

2012 Annual Report



Lake Region Electric Cooperative, Inc.

Board of Trustees

Gary Cooper



Bobby Mayfield



Jim Loftin



Jack Teague



Randall Shankle



Lynn Lamons



Scott Manes

Take a moment to get to know your board.

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.

This 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.

Consultants

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

Board President & Chief Executive Officer Report

On the financial front.....



Every year brings its own set of challenges and opportunities and 2012 was not any different. We were fortunate that 2012 did not bring any severe weather events such as ice storms and tornadoes. These sorts of weather events cause tremendous financial restraint and tax our resources. However, 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. The break in severe weather in 2012 gave us an opportunity to recover, yet explore other ways to serve our membership. On the other hand the mild temperatures during the summer and winter of 2012 meant fewer kilowatt hours of electricity sold and with that came less revenues available to cover the ever rising cost of materials and supplies.

On the financial front, the cost of materials and supplies continued to escalate in 2012 as it has been doing for the past several years. The largest single expense item for LREC is the cost of electricity that we purchase, which is about 65% of our expenses. LREC's purchased power cost increased by 1.6% in 2012. There are additional forecasted increases in the cost of electricity we buy for the years 2013 and 2014 and beyond. The increases in the cost of electricity so far have been due to the increases in the costs of coal purchase, rail transportation, and environmental requirements on coal generation units.

Our power supplier, Associated Electric Cooperative, Inc., (AECI) is among the most competitive generators of electricity nationwide, even after the rate increases mentioned above they continue to be our best power supply option. AECI has projected member energy and demand growth of 2% a year for the next ten years – about 100 megawatts a year or equivalent of 30,000 homes a year. They are well situated to meet this growing member energy requirement by promoting the efficient use of energy and pursuing a balanced approach to the new sources of energy including 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. AECI 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. It is important that our legislators are aware of the price tag on any “Climate Change” legislation and 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 2013 and beyond due to increases in the cost of energy, such as coal 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.

We cannot predict the future, but one thing is certain, the need to communicate and transmit data is becoming more important every year. Whether it is the need for the smart grid for cooperatives or access to the internet by our members. Cooperatives brought electricity to the rural area in the 30s, they may have to step up and bring broadband access to members in this age of technology. In the future we will continue to be vigilant in exploring other needs and opportunities that would make LREC stronger and our members more satisfied. LREC makes a difference because we are different. We are member-owned and locally operated. 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.

Board President

Gary Cooper

Chief Executive Officer

Hamid Vahdatipour

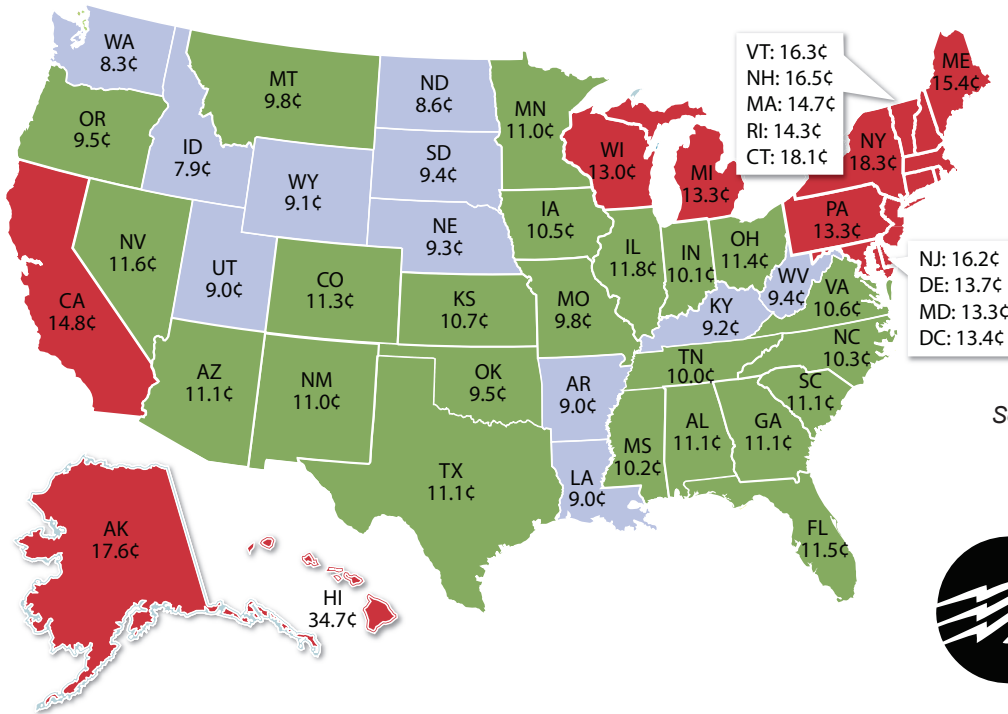
LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 36,648,330	\$ 37,861,806
Operating expenses:		
Cost of power	22,932,749	23,501,993
Distribution expense - operation	1,564,491	1,746,039
Distribution expense - maintenance	2,674,109	3,292,782
Consumer accounts expense	1,354,481	1,320,202
Customer service and information	199,369	225,690
Administration and general	2,344,811	2,380,834
Depreciation and amortization	2,275,165	2,224,678
Taxes	769,385	839,825
Interest on long-term debt	1,279,119	1,388,002
Other interest and deductions	75,816	63,416
Total operating expenses	35,469,495	36,983,461
Net operating margins	1,178,835	878,345
Nonutility revenue	680,648	665,760
Nonutility expenses:		
Nonutility cost of goods sold	141,458	147,932
Nonutility operating and general expense	503,110	498,478
	644,568	646,410
Net nonutility margins	36,080	19,350
Non operating margins:		
Interest and dividend income	43,905	58,842
Wildblue net margins	24,701	169,208
Other income	68,817	103,929
Gain on sale of equipment	11,993	14,805
Total nonoperating margins	\$ 149,416	\$ 346,784

