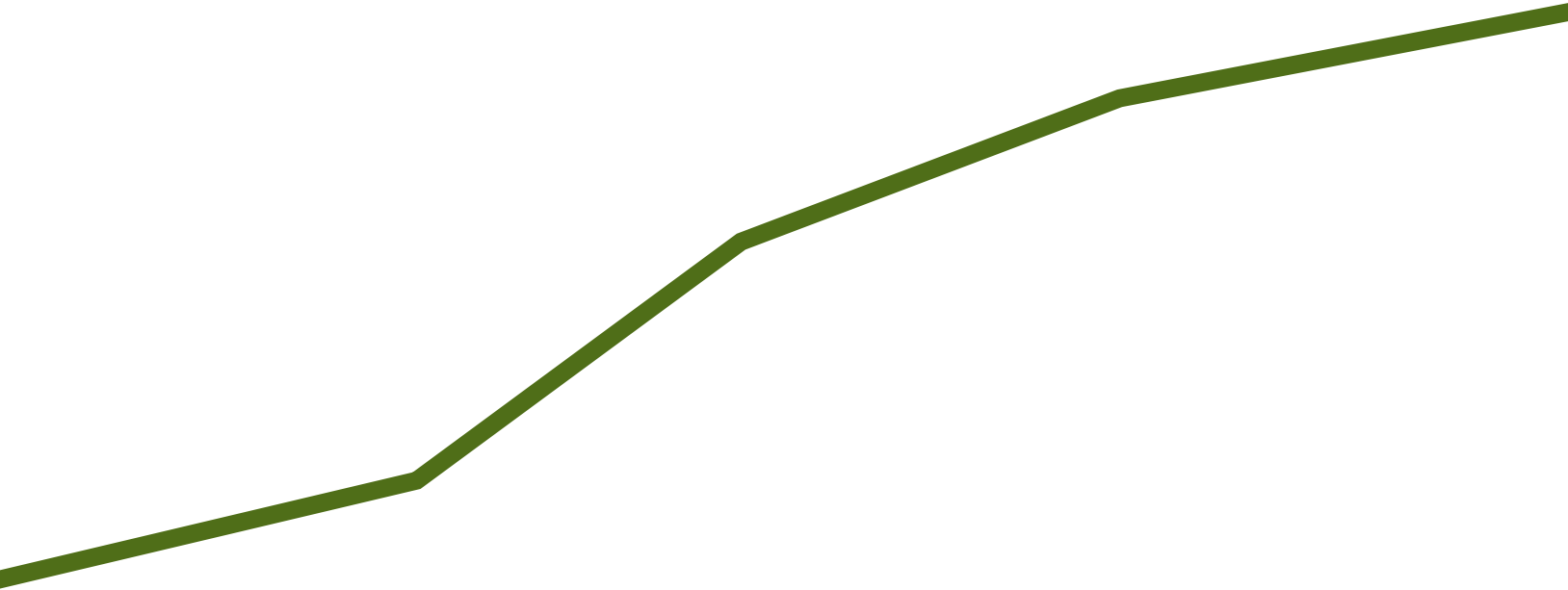


ACROSS THE BOARD

07

FINANCIAL 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.

