

Lake Region Electric, A Touchstone Energy Cooperative
2008 Annual Report

Lake Region's mission is to promote and sustain the self-reliance of our members by providing the most reliable utility service at competitive rates.

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Meeting the Needs of Members

Since September of 1949, Lake Region Electric Cooperative Inc has been providing reliable and reasonably priced electric service to its “members.” Over the 50 years of service, we have seen many changes, some bad but most of them for the good of the cooperative and you the member. During the last few years, we have initiated various new services to make paying your bill easy and convenient and to provide access to high-speed Internet.

From 1949 until 1986 members had to read their meters and send readings into the cooperative office for their bills to be computed. In 1986 the cooperative started a meter reading program. In 1994, the cooperative engineering staff undertook the task of installing an Automated Meter Reading and SCADA program, which has provided the engineering staff with data to be used in their design of a more reliable system.

Over the years, we have offered to our members many services to help them conserve electricity, such as a free home energy audit to determine the most cost effective way to improve the efficiency of their homes and rebates for energy efficient heat pumps and water heaters.

We have also offered our members ways of saving time and managing their budgets with options such as Budget Billing to help avoid seasonal highs on their bills and Electro-Check automatic bill paying service. In the last year, we have added the P.A.M.S. program, which is a prepaid account management system. This allows individuals to manage their electric use and prepay their electric bills.

By surveying the membership in 1994, we found a large number of co-op members had computers in their homes, so we started offering surge protection and battery backup systems to help protect the sensitive electronic equipment. In time, the demand for a faster Internet connec-

tion emerged as a primary member need. Once again, Lake Region responded by starting Wildblue High Speed Internet for our membership and a couple of other cooperative service territories next to us.

In 2007, LREC began the Operation Round-Up program that allows members to round up their monthly bill to the nearest dollar and pool those pennies to assist individuals and community organizations in need.

Since 1955, LREC has sponsored the National Youth Tour for high school juniors. This program sends students to Washington, D.C., to learn more about the government and how it affects cooperatives. We also have a program called the Touchstone Energy Leadership Summit for high school students who receive a college scholarship for attending the motivational workshop.

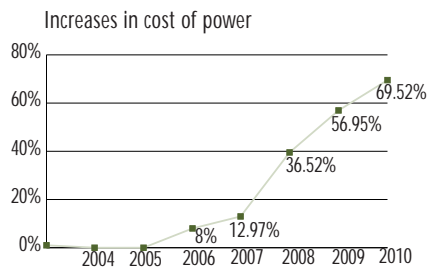
For the younger students we have the Youth Energy Camp for eighth graders where they learn the workings of a cooperative by forming their own Coke and Candy Cooperative. Several years ago, Oklahoma cooperatives became involved with the Oklahoma Special Olympics program. LREC sends employees to help with the coordination of the games in Stillwater each May. The Oklahoma Electric Cooperative’s group is the largest volunteer group at the games each May.

You may ask why your electric company would be involved in so many activities other than selling electricity. The reason is that LREC is a part of the communities it serves, and we remember the years before 1949 when the area didn’t have electric service. By being involved in the community, we can see the needs of our members and respond to those needs with products and services to make rural life as comfortable as it is for urban communities.

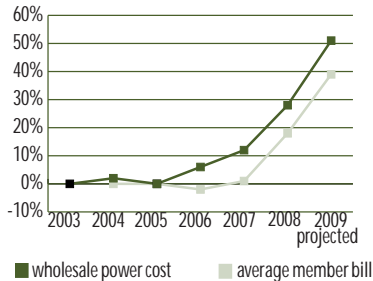
– Gary Cooper, president, LREC

System profile

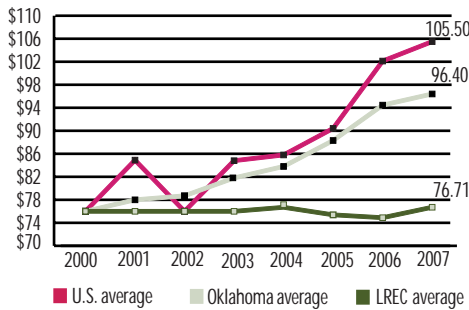
- » electric cooperative established 59 years ago by area residents to electrify their rural communities
- » owned by those who receive its service
- » democratically controlled and governed by its customer-owners, also called members
- » powers 23,563 homes and businesses
- » serves a 300-square-mile seven-county area in Northeastern Oklahoma — Wagoner, Mayes, Cherokee, Rogers, Muskogee, Delaware and Adair counties
- » maintains and operates 2,983 miles of distribution line
- » employs 74 full- and part-time workers
- » hires and contracts locally
- » headquartered in Hulbert with offices in Wagoner and Tahlequah



