



# LCEC Financial Statements





## Management's Report

The management of Lee County Electric Cooperative, Inc. (LCEC) has prepared – and is responsible for – the integrity and objectivity of the financial statements and related information included in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

To ensure the integrity of our financial statements, LCEC maintains a system of internal accounting controls. These controls have been put in place to ensure that LCEC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. LCEC's controls are evaluated on an ongoing basis by both management and our internal auditors.

Based on the statements above, it is management's assertion that the financial statements do not omit or improperly include untrue statements of a material fact or include statements of a misleading nature.

Pamela M. May  
Executive Vice President and CEO



Donald E. Schleicher  
Director of Finance/Accounting &  
Chief Financial Officer



## LEE COUNTY ELECTRIC COOPERATIVE, INC.

	December 31,	
	2005	2004
<b>ASSETS</b>		
Utility plant, at historical cost		
Electric plant in service (Note 3)	\$ 531,080,177	\$ 487,649,666
Less accumulated depreciation	<u>(169,230,576)</u>	<u>(149,651,868)</u>
	361,849,601	337,997,798
Construction work in progress	<u>60,014,523</u>	<u>26,642,884</u>
	421,864,124	364,640,682
Investments (Note 4)	<u>31,051,573</u>	<u>29,049,692</u>
Current assets:		
Cash and cash equivalents	30,301	30,232
Receivables, less allowance for doubtful accounts of approximately \$528,000 and \$693,000	39,453,745	38,315,177
Materials and supplies, at average cost	7,741,803	6,728,665
Prepaid expenses and other current assets	<u>14,646,978</u>	<u>6,419,569</u>
Total current assets	<u>61,872,827</u>	<u>51,493,643</u>
Other assets:		
Long-term notes receivable (Note 6)	-	176,913
Deferred charges	<u>797,748</u>	<u>1,186,278</u>
Total other assets	<u>797,748</u>	<u>1,363,191</u>
	<u>\$ 515,586,272</u>	<u>\$ 446,547,208</u>
<b>MEMBERS' EQUITIES AND LIABILITIES</b>		
Members' equities:		
Memberships	\$ 736,062	\$ 698,666
Patronage capital	234,700,244	232,504,970
Other equities	21,911	21,911
Accumulated other comprehensive loss	<u>(3,045,321)</u>	<u>(2,302,503)</u>
	232,412,896	230,923,044
Long-term debt (Note 7)	<u>138,130,965</u>	<u>91,651,998</u>
Current liabilities:		
Current maturities of long-term debt (Note 7)	3,663,552	2,918,588
Lines of credit (Note 7)	53,831,385	55,051,530
Accounts payable (Note 11)	46,471,113	28,781,636
Customer deposits	6,930,148	5,742,616
Accrued taxes	2,123,644	2,268,579
Other current liabilities	<u>7,243,714</u>	<u>5,657,429</u>
Total current liabilities	<u>120,263,556</u>	<u>100,420,378</u>
Non-Current liabilities:		
Unamortized gain on refinancing (Note 8)	10,651,931	11,747,933
Patronage capital payable - long term	6,468,669	5,546,764
Accrued pension liability (Note 9)	4,832,390	3,197,091
Other post-retirement benefits (Note 9)	<u>2,825,865</u>	<u>3,060,000</u>
Total non-current liabilities	<u>24,778,855</u>	<u>23,551,788</u>
	<u>\$ 515,586,272</u>	<u>\$ 446,547,208</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