William D. Hamilton



Executive Vice-President and CEO

Donald E. Schleicher



Director of Finance/Accounting and CFO

BALANCE SHEETS

	December 31,	
	2007	2006
ASSETS		
Utility plant, at historical cost		
Electric plant in service (Note 3)	\$ 678,005,872	\$ 593,353,813
Less accumulated depreciation	(217,410,632)	(194,383,761)
	460,595,240	398,970,052
Construction work in progress	76,410,495	97,254,708
	537,005,735	496,224,760
Investments (Note 4)	37,970,133	34,542,084
Current assets:		
Cash and cash equivalents	33,546	32,546
Receivables, less allowance for doubtful accounts of approximately \$1,613,000 and \$550,000	38,745,561	38,769,539
Materials and supplies, at average cost	9,839,248	9,408,659
Prepaid expenses and other current assets	498,407	663,351
Total current assets	49,116,762	48,874,095
Other assets:		
Deferred charges	131,293	660,064
Total other assets	131,293	660,064
	<u>\$ 624,223,923</u>	<u>\$ 580,301,003</u>
MEMBERS' EQUITIES AND LIABILITIES		
Members' equities:		
Memberships	\$ 775,372	\$ 769,846
Patronage capital	261,169,478	248,288,791
Other equities	21,911	21,911
Accumulated other comprehensive loss	(6,959,441)	(2,678,240)
	255,007,320	246,402,308
Long-term debt (Note 6)	212,582,281	180,727,892
Current liabilities:		
Current maturities of long-term debt (Note 6)	8,081,023	7,403,073
Lines of credit (Note 6)	61,690,837	68,382,000
Accounts payable (Note 10)	29,119,153	34,636,892
Customer deposits	9,689,242	7,835,816
Accrued taxes	2,650,095	2,497,140
Other current liabilities	17,126,843	6,016,909
Total current liabilities	128,357,193	126,771,830
Non-Current liabilities:		
Unamortized gain on refinancing (Note 7)	8,534,628	9,580,824
Patronage capital payable - long term	8,516,112	7,069,005
Accrued pension liability (Note 8)	3,157,964	2,080,094
Other post-retirement benefits (Note 8)	3,260,735	2,651,975
Deferred Credits	4,807,690	5,017,075
Total non-current liabilities	28,277,129	26,398,973
	<u>\$ 624,223,923</u>	<u>\$ 580,301,003</u>

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

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN PATRONAGE CAPITAL

	For the years ended December 31,	
	2007	2006
Operating revenue and patronage capital	\$ 369,352,932	\$ 357,659,774
Operating expenses:		
Cost of power	265,477,209	261,580,160
Transmission expense	1,239,263	1,373,742
Distribution expense, operation	5,341,385	4,306,158
Distribution expense, maintenance	9,932,998	9,845,072
Customer accounts expense	7,949,219	7,532,065
Customer service and information expense	1,780,472	1,692,754
Administrative and general expense	12,979,994	12,300,195
Depreciation	28,919,450	25,935,335
Taxes other than income	7,185,632	7,352,006
	<u>340,805,622</u>	<u>331,917,487</u>
Operating margins	28,547,310	25,742,287
Interest expense	(16,925,496)	(14,126,252)
Amortization of gain/(loss) on refinancing	1,046,197	1,071,107
Other (loss)/income	358,979	432,316
Patronage capital from associated organizations	4,794,688	5,180,751
Net margins	17,821,678	18,300,209
Patronage capital at beginning of year	248,288,791	234,700,244
Distribution of patronage capital paid and payable	(4,940,991)	(4,711,662)
Patronage capital at end of year	<u>\$ 261,169,478</u>	<u>\$ 248,288,791</u>

STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,	
	2007	2006
Net margins	\$ 17,821,678	\$ 18,300,209
Other comprehensive income / (loss):		
Minimum pension liability adjustment	-	367,081
Net gain / (loss) during period	501,847	-
Amortization of transition asset / (obligation)	21,505	-
Other comprehensive income / (loss):	<u>523,352</u>	<u>367,081</u>
Comprehensive income	<u>\$ 18,345,030</u>	<u>\$ 18,667,290</u>

STATEMENTS OF CHANGES OF COMPREHENSIVE INCOME

	For the years ended December 31,	
	2007	2006
Accumulated other comprehensive loss - beginning balance	\$ (2,678,240)	\$ (3,045,321)
Minimum pension liability adjustment	-	367,081
Other comprehensive income / (loss)	523,352	-
Adjustment to initially apply FAS # 158	(4,804,553)	-
Accumulated other comprehensive loss - ending balance	<u>\$ (6,959,441)</u>	<u>\$ (2,678,240)</u>

