



**Lake Region Electric Cooperative, Inc.**  
*2013 Annual Report*

# Message from the CEO and President



Lake Region Electric Cooperative's mission adopted by the Board of Trustees charges the cooperative to promote and sustain the self-reliance of members by providing the most reliable utility service at competitive rates. Our rates continue to remain steady after a downward trend from 1992 through 1998 despite the fact that other energy prices such as natural gas and propane have risen sharply. LREC's last rate increase was in 2009. LREC now has the 3rd lowest rate among the cooperatives in Oklahoma and the average Oklahoma rate is among the lowest in the nation. The board and the management team's philosophy is to keep a financially strong cooperative so we can ride through ups and downs in the economy and keep our member rates as low and stable as possible.

Electricity prices in Oklahoma have climbed 41 percent since 2002 according to the U.S. Department of Energy. However, LREC's prices have increased only 27 percent during the same time period. In 2002, LREC members enjoyed the 6th lowest rates among the cooperatives in Oklahoma. In 2012, we are now enjoying the 3rd lowest in Oklahoma.

In 2004, 56 percent of LREC's operating expenses, or \$13,236,993, was comprised of the wholesale power cost. The environmental mandates have increased

the power cost in 2013, it is now \$23,719,571 or 65 percent of LREC's Revenue. This means that we have been absorbing a big portion of the increase cost of purchased power rather than passing it on to the members. New EPA regulation is estimated to continue to artificially increase the cost of electricity generated by coal and force increases in our members' bills.

Due to the strong financial position of LREC, we have been able to absorb the increases in power cost and other operating expenses in the past few years. However, we may not be able to do so in the future depending on the size of these cost increases.

## Back Then .....

In the 1930s, rural America had been left in the dark as electricity made its way across the country. Electricity had become a modern necessity, and big cities enjoyed the opportunities this emerging technology brought. But rural folks had to do without this needed commodity.

Into the gap stepped the hard-working men and women of rural America who formed electric cooperatives to bring power to areas that had been overlooked. In our part of Northeast Oklahoma, these pioneers formed Lake Region Electric Cooperative. As a result, the quality of life for our local communities was forever changed.

## A New Necessity .....

In the 21st century, a new technology is emerging: Broadband Internet. This new technology is transforming lives and bringing economic development to the areas that adopt it. Once again, we have been

left behind. Your cooperative must step up to the plate and do what others won't do.

In rural Oklahoma, we also need vital services to live a better life, access resources and ensure our children get the best education possible. LREC is willing and ready to provide this service, but – because we always have the best interest of our members at heart – we don't want this project to impact electric service costs to members. Using a subsidiary to provide broadband telecommunications services keeps these two businesses separated, and one class of customers will not subsidize the other – only the members requesting this service will be responsible to pay for it.

Customer service is an LREC strong point. American Customer Service Index or ACSI is a measurement tool to evaluate the level of customer service provided by an entity to its customers. Many organizations set a goal and train their employees to achieve an ACSI score of 80. Electric utility in general has scored a rating of 72. I am pleased to announce that in a survey conducted in 2013, LREC received an ACSI rating of 83 from our member/customers.

Excellent customer service, strong financial condition and rate stability have been among the top drivers directing Lake Region Electric Cooperative's long-range planning and day-to-day operations. I am pleased to announce that we have met or exceeded those goals for 2013.

Chief Executive Officer  
*Hamid Vahdatipour*  
Board President  
*Gary Cooper*

# Take a moment to get to know your board.

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They live in your neighborhoods, shop in your stores and receive monthly bills from Lake Region Electric Cooperative, Inc., just like you. Meet your Board of Trustees – the group that oversees the operations of your cooperative.

Unlike investor-owned companies where the board

speaks for shareholders, our board represents the people we serve. That adds a level of accountability you can not find anywhere but a cooperative. Since you elect the board representatives, you have a voice in how your electric company is governed. Each board member serves for a three-year

term. Board members meet the first Tuesday of each month. The board members are committed to policies that result in a safe and reliable electric system, fair rates, financial responsibility and superior member service.

