



2015



Lake Region Electric Cooperative, Inc.
Annual Report

Message from the CEO and 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 2nd 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 49 percent since 2002 according to the U.S. Department of Energy. However, LREC's prices have increased only 25 percent during the same time period. In 2009, after LREC raised its rates, the members still enjoyed the 9th lowest rates among the cooperatives in Oklahoma. In 2015 we are now enjoying the 2nd lowest in Oklahoma.

In 2002, 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 2015 it is now \$23,910,161 or 65 percent of LREC's Revenue. LREC's wholesale power supplier has informed us that the cost of the electricity we purchase is going up in 2016.

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, due to the staggered economy and mild summer and winter temperatures, the cooperative's revenue has dropped.

Therefore, we are no longer able to absorb these increases in costs. The rates will have to be adjusted. We have employed a consulting firm to review our expenses and revenues and recommend a new rate structure to be put in place. We believe that even with the implementation of new rates, our members will continue enjoying rates below the Oklahoma average. Your cooperative continues to maintain a strong equity. 2015 equity to assets ratio is 49%. Your cooperative continues to maintain its electric grid, keep right-of-ways clear of vegetation and build and upgrade the distribution system in order to provide the most reliable service with a reasonable cost.

In the Beginning

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 this needed commodity.

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 Northeast Oklahoma, these pioneers formed Lake Region Electric Cooperative. As a result, the quality of life for our local communities was forever changed.

In the 21st Century, a new necessity, broadband internet.

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.

In rural Oklahoma, we also need vital services to live a better life, access resources and ensure our children get the best education possible. In a survey conducted in 2015, nine out of ten told us that high speed broadband is either important or absolutely necessary for the quality of life in our service territory. LREC is willing and ready to provide this service. We started a pilot project in 2013 to gage the feasibility of providing high-speed broadband service to our members. Last year our members overwhelmingly approved creation of Lake Region Technology & Communications, LLC, in order to provide broadband service to the members. The pilot project has been successful and we are ready to expand the service. In order to do so, we need our members' help. We would like for you to sign up for broadband service and let us know that you want it in your neighborhood. We will expand the service to the neighborhoods that show interest and meet certain subscription rate.

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. We are pleased to announce that we have met or exceeded those goals for 2015.

Chief Executive Officer

Hamid Vahdatipour

Board President

Gary Cooper

Take a moment to get to know your board of trustees

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. 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.



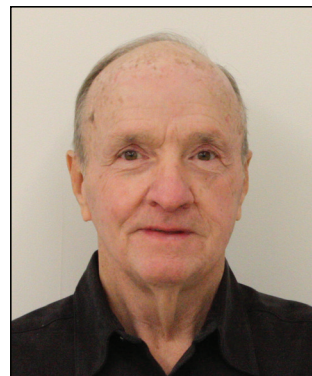
Gary Cooper
President



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.



