

# 2014 Annual Report



# Message from the CEO and Board President



“  
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.”

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 2013 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 where in 2014 it is now \$23,605,440 or 62 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. Environmental 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.

Considerable efforts have been put in to continue improving our members’ service reliability. A total of \$1.8 million was spent in 2014 to clear the right-of-ways from trees. We are happy to announce that LREC’s Average Service Availability Index or ASAI is 99.97%.

## 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 in rural America, just as we were in 1930s with electricity. In 2013 the LREC board approved a pilot project

to bring high speed internet to a portion of our service territory. The purpose of the project was to gage the feasibility of the project. High Speed internet is delivered to the members’ home through a fiber optics network (Fiber-To-The-Home). This fiber optics network has made it possible to provide one of the fastest internet speeds in Oklahoma. In addition to the fast internet, we are able to provide home phone and television service to the members. LREC is the first Cooperative in Oklahoma to provide high speed broadband to its members. In January of 2015, the Federal Communications Commission, FCC, voted to define “Broadband” as speeds of 25Mbps and higher. Using this new FCC definition of broadband, LREC could easily be the only provider of broadband service in Cherokee County with speeds up to 100 Mbps and scalable to 1 Gigabit. This project has been extremely popular with the members within the pilot area. The board will be reviewing the results of the pilot project in 2015. If proven feasible, we will plan on its expansion to the rest of the members.

Customer service is an LREC strong point. The 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. The Electric utility, in general, has scored a rating of 77. We are pleased to announce that in a survey conducted in 2014, LREC received an ACSI rating of 86 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 2014.

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

# Board of Trustees



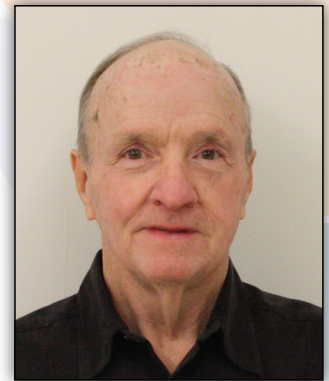
**Gary Cooper**  
President



**Bobby Mayfield**  
Vice President



**Jim Loftin**  
Secretary-Treasurer



**Jack Teague**  
Asst. Secretary-Treasurer



**Lynn Lamons**  
Trustee



**Scott Manes**  
Trustee



**Randall Shankle**  
Trustee

# Management Staff



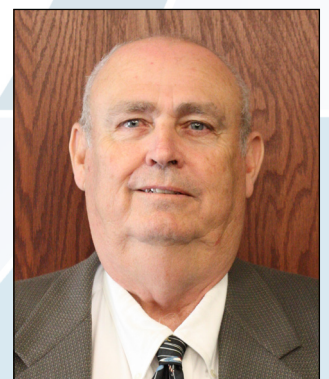
**Hamid Vahdatipour**  
C.E.O.



