



2018 Annual Report

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## MESSAGE FROM THE CEO & BOARD PRESIDENT

# To our Members,



LREC wrapped up the fiscal year 2018 (FY 2018) maintaining a healthy financial position. We had higher energy sales due to cold winter and hot summer temperatures. Total kWh sales were 11% higher than projections and 20% higher than in 2018.

Higher sales generated adequate revenues to cover all the operating expenses of the cooperative. LREC ended the year with an operating margin of \$1,115,972. However, the addition of the non-operating revenues enabled us to finish the year with \$3,187,893 in total margins.

Our members' equity increased to \$52,286,028 and long-term debts increased to \$60,659,573. The equity as a percent to total assets remains very strong at 40%. Total utility plant was increased by \$4 million to \$111,527,935, and the non-utility plant was increased by \$9.1 million to \$31,023,603 mainly due to the Fiber-to-the-Home project construction.

### Other highlights from the Fiscal Year include:

- LREC's modified debt service coverage for the FY 2018 was 2.21, and the total consolidated debt to asset ratio was 46%.
- The average residential kWh usage per month increased to

1,217 kWhs from 1,075 kWhs in 2017.

- Total miles of line were 3,081 which served an average of 24,702 meters.
- Total purchased power cost as a percent of revenue was 63% of total revenue for FY 2018. This ratio for FY 2008 was 56.5%.

We strive to maintain the lowest possible rates and yet provide a reliable service to our members. Lake Region Electric Cooperative's mission, adopted by the board of directors, charges the cooperative to promote and sustain the self-reliance of members by providing the most reliable utility service at competitive rates.

LREC remains committed to providing the best quality of service to our members by maintaining and upgrading the utility plant. Vegetation control continues to be a top priority for LREC.

LREC's Fiber-To-The-Home project continues to be a successful project. The Board has decided to pursue the endeavor to provide high-quality state of the art broadband service to its members. The phase one construction project which included construction of over 800 miles of fiber optics to bring high-speed internet to over 9,000

homes was 80% completed in 2018. This is the first phase of a three-phase project that started in August of 2016. During 2018, LREC nearly doubled its broadband customers moving from 1,900 connected customers to 3,300 connected customers in December of 2018. The Phase One project is expected to be completed in the second quarter of 2019.

In December of 2018, the board was pleased to approve a patronage capital retirement/refund of \$1,219,414 to the members, bringing the total funds refunded to the members to \$22,016,507.

Excellent customer service, stable 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. We are pleased to announce that we have met or exceeded those goals for 2018.

Chief Executive Officer

*Hamid Vahdatipour*

Board President

*Scott Manes*

# Board of Trustees



Scott Manes  
President



Lynn Lamons  
Vice President



Randall Shankle  
Secretary-Treasurer



Jack Teague  
Asst. Sec-Treas



James Walls  
Trustee



Gary Cooper  
Trustee



Dianna Mayfield  
Trustee

They live in your neighborhoods, shop in your stores and receive monthly bills from Lake Region Electric Cooperative, and Subsidiaries, 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.

# System Facts at a Glance - 2018

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

Members

**19,794**



Active Meters

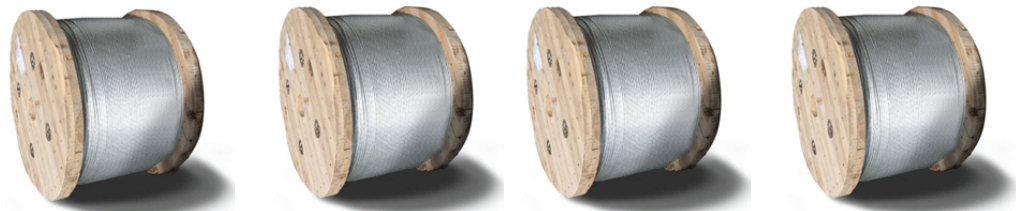
**24,702**



Miles of Electric

**3,081**

2,983 Overhead  
115 Underground



Employees

LREC LRTC LRED

**79 8 4**



Total Energy Consumed

**417,675,598 kWh**



Miles of Fiber Optic

**822**



Customers Connected

**3,300**



## Where the Dollar Comes From

Residential Sales	\$36,765,188
Commercial Sales	\$7,088,700
Schools & Churches	\$908,742
Other Revenue & Interest	\$694,479
<b>Total Revenue</b>	<b>\$45,457,110</b>