## Board of Trustees

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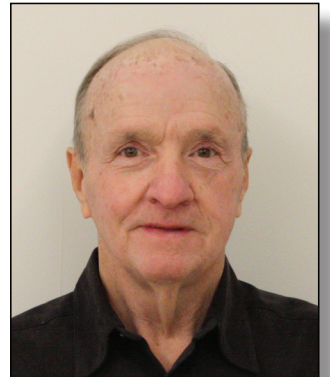
**Gary Cooper**  
President



**Bobby Mayfield**  
Vice President



**Jim Loftin**  
Secretary-Treasurer



**Jack Teague**  
Asst. Secretary-Treasurer



**Lynn Lamons**  
Trustee

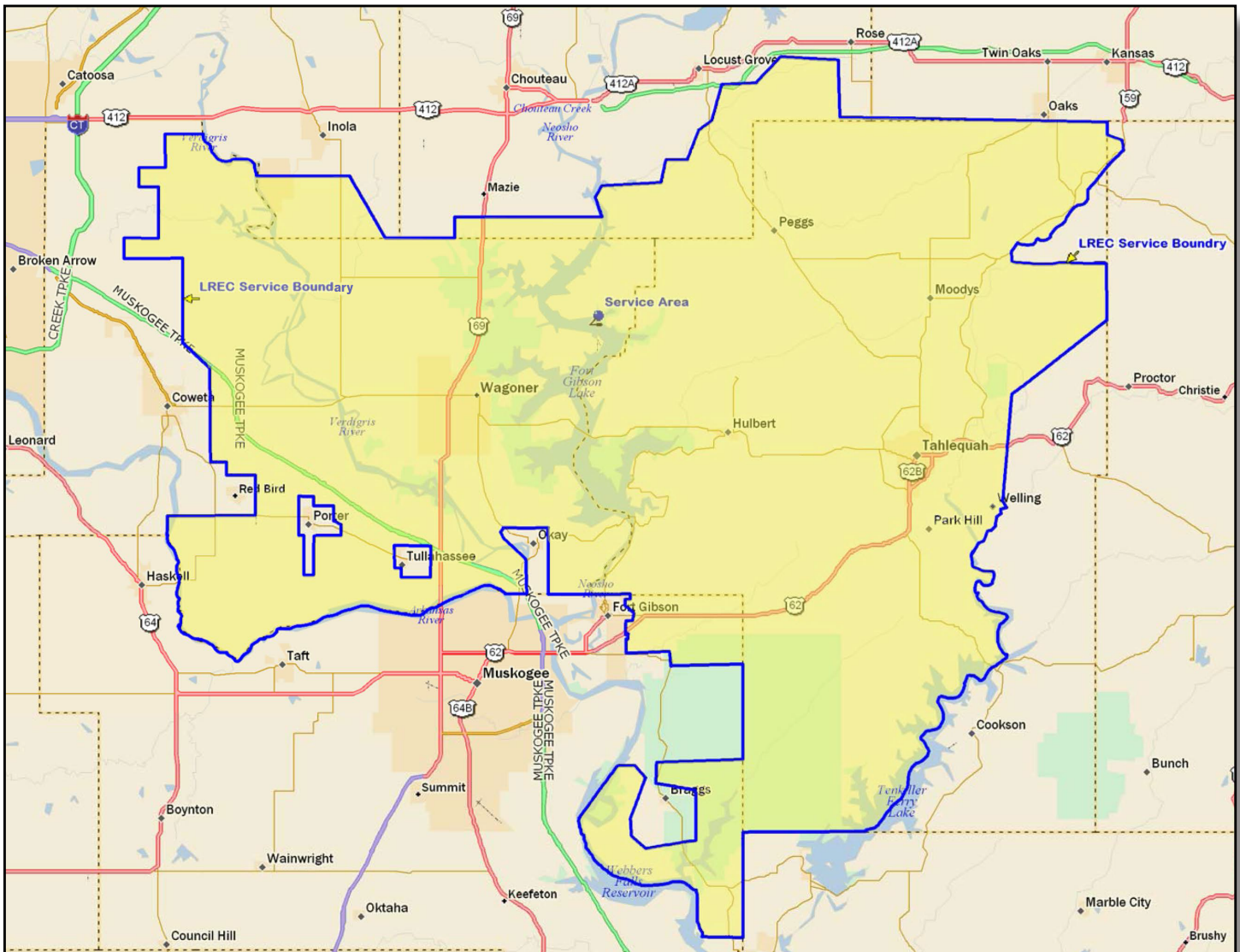


**Scott Manes**  
Trustee



**Randall Shankle**  
Trustee

# LREC Service Territory



Counties served: Wagoner, Cherokee, Mayes, Rogers, Muskogee, Delaware, and Adair