**Martin Walls**  
Director of  
Operations

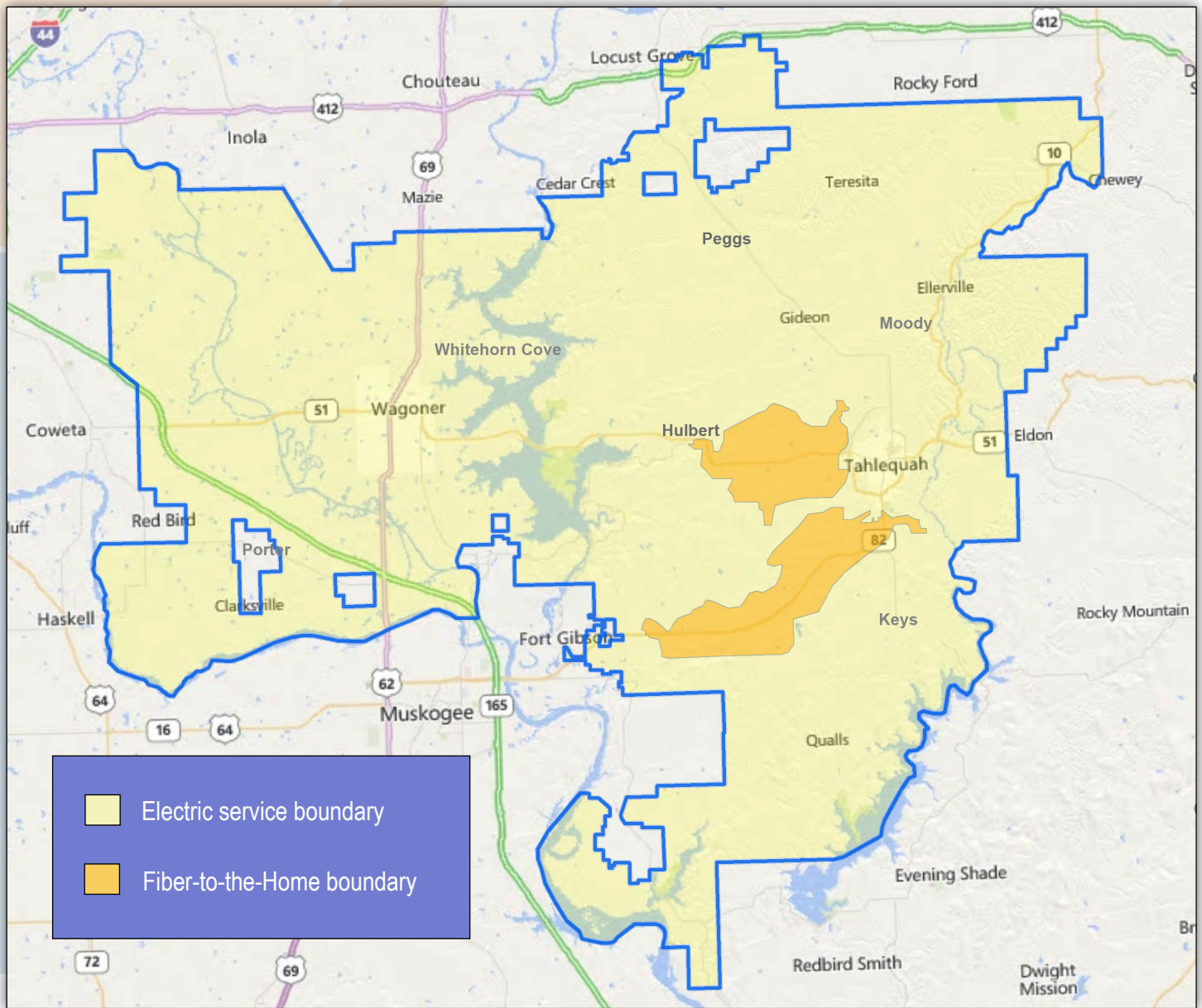


**Ben McCollum**  
Director of  
Fin. & Admin



**Stanley Young**  
Director of  
Marketing

# LREC Service Territory



## System Facts at a Glance - 2014

**Total miles of line:** 3,057 (Overhead 2,962) (Underground 95)

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