	For the years ended December 31,	
	<u>2005</u>	<u>2004</u>
Operating revenue and patronage capital	\$ 301,731,100	\$ 253,479,508
Operating expenses:		
Cost of power	218,865,811	173,199,470
Transmission expense	817,029	1,053,376
Distribution expense, operation	4,544,990	4,130,661
Distribution expense, maintenance	9,302,110	8,374,601
Customer accounts expense	6,608,529	5,960,037
Customer service and information expense	1,530,051	1,269,825
Administrative and general expense	13,254,729	12,673,059
Depreciation	23,022,947	21,872,038
Taxes other than income	7,277,696	6,162,178
	<u>285,223,892</u>	<u>234,695,245</u>
Operating margins	16,507,208	18,784,263
Interest expense	(9,451,767)	(6,468,741)
Amortization of gain/(loss) on refinancing	841,299	908,642
Other (loss)/income	376,570	(23,862)
Patronage capital from associated organizations	<u>2,669,310</u>	<u>1,371,645</u>
Net margins	10,942,620	14,571,947
Patronage capital at beginning of year	232,504,970	230,211,458
Distribution of patronage capital paid and payable	<u>(8,747,346)</u>	<u>(12,278,435)</u>
Patronage capital at end of year	<u>\$ 234,700,244</u>	<u>\$ 232,504,970</u>

**STATEMENTS OF COMPREHENSIVE INCOME**

	For the years ended December 31,	
	<u>2005</u>	<u>2004</u>
Net margins	\$ 10,942,620	\$ 14,571,947
Other comprehensive loss:		
Minimum pension liability adjustment	<u>(742,818)</u>	<u>(2,302,503)</u>
Comprehensive income	<u>\$ 10,199,802</u>	<u>\$ 12,269,444</u>

	December 31,	
	2005	2004
Cash flows from operating activities:		
Net margins	\$ 10,942,620	\$ 14,571,947
Adjustments to reconcile net margins to net cash provided by operating activities:		
Patronage capital credits from associated organizations	(2,669,310)	(1,371,645)
Provision for pension benefits	942,073	1,116,467
Provision for other post-retirement benefits	21,000	87,000
(Gain)/loss on disposition of property	(42,785)	182,168
Provision for bad debts	447,671	417,511
Depreciation and amortization	22,206,645	20,980,521
(Increase)/decrease in:		
Receivables net	(1,586,239)	(16,434,813)
Materials and supplies	(1,013,138)	(1,736,885)
Prepaid expenses and other current assets	(8,240,883)	(4,024,815)
Deferred charges	388,530	(250,376)
Increase/(decrease) in:		
Accounts payable	17,689,477	7,253,803
Customer deposits	1,187,532	(346,685)
Accrued taxes	(144,935)	1,009,929
Other liabilities	1,281,557	(2,332,104)
Total adjustments	<u>30,467,195</u>	<u>4,550,076</u>
Net cash provided by operating activities	<u>41,409,815</u>	<u>19,122,023</u>
Cash flows from investing activities:		
Capital expenditures	(80,273,385)	(48,754,240)
Proceeds from sale of property	42,785	67,293
Payments received on notes receivable	190,387	12,449
Return of capital from associated organizations	667,429	750,515
Net cash used for investing activities	<u>(79,372,784)</u>	<u>(47,923,983)</u>
Cash flows from financing activities:		
Memberships issued, net of terminations	37,396	31,866
Distribution of patronage capital	(7,825,441)	(11,039,600)
Lines of credit proceeds/(repayments), net	(1,220,145)	29,261,362
Issuance of long-term debt	50,000,000	50,000,000
Repayment of long-term debt	(2,776,069)	(39,226,665)
Prepayment penalty due to early retirement of debt	(252,703)	(214,253)
Net cash provided for financing activities	<u>37,963,038</u>	<u>28,812,710</u>
Net change in cash and cash equivalents	69	10,750
Cash and cash equivalents at beginning of year	<u>30,232</u>	<u>19,482</u>
Cash and cash equivalents at end of year	<u>\$ 30,301</u>	<u>\$ 30,232</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 8,597,860</u>	<u>\$ 5,757,875</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**Note 1. LCEC:**

Lee County Electric Cooperative, Inc. (a Florida Corporation) (LCEC) is a nonprofit organization engaged principally in the transmission, distribution and sale of electricity in various sections of Southwest Florida. LCEC's Board of Trustees has ratemaking authority, while the Florida Public Service Commission (Commission) has authority to review LCEC's rate structure.