## System Facts

**Total miles of line:** 3,047 (Overhead 2,956) (Underground 91)

**Counties served:** Wagoner, Cherokee, Mayes, Rogers, Muskogee, Delaware and Adair

**Square miles:** 1,144      **Number of meters:** 24,101      **Number of employees:** 70

**Board meeting:** First Tuesday of each month      **Year first energized:** 1949

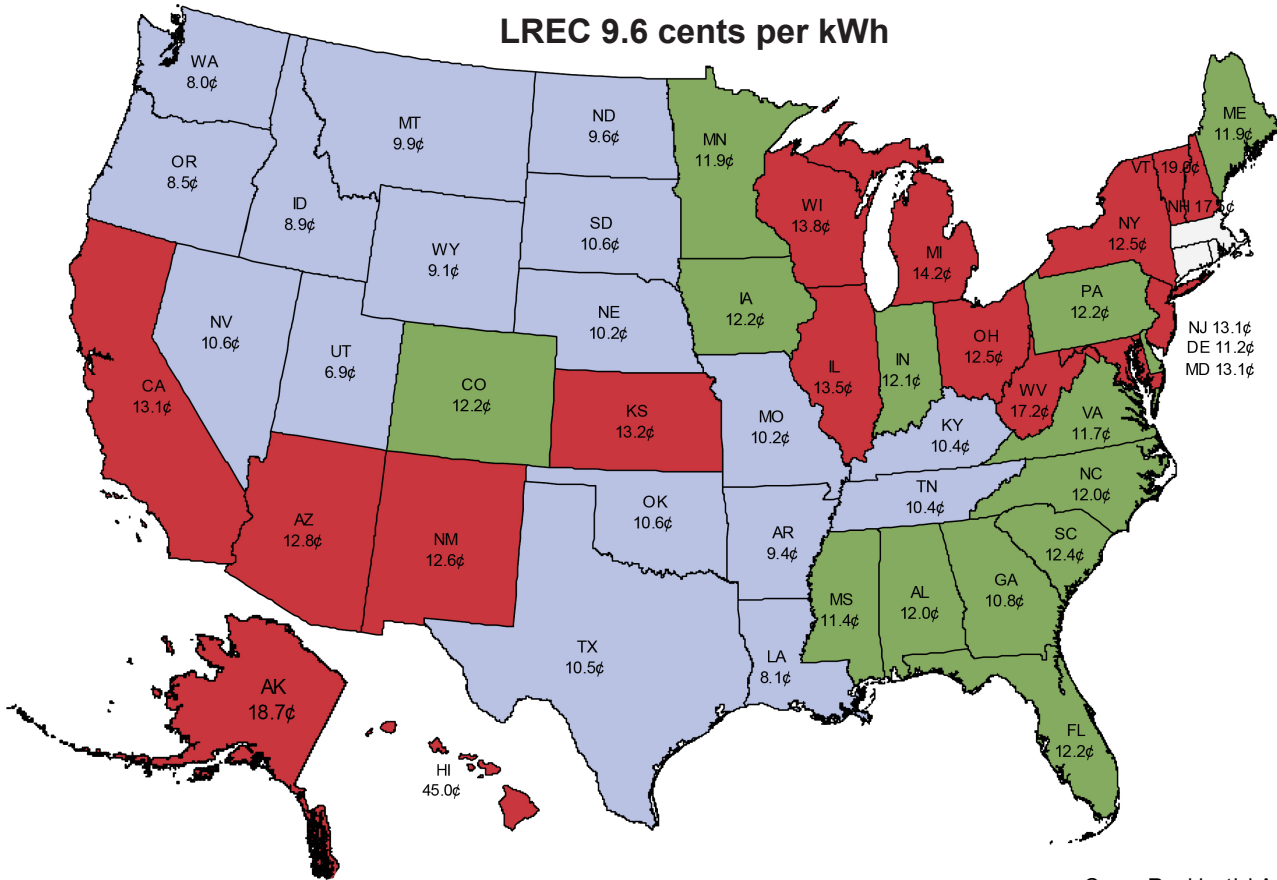
**Power supplier:** KAMO Electric Cooperative, Inc., Vinita, Oklahoma

