



2019 Annual Report



Hamid Vahdatipour, CEO



Scott Manes, Board President

LREC wrapped up fiscal year 2019 (FY 2019) maintaining a healthy financial position. We had 5% higher energy sales as compared to 2018. However, total kWh sales were 1.6% lower than projections. Sales generated adequate revenues to cover all the operating expenses of the cooperative. LREC ended the year with an operating margin of \$484,625. However, the addition of the non-operating revenues enabled us to end the year with \$3,539,097 in total margins.

Our members' equity increased to \$54,587,019 and long-term debts increased to \$75,190,702. The equity as a percent to total assets remains very strong at 38%. Total utility plant was increased by \$6.5 million to \$118,049,599 and non-utility plant was increased by \$6.8 million to \$37,842,875 mainly

due to the Fiber-to-the-Home project construction.

Other highlights from the Fiscal Year include:

- LREC members received over \$1.7 million credit (rate reduction) on their bills in the form of negative Power Cost Adjustment.
- LREC's modified debt service coverage for the FY 2019 was 2.1, and the total consolidated debt to asset ratio was 52%.
- The average residential kWh usage per month dropped to 1,189 kWhs from 1,217 kWhs in 2018.
- Total miles of line were 3,111 which served an average of 24,769 meters.
- Total purchased power cost as a percent of revenue was 61.4% of total revenue for FY 2019. This ratio for FY 2008 was 56.5%.

We strive to maintain the lowest possible rates and yet provide a reliable service to our members. Lake Region Electric Cooperative's mission, adopted by the Board of Directors, charges the cooperative to provide our members safe, reliable and competitive services for

today and tomorrow.

LREC remains committed to providing the best quality of service to our members by maintaining and upgrading the utility plant. Vegetation control remains to be a top priority for LREC.

LREC's Fiber-To-The-Home project continues to be a successful project. The Board has decided to continue the endeavor to provide high quality state of the art broadband service to its members. The phase one construction of this broadband project which included construction of over 800 miles of fiber optics to bring high speed internet to over 9,000 homes is scheduled to be completed in the first quarter of 2020. This is the first phase of a three-phase project that started in August of 2016. During 2019, LREC nearly doubled its broadband customers moving from 3,300 connected customers to 4,500 connected customers in December of 2019.

In December of 2019 the board was pleased to approve a patronage capital retirement/refund of \$1,264,207 to the members, bringing to total funds refunded to the members to \$23,280,527.



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 2019.



Your Board Representatives

Lake Region Electric Cooperative members elect a board of trustees, which govern the cooperative on the members' behalf. LREC's board of trustees is made up of seven members from the cooperative. The board also hires a Chief Executive Officer (CEO) to carry out the objectives of the board and to supervise the staff and employees.

Each year, an election is held to determine representatives to serve on the board, for a three year term at the cooperative's annual meeting. All members have the opportunity to attend annual meeting and vote.



Scott Manes
President



Lynn Lamons
Vice President



Randall Shankle
Secretary-Treasurer



Jack Teague
Asst. Secretary-Treasurer



James Walls
Trustee



Gary Cooper
Trustee



Dianna Mayfield
Trustee



LREC has a legacy of providing safe and reliable electric service to our members. The Board is clear in their strategic mission: Providing our members safe, reliable, and competitive services for today and tomorrow.

Glen Clark, Director of Marketing

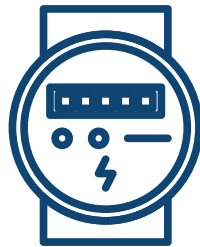




Co-op Facts at a Glance - 2019



Total miles of electric line:
3,111



Number of meters: 24,769



Meters per mile:
7.96



Square miles:
1,144



Total miles of fiber optic line: 2,000



Number of employees: 93



Total kilowatt hours sold:
480,970,988



Board meeting:
First Tuesday of each month

Year first energized: 1949

Generation and Transmission: KAMO Power, Vinita, OK

Power supplier: Associated Electric Cooperative Inc., Springfield, MO

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

Where the Dollar Comes From

Residential Sales	\$35,057,568
Commercial Sales	\$6,868,278
Schools & Churches	\$858,774
Other Revenue & Interest	\$1,356,355
Total Revenue	\$44,140,914



Revenues and Expenses

Total Revenue	\$44,140,941
Expenses Controlled By Other Entities	
Cost of Power	\$26,971,420
Depreciation & Amortization	\$3,501,281
Interest on Long-Term Debt	\$1,875,204
Taxes	\$870,227
Other Interest and Deductions	\$45,954
Total Controlled Expenses	\$33,264,086

Expenses Controlled By LREC	
Operations & Maintenance	\$5,467,524
Consumer & Customer Service	\$1,792,859
Administration & General	\$3,131,820
Total Controllable Expenses	\$10,392,203

