



LOOKING OUT FOR YOU *2010 Annual Report*

AFFORDABLE | INNOVATIVE | MEMBER FOCUSED

BOARD PRESIDENT & CHIEF EXECUTIVE OFFICER REPORT



Cooperatives are different from other businesses you deal with. We're different because we're Looking Out for You. And now,

more than ever, that's important because we need to work together to keep your electric bills AFFORDABLE.

As you've probably heard, Congress did not pass a comprehensive climate bill last year. This January the U.S. Environmental Protection Agency began regulating greenhouse gasses—an action made possible by a 2007 Supreme Court decision, followed by rulings allowing the EPA to use the Clean Air Act to curb carbon emissions. Policies dealing with coal ash, even more stringent controls on other power plant emissions, and state renewable energy requirements could also lead to higher costs.

It's hard to predict the future, but one thing seems certain: government regulations are going to INCREASE the cost of doing business. And new regulations won't be the only culprit. Prices for fuel, materials, and equipment will continue to rise. And although the recent economic slump and corresponding drop in electricity use has provided some much-needed breathing room, soon we will need to build new power plants, which require a long-term and significant investment of time and money.

Your board of directors is committed to keeping you informed about policy changes that will impact your electric bill. Make sure you know the latest by reading our newsletter, PowerLine Press, which you receive inside Oklahoma Living Magazine.

Remember, we're Looking Out for You.

Some things are out of our hands, but we have a few tricks up our sleeves as we look for ways to control costs through INNOVATION.

Our energy efficiency programs help you manage your energy use. In 2009 we joined Touchstone Energy Cooperatives across the nation to debut a new website, TogetherWeSave.com. Whether you're sealing your air ducts, replacing old appliances, or improving your home's insulation, it's amazing to watch how the little changes can add up to big savings on your electric bill. Co-op members have found ways to save more than \$21 million dollars using this

valuable tool. We also offer home energy audits to make sure you're getting the best value out of the energy you use every month.

Deploying state-of-the-art solutions like our advanced metering infrastructure system, which allows us to pinpoint outages and reroute power when needed, helps us control operating costs and improve service reliability. More than 23,000 smart meters have been installed across our system. We completed our smart metering project a few years ago. This investment has cut our operational costs not only during outages but throughout our day-to-day operations. New technology helps us keep your electric bills affordable and reduces our environmental impact.

But we're not only using new technology for distributing power—we're using it to help us harness new methods of power generation. Nationally cooperatives are meeting members' power needs with a diverse fuel mix, including renewable energy.

Whether it is energy efficiency programs, a smarter grid, or renewable energy investments, we're controlling costs through innovation because we want to be good stewards of the resources you've placed with us. We're Looking Out for You.

We're AFFORDABLE, INNOVATIVE and above all else, we're MEMBER FOCUSED.

Every year we continue to put you, our members, FIRST. We're locally owned and controlled by YOU. That's why this business meeting every year is so important. Today is your chance to vote on the direction you want your Cooperative to take, and you're electing fellow members to our board of directors to represent your best interests.

Costs are rising for all of us, but when it comes to your electric bill our rates are set simply to cover the cost of doing business, NOT to generate profits for distant stockholders. In fact, as a not-for-profit organization, we give money BACK to you when our revenues exceed costs. I'm proud to report that in 2010 we returned over 553,000 to our members in the form of capital credits. These monies were returned in the form of checks or credit on your electric bill in December of 2010. These rebates can add up, especially for groups like the Wagoner Board of Education. They received a check for \$90,592.06—not a bad return on investment.

Since you control your Lake Region Electric Cooperative, we're accountable to you and dedicated to assisting our community, especially during tough economic times. No matter how dark the nation's economy may seem, opportunities should

still be available to the young people in our community. That's why we're proud to continue our support of the Rural Electric Youth Tour Program. Last summer we sent three high school seniors-to-be to our nation's capital to learn about leadership, teamwork, electric co-ops, and the ideals our nation was founded on.

To support local businesses and help you save on daily expenses, we provide the Co-op Connections Card. Not only can you use your card to save money at places like Backwoods Food Mfg. Inc. and Clyde's Automotive & Tire, but you can use it at pharmacies in Walmart, Target, and a host of other locations to save money on your medications. This card has saved Lake Region Electric Cooperative members \$12,667 in 2010 prescription cost.