Logan Pleasent
Director of Engineering
Operations

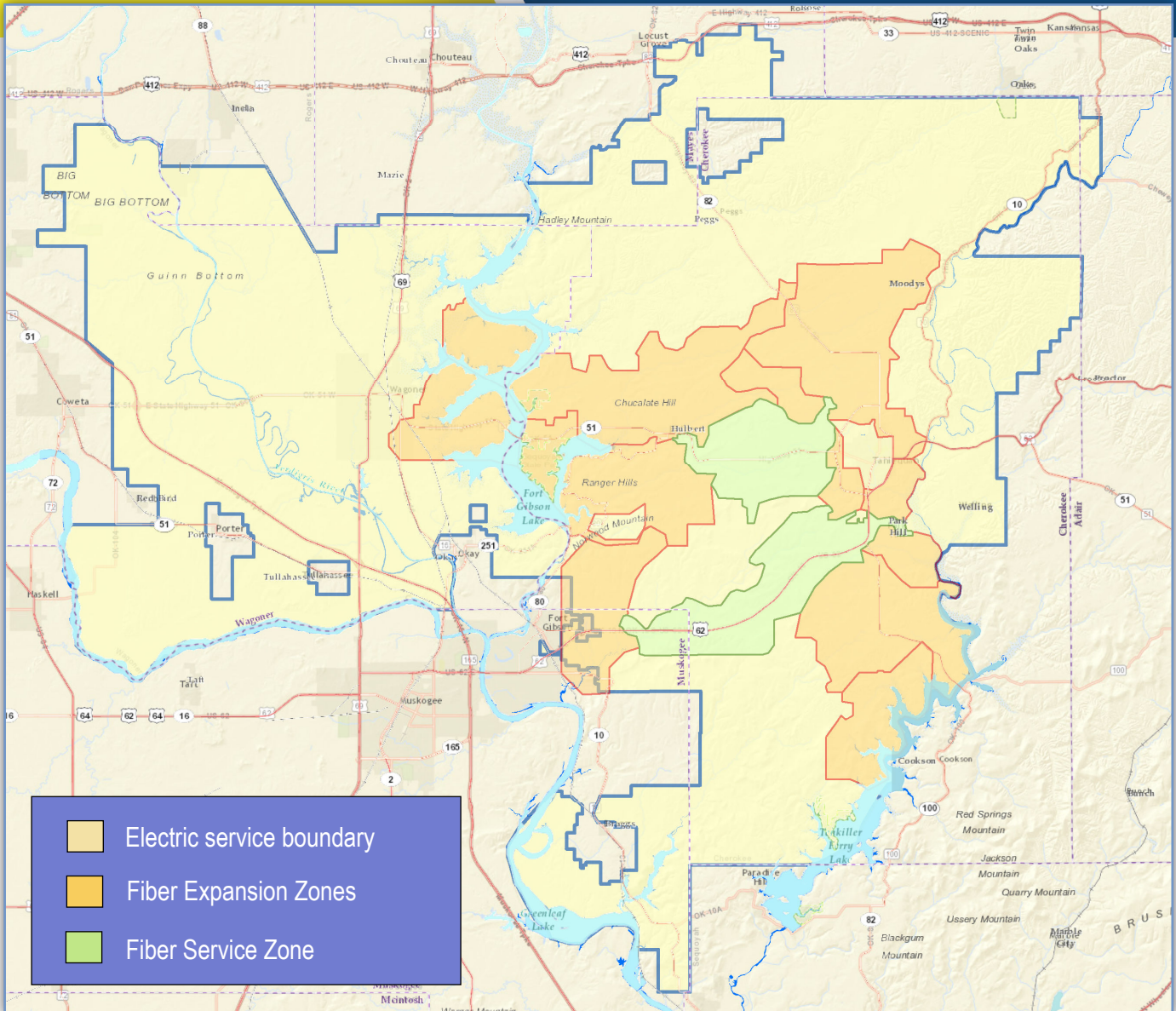


Ben McCollum
Director of
Fin. & Admin



Stanley Young
Director of
Marketing

Service Territory



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

System Facts at a Glance - 2015

Total miles of electric line: 3,067 (Overhead 2,969) (Underground 98) **Total Miles of fiber line:** 240