TOTAL EXPENSES	\$43,656,289
Net Operating Margins	\$484,625

Where the Dollar Goes - Operating Expenses



Operating Revenues

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues	\$ 44,140,914	\$ 45,457,110
Operating expenses:		
Cost of power	26,971,420	28,131,683
Distribution expense - operation	2,159,019	2,140,753
Distribution expense - maintenance	3,308,505	3,177,946
Consumer accounts expense	1,556,708	1,471,616
Customer service and information	236,151	207,390
Administration and general	3,131,820	3,074,030
Depreciation and amortization	3,501,281	3,394,721
Taxes	870,227	888,800
Interest on long-term debt	1,875,204	1,707,352
Other interest and deductions	45,954	146,847
	43,656,289	44,341,138
Net operating margins	484,625	1,115,972
Nonutility revenue	6,012,910	4,150,267
Nonutility expenses:		
Nonutility cost of goods sold	225,310	205,152
Nonutility operating and general expense	5,734,025	4,126,893
	5,959,335	4,332,045
Net nonutility margins (loss)	53,575	(181,778)
Non operating margins:		
Interest and dividend income	386,541	396,548
Other income	455,505	67,731
Gain on sale of equipment	3,000	4,188
Total nonoperating margins	\$ 845,046	\$ 468,467

Capital Credits

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2019 and 2018

	2019	2018
Capital credits:		
Generation and transmission cooperative capital credits	\$ 1,924,064	\$ 1,501,439
Other capital credits and patronage capital	231,787	283,793
Total capital credits	2,155,851	1,785,232
Net margins before income taxes	3,539,097	3,187,893
Provision for income tax:		
Current	-	-
Deferred	-	-
Net margins for year	3,539,097	3,187,893
Patronage capital - beginning of year	50,228,897	48,260,418
Retirement of patronage capital	(1,264,207)	(1,219,414)
Patronage capital - end of year	\$ 52,503,787	\$ 50,228,897

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.



Assets

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

ASSETS	2019	2018
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 116,846,648	\$ 110,867,556
Construction work in progress	1,202,951	660,379
	118,049,599	111,527,935
Less: accumulated provision for depreciation and amortization	39,822,477	38,270,559
Net utility plant	78,227,122	73,257,376
 Nonutility plant (Note 2)		
Nonutility plant	17,750,654	16,542,814
Construction work in progress	20,092,221	14,480,789
	37,842,875	31,023,603
Less: accumulated depreciation	6,698,767	5,518,737
Net nonutility plant	31,144,108	25,504,866
 Other assets:		
Investments in associated organizations (Note 3)	24,527,001	22,894,855
Other long-term investments	1,275	1,274
Intangible assets, net	199,012	203,049
Total other assets	24,727,288	23,099,178
 Current assets:		
Cash and cash equivalents	2,192,727	1,181,286
Accounts receivable - less allowance for doubtful accounts: 2019 - \$233,794; 2018 - \$227,110	3,603,124	3,969,179
Materials and supplies - at average cost	3,687,322	3,377,930
Other current and accrued assets	288,911	260,939
Total current assets	9,772,084	8,789,334
Deferred debits (Note 4)	609,949	724,244
 TOTAL ASSETS	\$ 144,480,551	\$ 131,374,998

Liabilities and Members' Equity

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

LIABILITIES and MEMBERS' EQUITY	<u>2019</u>	<u>2018</u>
Equities and margins		
Memberships	\$ 101,955	\$ 101,055
Patronage capital (Note 5)	52,503,787	50,228,897
Accumulated other comprehensive income	1,163,541	1,138,340
Other equities (Note 6)	817,736	817,736
Total equities and margins	<u>54,587,019</u>	<u>52,286,028</u>
Long-term liabilities:		
Long-term debt less current maturities (Note 7)	70,160,959	55,850,506
Other non-current liabilities (Note 11)	5,029,743	4,809,067
Total long-term liabilities	<u>75,190,702</u>	<u>60,659,573</u>
Current liabilities		
Current maturities of long-term debt (Note 7)	1,353,076	1,404,833
Line of credit	500,000	4,050,000
Accounts payable	4,929,830	5,684,513
Consumer deposits	2,220,907	2,196,586
Other current and accrued liabilities	4,356,066	4,262,503
Total current liabilities	<u>13,359,879</u>	<u>17,598,435</u>
Deferred credits (Note 8)	1,342,951	830,962
TOTAL LIABILITIES and MEMBERS' EQUITY	<u><u>\$ 144,480,551</u></u>	<u><u>\$ 131,374,998</u></u>

Bridging the Digital Divide

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, rural America has been left behind.

Your cooperative must step up to the plate and do what others won't do. It is only natural that we extend the same access (similar to electric) to our members through high-speed internet service. A new necessity.

Our purpose is to improve our rural members' quality of life through the delivery of highly reliable, reasonably priced fiber services and exceptional customer service.

