric's contributions to the City of Lakeland's pension fund totaled $4,569,730 and $4,354,689 during fiscal years 2007 and 2006, 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

The Lakeland Electric operates in only one business segment, that of providing electric utility service. Its service area is primarily the City of Lakeland, Florida 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 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. Retirees are required to make an election as to participation in the City-sponsored health insurance plan upon retirement.

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, 2007, there were 591 retired employees participating in the program, of which 214 were former employees of Lakeland Electric. Lakeland Electric's annual cost of this benefit was $422,116 during fiscal year 2007. The subsidy is funded on a pay-as-you-go basis with the cost being charged to the insurance expense accounts of the fund that paid the salary of each participant during his or her tenure as an employee.

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 $13,000 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:

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 program compliance.

In March 2007 Lakeland Electric engaged The Energy Authority (TEA) to provide consulting services related a review of existing hedging policies, recommend new strategies, and to execute transactions and perform back office accounting for the hedging programs.

The market value of fuel derivatives, when appropriate, is included in the Statement of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of Fuel and Purchased Power cost in the Statement of Revenues, Expenses and Changes in Net Assets. The valuation of market changes for contracts entered into within Lakeland electric's Risk Management Program resulted in a net increase of $37,670,494 for the cost of fuel during the fiscal year ended September 30, 2007.

Recent Accounting Pronouncements:

The City follows the guidance of FAS 80 with respect to accounting for futures contracts acquired through the NYMEX. Per the terms of that accounting guidance, these contracts qualify as "effective hedges" and as a result, the change in the market value of these instruments is not recognized as a gain or loss in the accounting period in which the change occurs. Any change in the market value is deferred until the period in which the contract is settled.

The City follows the guidance of GASB Technical Bulletin 2003-1 with respect to accounting for hedge transactions entered into using commodity swaps. Accordingly, any change in the market value of these hedges is also deferred until the account period in which the swap transaction is ultimately settled. Derivative instruments are used by Lakeland Electric in conjunction with both debt financing and fuel purchases. Fuel related derivative information is included herein and Debt related derivative information is included in Note M – Revenue Bonds, Interest Rate Swaps.

NOTE S – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Derivative Instruments:

The City of Lakeland uses the New York Mercantile Exchange (NYMEX), natural gas futures contracts, over the counter swaps, options on futures contracts, swing-swaps, and fixed-priced firm physical purchases of natural gas as tools to establish the cost of natural gas that will be needed by the City in the future. NYMEX futures contracts and OTC swaps mature with a period of 30 months from Statement of Net Assets date. 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 2007, the City of Lakeland had the following futures, options, swaps and physical contracts outstanding in the following amounts, covering fiscal years 2008 – 2014:

Fiscal Year	Options	Swaps	Physicals	Market-to- Market Value at 9/30/07
2008	184	1,334	779	$ (9,245,736)
2009	366	323	597	1,241,089
2010	138	108	456	1,298,650
2011	-	92	334	667,570
2012	-	92	92	345,495
2013-2017	-	108	457	1,776,975
2018-2022	-	-	457	1,826,000
2023-2026	-	-	320	1,308,000
	688	2,057	3,492	$ (781,957)

Natural Gas Commodity Swap:

On September 30, 2006 the City held futures contracts purchased with NYMEX having a negative market value of approximately $27 million. That change in market value, in addition to the initial margin requirements of NYMEX resulted in a combined cash balance in the City's margin account that exceeded $40 million. The decline in market value of those positions was not recognized on the face of the financial statements accordance with the provisions of FAS 80 as described above.

The Electric Utility Fund participates in a pooled cash and investments fund with various other funds of the City. To offset the impact of the margin deposit requirements on working capital as of September 30, 2006, the City recorded a temporary cash transfer to the Electric Utility Fund equal to the balance in the NYMEX margin account of $40,994,035. The source of this temporary cash transfer was the unrestricted cash balances in various other funds of the City that participate along with the Electric Utility Fund in the pooled cash and investments program. This cash transfer was offset by an internal due to / due from on the Statement of Net Assets of the affected funds.

In November 3, 2006 the City entered into a transaction in which all of its outstanding futures contracts on NYMEX were electronically transferred to the NYMEX accounts of J Aron & Company, which is a financial institution that the City uses to hedge natural gas prices using commodity swaps. Simultaneously, the City entered into a commodity swap with J Aron & Company that consists of notional amount, maturity dates, and unit prices that equal the quantities, maturity dates and prices that will be electronically transferred to swap provider from its account on NYMEX.

As a result of this transaction, the City closed its margin account on NYMEX, and was refunded all of its margin account balance, less a commodity pricing spread equal to 4 cents per mmbtu, or $505,600. The proceeds of that transaction along with other available cash of the utility were used to immediately settle the interfund due to / due from.

As a result of this transaction, the Utility was left with the same portfolio of natural gas hedges after this transaction (in the form of commodity swaps) as it held in natural gas hedges on NYMEX immediately prior to the transaction.

NOTE S – DERIVATIVE AND HEDGING ACTIVITIES (CONTINUED)

Natural Gas Commodity Swap (continued):

Per the accounting guidance of both FAS 80 and GASB Technical Bulletin 2003-1, any gain or loss on hedging transactions is deferred until the underlying financial instruments mature, regardless of whether those hedges take the form of NYMEX futures or commodity swaps.