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

Square miles: 1,144 **Number of meters:** 24,482 **Number of employees:** 72

Total kilowatt hours sold: 389,419,646 **Number of new poles:** 383

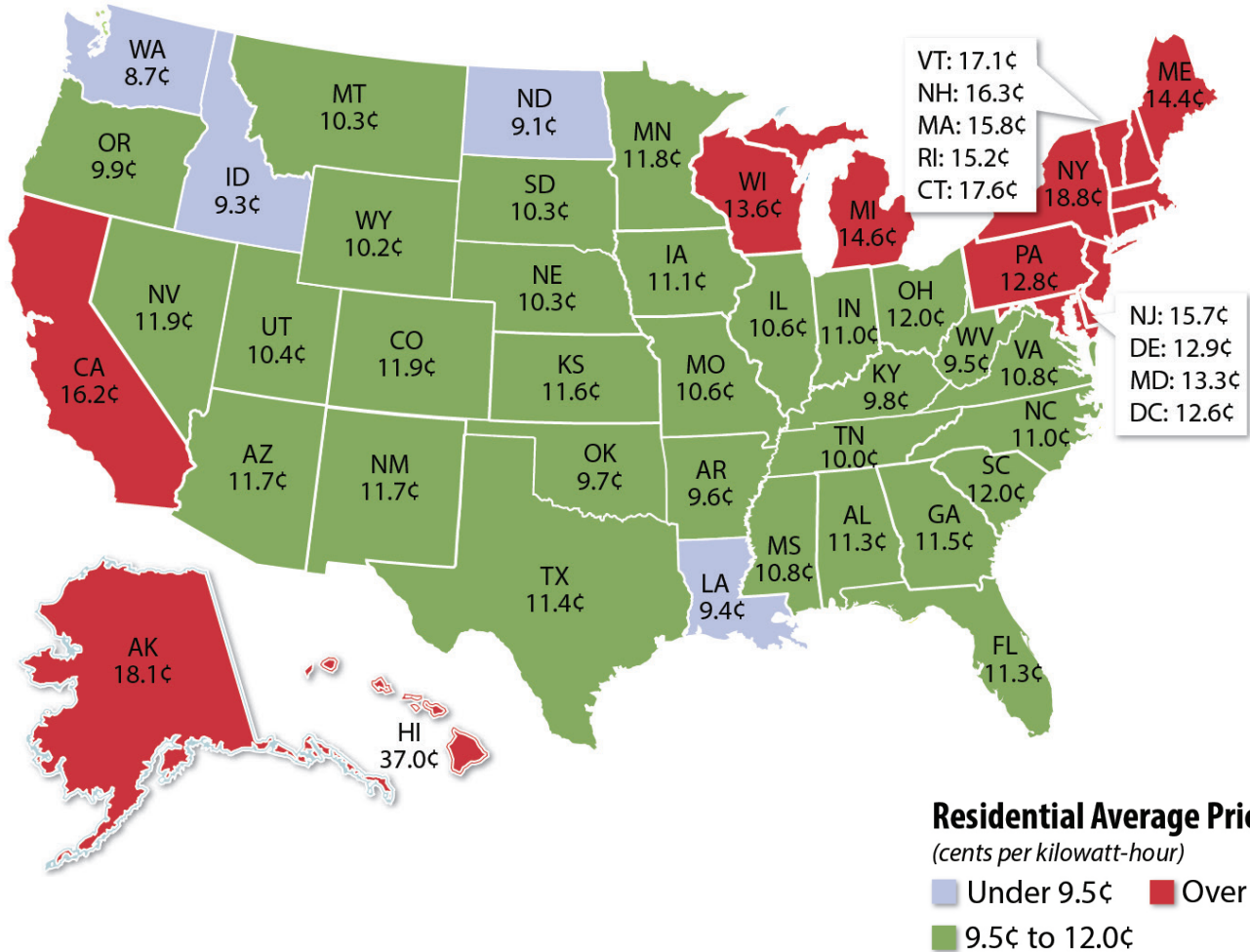
Board meeting: First Tuesday of each month **Year first energized:** 1949

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

Average Price Electricity

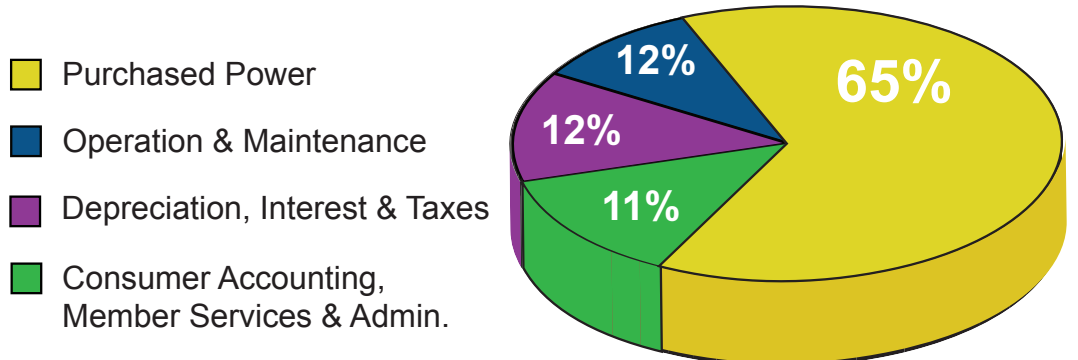
U.S. Co-op Average 12.1 cents per kWh

LREC 9.5 cents per kWh



Source: U.S. Energy Information Administration
Numbers rounded to nearest tenth of a cent
Updated February 2014