AT-A-GLANCE

Homes and businesses that are connected to Lake Region Fiber:



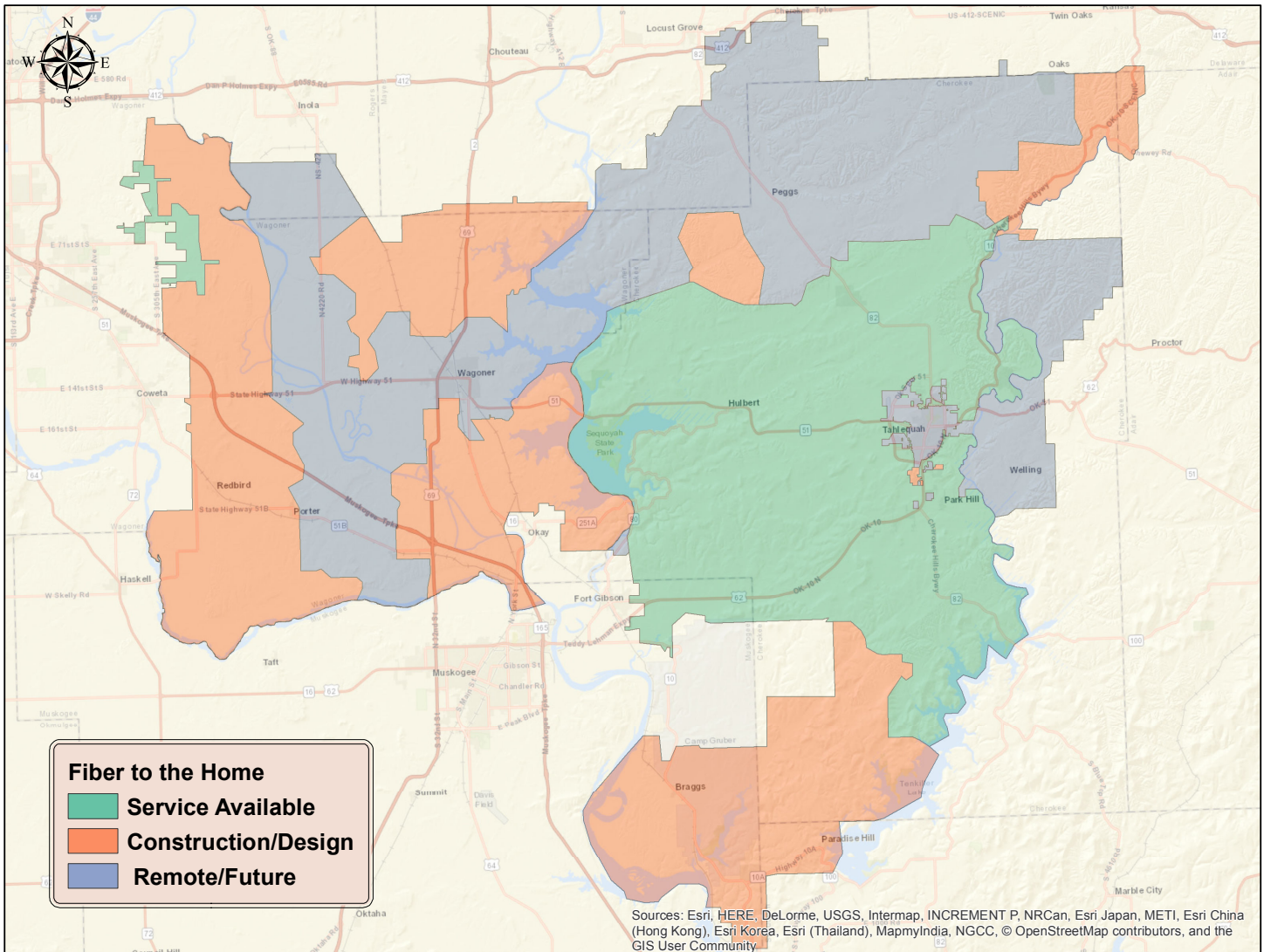
Total internet customers **4,482**



Total TV customers **1,473**



Total phone customers **631**



Briscoe, Burke & Grigsby LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Members of
Lake Region Electric Cooperative, Inc. and Subsidiaries
Hulbert, OK

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, 2019 and 2018, and the related consolidated statements of revenue and patronage capital, comprehensive income (not presented herein) and cash flows for the years then ended (not presented herein), and the related notes to the financial statements (not presented herein); and in our report dated April 1, 2020, 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.



Certified Public Accountants

Board Treasurer Update

I am pleased to present the 2019 financial results for Lake Region Electric Cooperative, Inc and subsidiaries. Briscoe, Burke & Grigsby audited the cooperative's 2019 financial statements, LLC, Certified Public Accountants. In their opinions, the 2019 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

Randall Shankle



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