**Note 2. Summary of Significant Accounting Policies:**

**Revenues** - LCEC uses the accrual method of accounting for operating revenue under which LCEC accrues estimated unbilled revenues, including amounts resulting from a power cost adjustment (PCA), for services provided to month-end. The PCA is based upon power costs projected by LCEC. Any over or under-recovery of power costs are refunded or billed to customers in subsequent billings. At December 31, 2005 and 2004, LCEC had a cumulative under-recovery of power costs of approximately \$14,200,000 and \$5,800,000 respectively, which is included in other current assets.

**Utility Plant** - LCEC records its utility plant at cost of construction, which includes labor, materials and indirect charges such as engineering, supervision and transportation. At December 31, 2005 and 2004 there was no interest capitalized for projects under construction, as its effect was determined to be immaterial. Nonrefundable payments received from customers and developers for extension of services are accounted for as a reduction of utility plant cost. Depreciation expense is computed based on the estimated remaining service lives using the composite method.

During 2004, LCEC implemented new useful lives to depreciate its assets and began recording retirement of transmission and distribution plant using standard utility accounting practices. The depreciation rates for transmission and distribution plant averaged 2.75 percent and 3.82 percent for 2005 and 2004. General plant is depreciated under the straight-line method over the estimated useful lives that vary from three years to thirty-eight years. Software is amortized under the straight-line method over the estimated useful lives that vary from three years to five years.

**Inventory** - LCEC uses the weighted average method of inventory valuation.

**Regulatory Accounting** - LCEC prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 71 - "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). In general, SFAS 71 recognizes that accounting for rate-regulated enterprises should reflect the relationship of costs and revenues introduced by rate regulation. As a result, a regulated utility may defer recognition of a cost (a regulatory asset) or recognize an obligation (a regulatory liability) if it is probable that through the rate making process there will be a corresponding increase or decrease in future revenues. Accordingly, LCEC has recognized certain regulatory assets and regulatory liabilities in the accompanying balance sheets. In the event operations are no longer subject to the provisions of SFAS 71 as a result of a change in regulation or the effects of competition, LCEC would be required to recognize the effects of any regulatory change in assets or liabilities in its statement of revenues and expenses.

**Investments** - Investments in capital term certificates are considered to be held-to-maturity due to their nature and are carried at cost determined by specific identification.

**Fair Value of Financial Instruments** - The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value. For cash and cash equivalents, receivables, accounts payable, and lines of credit, the carrying amount approximates their fair values due to the short-term maturities of these instruments. The fair value of the fixed rate National Rural Utilities Cooperative Finance Corporation (CFC) loans and the CoBank loans were estimated by discounting the future cash flows using rates currently available for loans of similar terms and maturities. The CFC loans (see Note 7) will be re-priced in seven to eight years. Due to the impracticality of determining the re-pricing interest rates on those dates, the re-pricing mechanism was not included in the fair value estimation. Investment in CFC capital term certificates was required as a condition of obtaining debt financing from CFC until December 31, 1993. The effective yield (net interest rate of CFC debt less CFC investment income) is considered to be fair value. At December 31, 2005, the CFC loans utilizing the effective yield had a carrying amount of approximately \$44,100,000 and a fair value of \$44,600,000. At December 31, 2005, the CoBank loans had a carrying amount of approximately \$97,700,000 and a fair value of approximately \$98,800,000. For investments in associated organizations, the fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits, even though some associated organizations have established retirement patterns. There is no ready market for the patronage capital certificates. The carrying amount of memberships approximates fair value.

**Deferred Charges** - Included in deferred charges is approximately \$275,000, primarily relating to amounts paid to another public utility for construction of certain transmission facilities. The original amount of \$1,300,000 was paid in 1992 to be amortized over 30 years. The deferral period was subsequently reduced to 15 years in 1996. The amortization associated with deferred charges was approximately \$45,000 in both 2005 and 2004.