Our employees live and work in your community, and are strong supporters of our school system and community programs. But we don't stop there. We work together with you, our members, on efforts like Operation Round-Up, which donated to Tahlequah, Wagoner, Hulbert and Keys public schools for various programs such as; Special Olympics, Graduation Nights and other building and equipment needs. Groups like Blue Star Mothers, Food Pantries, 4-H Clubs and many other community organizations were also the recipients of Operation Round-Up funds last year. You, working with other members in our community, have donated more than \$326,000 since the program began in 2007. On behalf of the people whose lives have been changed through your generosity, THANK YOU.

As you can see, we're different. We're working together to keep your electric bills AFFORDABLE. We're controlling costs through INNOVATION. We're continuing to put you, our members, FIRST.

No matter what the future brings, one thing is certain. We're Looking Out for You.

Gary Cooper
Gary Cooper
LREC Board President

Hamid Vahdatipour
Hamid Vahdatipour,
Chief Executive Officer

BOARD OF DIRECTORS

They live in your neighborhoods, shop in your stores and receive monthly bills from Lake Region Electric Cooperative, just like you. Meet your board of directors – 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't find anywhere but a cooperative. Since you elect the board representatives, you have a voice in how your electric company is run.

Gary Cooper



Bobby Mayfield



Jim Loftin



Jack Teague



Kenneth Shankle



Lynn Lamons



Scott Manes



Consultants

Attorney, Tina Glory-Jordan

Cost of Service & Rate Consultants,

C.H. Guernsey & Associates,
Oklahoma City, Oklahoma

Financial Consultant, National Rural Utilities Cooperative Finance Corporation (CFC)
Herndon, Virginia

General Consultant, National Rural Electric Cooperative Association (NRECA)
Arlington, Virginia

Power Supplier, KAMO Power,
Vinita, Oklahoma

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

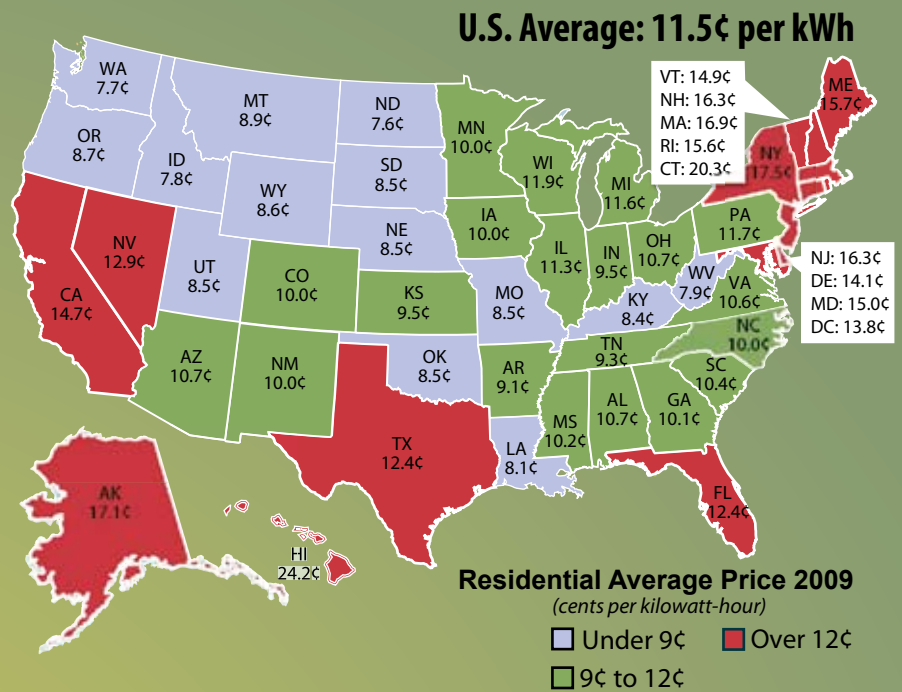
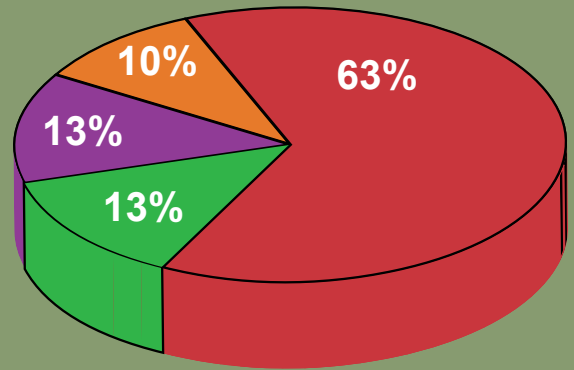
Consolidated Statements of Revenues and Patronage Capital