# Average Price for Residential Electricity

**U.S. Co-op Average 11.3 cents per kWh**

**Oklahoma Co-op Average 10.6 cents per kWh**

**LREC 9.6 cents per kWh**



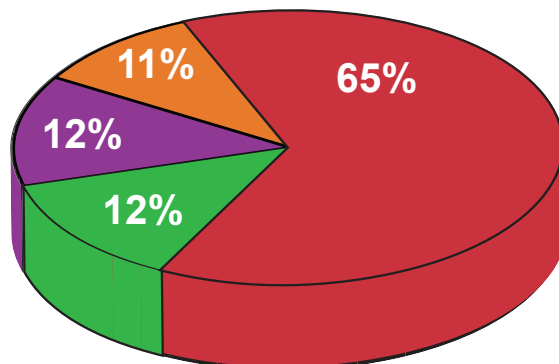
Co-op Residential Average Price (cents per kilowatt-hour)

- over 12.4¢ (16)
- 10.7¢ to 12.4¢ (14)
- Under 10.7¢ (17)

Source: U.S. Energy Information Administration  
Numbers rounded to nearest tenth of a cent  
Updated February 2014

## LREC Operating Expenses

- Purchased Power
- Depreciation, Interest & Taxes
- Operation & Maintenance
- Consumer Accounting, Member Services & Admin.



# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

## Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Operating revenues</b>	<b>\$ 37,733,956</b>	<b>\$ 36,648,330</b>
<b>Operating expenses:</b>		
Cost of power	23,719,571	22,932,749
Distribution expense - operation	1,689,464	1,564,491
Distribution expense - maintenance	2,672,479	2,674,109
Consumer accounts expense	1,236,361	1,354,481
Customer service and information	212,318	199,369
Administration and general	2,569,056	2,344,811
Depreciation and amortization	2,379,672	2,275,165
Taxes	739,264	769,385
Interest on long-term debt	1,169,097	1,279,119
Other interest and deductions	162,581	75,816
<b>Total operating expenses</b>	<b><u>36,549,863</u></b>	<b><u>35,469,495</u></b>
<b>Net operating margins</b>	<b><u>1,184,093</u></b>	<b><u>1,178,835</u></b>
Nonutility revenue	<u>647,603</u>	<u>680,648</u>
<b>Nonutility expenses:</b>		
Nonutility cost of goods sold	151,984	141,458
Nonutility operating and general expense	525,533	503,110
	<b><u>677,517</u></b>	<b><u>644,568</u></b>
<b>Net nonutility margins</b>	<b><u>(29,914)</u></b>	<b><u>36,080</u></b>
<b>Non operating margins:</b>		
Interest and dividend income	40,299	43,905
Wildblue net margins	(1,803)	24,701
Fiber to the home income (expense)	(56,883)	-
Other income	190,299	68,817
Gain on sale of equipment	23,190	11,993
<b>Total nonoperating margins</b>	<b><u>\$ 195,102</u></b>	<b><u>\$ 149,416</u></b>

# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

## Consolidated Statements of Revenue and Patronage Capital

*For the Years Ended December 31, 2013 and 2012*

	<u>2013</u>	<u>2012</u>
<b>Capital credits:</b>		
Generation and transmission cooperative capital credits	\$ 1,243,514	\$ 1,354,924
Other capital credits and patronage capital	<u>277,489</u>	<u>149,822</u>
<b>Total capital credits</b>	<b><u>1,521,003</u></b>	<b><u>1,504,746</u></b>
<b>Net margins before income taxes</b>	<b>2,870,284</b>	<b>2,869,077</b>
<b>Provision for income tax:</b>		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
<b>Net margins for year</b>	<b>2,870,284</b>	<b>2,869,077</b>
Patronage capital - beginning of year	44,267,285	42,465,792
Retirement of patronage capital	<u>(951,506)</u>	<u>(1,067,584)</u>
<b>Patronage capital - end of year</b>	<b><u>\$ 46,186,063</u></b>	<b><u>\$ 44,267,285</u></b>