Deferred charges also included an intangible pension asset of approximately \$496,000 and \$546,000 at the end of 2005 and 2004, respectively.

During 2004, LCEC extinguished \$37,118,407 of its long-term debt with CFC prior to scheduled maturity and refinanced with CoBank. The transaction resulted in a net loss of \$466,956 due to prepayment penalties which was amortized on a straight-line basis over 22 months, the period remaining before the retired notes were eligible for re-pricing. The balance of this loss was completely amortized as of December 31, 2005, compared to a balance of \$252,703 as of December 31, 2004, when it was classified as a deferred charge.

Memberships - LCEC memberships (\$5 per member), net of terminations, resulted in a balance of approximately \$736,100 and \$698,700 at December 31, 2005 and 2004, respectively.

Patronage Capital - LCEC distributed patronage capital of approximately \$4,700,000 and \$5,800,000 in 2005 and 2004, respectively. Active and inactive members received 2.12 percent of their patronage capital balances. Bad debts of approximately \$96,000 (\$114,000 in 2004) were offset against the distribution.

In addition, inactive members that disconnected in 1997 or prior received 100 percent of their patronage capital account balances. This resulted in an additional distribution of approximately \$4,100,000 and \$7,200,000 in 2005 and 2004, respectively. Bad debts of approximately \$97,000 (\$216,000 in 2004) were offset against the distribution.

Cash Equivalents - For purposes of the Statements of Cash Flows, LCEC considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Income Tax Status - LCEC is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code. It is also exempt from state income taxes. Accordingly, the accompanying financial statements include no provision for such taxes.

Reclassifications - Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3. Utility Plant:**

Electric plant in service includes the following:

	December 31,	
	2005	2004
Land and land rights	\$ 8,166,487	\$ 6,495,461
Transmission plant	54,082,109	53,641,463
Distribution plant	424,890,698	387,201,604
General plant	<u>43,940,883</u>	<u>40,311,138</u>
Utility plant in service	<u>531,080,177</u>	<u>487,649,666</u>
Construction work in progress	60,014,523	26,642,884
Less: accumulated depreciation	<u>(169,230,576)</u>	<u>(149,651,868)</u>
Net utility plant	<u>\$ 421,864,124</u>	<u>\$ 364,640,682</u>

**Note 4. Investments:**

Investments include the following:

	December 31,	
	2005	2004
Florida Electric Cooperatives Association	\$ 9,517	\$ 9,517
National Rural Utilities Cooperative Finance Corporation:		
Membership	1,000	1,000
Capital term certificates	7,975,240	8,054,707
Patronage capital certificates	2,693,470	2,819,596
Seminole Electric Cooperative, Inc.	18,979,933	17,703,452
CoBank:		
Membership	1,000	1,000
Patronage capital certificates	1,224,890	444,818
Other investments and patronage capital certificates	166,523	15,602
	<u>\$ 31,051,573</u>	<u>\$ 29,049,692</u>

As discussed in Note 2, investments in CFC Capital Term Certificates were required as a condition of obtaining debt financing from CFC until December 31, 1993. Of the \$7,975,240 and \$8,054,707 carrying amounts at December 31, 2005 and 2004, respectively, the maturity dates and interest rates vary from 2020 to 2080 and 0 percent to 5 percent, respectively.

**Note 5. [Accounts Receivable:](#)**

LCEC extends credit to its customers who are located in southwest Florida. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A summary of the changes in the provision for uncollected accounts is as follows:

	2005	2004
Balance at beginning of year	\$ 692,634	\$ 737,512
Gross write-offs	(885,234)	(614,396)
Net recoveries	283,054	372,633
Reclassification of tax	12,563	21,889
Provision for uncollectible accounts	425,000	174,996
Balance at end of year	<u>\$ 528,017</u>	<u>\$ 692,634</u>

**Note 6. [Notes Receivable:](#)**

In August 1999, LCEC recorded an 8 percent promissory note receivable of \$246,000 in connection with the sale of certain property. The note provides for quarterly payments of principal and interest, with a final balloon payment due in 2006. The note is secured by the property.