**Square miles:** 1,144

**Number of meters:** 24,274

**Number of employees:** 70

**Total kilowatt hours sold:** 397,988,686

**Number of new poles:** 1,054

**Board meeting:** First Tuesday of each month

**Year first energized:** 1949

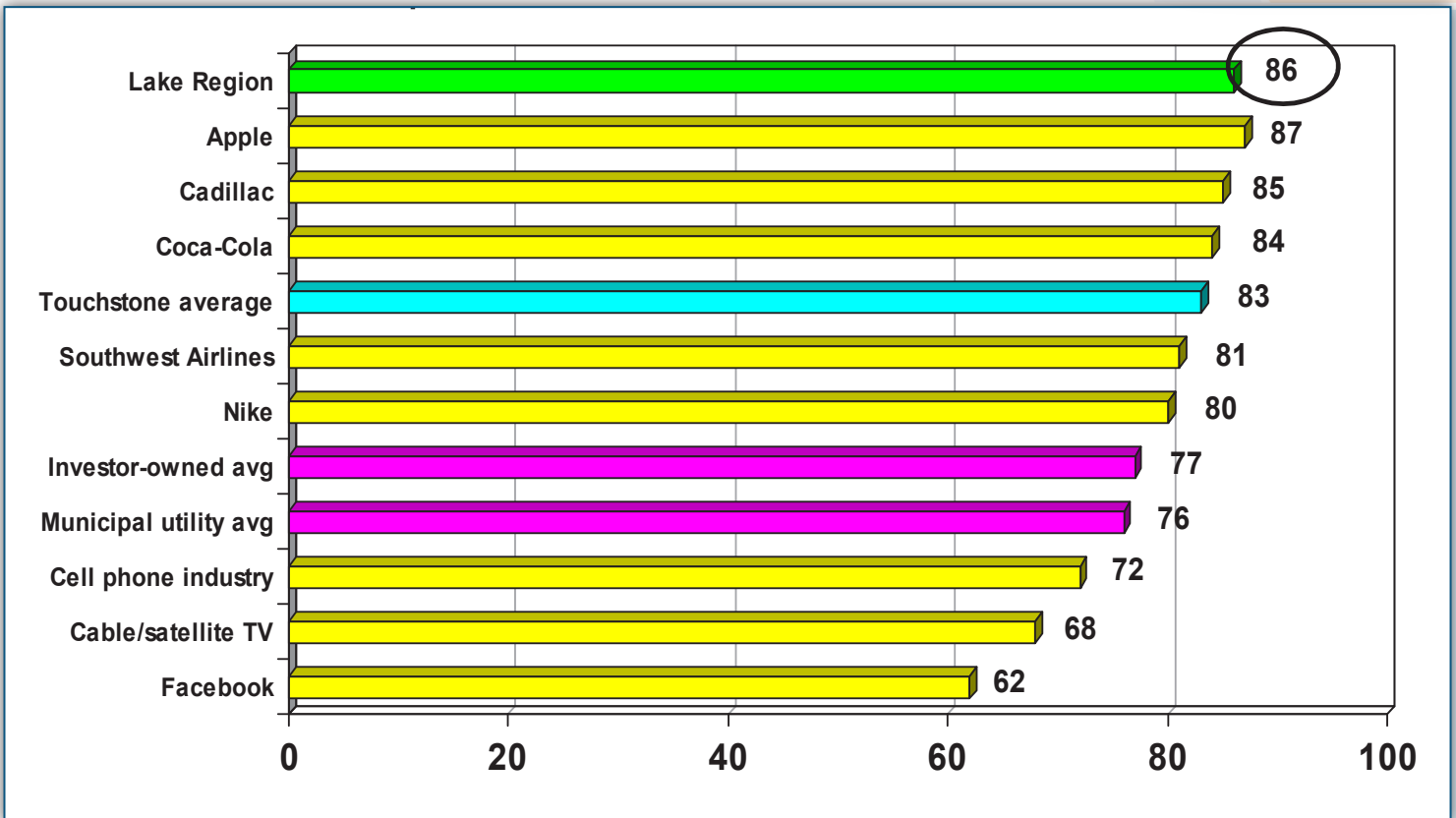
**Power supplier:** KAMO Electric Cooperative, Inc., Vinita, Oklahoma