However, because the commodity swap transaction represented a trade at prices that were above then-current market prices, J Aron & Company was required to make a cash outlay to take over the City's positions on NYMEX. A portion of the 4 cents per mmbtu spread paid by the City to J Aron represents embedded financing costs of that transaction. The fee paid to J Aron & Company has been capitalized on the Statement of Net Assets of the Electric Utility Fund and will be amortized over the remaining term of the underlying commodity swaps. Of the $482,926 capitalized, $358,198 was expensed during fiscal year 2007. The remaining $124,728 is classified as prepaid fuel. See note D - Other Current Assets.

The Statement of Cash Flows for the fiscal year ending September 30, 2007 shows a source of cash, disclosed as an operating activity, equal to the cash value of the amount removed from the margin account on NYMEX and simultaneously deposited into the unrestricted cash and cash equivalents account of the Electric Utility Fund. That portion of the transaction which represents the embedded financing cost will appear on the Statement of Cash Flows as cash flows from investing activities.

NOTE T - LITIGATION

Various suits and claims arising in the ordinary course of operations are pending against Lakeland Electric. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for Lakeland Electric, the liabilities which may arise from such actions would not result in losses which would materially affect the financial position of Lakeland Electric or the results of their operations.

NOTE U - COMMITMENTS AND CONTINGENCIES

Self-Insurance Program:

The City 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, 2007, 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.

NOTE U - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Since 1996, Lakeland Electric has entered into contracts with eighteen major customers to provide their electric energy requirements. As of September 30, 2007, there were eight major customers with eighteen accounts.

Lakeland Electric has a long term service agreement with Siemens/Westinghouse to provide labor, parts, and materials to cover all planned outages for McIntosh Unit 5, a 360 megawatt combined cycle gas turbine unit. The annual cost is based on a combination of the number of hours the unit operates and the number of equivalent starts experienced. The City renegotiated the contract with Siemens/Westinghouse during fiscal year 2005 and it runs through fiscal year 2011. Annual payments, the majority of which will ultimately be capitalized as replacement parts, are scheduled as follows:

Fiscal Year	Amount
2008	$ 5,168,400
2009	5,254,540
2010	5,340,680
2011	4,680,900

In 2000, Lakeland Electric entered into a contract with the Florida Municipal Power Association (FMPA) that allows the FMPA the option of taking up to 100 megawatts of energy per hour at a fixed cost. Significant increases in fuel costs have resulted in substantial losses to Lakeland Electric under this contract. Management has made a decision that losses related to the FMPA contract will not be passed along to the electric customers. The contract originally ran through December 15, 2010. During fiscal year 2004, management negotiated with the FMPA to reduce the length of the contract by three years.

The contract expired on December 14, 2007 with a loss of $5.2 million sustained in its final three months (recognized during fiscal year 2008). The dollar value of the loss incurred thru the remainder of the contract term has not been accrued as a contingent liability as of September 30, 2007 based on the fact that the underlying transaction – the sale of electricity, occurred during the FY 2008 fiscal year.

In to response to legislative actions concerning emission reductions, Lakeland Electric has issued the following major contracts which have not been completed as of September 30, 2007:

Design and engineering of a selective catalytic reduction (SCR) system	$6,182,032
Structural steel fabrication for selective catalytic reduction	6,898,683
Selective catalytic reduction catalyst modules and flow model test	2,714,965
Deep foundation installation for selective catalytic reduction	2,171,000

Lakeland Electric had total outstanding purchase orders in the amount of $26,122,441 as of September 30, 2007.

It is management's opinion that they are in compliance with the requirements of all the aforementioned contracts.

NOTE V – SUBSEQUENT EVENTS

State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool:

As discussed in Note B, Lakeland Electric participates with the City of Lakeland in an investment Pool. The City of Lakeland may invest monies with the Florida State Board of Administration. As of September 30, 2007 the City of Lakeland had $ 60,544,572 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). Lakeland Electric's share was $16,585,992. On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk.

On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately $12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately $2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 15% of their balance or $2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

As of February 21, 2008, the City of Lakeland had $28,673,417 and $5,485,278 invested in Pool A and B, respectively. Lakeland Electric's share was $8,553,280 and $1,636,258 in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Bond issuer downgrade:

The City currently has outstanding $139,475,000 million of Series 2006A Energy System Variable Rate Refunding Revenue Bonds. The bonds in question are auction reset securities, the rates on which change weekly as a result of an auction among investors. The City has synthetically fixed the rates paid on this debt through the use of certain interest rate swaps. The ability of the interest rate swaps to effectively fix the City's obligations on this debt is dependent on the underlying debt varying consistent with certain market indicies of short-term interest rates.

Since the end of November, the market for auction reset securities has deteriorated as the result of concerns over the financial strength of the bond insurers who typically insure such debt. Bond insurer ratings have been under review as a result of their exposure to significant amounts of collateralized debt obligations that they have insured. Several bond insurers have had their ratings reduced below "AAA" by one or more rating agencies.

On January 24, 2008, XL Capital Assurance, Inc. ("XL"), a monoline bond insurer, was downgraded from "AAA" to "A" by Fitch Ratings Service. XL insures the City's auction reset securities noted above. As a result of the general deterioration in the market for auction rate securities and the downgrade of XL, the weekly rates on the City's auction reset securities have been higher than expected.

NOTE V – SUBSEQUENT EVENTS (CONTINUED)

On February 14, 2008 the auction for a series of Auction Rate Securities having a principal value of $69,750,000 failed, resulting in an automatic resetting of the interest rate on those bonds to 12 percent for the 7 day period commencing on February 15. There is the possibility that auctions for the entire portfolio of series 2006A bonds could also fail or settle at unusually high rates of interest over the near term.

The City is in the process of converting the auction rate securities to variable rate demand obligations. It is expected that this mode change will be completed by the end of March, 2008.