This note was paid in full in 2005. The unpaid principal balance at December 31, 2004 was \$190,387, of which the current portion of \$13,474 was reclassified to prepaid expenses and other current assets.

**Note 7. [Debt:](#)**

A summary of debt as of December 31, 2005 and 2004 follows:

Loan Number	Date of Note	Maturity Date	% Rate at 12/31/05	Outstanding Debt as of December 31,	
				2005	2004
Obligations to CFC:					
9023	11-25-86	09-30-21	6.95%	\$ 8,123,044	\$ 8,398,976
9024	11-06-87	09-30-22	6.85%	31,591,317	32,570,074
9031	11-01-97	03-31-25	6.95%	4,336,046	4,440,370
				<u>44,050,407</u>	<u>45,409,420</u>
Obligations to CoBank:					
001731405	03-01-04	10-20-33	5.45%	35,126,176	36,279,573
001787855	07-02-04	07-02-29	5.99%	12,617,934	12,881,593
001896183	04-22-05	03-20-30	5.98%	50,000,000	-
				<u>97,744,110</u>	<u>49,161,166</u>
SunTrust line of credit				9,581,385	13,801,530
Bank of America line of credit				19,750,000	19,750,000
CoBank line of credit				24,500,000	-
CoBank revolving loan				-	21,500,000
				<u>53,831,385</u>	<u>55,051,530</u>
Total debt				195,625,902	149,622,116
Less current maturities				(3,663,552)	(2,918,588)
Less lines of credit				(53,831,385)	(55,051,530)
				<u>\$ 138,130,965</u>	<u>\$ 91,651,998</u>

**Obligations to CFC** - The CFC debt is represented by 28 to 35-year notes at fixed rates with principal and interest payable quarterly. A pro-rata share of all assets are pledged as collateral for debt to CFC. As of December 31, 2005, LCEC has an additional \$10,000,000 in CFC notes available to draw upon at rates in effect at the time of withdrawal.

Maturities on CFC long-term debt in the years 2006 through 2010 are \$1,454,924; \$1,557,605; \$1,667,532; \$1,785,218; and \$1,911,210 respectively, with the remaining balance of \$35,673,917 due thereafter.

Obligations to CoBank - The CoBank debt is represented by 25-year and 29-year notes at fixed rates and principal and interest payments payable monthly. A pro-rata share of all assets are pledged as collateral for the debt to CoBank.

In April 2005, LCEC entered into an agreement to obtain a \$50,000,000 note at a fixed rate of 5.98 percent for 25 years from CoBank that is classified as long-term debt based upon LCEC's ability and intent to refinance them on a long-term basis. The outstanding balance at December 31, 2005 was \$50,000,000.

In March 2004, LCEC entered into an agreement to obtain financing with CoBank in order to extinguish some of its existing long-term debt with National Rural Utilities Cooperative Finance Corporation (CFC). The CoBank agreement is comprised of a revolving note in the amount of \$30,000,000 with a variable interest rate and a term note in the amount of \$37,118,407. The revolving note had no outstanding balance at December 31, 2005. The term note amount represents the outstanding principal amount of the retired loans. Payments due on the term note are to be made in equal, consecutive, monthly installments of principal and interest due on the 20th of each month with the last installment due October 20, 2033. The current maturities balance at December 31, 2005 includes an adjustment for a principal payment in the amount of \$142,520 on the term loan with CoBank for December 2005 paid in January 2006. The term note bears interest at a stated fixed rate of 6.01 percent. However, by mutual agreement, the rate of interest charged on this loan for the period of May 1, 2005 through January 31, 2006 is 5.45 percent.