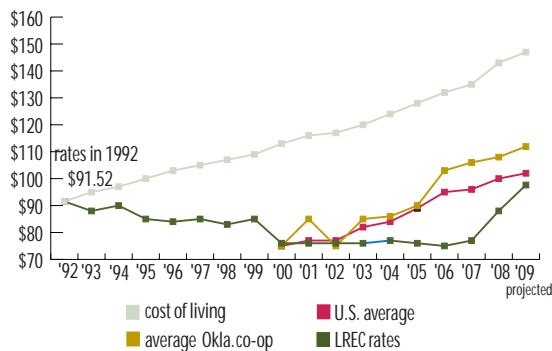
Percent of increase in wholesale power cost compared to percent of increase in member bills



Revenue per 1,000 kWh sold (average monthly residential bill) -LREC ranked 23 out of 26 in Oklahoma



Member rates as compared to inflation and other co-ops



This chart shows the average member rates since 1992 and compares it with increases in the cost of living (Consumer Price Index) and the average electric bills for Oklahoma and the U.S. for the same period. If LREC rates had increased at the same rate of inflation, the average monthly bill in 2008 would have been \$143 (2009 numbers are projections).

Among the Most Affordable in the State

Every year brings its own set of challenges and opportunities, and 2008 was not any different. Even though the ice storms gave us a break during 2008 and skipped LREC service territories, we were challenged by a couple of tornadoes during April and May that caused some damage to our facilities.

The tornado event in April of 2008 was declared a disaster by Federal Emergency Management Agency. As the weather events continue to escalate, we gain new expertise in how to deal and respond to these challenges. LREC continues to pursue new technologies to assist in better serving our members in these difficult times.

On the financial front, the cost of materials and supplies continued to escalate in 2008 as it has for the past several years. The largest single expense for LREC is the cost of electricity that we purchase, which is more than 60 percent of our expenses. LREC's wholesale power cost increased by 8 percent in April of 2006, 4 percent in April of 2007 and 23 percent in April of 2008. It will increase by more than 4 percent in April of 2009.

There are additional forecasted increases in the cost of electricity we buy for the years 2010 and 2011 and beyond. The increases in the cost of electricity so far have been due to the increases in the cost of natural gas, coal, rail transportation and environmental requirements on coal generation units.

Our power supplier, Associated Electric Cooperative Inc., is among the most competitive generators of electricity nationwide. Even after the rate increases mentioned above, it continues to be our best power supply option. AECI has projected member energy and demand growth of 2 percent a year for the next ten years — about 100 megawatts a year or the equivalent of 30,000 homes a year.

AECI plans to meet this growing member energy requirement by promoting the efficient use of energy and pursuing renewable energy opportunities such as wind. AECI is currently operating wind farms as a part of their energy mix and is examining some wind options for the future. It will continue to look at gas, renewable and nuclear resources to address future generation needs.

The biggest challenge facing us in the future is the load growth, availability of credit and funding for new power plants and the environmental constraints on the new and existing generation as it relates to the “climate change” legislation. This is a much bigger issue and requires a more informed and reasonable decision making process within the nation. In the past few years, several pieces of legislation were discussed that dealt with carbon dioxide emissions from power plants and automobiles. Issues regarding taxing carbon dioxide or placing a cap on the production of it and buying and trading carbon permits have been discussed.

President Obama has recommended both carbon tax and the cap and trade system. A carbon tax could range from \$20 to \$50 per ton. What this means for us is that a \$20 per ton carbon tax will increase the average rate to our members by \$28 per month and a \$50 tax would increase it by \$80 per month. It is important that our legislators are aware of the price tag on any climate change legislation and that they consider the affordability of electricity in the nation’s

rural areas. It is the matter of being able to keep the lights on.

Oklahoma, in general, and LREC members especially, have been enjoying low electric rates that are below the national average. Increases in the electric rates are unavoidable in 2010 and beyond due to increases in the cost of energy, such as coal and natural gas and escalating costs of building new power plants. However, because all other co-ops in Oklahoma are facing the same issues in the rising cost of electricity, we believe that LREC will continue to be able to provide the most competitive rates in rural Oklahoma.