## Revenues and Expenses

Total Revenue	\$45,457,110
<b>Expenses Controlled By Other Entities</b>	
Cost of Power	\$28,131,683
Depreciation & Amortization	\$3,394,721
Interest on Long-Term Debt	\$1,707,352
Taxes	\$888,800
Other Interest and Deductions	\$146,847

**Total Controlled Expenses \$34,269,403**

### Expenses Controlled By LREC

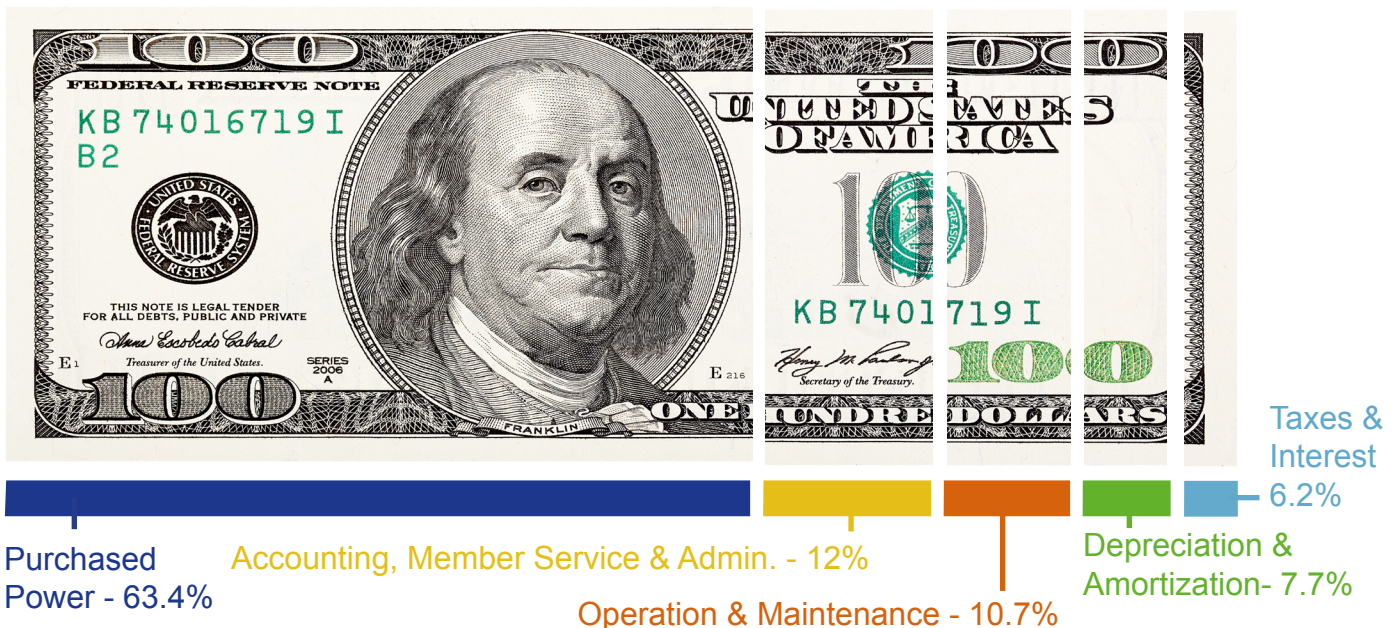
Operations & Maintenance	\$5,318,699
Consumer & Customer Service	\$1,679,006
Administration & General	\$3,394,721

**Total Controllable Expenses \$10,392,426**

**TOTAL EXPENSES \$44,341,138**

**Net Operating Margins \$1,115,972**

## Where the Dollar Goes - Operating Expenses



# Operating Revenues

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Statements of Revenue and Patronage Capital