LREC Operating Expenses



Operating revenues

	2015	2014
Operating revenues	\$ 37,183,657	\$ 37,864,198
Operating expenses:		
Cost of power	23,910,161	23,605,440
Distribution expense - operation	2,050,316	1,900,484
Distribution expense - maintenance	2,623,898	2,969,547
Consumer accounts expense	1,031,602	1,157,474
Customer service and information	252,140	229,300
Administration and general	2,771,771	2,499,341
Depreciation and amortization	2,578,162	2,445,295
Taxes	743,265	693,586
Interest on long-term debt	1,142,221	1,318,145
Other interest and deductions	109,871	150,340
Total operating expenses	37,213,407	36,968,952
Net operating margins	(29,750)	895,246
Nonutility revenue	2,225,464	665,891
Nonutility expenses:		
Nonutility cost of goods sold	155,200	155,931
Nonutility operating and general expense	2,373,982	522,696
Net nonutility margins	(303,718)	(12,736)
Non operating margins:		
Interest and dividend income	70,753	47,000
Wildblue net margins	(26)	45,868
Fiber to the home income (expense)	-	(84,285)
Other income	72,118	202,618
Gain on sale of equipment	6,007	23,468
Total nonoperating margins	\$ 148,852	\$ 234,669

Capital Credits

	<u>2015</u>	<u>2014</u>
Capital credits:		
Generation and transmission cooperative capital credits	\$ 986,669	\$ 1,591,734
Other capital credits and patronage capital	<u>235,926</u>	<u>237,022</u>
Total capital credits	<u>1,222,595</u>	<u>1,828,756</u>
Net margins before income taxes	1,037,979	2,945,935
Provision for income tax:		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
Net margins for year	1,037,979	2,945,935
Patronage capital - beginning of year	48,064,430	46,184,524
Retirement of patronage capital	<u>(1,092,880)</u>	<u>(1,066,029)</u>
Patronage capital - end of year	<u>\$ 48,009,529</u>	<u>\$ 48,064,430</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,

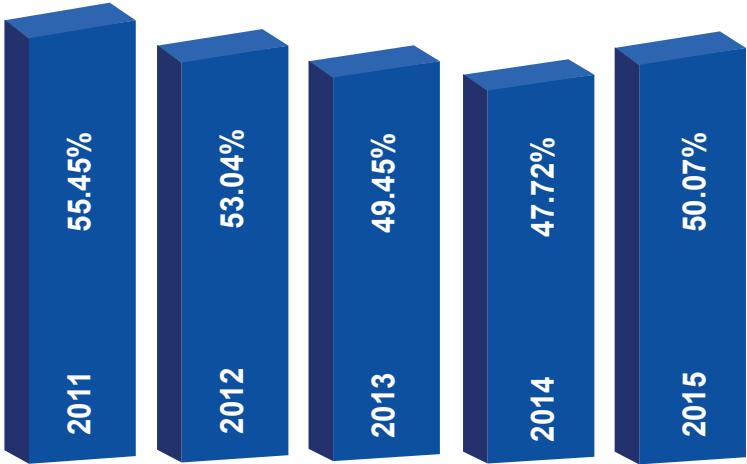
LREC allocates and periodically retires Capital Credits based on how much