In July 2004, LCEC entered into an additional agreement to obtain financing with CoBank in order to convert some of its existing revolver debt into long-term debt. The agreement is comprised of a term note in the amount of \$12,881,593. Payments due on the term note are to be made in equal, consecutive, monthly installments of principal and variable interest due on the 20th of each month starting on May 20, 2005, with the last installment due June 20, 2029. The term note bears interest at a stated fixed rate of 6.52 percent. However, by mutual agreement, the rate of interest charged on this loan for the period May 1, 2005 through January 31, 2006 is 5.99 percent.

Maturities on CoBank long-term debt in the years 2006 through 2010 are \$2,208,628 in 2006 and \$3,845,468 each year thereafter through 2010, with the remaining balance of \$80,153,609 due thereafter.

Revolving Loan Facilities — LCEC has a perpetual \$35,000,000 variable rate line of credit agreement with CFC. There was no outstanding balance at December 31, 2005 or 2004.

LCEC has a \$15 million credit agreement with SunTrust Bank N.A. The credit agreement includes a revolving loan facility at competitive bid rates (4.55 percent at December 31, 2005) and expires January 29, 2006. The outstanding balance of the loan facility at December 31, 2005 and 2004 was \$9,581,385 and \$13,801,530, respectively.

On October 19, 2001, LCEC entered into a \$20,000,000 credit agreement with Bank of America N.A. The credit agreement includes a revolving loan facility at competitive bid rates (4.89 percent at December 31, 2005) and expires October 16, 2006. The outstanding balance of the loan facility at December 31, 2005 and 2004 was \$19,750,000 for both years.

In April 2005, LCEC established a line of credit with CoBank for \$50,000,000 with a variable interest rate (5.51 percent at December 31, 2005). The outstanding line of credit at December 31, 2005 and December 31, 2004 was \$24,500,000 and \$0, respectively.

Additionally, LCEC has a revolving note agreement with CoBank for \$30,000,000 with a variable interest rate. The outstanding balance on the revolver loan at December 31, 2005 and December 31, 2004 was \$0 and \$21,500,000, respectively.

There are no commitment fees associated with either the SunTrust or Bank of America revolving loan facility, or the CFC or CoBank lines of credit.

The provisions of the obligations to CFC and CoBank and the other credit agreements contain various covenants and require LCEC to maintain certain financial ratios. LCEC was in compliance with all of the covenants at December 31, 2005.

#### Note 8. [Gain on Debt Refinancing:](#)

During 1987, LCEC extinguished \$93,747,483 of its long-term debt prior to scheduled maturity, resulting in a net gain of \$32,714,701. This gain has been deferred and is being amortized on a straight-line basis over the remaining lives of the extinguished notes. At December 31, 2005 and 2004 the remaining balance was \$10,651,931 and \$11,747,933, respectively.

Note 9. Employee Benefit Plans:

LCEC Pension Plan - LCEC provides a non-contributory defined-benefit pension plan for all full-time employees. The plan provides defined benefits based on years of service and final average salary. Mass Mutual provides administrative and investment management for the pension plan.

Health Care Plan - Employees hired prior to January 1, 1994, are eligible for lifetime continued health care coverage under LCEC's health care plan, upon completing thirty years of service, or upon attaining age 62 and completing ten years of service.

Effective January 1, 1997, LCEC changed from a self-insured plan to premium-based insurance. This plan resulted in charges, net of employee premiums, of approximately \$2,000,000 in both 2005 and 2004. Additionally, effective January 1, 1997, LCEC established a maximum annual dollar cap for medical premiums paid for future retirees. LCEC continues to fund benefit costs on a pay-as-you-go basis.