*For the Years Ended December 31, 2018 and 2017*

	2018	2017
<b>Operating revenues</b>	<b>\$ 45,457,110</b>	<b>\$ 39,454,669</b>
<b>Operating expenses:</b>		
Cost of power	28,131,683	24,252,117
Distribution expense - operation	2,140,753	2,264,172
Distribution expense - maintenance	3,177,946	2,764,020
Consumer accounts expense	1,471,616	1,370,219
Customer service and information	207,390	231,799
Administration and general	3,074,030	2,800,182
Depreciation and amortization	3,394,721	3,191,708
Taxes	888,800	786,920
Interest on long-term debt	1,707,352	1,589,278
Other interest and deductions	146,847	172,383
<b>Total operating expenses</b>	<b>44,341,138</b>	<b>39,422,798</b>
<b>Net operating margins</b>	<b>1,115,972</b>	<b>31,871</b>
Nonutility revenue	4,150,267	3,065,982
<b>Nonutility expenses:</b>		
Nonutility cost of goods sold	205,152	174,887
Nonutility operating and general expense	4,126,893	2,961,868
	<b>4,332,045</b>	<b>3,136,755</b>
<b>Net nonutility margins (loss)</b>	<b>(181,778)</b>	<b>(70,773)</b>
<b>Non operating margins:</b>		
Interest and dividend income	396,548	39,157
Other income	67,731	68,998
Gain on sale of equipment	4,188	13,150
<b>Total nonoperating margins</b>	<b>\$ 468,467</b>	<b>\$ 121,305</b>

# Capital Credits

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2018 and 2017

	2018	2017
<b>Capital credits:</b>		
Generation and transmission cooperative capital credits	\$ 1,501,439	\$ 1,673,829
Other capital credits and patronage capital	283,793	265,096
<b>Total capital credits</b>	<b>1,785,232</b>	<b>1,938,925</b>
<b>Net margins before income taxes</b>	<b>3,187,893</b>	<b>2,021,328</b>
<b>Provision for income tax:</b>		
Current	-	-
Deferred	-	-
<b>Net margins for year</b>	<b>3,187,893</b>	<b>2,021,328</b>
Patronage capital - beginning of year	48,260,418	47,427,739
Retirement of patronage capital	(1,219,414)	(1,188,649)
<b>Patronage capital - end of year</b>	<b>\$ 50,228,897</b>	<b>\$ 48,260,418</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, 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 margins of the cooperative. Electric cooperatives exist to provide members with reliable electric service at a reasonable cost.



# Assets

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

### Consolidated Balance Sheets

December 31, 2018 and 2017

ASSETS	2018	2017
<b>Utility plant (Notes 1 and 2)</b>		
Electric plant in service - at cost	\$ 110,867,556	\$ 105,950,233
Construction work in progress	660,379	1,527,909
	<u>111,527,935</u>	<u>107,478,142</u>
Less: accumulated provision for depreciation and amortization	38,270,559	36,618,587
<b>Net utility plant</b>	<u>73,257,376</u>	<u>70,859,555</u>
<b>Nonutility plant (Note 2)</b>		
Nonutility plant	16,542,814	15,257,154
Construction work in progress	14,480,789	6,612,021
	<u>31,023,603</u>	<u>21,869,175</u>
Less: accumulated depreciation	5,518,737	4,395,851
<b>Net nonutility plant</b>	<u>25,504,866</u>	<u>17,473,324</u>
<b>Other assets:</b>		
Investments in associated organizations (Note 3)	22,894,855	21,698,429
Other long-term investments	1,274	1,274
Intangible assets, net	203,049	63,725
<b>Total other assets</b>	<u>23,099,178</u>	<u>21,763,428</u>
<b>Current assets:</b>		
Cash and cash equivalents	1,181,286	792,992
Accounts receivable - less allowance for doubtful accounts: 2018 - \$227,110; 2017 - \$257,528	3,969,179	3,439,220
Materials and supplies - at average cost	3,377,930	3,776,086
Other current and accrued assets	260,939	244,177
<b>Total current assets</b>	<u>8,789,334</u>	<u>8,252,475</u>
Deferred debits (Note 4)	724,244	960,793
<b>TOTAL ASSETS</b>	<u><u>\$ 131,374,998</u></u>	<u><u>\$ 119,309,575</u></u>