LREC makes a difference because we are different. We are member-owned and locally operated. As members you have a voice in how the cooperative is run because you elect the board of directors. We are accountable to you and not to distant stockholders. Our rates cover the cost of doing business and are not marked up to generate profit. And finally, we give money back to you, our members, when revenues exceed costs.



Hamid Vahdatipour
chief executive officer

“Increases in the electric rates are unavoidable in 2010 and beyond due to increases in the cost of energy, such as coal and natural gas and escalating costs of building new power plants. ... LREC will continue to provide the most competitive rates in rural Oklahoma.”

A Strong Financial Performance

Lake Region Electric Cooperative's sound fiscal condition has allowed the cooperative to keep rates steady from 1997 to late 2007. In fact, by 2007 our rates were among the lowest in Oklahoma and were nearly 10 percent lower than they were in 1992.

Due to its strong financial position, LREC was able to absorb the increases in wholesale power costs as well as the increased costs of fuel, operation and maintenance in 2006 and most of 2007. Although LREC will continue to provide the most competitive rates in rural Oklahoma, it will not be able to absorb these costs in the future.

LREC's wholesale power cost increased by 8 percent in April of 2006, 4 percent in April of 2007 and by 23 percent in April of 2008. Anticipating a demand growth of about 100 megawatts a year for the next 10 years, Associated Electric Cooperative Inc., LREC's power supplier, also projects increases for 2009 and 2011.

In 2008, wholesale power costs were 61.52 percent of LREC's total revenue, up from 55 percent in 2007, while sales rose .87 percent.

Member equity decreased during the past year, but the cooperative managed to return \$201,349 in capital credits to members, bringing the total amount refunded to the membership to over \$13,151,536 million.

Lake Region has a strong record for reliability and affordability. After not having any major ice storms, Lake Region's outage hours per meter decreased in 2008.

LREC can't hold rates at low levels indefinitely while wholesale power and all other costs continue to rise, but the co-op's administration and management can promise sound policy, careful budgeting, effective cost controls and strenuous oversight to keep rates as low as possible.

The firm of Briscoe, Burke & Grigsby LLP, Certified Public Accountants, audited the cooperative's financial statements for the year ending Dec. 31, 2008. Their opinion report and audited statements, included in this report, display Lake Region's strong financial performance.

– Jim Loftin, secretary-treasurer, LREC

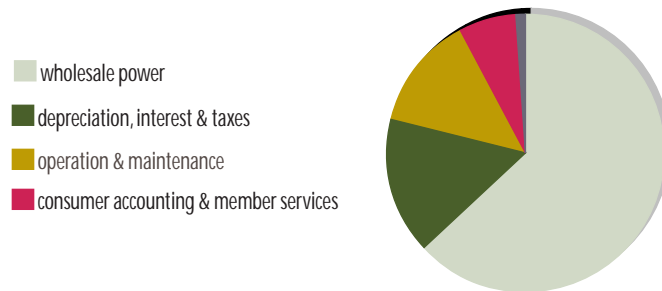
System growth, maintenance and reliability

- » maintains and operates 3,000 miles of distribution line
- » upgraded 1 mile of existing lines
- » changed out 276 poles
- » increased active meters by 8
- » cleared 150.09 miles of right-of-way
- » built 21 miles of new line
- » added 669 new services

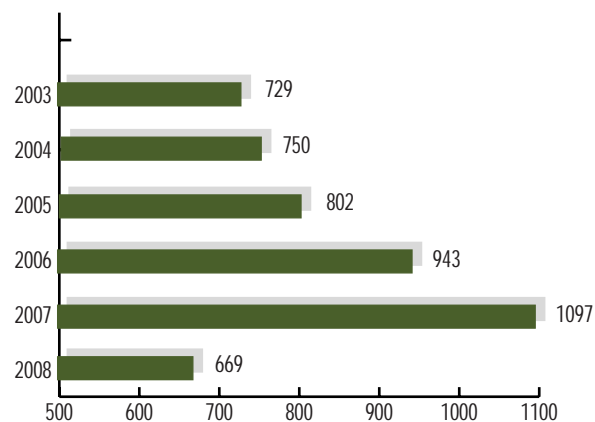
Financial highlights

- » Members' ownership percentage (equity) decreased from 54.55 to 51.48 percent
- » \$201,349 in capital credits returned, bringing the total amount refunded to the membership to \$13,357,885
- » 61.5 percent spent on wholesale power
- » 12.95 percent on fixed cost
- » 15.39 percent on operation and maintenance
- » 6.44 percent on administrative, consumer accounting and member services
- » 3.747 outage hours with storms included
- » .87 percent increase in sales over 2006
- » 43.608 percent average load factor