Disclosures required by Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", with regard to LCEC's pension and health care benefits are as follows:

	December 31,			
	2005	2004	2005	2004
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
Obligations and funded status at end of years:				
Benefit obligation at December 31	\$ 18,871,000	\$ 18,598,000	\$ 3,355,000	\$ 3,568,000
Fair value of plan assets at December 31	<u>10,738,000</u>	<u>11,930,000</u>	<u>-</u>	<u>-</u>
Funded status (plan assets less than benefit obligations)	<u>\$ (8,133,000)</u>	<u>\$ (6,668,000)</u>	<u>\$ (3,355,000)</u>	<u>\$ (3,568,000)</u>
Amounts recognized in the statement of financial position:				
Prepaid benefit costs	\$ -	\$ -		
Intangible asset	496,000	546,000		
Accumulated other comprehensive loss	3,045,000	2,303,000		
Accrued benefit cost	<u>(4,832,000)</u>	<u>(3,197,000)</u>		
Net amount recognized	<u>\$ (1,291,000)</u>	<u>\$ ( 348,000)</u>		
Accumulated benefit obligation for all defined benefit pension plans	\$ 15,571,000	\$ 15,344,000		
For pension plans with accumulated benefit obligations in excess of assets at December 31 of the respective years, aggregate amounts were:				
Projected benefit obligations	\$ 18,871,000	\$ 18,598,000	\$ 3,355,000	\$ 3,568,000
Accumulated benefit obligations	15,571,000	15,344,000	2,826,000	3,060,000
Plan assets	10,738,000	11,930,000	-	-
Increase in minimum liability included in other comprehensive income	\$ 743,000	\$ 1,249,000		
Weighted-average assumptions used in computing ending obligations:				
Discount rate	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Weighted-average assumptions used in computing net cost:				
Discount rate	5.75%	6.25%	5.75%	5.75%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Expected return on plan assets	9.00%	9.00%	N/A	N/A

The expected long-term rate of return on pension plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating that rate, appropriate consideration is given to the returns being earned by the pension plan assets in the fund and rates of return expected to be available for reinvestment, and a building block method. The expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate).

All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

The exact expected return derived using the building block method will vary from year to year; however, as the rate is a long-term assumption, it remains constant as long as it remains within a reasonable range.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. For measurement purposes, at the end of the years included in the foregoing tables, a 9.5 percent rate of increase was assumed for 2004, a 9.0 percent rate of increase was assumed for 2005, and gradually lower rates of increase assumed for years after 2005, until the rate of increase is assumed to be 5.0 percent in 2013 and remain at that level.

	Percentage of Pension Plan Assets at December 31,			
	Non-Union		Union	
	2005	2004	2005	2004
Equity Securities	74%	70%	73%	70%
Debt Securities	21	20	22	20
Real Estate	0	0	0	0
Other (Cash and cash equivalents)	5	10	5	10
Total	100%	100%	100%	100%

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004

Benefits Payments:

Benefit cost	\$ 1,897,000	\$ 1,444,000	\$ 21,000	\$ 87,000
Employer contribution	2,288,000	1,623,000	N/A	N/A
Plan participant's contribution	N/A	N/A	N/A	N/A
Benefits paid	4,072,000	4,178,000	255,000	235,000

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Other Benefits
2006	\$ 304,063	\$ 246,000
2007	376,223	251,000
2008	436,443	274,000
2009	518,510	303,000
2010	626,038	305,000
Years 2011-2015	5,193,462	1,669,000

LCEC 401(k) Plan - LCEC also provides a retirement savings plan under Section 401(k) of the Internal Revenue Code available to all employees who have completed one full calendar month of service. Under the LCEC 401(k) Plan, eligible employees may contribute up to 22 percent of their annual base salary not to exceed amounts set by the Internal Revenue Service. Upon completion of one year of service, LCEC matches one-half of employee contributions of 6 percent or less. LCEC's 401(k) Plan contributions were approximately \$319,000 and \$297,000 for 2005 and 2004, respectively.

## LEE COUNTY ELECTRIC COOPERATIVE, INC.

**Note 10. [Commitments and Contingencies:](#)**

LCEC is a party to litigation involving various claims arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a materially adverse effect on the financial position, results of operations, or cash flows of LCEC.