## What are Capital Credits?

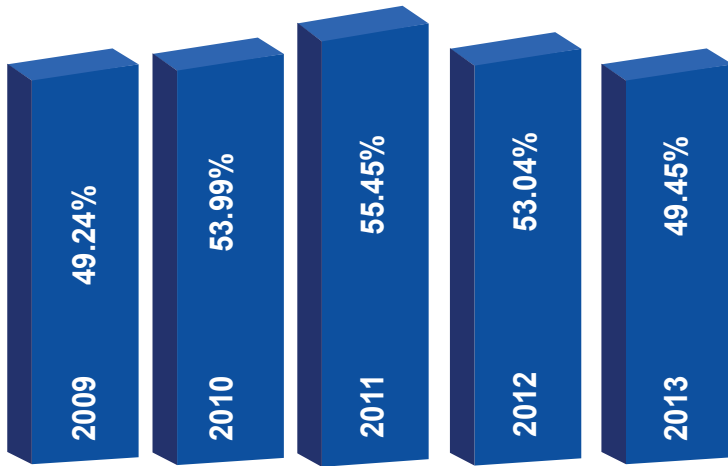
Lake Region Electric Cooperative (LREC) operates on an at-cost, not for profit basis. Instead of returning profits, known as margins, to stockholders who may not live in the same region or even the same state as you, the members, LREC allocates and periodically retires Capital Credits based on how much electricity you, the member purchased during a year.

On the other hand, investor-owned utilities create a rate structure that will maximize their margins (profits) so they can pay dividends to their stockholders. In a cooperative business structure, your Capital Credit represents your share in the mar-

gins of the cooperative. Electric cooperatives exist to provide members with reliable electric service and high satisfaction.



# Five-Year Comparison



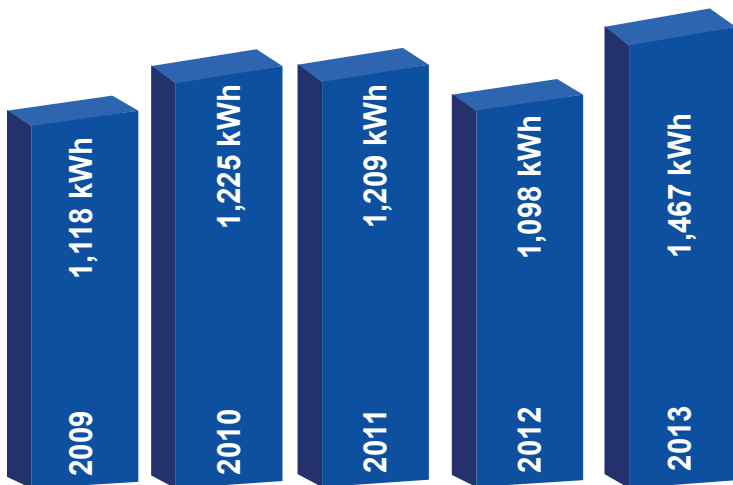
◀ Cooperative members' equity over last five years

## Member Equity (*percent*)



Sales of electricity to cooperative members and businesses over the last five years ▶

## LREC Electricity Sales



◀ Average kWh usage per month for residential members over the last five years.