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



Five-Year Comparison



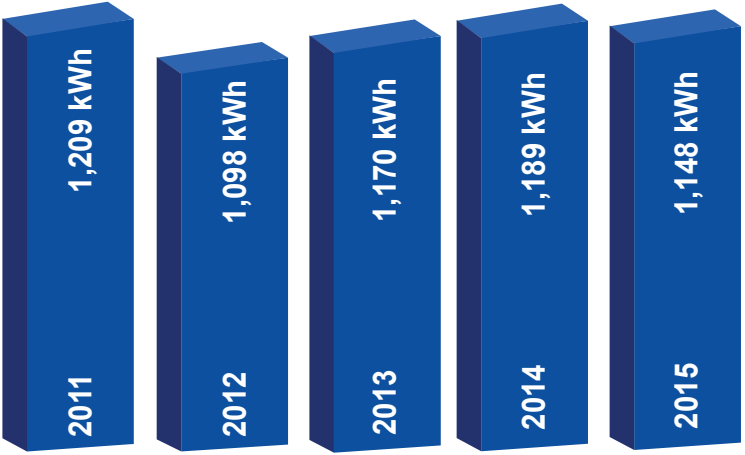
Cooperative members' equity over last five years

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

Assets

ASSETS	2015	2014
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 97,429,935	\$ 94,403,939
Construction work in progress	864,115	192,481
	98,294,050	94,596,420
Less accumulated provision for depreciation and amortization	32,235,194	30,415,165
Net utility plant	66,058,856	64,181,255
 Nonutility plant (Note 2)		
Nonutility plant	12,685,332	11,512,909
Less accumulated depreciation	2,746,821	1,879,431
Net nonutility plant	9,938,511	9,633,478
 Other assets:		
Investments in associated organizations (Note 3)	19,057,161	18,211,234
Other long-term investments (Note 12)	1,275	13,582
Intangible assets, net	71,798	75,162
Total other assets	19,130,234	18,299,978
 Current assets:		
Cash - general fund	718,423	855,817
Accounts receivable - less allowance for doubtful accounts: 2015 - \$251,774; 2014 - \$244,737	2,657,232	2,949,464
Materials and supplies - at average cost	1,386,499	1,442,549
Other current and accrued assets	250,361	235,168
Total current assets	5,012,515	5,482,998
Deferred debits (Note 4)	1,099,794	1,226,691
Total other assets	1,099,794	1,226,691
TOTAL ASSETS	\$ 101,239,910	\$ 98,824,400

LIABILITIES and MEMBERS' EQUITY	<u>2015</u>	<u>2014</u>
Equities and margins		
Memberships	\$ 97,240	\$ 96,585
Patronage capital (Note 5)	48,009,529	48,064,430
Accumulated other comprehensive gain (loss)	255,244	221,264
Other equities (Note 6)	799,732	790,794
	<u>49,161,745</u>	<u>49,173,073</u>
Total equities and margins		
Long-term liabilities:		
Long-term debt less current maturities (Note 7)	36,648,601	33,515,036
Other non-current liabilities (Note 11)	4,812,483	4,561,986
	<u>41,461,084</u>	<u>38,077,022</u>
Total long-term liabilities		
Current liabilities		
Current maturities of long-term debt (Note 7)	1,855,074	2,106,220
Line of credit	250,000	1,000,000
Accounts payable	2,811,670	2,978,341
Consumer deposits	1,894,758	1,817,438
Other current and accrued liabilities	2,941,425	2,667,519
	<u>9,752,927</u>	<u>10,569,518</u>
Total current liabilities		
Deferred credits (Note 8)	864,154	1,004,787
	<u>864,154</u>	<u>1,004,787</u>
TOTAL LIABILITIES and MEMBERS' EQUITY	<u><u>\$ 101,239,910</u></u>	<u><u>\$ 98,824,400</u></u>

Auditor's Report



Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

To the Members of
Lake Region Electric Cooperative, Inc. and subsidiaries
Hulbert, Oklahoma

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, 2015 and 2014, and the related consolidated statements of income and patronage capital, comprehensive income (not presented herein) and cash flows for the years then ended (not presented herein), and the related notes to financial statements (not presented herein); and in our report dated April 1, 2016, 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 2015 financial results for Lake Region Electric Cooperative, Inc and subsidiaries. The cooperative's 2015 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In the opinions, the 2015 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



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