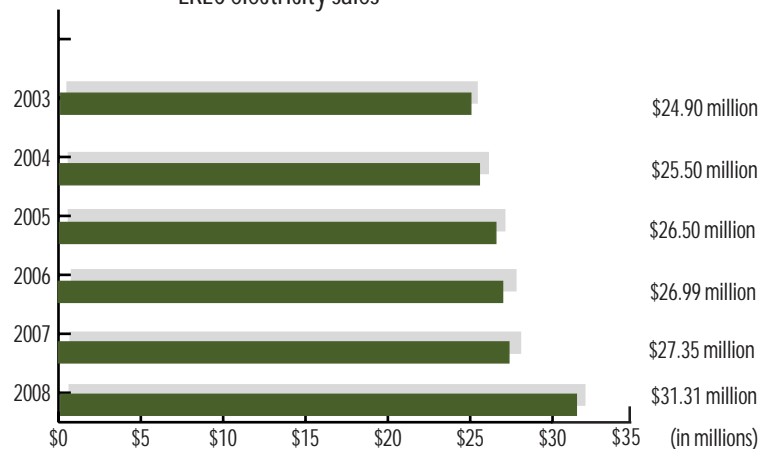
LREC operating expenses



New LREC services connected



LREC electricity sales





Gary Cooper,
president



Bobby Mayfield,
vice-president



Jim Loftin,
secretary-treasurer



Jack Teague, assistant
secretary-treasurer



Kenneth Shankle,
member



Lynn Lamons,
member



John Hopkins,
member

Board of Directors

The owners, also called members, of Lake Region Electric Cooperative are those who receive electrical service from the utility. Co-op members pay a onetime \$5 membership fee.

Co-op membership has its rewards. As a nonprofit utility, Lake Region Electric returns capital surpluses — the money left over after expenses — to its members in the form of capital credits. In 2008, Lake Region refunded \$201,349 to members. Returning profits to its members sets a cooperative apart from municipal or investor-owned utilities.

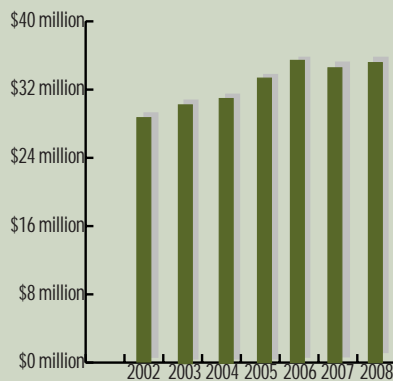
Those who receive electricity services from Lake Region Electric Cooperative own and control it through the democratic process. All members, regardless of how much electricity they buy, have an equal voice in the outcome of the elections — one vote per member. This cooperative way of doing business prevents a small wealthy or outspoken group from controlling the utility.

A Lake Region member's primary responsibility is to attend a cooperative meeting once each year to vote for trustees and important bylaw changes. LREC holds its annual meeting of the membership the last Saturday in April. The annual meeting is the co-op's opportunity to bring members up to date and the members opportunity to talk with trustees and employees.

Members elect seven cooperative members to serve as trustees governing the cooperative. Each trustee serves a three-year term and may seek to be elected an additional term. The board of trustees establishes policy for the cooperative, hires the chief executive officer, who oversees the daily operations, monitors cooperative finances, reviews policies and procedures and represents the cooperative in legislative matters.

The board meets monthly at the co-op offices in Hulbert to discuss issues requiring action by the cooperative. Trustees work in special committees and are required to attend workshops and conferences to further educate themselves about electric cooperatives.

LREC member equity
(members' ownership in dollars)





2008 Operation Round Up recipient



Wagoner Special Olympians, 2008 Operation Round Up recipients



2008 YouthPower Energy Camp winners



2008 National Youth Tour winners, teacher



Stanley Young, right, director of marketing

Member Services and Products

The free **Home Energy Audit** is a thorough and careful evaluation of a home's energy efficiency. Lake Region Electric's trained professional auditor inspects the air conditioner, heater, water heater and insulation in attics and air leakage around doors and windows.

Cash Rebates are available for installing approved, energy efficient electric equipment.

Electro-Check automatic bill paying service makes paying the monthly bill easy.

Budget Billing, an average monthly payment plan free to any qualifying member, helps avoid higher seasonal billings and is particularly useful for members on fixed incomes or limited budgets.