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

STATEMENTS OF CASH FLOWS

	December 31,	
	2007	2006
Cash flows from operating activities:		
Net margins	\$ 17,821,678	\$ 18,300,209
Adjustments to reconcile net margins to net cash provided by operating activities:		
Unclaimed capital credit administration fees	(330,255)	(388,239)
Patronage capital credits from associated organizations	(4,794,688)	(5,180,751)
Provision for pension benefits	(2,066,951)	(2,335,623)
Provision for other post-retirement benefits	222,827	73,000
(Gain)/loss on disposition of property	(53,970)	(91,433)
Provision for bad debts	884,054	146,035
Depreciation and amortization	27,879,924	24,870,892
(Increase)/decrease in:		
Receivables net	(860,077)	538,172
Materials and supplies	(430,589)	(1,666,856)
Prepaid expenses and other current assets	164,945	13,983,626
Deferred charges	528,771	137,685
Increase/(decrease) in:		
Accounts payable	(5,517,739)	(11,834,221)
Customer deposits	1,853,426	905,668
Accrued taxes	152,955	373,496
Other liabilities	10,150,102	3,493,788
Total adjustments	27,782,735	23,025,239
Net cash provided by operating activities	45,604,413	41,325,448
Cash flows from investing activities:		
Capital expenditures	(69,707,095)	(100,302,635)
Proceeds from sale of property	53,970	91,433
Return of capital from associated organizations	1,366,639	1,690,240
Net cash used for investing activities	(68,286,486)	(98,520,962)
Cash flows from financing activities:		
Memberships issued, net of terminations	5,526	33,784
Distribution of patronage capital	(3,163,629)	(3,723,087)
Lines of credit proceeds/(repayments), net	(6,691,163)	14,550,615
Issuance of long-term debt	40,000,000	50,000,000
Repayment of long-term debt	(7,467,661)	(3,663,553)
Net cash provided for financing activities	22,683,073	57,197,759
Net change in cash and cash equivalents	1,000	2,245
Cash and cash equivalents at beginning of year	32,546	30,301
Cash and cash equivalents at end of year	\$ 33,546	\$ 32,546
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 16,824,942	\$ 14,277,697

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 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 and are included in other current liabilities or other current assets. At December 31, 2007 and December 31, 2006, LCEC had a cumulative over-recovery of power costs of approximately \$12,700,000 and \$2,300,000 respectively, which is included in other current liabilities.

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, 2007 and December 31, 2006, 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.

The depreciation rates for transmission and distribution plant averaged 2.75 percent and 3.82 percent respectively for 2007 and 2006. 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, accounts receivable, lines of credit, and accounts payable, the carrying amount approximates their fair values due to the short-term maturities of these instruments. The fair value of the long-term, 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 loan numbers 9023 and 9031 (see Note 6) will be re-priced in five years and six years, respectively. 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, 2007, the CFC loans utilizing the effective yield had a carrying amount of approximately \$51,000,000 and a fair value of \$54,900,000. At December 31, 2007, the CoBank loans had a carrying amount of approximately \$169,700,000 and a fair value of approximately \$176,500,000. 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 \$184,000, 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 2007 and 2006.

Deferred charges included an intangible pension asset of approximately \$446,000 at the end of 2006. However, as a result of a change in accounting standards the intangible pension asset is recorded in accumulated other comprehensive loss at the end of 2007.

Memberships - LCEC memberships (\$5 per member), net of terminations, resulted in a balance of approximately \$775,400 and \$769,800 at December 31, 2007 and December 31, 2006, respectively.

Patronage Capital - LCEC did not have a general patronage capital distribution in 2007 or in 2006. However, members that had been inactive for seven years received 100 percent of their patronage capital account in their eighth year. This resulted in a distribution of approximately \$4,900,000 and \$4,700,000 in 2007 and 2006, respectively. Bad debts of approximately \$68,000 in 2007 and \$83,000 in 2006 were offset against the distribution.

LCEC has a loan agreement stating that LCEC will not declare or pay any dividends or patronage refunds, or declare or grant any general cancellation or abatement of charges for electric energy or services furnished by LCEC, or purchase, retire, or redeem any patronage or other capital, or make any other distribution of any kind (whether in cash or property) to its members, stockholders, or consumers unless after giving thereto; LCEC's equity would equal or exceed 40 percent of its total assets (as determined in accordance with GAAP consistently applied).

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 2006 financial statements have been reclassified to conform to the 2007 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,	
	2007	2006
Land and land rights	\$ 11,535,475	\$ 8,187,370
Transmission plant	79,020,202	54,082,109
Distribution plant	521,985,616	474,573,934
General plant	65,464,579	56,510,400
Utility plant in service	\$ 678,005,872	\$ 593,353,813
Construction work in progress	76,410,495	97,254,708
Less: accumulated depreciation	(217,410,632)	(194,383,761)
Net utility plant	\$ 537,005,735	\$ 496,224,760

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments:

Investments include the following:

	December 31,	
	2007	2006
Florida Electric Cooperatives Association	\$ 9,517	\$ 9,517
National Rural Utilities Cooperative Finance Corporation:		
Membership	1,000	1,000
Capital term certificates	7,300,012	7,391,077
Patronage capital certificates	2,465,655	2,582,666
Seminole Electric Cooperative, Inc.	24,238,281	21,937,101
CoBank:		
Membership	1,000	1,000
Patronage capital certificates	3,602,486	2,382,482
Other investments and patronage capital certificates	352,182	237,241
	\$ 37,970,133	\$ 34,542,084

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 \$7,300,012 and \$7,391,077 carrying amounts at December 31, 2007 and December 31, 2006, 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. The accounts receivable balance of approximately \$39 million in both 2007 and 2006 includes unbilled revenue of approximately \$15 million in both 2007 and 2006.