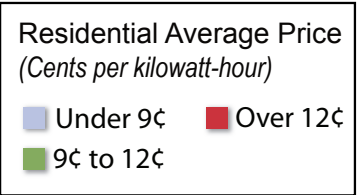
Average Prices for Residential Electricity in cents per kWh



U.S. Average 11.7 cents per kWh

Oklahoma Average 9.5 cents per kWh

LREC 8.4 cents per kWh



Source: U.S. Energy Information Administration
Numbers rounded to nearest tenth of a cent
Updated February 2013



Where your electric dollar went in 2012



Power Cost: 65%



Operations: 22%



Depreciation/
other: 6%

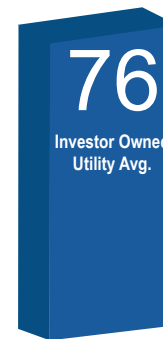
Interest: 4%

Margins: 3%

American Customer Satisfaction Index (ACSI) 2012 score



At Lake Region Electric Cooperative, we know our members are our owners and we are actively engaged in measuring and improving the satisfaction of our members. The chart to the right is our American Customer Satisfaction Index (ACSI) rating conducted by, Inside Information, a marketing consulting firm. LREC has a score of 85.



LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2012 and 2011

	2012	2011
Capital credits:		
Generation and transmission cooperative capital credits	\$ 1,354,924	\$ 1,347,112
Other capital credits and patronage capital	149,822	249,302
Total capital credits	1,504,746	1,596,414
Net margins before income taxes	2,869,077	2,840,893
Provision for income tax:		
Current	-	-
Deferred	-	-
Net margins for year	2,869,077	2,840,893
Patronage capital - beginning of year	42,465,792	40,829,582
Retirement of patronage capital	(1,067,584)	(1,204,683)
Patronage capital - end of year	\$ 44,267,285	\$ 42,465,792

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 retirement represents your share