For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues	\$ 38,200,464	\$ 35,191,844
Operating expenses:		
Cost of power	22,668,591	21,580,607
Distribution expense - operation	1,571,243	2,251,872
Distribution expense - maintenance	3,208,708	3,266,923
Consumer accounts expense	1,262,950	1,535,164
Customer service and information	228,152	244,080
Administration and general	2,171,282	2,461,071
Depreciation and amortization	2,130,732	2,063,715
Taxes	780,181	765,950
Interest on long-term debt	1,524,632	1,328,481
Other interest and deductions	61,475	301,675
Total operating expenses	35,607,946	35,799,538
Net operating margins	2,592,518	(607,694)
Nonutility revenue	667,119	649,875
Nonutility expenses:		
Nonutility cost of goods sold	132,380	133,153
Nonutility operating and general expense	463,692	422,551
	596,072	555,704
Net nonutility margins	71,047	94,171
Non operating margins:		
Interest and dividend income	65,459	46,453
Wildblue net margins	193,813	159,869
Other income	108,959	106,645
Gain (Loss) on sale of equipment	27,082	(3,839)
Total nonoperating margins	\$ 395,313	\$ 309,128

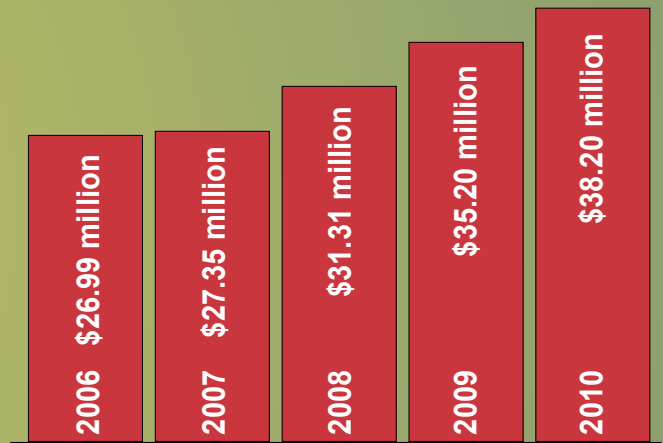
LREC Operating Expenses

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



Source: U.S. Energy Information Administration

LREC Electricity Sales



LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Revenues and Patronage Capital

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Capital credits:		
Generation and transmission cooperative capital credits	\$ 1,260,330	\$ 1,728,874
Other capital credits and patronage capital	<u>340,171</u>	<u>291,308</u>
Total capital credits	<u>1,600,501</u>	<u>2,020,182</u>
Net margins before income taxes	4,659,379	1,815,787
Provision for income tax:		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
Net margins for year	4,659,379	1,815,787
Patronage capital - beginning of year	36,723,968	35,154,464
Retirement of patronage capital	<u>(553,765)</u>	<u>(246,283)</u>
Patronage capital - end of year	<u>\$ 40,829,582</u>	<u>\$ 36,723,968</u>

LAKE REGION ELECTRIC COOPERATIVE OFFICE LOCATIONS



Tahlequah Branch Office



Hulbert Main Office



Wagoner Branch Office

Capital Credits

Electric cooperatives exist to provide members with reliable electric service and high satisfaction. Investor-owned utilities, on the other hand, 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 retirement represents your share in the margins of the cooperative.