# American Customer Satisfaction Index (2014)

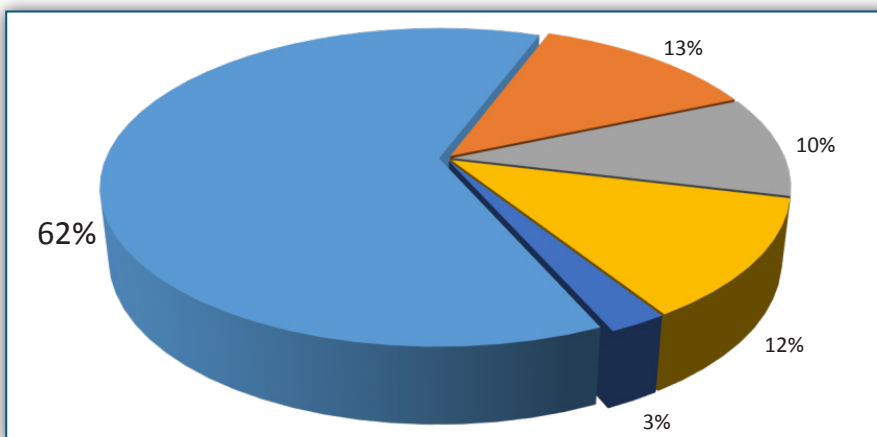
At Lake Region Electric Cooperative, we know our members are our owners and we are actively engaged in measuring and improving the satisfaction of our members. The chart below is our American Customer Satisfaction Index (ACSI) rating conducted by, Inside Information, a marketing consulting firm.



## Comparison of ACSI Scores



## LREC Operating Expenses



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

# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

## Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2014 and 2013

|  | 2014                 | 2013                 |
|--|----------------------|----------------------|
| <b>Operating revenues</b>                | <b>\$ 37,864,198</b> | <b>\$ 37,733,956</b> |
| <b>Operating expenses:</b>               |                      |                      |
| Cost of power                            | 23,605,440           | 23,719,571           |
| Distribution expense - operation         | 1,900,484            | 1,689,464            |
| Distribution expense - maintenance       | 2,969,547            | 2,672,479            |
| Consumer accounts expense                | 1,157,474            | 1,236,361            |
| Customer service and information         | 229,300              | 212,318              |
| Administration and general               | 2,499,341            | 2,569,056            |
| Depreciation and amortization            | 2,445,295            | 2,379,672            |
| Taxes                                    | 693,586              | 739,264              |
| Interest on long-term debt               | 1,318,145            | 1,169,097            |
| Other interest and deductions            | 150,340              | 162,581              |
| <b>Total operating expenses</b>          | <b>36,968,952</b>    | <b>36,549,863</b>    |
| <b>Net operating margins</b>             | <b>895,246</b>       | <b>1,184,093</b>     |
| Nonutility revenue                       | 665,891              | 647,603              |
| <b>Nonutility expenses:</b>              |                      |                      |
| Nonutility cost of goods sold            | 155,931              | 151,984              |
| Nonutility operating and general expense | 522,696              | 525,533              |
|  | <b>678,627</b>       | <b>677,517</b>       |
| <b>Net nonutility margins</b>            | <b>(12,736)</b>      | <b>(29,914)</b>      |
| <b>Non operating margins:</b>            |                      |                      |
| Interest and dividend income             | 47,000               | 40,299               |
| Wildblue net margins                     | 45,868               | (1,803)              |
| Fiber to the home income (expense)       | (84,285)             | (58,422)             |
| Other income                             | 202,618              | 190,299              |
| Gain on sale of equipment                | 23,468               | 23,190               |
| <b>Total nonoperating margins</b>        | <b>\$ 234,669</b>    | <b>\$ 193,563</b>    |

The accompanying notes are an integral part of these statements.

# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

## Consolidated Statements of Revenue and Patronage Capital

*For the Years Ended December 31, 2014 and 2013*

|   | <u>2014</u>                 | <u>2013</u>                 |
|---|-----------------------------|-----------------------------|
| <b>Capital credits:</b>                                 |                             |                             |
| Generation and transmission cooperative capital credits | \$ 1,591,734                | \$ 1,243,514                |
| Other capital credits and patronage capital             | <u>237,022</u>              | <u>277,489</u>              |
| <b>Total capital credits</b>                            | <u><b>1,828,756</b></u>     | <u><b>1,521,003</b></u>     |
| <b>Net margins before income taxes</b>                  | <b>2,945,935</b>            | <b>2,868,745</b>            |
| <b>Provision for income tax:</b>                        |                             |                             |
| Current   | -                           | -                           |
| Deferred  | <u>-</u>                    | <u>-</u>                    |
| <b>Net margins for year</b>                             | <b>2,945,935</b>            | <b>2,868,745</b>            |
| Patronage capital - beginning of year                   | 46,184,524                  | 44,267,285                  |
| Retirement of patronage capital                         | <u>(1,066,029)</u>          | <u>(951,506)</u>            |
| <b>Patronage capital - end of year</b>                  | <u><b>\$ 48,064,430</b></u> | <u><b>\$ 46,184,524</b></u> |

## What are Capital Credits?

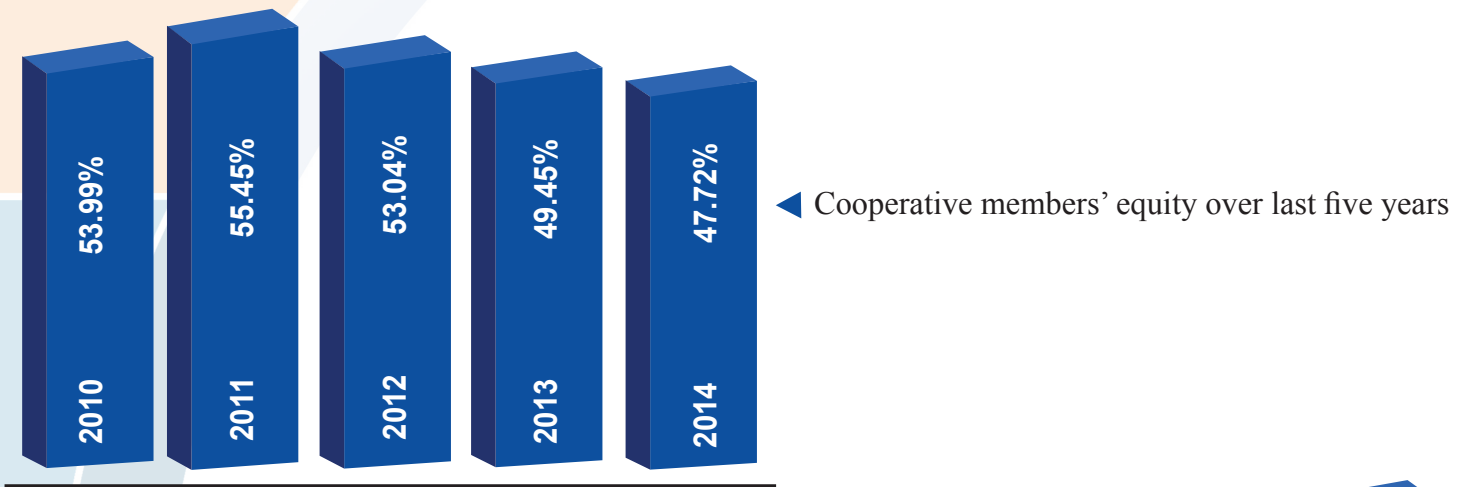
Lake Region Electric Cooperative (LREC) operates on an at-cost, not for profit basis. Instead of returning profits, known as margins, to stockholders who may not live in the same region or even the same state as you, the members, LREC allocates and periodically retires Capital Credits based on how much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