Trade-A-Tree replaces trees that must be removed due to their proximity to power lines.

The **EC Home™ Loan Program** offers affordable interest rates, a variety of financing choices, low down payment options and helps in selling a house or planning a move.

P.A.M.S., a prepaid account management system, requires no deposit and allows individuals to prepay their electric bills and manage their electric use.

Surge protection and battery backup systems to safeguard against naturally caused surges and power outages are available for purchase through the coopera-

tive. This protection can save household appliances and data stored on electronic equipment.

Installation and maintenance of **yard lights**, including **decorative lights**, and business **parking lot lights** offer security to those members who require outdoor areas to be well-lit.

LREC sponsors three annual **youth leadership programs**, the Touchstone Energy® Leadership Summit, the Youth Energy Camp for eighth graders and the National Youth Tour for high school juniors, and helps support Oklahoma's Special Olympic Summer Games.

LREC conducts **safety education programs** for schools and other civic groups and holds a free **health fair** each year at annual meeting.

LREC offers **Wildblue satellite speed Internet** and **DirecTV satellite television** for members who do not have cable and DSL lines available.

LREC began a new community assistance program, called **Operation Round Up**, in 2007.

Operation Round Up is a voluntary program that "rounds up" participating members' electric bills to the nearest dollar. For under \$12 a year — with the average amount \$6 — LREC members are able to make significant donations to their communities.

While each member contributes only a few pennies each month, those pennies added with the contributions of other cooperative members build charitable funds quickly.

LREC places these funds in an account separate from the cooperative's called the LREC Foundation, which is also governed by a separate board of directors. It is a not-for-profit foundation created to receive and disperse funds for Operation Round Up in LREC's service area.

Lake Region is offering rebates to members with **"Take Control and Save,"** a program that pays for installing energy efficient appliances.

Lake Region rebates room air conditioners, clothes washers, dishwashers, ground source heat pumps, air source heat pumps and Marathon water heaters and then applies the refunds to members' electric bills.

Lake Region sells and installs the **GenerLink collar** behind the electric meter. GenerLink allows consumers to easily and safely connect a portable generator to their home without rewiring. GenerLink automatically disconnects the house or business from the co-op's electric grid, preventing the possibility of back-feeding and keeping utility voltage from entering the generator. The device also allows homeowners to change the appliances they operate simply by switching the breakers on their household circuit panel.

Statements of revenue and patronage capital

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues	<u>\$ 31,307,268</u>	<u>\$ 27,349,149</u>
Operating expenses:		
Cost of power	19,262,080	15,859,692
Distribution expense - operations	1,784,063	2,268,054
Distribution expense - maintenance	3,054,204	2,004,473
Consumer accounts expense	1,247,332	1,168,491
Customer service and information	186,850	180,308
Administration and general	2,016,886	1,977,753
Depreciation and amortization	1,984,974	1,938,816
Taxes	620,737	535,583
Interest on long-term debt	1,258,414	1,378,869
Other interest and deductions	<u>191,963</u>	<u>96,478</u>
Total operating expenses	<u>31,607,503</u>	<u>27,408,517</u>
Net operating margins	<u>(300,235)</u>	<u>(59,368)</u>
Nonutility revenue	<u>544,409</u>	<u>542,749</u>
Nonutility expenses:		
Nonutility cost of goods sold	143,041	137,655
Nonutility operating and general expense	<u>417,435</u>	<u>375,497</u>
	<u>560,476</u>	<u>513,152</u>
Net nonutility margins	<u>(16,067)</u>	<u>29,597</u>
Non operating margins:		
Interest and dividend income	53,134	74,376
Wildblue income(expense)	133,887	46,415
Other income	75,121	35,073
Gain (Loss) on sale of equipment	<u>(25,228)</u>	<u>54,325</u>
Total nonoperating margins	<u>\$ 236,914</u>	<u>\$ 210,189</u>

Statements of revenue and patronage capital

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Capital credits:		
Generation and transmission cooperative capital credits	\$ 679,224	\$ 354,998
Other capital credits and patronage capital	<u>301,917</u>	<u>239,860</u>
Total capital credits	<u>981,141</u>	<u>594,858</u>
Net margins before income taxes	901,753	775,276
Provision for income tax:		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
Net margins for year	901,753	775,276
Patronage capital - beginning of year	34,448,565	34,547,885
Retirement of patronage capital	<u>(195,854)</u>	<u>(874,596)</u>
Patronage capital - end of year	<u><u>\$ 35,154,464</u></u>	<u><u>\$ 34,448,565</u></u>