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

	2007	2006
Balance at beginning of year	\$ 550,177	\$ 528,017
Gross write-offs	(2,111,617)	(737,168)
Net recoveries	178,681	168,195
Reclassification of tax	-	1,133
Provision for uncollectible accounts	2,995,671	590,000
Balance at end of year	\$ 1,612,912	\$ 550,177

Note 6. Debt:

A summary of debt as of December 31, 2007 and 2006 follows:

Loan Number	Date of Note	Payoff Date	% Rate at 12/31/07	Outstanding Debt as of December 31,	
				2007	2006
Obligations to CFC:					
9023	11-25-86	09-30-21	6.95%	\$ 7,510,726	\$ 7,827,429
9024	11-06-87	09-30-22	6.85%	29,422,610	30,543,774
9031	11-01-97	03-31-25	6.95%	4,104,542	4,224,280
9032	06-05-07	03-31-37	6.50%	4,967,706	-
9033	06-05-07	03-31-37	6.50%	4,967,706	-
				<u>\$ 50,973,290</u>	<u>\$ 42,595,483</u>
Obligations to CoBank:					
001731405	03-01-04	10-20-33	6.01%	\$ 32,504,819	\$ 33,763,071
001787855	07-02-04	10-20-33	6.52%	11,676,298	12,128,283
001896183	04-22-05	03-20-30	5.98%	47,508,897	49,644,128
002077195	11-17-06	12-20-31	6.37%	48,000,000	50,000,000
002170425	11-02-07	10-20-33	6.25%	30,000,000	-
				<u>\$ 169,690,014</u>	<u>\$ 145,535,482</u>
SunTrust line of credit				\$ 18,190,837	\$ 17,382,000
Bank of America line of credit				-	-
CoBank line of credit				43,500,000	21,000,000
CoBank revolving loan				-	30,000,000
				<u>\$ 61,690,837</u>	<u>\$ 68,382,000</u>
Total debt				\$ 282,354,141	\$ 256,512,965
Less current maturities				(8,081,023)	(7,403,073)
Less lines of credit				(61,690,837)	(68,382,000)
				<u>\$ 212,582,281</u>	<u>\$ 180,727,892</u>

Obligations to CFC - The CFC debt is represented by 28-year 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. In September of 2007, \$10 million in available notes from CFC was drawn at a rate of 6.5%.

Maturities on CFC long-term debt in the years 2008 through 2012 are \$1,936,551, \$2,072,154; \$2,217,256; \$2,372,524 and \$2,538,669 respectively, with the remaining balance of \$39,836,137 due thereafter.

Obligations to CoBank - The CoBank debt is represented by 25-year to 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.

On November 2, 2007, LCEC converted a Revolving \$30 million note with CoBank to a fixed rate of 6.25%. Principal payments will begin in October of 2008. The note will payoff in October of 2033.

In November 2006, LCEC entered into an agreement to obtain a \$50,000,000 note at a fixed rate of 6.37 percent for 25 years from CoBank to convert lines of credit to long-term debt. The outstanding balance at December 31, 2007 was \$48,000,000.

Maturities on CoBank long-term debt in the year 2008 is \$6,144,472 and \$7,041,481 in the years 2009-2012, with the remaining balance of \$135,379,617 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, 2007 or December 31, 2006.

LCEC has a \$25 million credit agreement with SunTrust Bank N.A. The credit agreement includes a revolving loan facility at competitive bid rates (4.45 percent at December 31, 2007) and expires June 30, 2009. The outstanding balance of the loan facility at December 31, 2007 and December 31, 2006 was \$18,190,837 and \$17,382,000, respectively.

On August 10, 2006, LCEC entered into a \$30,000,000 credit agreement with Bank of America N.A. The credit agreement includes a revolving loan facility at competitive bid rates and expires June 30, 2008. There was no outstanding balance of the loan facility at December 31, 2007 or December 31, 2006.