# Liabilities and Members' Equity

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

<b>LIABILITIES and MEMBERS' EQUITY</b>	2018	2017
<b>Equities and margins</b>		
Memberships	\$ 101,055	\$ 100,305
Patronage capital (Note 5)	50,228,897	48,260,418
Accumulated other comprehensive income	1,138,340	698,140
Other equities (Note 6)	817,736	810,684
<b>Total equities and margins</b>	<b>52,286,028</b>	<b>49,869,547</b>
<b>Long-term liabilities:</b>		
Long-term debt less current maturities (Note 7)	55,850,506	51,497,172
Other non-current liabilities (Note 11)	4,809,067	4,978,615
<b>Total long-term liabilities</b>	<b>60,659,573</b>	<b>56,475,787</b>
<b>Current liabilities</b>		
Current maturities of long-term debt (Note 7)	1,404,833	1,750,361
Line of credit	4,050,000	1,250,000
Accounts payable	5,684,513	3,442,743
Consumer deposits	2,196,586	2,097,578
Other current and accrued liabilities	4,262,503	3,709,730
<b>Total current liabilities</b>	<b>17,598,435</b>	<b>12,250,412</b>
Deferred credits (Note 8)	830,962	713,829
<b>TOTAL LIABILITIES and MEMBERS' EQUITY</b>	<b>\$ 131,374,998</b>	<b>\$ 119,309,575</b>

**Briscoe, Burke & Grigsby LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

To the Members of  
Lake Region Electric Cooperative, Inc. and Subsidiaries  
Hulbert, OK

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Lake Region Electric Cooperative, Inc. and Subsidiaries, as of December 31, 2018 and 2017, and the related consolidated statements of revenue and patronage capital, comprehensive income and cash flows for the years then ended, and the related notes to the financial statements; and in our report dated March 15, 2019, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in relation to the financial statements from which it was derived. The complete audit report, as described above, is on file at the Cooperative's headquarters office.

*Briscoe, Burke & Grigsby LLP*  
Certified Public Accountants

## **Board Treasurer Update**

I am pleased to present the 2018 financial results for Lake Region Electric Cooperative, Inc and subsidiaries. Briscoe, Burke & Grigsby audited the cooperative's 2018 financial statements, LLC, Certified Public Accountants. In their opinions, the 2018 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.