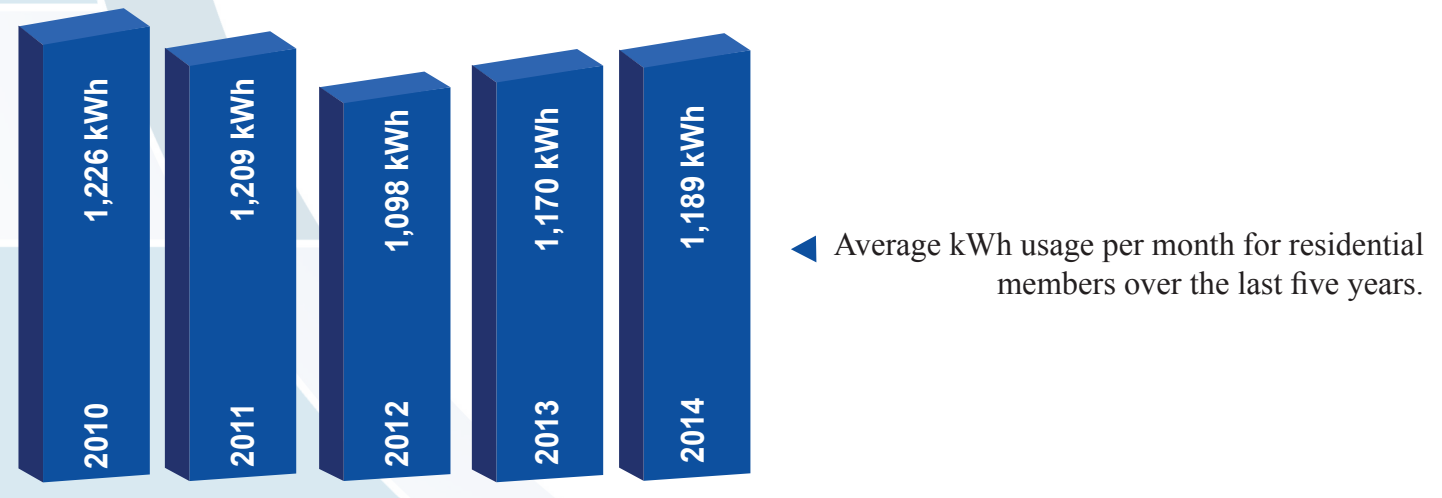


## Member Equity (percent)

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



## LREC Electricity Sales



## Average kWh per Month per Member



# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

*December 31, 2014 and 2013*

| <b>ASSETS</b>  | <u>2014</u>                 | <u>2013</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Utility plant (Notes 1 and 2)</b>   |                             |                             |
| Electric plant in service - at cost  | \$ 94,403,939               | \$ 91,217,446               |
| Construction work in progress  | 192,481                     | 6,688,531                   |
|  | <u>94,596,420</u>           | <u>97,905,977</u>           |
| Less accumulated provision for depreciation and amortization                                   | 30,415,165                  | 29,127,910                  |
|  | <u>64,181,255</u>           | <u>68,778,067</u>           |
| <b>Net utility plant</b>   |                             |                             |
|  | <u>64,181,255</u>           | <u>68,778,067</u>           |
| <b>Nonutility plant (Note 2)</b>   |                             |                             |
| Nonutility plant   | 11,593,639                  | 4,122,131                   |
| Less accumulated depreciation  | 1,884,999                   | 1,613,468                   |
|  | <u>9,708,640</u>            | <u>2,508,663</u>            |
| <b>Net nonutility plant</b>  |                             |                             |
|  | <u>9,708,640</u>            | <u>2,508,663</u>            |
| <b>Other assets:</b>   |                             |                             |
| Investments in associated organizations (Note 3)   | 18,211,234                  | 16,816,813                  |
| Other long-term investments (Note 12)  | 13,582                      | 41,743                      |
|  | <u>18,224,816</u>           | <u>16,858,556</u>           |
| <b>Total other assets</b>  |                             |                             |
|  | <u>18,224,816</u>           | <u>16,858,556</u>           |
| <b>Current assets:</b>   |                             |                             |
| Cash - general fund  | 855,817                     | 1,152,062                   |
| Accounts receivable - less allowance for doubtful accounts: 2014 - \$244,737; 2013 - \$220,165 | 2,949,464                   | 3,205,516                   |
| Materials and supplies - at average cost   | 1,442,549                   | 1,415,341                   |
| Other current and accrued assets   | 235,168                     | 237,126                     |
|  | <u>5,482,998</u>            | <u>6,010,045</u>            |
| <b>Total current assets</b>  |                             |                             |
|  | <u>5,482,998</u>            | <u>6,010,045</u>            |
| Deferred debits (Note 4)   | 1,226,691                   | 1,409,940                   |
|  | <u>1,226,691</u>            | <u>1,409,940</u>            |
| <b>Total other assets</b>  |                             |                             |
|  | <u>1,226,691</u>            | <u>1,409,940</u>            |
| <b>TOTAL ASSETS</b>  | <u><u>\$ 98,824,400</u></u> | <u><u>\$ 95,565,271</u></u> |

# LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

*December 31, 2014 and 2013*

| <b>LIABILITIES and MEMBERS' EQUITY</b>           | <u>2014</u>                        | <u>2013</u>                        |
|--|------------------------------------|------------------------------------|
| <b>Equities and margins</b>                      |                                    |                                    |
| Memberships                                      | \$ 96,585                          | \$ 95,790                          |
| Patronage capital (Note 5)                       | 48,064,430                         | 46,184,524                         |
| Accumulated other comprehensive gain (loss)      | 221,264                            | 194,572                            |
| Other equities (Note 6)                          | 790,794                            | 782,059                            |
| <b>Total equities and margins</b>                | <b><u>49,173,073</u></b>           | <b><u>47,256,945</u></b>           |
| <br><b>Long-term liabilities:</b>                |                                    |                                    |
| Long-term debt less current maturities (Note 7)  | 33,515,036                         | 28,564,197                         |
| Other non-current liabilities (Note 11)          | 4,561,986                          | 4,347,914                          |
| <b>Total long-term liabilities</b>               | <b><u>38,077,022</u></b>           | <b><u>32,912,111</u></b>           |
| <br><b>Current liabilities</b>                   |                                    |                                    |
| Current maturities of long-term debt (Note 7)    | 2,106,220                          | 2,196,682                          |
| Line of credit                                   | 1,000,000                          | 5,000,000                          |
| Accounts payable                                 | 2,978,341                          | 3,129,280                          |
| Consumer deposits                                | 1,817,438                          | 1,753,443                          |
| Other current and accrued liabilities            | 2,667,519                          | 2,364,486                          |
| <b>Total current liabilities</b>                 | <b><u>10,569,518</u></b>           | <b><u>14,443,891</u></b>           |
| <br>Deferred credits (Note 8)                    | <u>1,004,787</u>                   | <u>952,324</u>                     |
| <br><b>TOTAL LIABILITIES and MEMBERS' EQUITY</b> | <b><u><u>\$ 98,824,400</u></u></b> | <b><u><u>\$ 95,565,271</u></u></b> |

# Independent Auditor's Report

---

---

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

## **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Lake Region Electric Cooperative, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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.

## **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and generally accepted 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report Continued

---

---

## 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, 2014 and 2013 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.

## Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2015, on our consideration of Lake Region Electric Cooperative, Inc. and Subsidiary's internal control over consolidated 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 in considering Lake Region Electric Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

*Briscoe, Burke & Grigsby LLP*  
Certified Public Accountants

## Board Treasurer Report

---

---

I am pleased to present the 2014 financial results for Lake Region Electric Cooperative, Inc. The cooperative's 2014 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In the opinions, the 2014 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*

# Notes

---

---

# ***Lake Region Electric Cooperative***

Your Touchstone Energy® Cooperative 

*516 S. Lake Region Road*

*Hulbert, OK 74441*

*t: 918-772-2526 f: 918-772-2528*

*[www.lrecok.coop](http://www.lrecok.coop) [www.lrecok.net](http://www.lrecok.net)*