At Lake Region Electric Cooperative we do business simple, we put YOU first. As member-owners, you own this company and you are the basis of what being a cooperative is all about. Your strength and commitment to Lake Region Electric Cooperative is vital in helping us achieve our goals: to keep energy affordable and reliable and to provide value to you over and above the low-cost energy we deliver to your home or business. Instead of focusing on generating profits like businesses controlled by shareholders, your elected board of directors, made up of members just like you, is able to steer Lake Region Electric Cooperative in a responsible direction, ensuring that you receive the highest value for your energy dollars. The ability

to return our margins to members in the form of Capital Credits each year reflects Lake Region Electric Cooperative's strength and financial stability. In 2010, Lake Region Electric Cooperative distributed a total of \$553,765 to current and former members in the form of capital credit retirements for the year of 2010. Capital Credits are typically allocated in September and retired (paid) in December (subject to board approval). Capital Credit distribution is one of the basic underlying principles of the cooperative business model, so the integrity of the process is critical to preserving our members' trust. As a member-owned cooperative, we are here to serve you.



LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 81,834,640	\$ 79,383,455
Construction work in progress	702,144	1,091,518
	<u>82,536,784</u>	<u>80,474,973</u>
Less accumulated provision for depreciation and amortization	<u>25,714,152</u>	<u>24,681,473</u>
Net utility plant	<u>56,822,632</u>	<u>55,793,500</u>
 Nonutility plant (Note 2)		
Nonutility plant	3,876,133	3,817,085
Less accumulated depreciation	<u>1,198,547</u>	<u>1,071,164</u>
Net nonutility plant	<u>2,677,586</u>	<u>2,745,921</u>
 Other assets:		
Investments in associated organizations (Note 3)	13,086,906	11,817,089
Other long-term investments (Note 12)	<u>144,327</u>	<u>223,769</u>
Total other assets	<u>13,231,233</u>	<u>12,040,858</u>
 Current assets:		
Cash - general fund	1,132,594	2,919,776
Accounts receivable - less allowance for doubtful accounts: 2010 - \$53,466; 2009 - \$19,943	6,226,978	5,125,892
Materials and supplies - at average cost	532,456	594,773
Other current and accrued assets	<u>184,820</u>	<u>699,716</u>
Total current assets	<u>8,076,848</u>	<u>9,340,157</u>
 Deferred charges (Note 4)	<u>5,152</u>	<u>7,364</u>
Total other assets	<u>5,152</u>	<u>7,364</u>
TOTAL ASSETS	<u><u>\$ 80,813,451</u></u>	<u><u>\$ 79,927,800</u></u>

Financial Highlights

\$553,765 in Capital Credits were returned in 2010 bringing the total amount refunded to the membership to \$14,157,933.

63 percent of operating expenses spent on purchased wholesale power.

Total kWh sales for 2010 were 401,890,927 Total sales in 2009 were 366,668,566. This is a 9.6 percent increase from last year.

Operation & Maintenance expenses in 2010 had a 15 percent decrease from 2009.

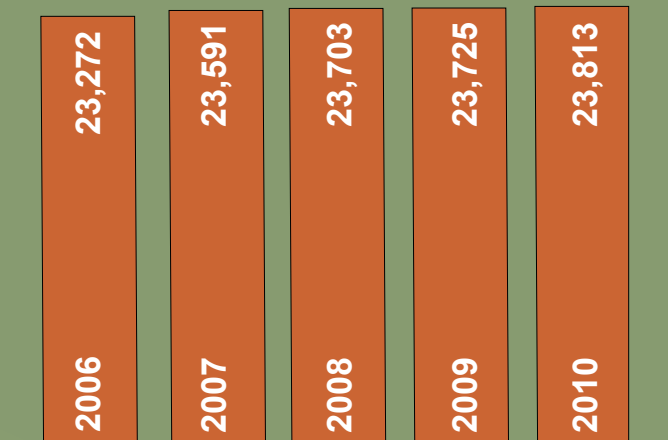
Administrative & general expenses have increased by 12 percent from 2009 and is under budget.

LREC is spending up to 47 percent of the total operation and maintenance expenses on vegetation management and tree trimming (right-of-way).