## Average kWh per Month per Member



# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets  
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
<b>Utility plant (Notes 1 and 2)</b>		
Electric plant in service - at cost	\$ 91,217,446	\$ 88,479,460
Construction work in progress	<u>6,688,531</u>	<u>981,692</u>
	<b>97,905,977</b>	<b>89,461,152</b>
Less accumulated provision for depreciation and amortization	<u>29,127,910</u>	<u>27,974,961</u>
<b>Net utility plant</b>	<u><b>68,778,067</b></u>	<u><b>61,486,191</b></u>
 <b>Nonutility plant (Note 2)</b>		
Nonutility plant	4,122,131	4,080,904
Less accumulated depreciation	<u>1,613,468</u>	<u>1,471,665</u>
<b>Net nonutility plant</b>	<u><b>2,508,663</b></u>	<u><b>2,609,239</b></u>
 <b>Other assets:</b>		
Investments in associated organizations (Note 3)	16,816,813	15,626,400
Other long-term investments (Note 12)	<u>41,743</u>	<u>135,591</u>
<b>Total other assets</b>	<u><b>16,858,556</b></u>	<u><b>15,761,991</b></u>
 <b>Current assets:</b>		
Cash - general fund	1,152,062	969,922
Accounts receivable - less allowance for doubtful accounts: 2013 - \$220,165; 2012 - \$175,094	3,205,516	2,885,860
Materials and supplies - at average cost	1,415,341	1,189,163
Other current and accrued assets	<u>237,126</u>	<u>206,618</u>
<b>Total current assets</b>	<u><b>6,010,045</b></u>	<u><b>5,251,563</b></u>
 Deferred charges (Note 4)	<u>1,409,940</u>	<u>-</u>
<b>Total other assets</b>	<u><b>1,409,940</b></u>	<u><b>-</b></u>
<b>TOTAL ASSETS</b>	<u><u><b>\$ 95,565,271</b></u></u>	<u><u><b>\$ 85,108,984</b></u></u>

# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

December 31, 2013 and 2012

<b>LIABILITIES and MEMBERS' EQUITY</b>	2013	2012
<b>Equities and margins</b>		
Memberships	\$ 95,790	\$ 95,795
Patronage capital (Note 5)	46,186,063	44,267,285
Accumulated other comprehensive gain (loss)	194,572	(1,682,444)
Other equities (Note 6)	782,059	772,795
<b>Total equities and margins</b>	<b>47,258,484</b>	<b>43,453,431</b>
<b>Long-term liabilities:</b>		
Long-term debt less current maturities (Note 7)	28,564,197	24,479,627
Other non-current liabilities (Note 11)	4,347,914	5,843,100
<b>Total long-term liabilities</b>	<b>32,912,111</b>	<b>30,322,727</b>
<b>Current liabilities</b>		
Current maturities of long-term debt (Note 7)	2,196,682	1,877,653
Line of credit	5,000,000	1,000,000
Accounts payable	3,127,741	3,610,326
Consumer deposits	1,753,443	1,725,277
Other current and accrued liabilities	2,364,486	2,059,988
<b>Total current liabilities</b>	<b>14,442,352</b>	<b>10,273,244</b>
Deferred credits (Note 8)	952,324	1,059,582
<b>TOTAL LIABILITIES and MEMBERS' EQUITY</b>	<b>\$ 95,565,271</b>	<b>\$ 85,108,984</b>

# Independent Auditor's Report

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## Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Lake Region Electric Cooperative, Inc. and Subsidiary  
Hulbert, Oklahoma

We have audited the accompanying consolidated balance sheets of Lake Region Electric Cooperative, Inc. and Subsidiary as of December 31, 2013 and 2012, and the related consolidated statements of revenue and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the cooperative'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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lake Region Electric Cooperative, Inc. and Subsidiary as of December 31, 2013 and 2012 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2014, on our consideration of Lake Region Electric Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Briscoe, Burke & Grigsby, LLC  
Certified Public Accountants  
April 1, 2014  
Tulsa, Oklahoma

## Board Treasurer Update

I am pleased to present the 2013 financial results for Lake Region Electric Cooperative, Inc. The cooperative's 2013 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In the opinions, the 2013 financial statements present fairly, in all material respects, the financial position and results of operation for Lake Region Electric Cooperative, Inc. and the LREC Foundation in conformity with generally accepted accounting principles.

Secretary/Treasurer,  
Board of Trustees  
*Jim Loftin*

# ***Lake Region Electric Cooperative***

Your Touchstone Energy<sup>®</sup> Cooperative 

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