In April 2005, LCEC established a line of credit with CoBank for \$50,000,000 with a variable interest rate (5.29 percent at December 31, 2007). The outstanding line of credit at December 31, 2007 and December 31, 2006 was \$43,500,000 and \$21,000,000, respectively.

There are no commitment fees associated with either the SunTrust, Bank of America, 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, 2007.

Note 7. 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, 2007 and December 31, 2006, the remaining balance was \$8,534,628 and \$9,580,824, respectively.

Note 8. 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, the Investment Manager, provides administrative and investment management for the pension plan. LCEC allows Mass Mutual to exercise investment discretion over the plan's separate account assets within specified guidelines. LCEC has an Investment Committee that oversees performance of the pension plan and the Investment Manager. The basic goal underlying the establishment of LCEC's investment policy with respect to its retirement plan for employees is to provide that the assets of the plan shall be invested in a prudent manner. The primary investment objectives are to strive for a rate of return that would serve to control cost as a percent of payroll; to place a high priority on benefit security; and to earn a rate of return that keeps pace with inflation, is achievable under conditions of prudent risk, and is competitive with returns achieved by similar pension portfolios and by market averages.

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.

This premium-based insurance plan resulted in charges, net of employee premiums, of approximately \$2,300,000 and \$2,400,000 in 2007 and 2006, respectively. 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. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", with regard to LCEC's pension and health care benefits are as follows:

	December 31,			
	2007	2006	2007	2006
	Pension Benefits		Other Benefits	
Obligations and funded status at end of years:				
Benefit obligation at December 31	\$ 22,434,000	\$ 21,121,000	\$ 3,261,000	\$ 3,240,000
Fair value of plan assets at December 31	19,276,000	15,373,000	-	-
Funded status (plan assets less than benefit obligations)	<u>\$ (3,158,000)</u>	<u>\$ (5,748,000)</u>	<u>\$ (3,261,000)</u>	<u>\$ (3,240,000)</u>
Amounts recognized in the statement of financial position:				
Intangible asset	\$ -	\$ 446,000	\$ -	\$ -
Accumulated other comprehensive loss	6,269,000	2,678,000	690,000	-
Accrued benefit cost (Noncurrent liabilities)	(3,158,000)	(2,080,000)	(3,261,000)	(2,652,000)
Net amount recognized	<u>\$ 3,111,000</u>	<u>\$ 1,044,000</u>	<u>\$ (2,571,000)</u>	<u>\$ (2,652,000)</u>
Amounts recognized in accumulated other comprehensive loss:				
Net loss (gain)	\$ 5,928,000	\$ -	\$ 771,000	\$ -
Unrecognized transition (asset)/obligation	341,000	2,678,000	-	-
Prior service cost (credit)	-	-	(81,000)	-
Net amount recognized	<u>\$ 6,269,000</u>	<u>\$ 2,678,000</u>	<u>\$ 690,000</u>	<u>\$ -</u>
Accumulated benefit obligation	\$ 18,134,000	\$ 17,453,000	\$ 2,571,000	\$ 2,652,000
For plans with accumulated benefit obligations in excess of assets at December 31 of the respective years, aggregate amounts were:				
Projected benefit obligations	N/A	\$ 21,121,000	\$ 3,261,000	\$ 3,240,000
Accumulated benefit obligations	N/A	17,453,000	2,571,000	2,652,000
Plan assets	N/A	15,373,000	-	-
Net periodic benefit costs	\$ 2,722,000	\$ 2,569,000	\$ 223,000	\$ 73,000
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Increase in minimum liability	\$ -	\$ (367,000)	\$ -	\$ -
Experience loss (gain)	(502,000)	-	-	-
Amortization of transition (asset)/obligation	(22,000)	-	-	-
Total recognized in other comprehensive income	<u>(524,000)</u>	<u>(367,000)</u>	<u>-</u>	<u>-</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 2,198,000</u>	<u>\$ 2,202,000</u>	<u>\$ 223,000</u>	<u>\$ 73,000</u>

NOTES TO FINANCIAL STATEMENTS

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$483,116 and \$00,000 respectively. The estimated net loss and prior service credit for the other defined benefit postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$47,860 and \$21,276 respectively.