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

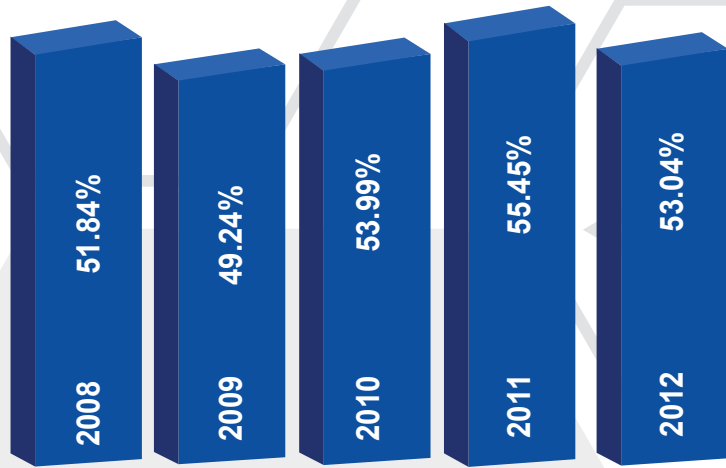


LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

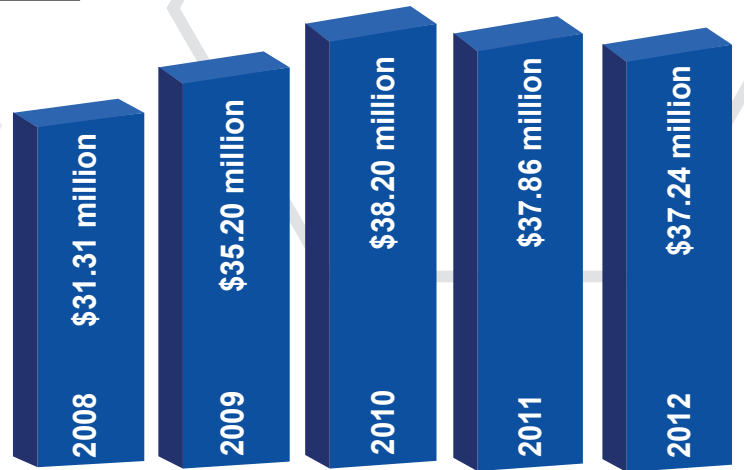
December 31, 2012 and 2011

ASSETS	2012	2011
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 88,479,460	\$ 85,859,328
Construction work in progress	981,692	1,069,183
	89,461,152	86,928,511
Less accumulated provision for depreciation and amortization	27,974,961	26,804,235
Net utility plant	61,486,191	60,124,276
 Nonutility plant (Note 2)		
Nonutility plant	4,080,904	4,012,403
Less accumulated depreciation	1,471,665	1,330,804
Net nonutility plant	2,609,239	2,681,599
 Other assets:		
Investments in associated organizations (Note 3)	15,626,400	14,389,123
Other long-term investments (Note 12)	135,591	139,675
Total other assets	15,761,991	14,528,798
 Current assets:		
Cash - general fund	969,922	391,652
Accounts receivable - less allowance for doubtful accounts: 2012 - \$175,094; 2011 - \$95,571	2,885,860	3,672,747
Materials and supplies - at average cost	1,189,163	666,122
Other current and accrued assets	206,618	210,998
Total current assets	5,251,563	4,941,519
 Deferred charges (Note 4)	-	2,419
Total other assets	-	2,419
TOTAL ASSETS	\$ 85,108,984	\$ 82,278,611



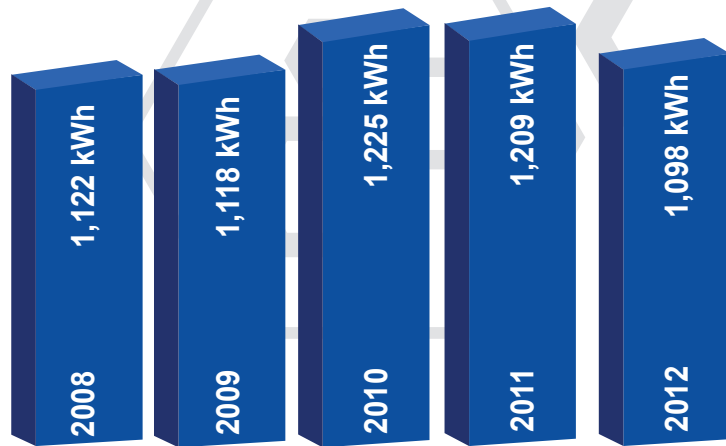
Cooperative members' equity over last five years

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, 2012 and 2011

LIABILITIES and MEMBERS' EQUITY	<u>2012</u>	<u>2011</u>
Equities and margins		
Memberships	\$ 95,795	\$ 95,500
Patronage capital (Note 5)	44,267,285	42,465,792
Accumulated other comprehensive loss	(1,682,444)	(218,425)
Other equities (Note 6)	<u>772,795</u>	<u>764,561</u>
Total equities and margins	<u>43,453,431</u>	<u>43,107,428</u>
Long-term liabilities:		
Long-term debt less current maturities (Note 7)	24,479,627	25,983,902
Other non-current liabilities (Note 11)	<u>5,843,100</u>	<u>4,185,628</u>
Total long-term liabilities	<u>30,322,727</u>	<u>30,169,530</u>
Current liabilities		
Current maturities of long-term debt (Note 7)	1,877,653	1,765,999
Line of credit	1,000,000	100,000
Accounts payable	3,610,326	2,775,411
Consumer deposits	1,725,277	1,671,793
Other current and accrued liabilities	<u>2,059,988</u>	<u>1,791,495</u>
Total current liabilities	<u>10,273,244</u>	<u>8,104,698</u>
Deferred credits (Note 8)	<u>1,059,582</u>	<u>896,955</u>
Contingent liabilities (Note 9)	<u>-</u>	<u>-</u>
TOTAL LIABILITIES and MEMBERS' EQUITY	<u><u>\$ 85,108,984</u></u>	<u><u>\$ 82,278,611</u></u>