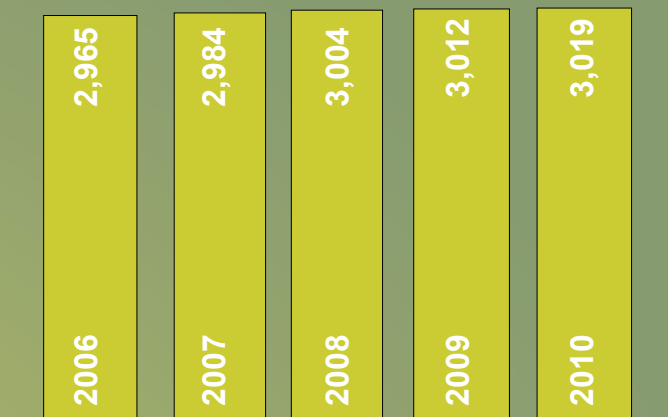
LREC has over 23,670 consumers and 69 full time employees.

2010 margins from sales of electric was \$2,592,518 compared to 2009 (\$-607.694).

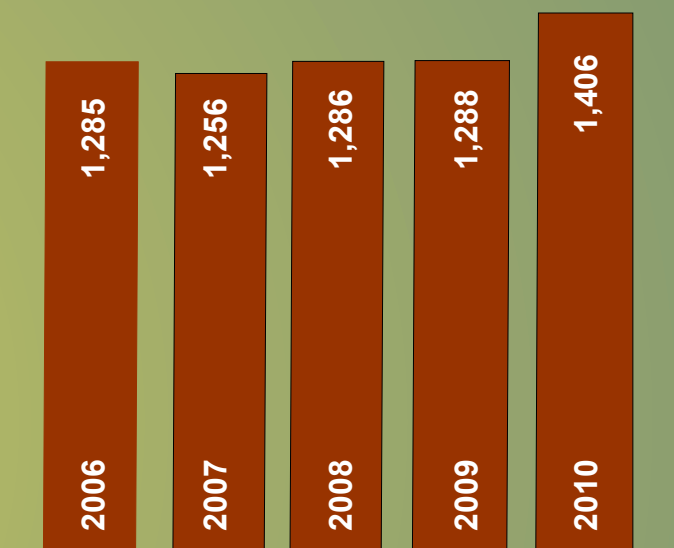
Statistics Over 5-Year Period



Average Number of Meters



Miles of Line



Average kWh per Month per Consumer

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

December 31, 2010 and 2009

LIABILITIES and MEMBERS' EQUITY	<u>2010</u>	<u>2009</u>
Equities and margins		
Memberships	\$ 95,555	\$ 94,920
Patronage capital (Note 5)	40,829,582	36,723,968
Accumulated other comprehensive income	(341,048)	475,114
Other equities (Note 6)	<u>754,057</u>	<u>746,796</u>
 Total equities and margins	 <u>41,338,146</u>	 <u>38,040,798</u>
 Long-term liabilities:		
Long-term debt less current maturities (Note 7)	26,749,851	28,419,534
Other non-current liabilities (Note 11)	<u>4,037,905</u>	<u>3,073,044</u>
 Total long-term liabilities	 <u>30,787,756</u>	 <u>31,492,578</u>
 Current liabilities		
Current maturities of long-term debt (Note 7)	1,667,657	1,560,421
Accounts payable	2,898,122	5,129,266
Consumer deposits	1,610,691	1,380,997
Other current and accrued liabilities	<u>1,659,182</u>	<u>1,530,526</u>
 Total current liabilities	 <u>7,835,652</u>	 <u>9,601,210</u>
 Deferred credits (Note 8)	 <u>851,897</u>	 <u>793,214</u>
 Contingent liabilities (Note 9)	 <u>-</u>	 <u>-</u>
 TOTAL LIABILITIES and MEMBERS' EQUITY	 <u>\$ 80,813,451</u>	 <u>\$ 79,927,800</u>

Independent Auditor's Report

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, 2010 and 2009, 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such 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, 2010 and 2009 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 March 19, 2011, 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.

Certified Public Accountants
March 19, 2011
Tulsa, Oklahoma

Board Treasurer Update

I am pleased to present the 2010 financial results for Lake Region Electric Cooperative. The cooperative's 2010 financial statements were audited by Briscoe, Burke & Grigsby, LLP Certified Public Accountants. In the opinions, the 2010 financial statements present fairly, in all material respects, the financial position and results of operation for Lake Region Electric Cooperative and the LREC Foundation in conformity with generally accepted accounting principles.

Jim Loftin
Secretary/Treasurer, Board of Trustees

Looking out for you



Lake Region Electric Cooperative

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