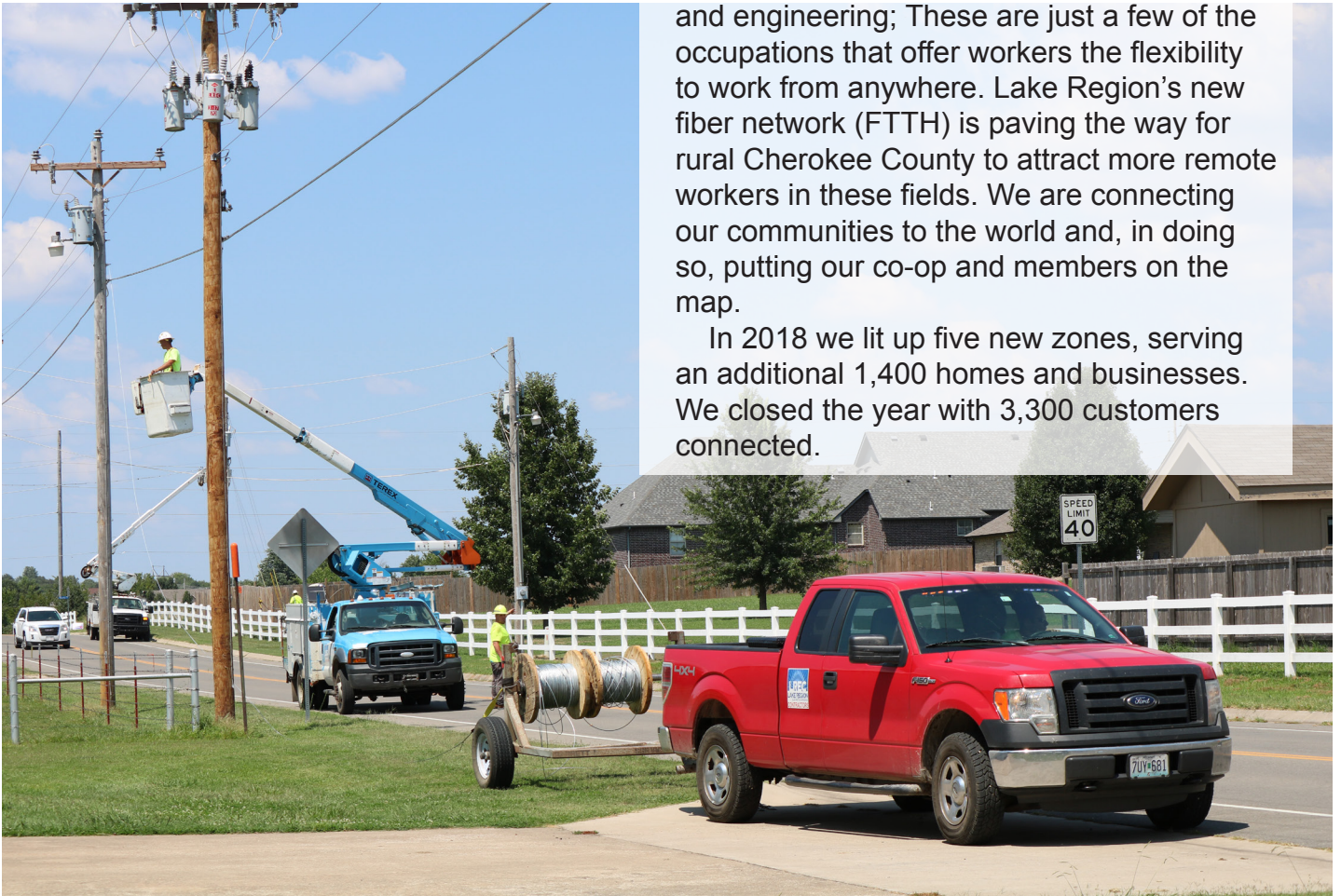
Secretary/Treasurer,  
Board of Trustees

*Lynn Lamons*

## Bridging the Digital Divide

Telemedicine, graphic design, finance, education, web development, eCommerce, videography, cybersecurity, architecture, and engineering; These are just a few of the occupations that offer workers the flexibility to work from anywhere. Lake Region’s new fiber network (FTTH) is paving the way for rural Cherokee County to attract more remote workers in these fields. We are connecting our communities to the world and, in doing so, putting our co-op and members on the map.

In 2018 we lit up five new zones, serving an additional 1,400 homes and businesses. We closed the year with 3,300 customers connected.



### 2018 Lake Region Fiber Milestones

Total miles of fiber.....	822
Total connected customers.....	3,300
Subsidiary Employees.....	8
Progress to full build out.....	27%
Average new customers per week.....	40

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.

Into the gap stepped the hardworking men and

women of rural America, who formed electric cooperatives to bring power to areas that had been overlooked. In our part of Oklahoma, Lake Region Electric Cooperative.

Today, 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. It is only natural that we extend the same access to our members through high-speed internet service. Our purpose is to improve our rural members’ quality of life through the delivery of highly reliable, reasonably priced fiber services and exceptional customer service.



**Contact Us:**

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**Visit Us:**

**LREC Main Office**  
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**LREC Tahlequah Office**  
Located inside Wal-Mart  
2020 S Muskogee Ave  
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**LREC Wagoner Office**  
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Wagoner, OK 74467