**Note 11. [Related Party:](#)**

LCEC is a member of Seminole Electric Cooperative, Inc., a generation and transmission cooperative. Under the provisions of a wholesale power contract with Seminole expiring in 2020, LCEC is required to purchase all power for its system to the extent that Seminole shall have such power available. For the years ended December 31, 2005 and 2004, LCEC purchased approximately 22 percent of Seminole's output in each year. At December 31, 2005 and 2004, LCEC had accounts payable to Seminole for purchased power of approximately \$19,421,980 and \$17,235,000, respectively. LCEC received patronage capital credits from Seminole of \$1,388,948 and \$494,730 for 2005 and 2004, respectively.

LCEC and a like situated cooperative, Clay Electric Cooperative, Inc. (Clay), as plaintiffs filed a suit against its power supplier, Seminole Electric Cooperative, Inc. The complaint, as filed, alleges a breach of the Wholesale Power Contract by Seminole Electric Cooperative, Inc. In addition to the breach of the contract, it is alleged that Seminole Electric Cooperative, Inc. has breached its fiduciary duty, implied covenant of good faith, fair dealing and commercial reasonableness to both LCEC and Clay. Clay has resolved its claims against Seminole and is no longer a party to the litigation.

LCEC and Seminole have continued in an attempt to resolve the litigation through negotiation. There has been no action taken in the litigation by agreement of the parties. The negotiations have not produced a resolution that is acceptable to LCEC. The decision has been made to proceed with the litigation.

**Note 12. [Recent Developments:](#)**

In November of 2003, the Florida Public Service Commission (FPSC) along with the Federal Energy Regulatory Commission (FERC) urged the jurisdictional utilities, Florida Power & Light Company, Progress Energy Florida, and Tampa Electric Company to work in a collaborative effort to resume work on GridFlorida with the other stakeholders. Several workshops were scheduled throughout 2004 and 2005. LCEC attended most of these workshops. On January 27, 2006, GridFlorida filed a motion with the FPSC to withdraw their compliance filing and petition and to close the docket. LCEC is actively monitoring the ongoing proceedings and believes that the establishment of the Regional Transmission Organization (RTO) will not have a material adverse effect on future operations or financial results.

During 2005, the counties in which LCEC provides electric services suffered hardship due to a number of hurricanes. The largest and most significant was hurricane Wilma, which came ashore in southwest Florida on October 24, 2005. This event caused LCEC to incur damages to its infrastructure.

Expenses to repair and replace utility plant assets amounted to approximately \$7,600,000 of which \$1,875,000 was expensed during the year ended December 31, 2005. Approximately \$5,725,000 of this amount is eligible for Federal Emergency Management Agency (FEMA) reimbursement, and is recorded in receivables at December 31, 2005.

During 2004, the counties in which LCEC provides electric services suffered hardship due to a number of hurricanes. The largest and most significant was hurricane Charley, which came ashore in Charlotte Harbor on August 13, 2004. This event caused LCEC to incur damages to its infrastructure.

Expenses to repair and replace utility plant assets amounted to approximately \$16,000,000 of which \$1,500,000 was expensed during the year ended December 31, 2004. Approximately \$14,500,000 of this amount was eligible for Federal Emergency Management Agency (FEMA) reimbursement, of which, just over \$14,000,000 was received at December 31, 2005. The remainder is recorded in receivables at December 31, 2005.



MONTGOMERY, ALABAMA

Dorhan  
Patterson  
Watts

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Lee County Electric Cooperative, Inc.  
North Fort Myers, Florida

We have audited the accompanying balance sheet of Lee County Electric Cooperative, Inc. (the Company) as of December 31, 2005 and the related statements of revenue and patronage capital, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2004 were audited by other auditors whose report, dated February 14, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee County Electric Cooperative, Inc. as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of Lee County Electric Cooperative Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Jackson Thornton & Co. PC*

Montgomery, Alabama  
February 3, 2006