Consolidated Balance Sheets

For the Years Ended December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 76,246,140	\$ 72,744,961
Construction work in progress	<u>1,383,523</u>	<u>444,198</u>
	77,629,663	73,189,159
Less accumulated provision for depreciation and amortization	<u>23,615,494</u>	<u>22,816,243</u>
Net utility plant	<u>54,014,169</u>	<u>50,372,916</u>
Nonutility plant (Note 2)		
Nonutility plant	3,474,960	3,437,894
Less accumulated depreciation	<u>956,470</u>	<u>836,955</u>
Net nonutility plant	<u>2,518,490</u>	<u>2,600,939</u>
Other assets:		
Investments in associated organizations (Note 3)	10,254,298	9,580,569
Other long-term investments (Note 12)	<u>254,791</u>	<u>251,499</u>
Total other assets	<u>10,509,089</u>	<u>9,832,068</u>
Current assets:		
Cash - general fund	539,922	442,193
Accounts receivable - less allowance for doubtful accounts: 2007 - \$60,274; 2006 - \$82,992	4,238,270	3,087,232
Materials and supplies - at average cost	1,015,821	727,431
Other current and accrued assets	<u>204,273</u>	<u>200,034</u>
Total current assets	<u>5,998,286</u>	<u>4,456,890</u>
Deferred charges (Note 4)	<u>17,477</u>	<u>28,163</u>
Total other assets	<u>17,477</u>	<u>28,163</u>
TOTAL ASSETS	<u><u>\$ 73,057,511</u></u>	<u><u>\$ 67,290,976</u></u>

Consolidated Balance Sheets

For the Years Ended December 31, 2008 and 2007

LIABILITIES and MEMBERS' EQUITY	<u>2008</u>	<u>2007</u>
Equities and margins		
Memberships	\$ 94,550	\$ 94,240
Patronage capital (Note 5)	35,154,464	34,448,565
Other equities (Note 6)	<u>1,302,800</u>	<u>1,233,762</u>
Total equities and margins	<u>36,551,814</u>	<u>35,776,567</u>
Long-term liabilities:		
Long-term debt less current maturities (Note 7)	21,073,474	22,214,185
Other non-current liabilities (Note 11)	<u>2,883,018</u>	<u>2,691,726</u>
Total long-term liabilities	<u>23,956,492</u>	<u>24,905,911</u>
Current liabilities		
Current maturities of long-term debt (Note 7)	1,138,234	1,096,829
Line of credit	5,350,000	250,000
Accounts payable	2,778,047	2,092,621
Consumer deposits	1,118,860	1,081,470
Other current and accrued liabilities	<u>1,495,647</u>	<u>1,406,897</u>
Total current liabilities	<u>11,880,788</u>	<u>5,927,817</u>
Deferred credits (Note 8)	<u>668,417</u>	<u>680,681</u>
Contingent liabilities (Note 9)	<u>-</u>	<u>-</u>
TOTAL LIABILITIES and MEMBERS' EQUITY	<u><u>\$ 73,057,511</u></u>	<u><u>\$ 67,290,976</u></u>

Independent Auditor's Report

For the Years Ended December 31, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007 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.

Burton, Burke & Ginsberg L.L.P.

Consultants

- » ATTORNEY, Tina Glory-Jordan
- » ENGINEERING CONSULTANTS, Electrical Systems Consultants, Ft. Collins, Colo.
- » COST OF SERVICE & RATE CONSULTANTS, C.H. Guernsey & Associates, Oklahoma City, Okla.
- » FINANCIAL CONSULTANT, National Rural Utilities Cooperative Finance Corporation (CFC), Herndon, Va.
- » GENERAL CONSULTANTS, National Rural Electric Cooperative Association (NRECA) Arlington, Va.
- » POWER SUPPLIER, KAMO Power, Vinita, Okla.

Contact information

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1-800-364-LREC or 1-918-772-2526
fax: 1-918-772-2528
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Lake Region Electric Cooperative, Inc. is an Equal Opportunity Employer. The person responsible for coordinating this organization's nondiscrimination compliance efforts is Stanley R. Young, director of marketing. Any individual or specific class of individuals who feels that this organization has subjected them to discrimination may obtain further information about the statutes and regulations listed above, and/or file a written complaint with this organization. Confidentiality will be maintained to the extent possible.



www.lrecok.coop