System Facts

Total miles of line: (Overhead 2,951) (Underground 88)

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

Square miles: 1,144

Number of meters: 24,022

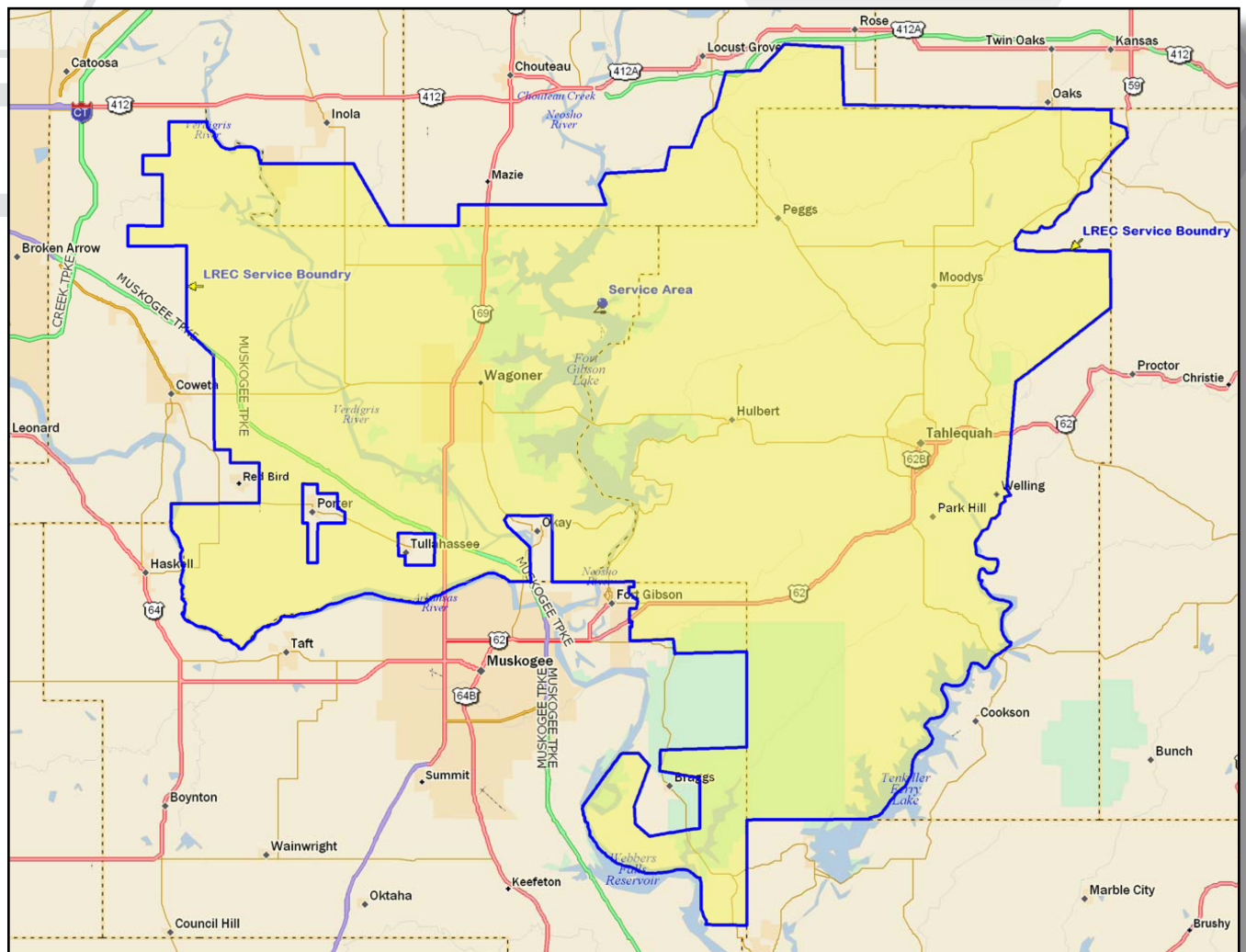
Number of employees: 72

Board meeting: First Tuesday of each month

Year first energized: 1949

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

Lake Region Electric Cooperative Service Map



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, 2012 and 2011, 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, 2012 and 2011 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, 2013, 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, 2013

Board Treasurer Update

I am pleased to present the 2012 financial results for Lake Region Electric Cooperative, Inc. The cooperative's 2012 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In the opinions, the 2012 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, Inc.

Your Touchstone Energy[®] Cooperative 
The power of human connections[®]

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