	December 31,			
	2007	2006	2007	2006
	Pension Benefits		Other Benefits	
Weighted-average assumptions used in computing ending obligations:				
Discount rate	6.25%	6.00%	6.25%	6.00%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Weighted-average assumptions used in computing net cost:				
Discount rate	6.00%	5.75%	6.00%	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 10 percent rate of increase was assumed for 2006, a 9 percent rate of increase was assumed for 2007, and gradually lower rates of increase assumed for years after 2007, until the rate of increase is assumed to be 5 percent in 2011 and remain at that level.

	Percentage of Pension Plan Assets at December 31,			
	2007	2006	2007	2006
	Non-Union		Union	
Equity Securities	69%	74%	72%	74%
Debt Securities	26	21	27	21
Real Estate	0	0	0	0
Other (Cash and Cash Equivalents)	5	5	1	5
Total	100%	100%	100%	100%

	December 31,			
	2007	2006	2007	2006
	Pension Benefits		Other Benefits	
Benefit cost	\$ 2,722,000	\$ 2,569,000	\$ 223,000	\$ 73,000
Employer contribution	4,789,000	4,905,000	N/A	N/A
Plan participant's contribution	N/A	N/A	N/A	N/A
Benefits paid	2,206,000	1,640,000	304,000	247,000

LCEC expects to make a minimum contribution to the pension plan of approximately \$2.1 million in 2008. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Other Benefits
2008	\$ 1,268,157	\$ 290,675
2009	1,897,225	314,960
2010	2,154,835	316,646
2011	1,664,748	338,175
2012	3,172,027	341,187
Years 2013-2017	16,152,168	1,562,074

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan. This adjustment is recorded as the cumulative effect of the change in accounting principle at December 31, 2007. The effect of this change is to increase liabilities by \$4,805,000 and decrease equity by \$4,805,000.

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 50 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 \$420,000 and \$370,000 for 2007 and 2006, respectively.

Note 9. 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 10. 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, 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, 2007 and December 31, 2006, LCEC purchased approximately 22 percent of Seminole's

output in each year. At December 31, 2007 and December 31, 2006, LCEC had accounts payable to Seminole for purchased power of approximately \$22,700,000 and \$19,300,000, respectively. LCEC received patronage capital credits from Seminole of \$2,301,179 and \$3,112,109 for 2007 and 2006, respectively.

In 2003, LCEC filed suit against its power supplier, Seminole Electric Cooperative, Inc. alleging a breach of the Wholesale Power Contract by Seminole. The matter has been resolved through negotiations and has been dismissed with prejudice.

The settlement of the lawsuit included an agreement to amend the Wholesale Power Contract, which amendment has been approved by the Rural Utility Service. The amendment provides for LCEC to reduce its purchases from Seminole, effective January 1, 2010, to approximately 70% of the then existing level of LCEC energy requirements. The amendment further provides for termination of the Wholesale Power Contract effective December 31, 2013.

On August 21, 2007, LCEC entered into Agreements for power supply beginning on January 1, 2010 for both the balance of requirements not being served by Seminole prior to termination of the Wholesale Power Contract with Seminole and for LCEC full requirements effective January 1, 2014. One Agreement is pending approval at the Federal Energy Regulatory Commission (FERC). It is expected that the second Agreement will be filed with FERC after the first has been approved.

Note 11. Recent Developments:

In 2006, LCEC became an active member with the Florida Reliability Coordinating Council (FRCC). This organization officially became the 10th Reliability Region of the North American Electric Reliability Corporation (NERC) in September of 1996. The FRCC participates in regulatory activities at the NERC, and in July of 2006 the Federal Energy Regulatory Commission (FERC) issued an order establishing the NERC as Electric Reliability Organization (ERO) for the United States under the Energy Policy Act (EPA) of 2005.

LCEC also actively monitors the ongoing activities of the Florida Public Service Commission (FPSC).

LCEC believes the regulatory activities at both the State and Federal level will not have a material adverse effect on the financial results.

In 2007, approximately \$1,843,000 was received from the Federal Emergency Management Agency (FEMA) for reimbursement of expenses to repair and replace utility plant assets damaged during Hurricane Wilma.



MONTGOMERY, ALABAMA

Dothan

Prattville

Wetumpka

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Lee County Electric Cooperative, Inc. (the Company), as of December 31, 2007 and 2006 and the related statements of revenue, expenses and changes in patronage capital, comprehensive income and changes of comprehensive income and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, the Company changed its accounting and reporting for postretirement benefits in 2007.

Jackson Thornton & Co. PC

Montgomery, Alabama
February 25, 2008

