

— Lake Region Electric Cooperative, Inc. —

# 2016 Annual Report



Touchstone Energy<sup>®</sup>  
Cooperatives

*The power of human connections<sup>®</sup>*

# Message from the CEO and Board President



## To our Members,

LREC wrapped up fiscal year 2016 (FY 2016) maintaining a healthy financial position despite the lower energy sales due to mild winter and summer temperatures. Total kWh sales were 4.7% lower than projections. Lower sales failed to generate adequate revenues to cover all the operating expenses of the cooperative. LREC ended the year with an operating deficit of \$664,672. However, the addition of the non-operating revenues enabled us to end the year with \$494,391 in total margins.

Our members' equity decreased to \$48,582,500 and long-term debts increased to \$48,953,018. The equity as a percent to total assets remains very strong at 47%. Total utility plant was increased by \$5 million to \$103,423,488 and non-utility plant was increased by \$1.7 million to \$11,708,956 mainly due to the Fiber-to-the-Home project construction.

### Other highlights from the fiscal year include:

- LREC's modified debt service coverage for the FY 2016 was 1.2, and the total debt to asset ratio was 35%.
- The average residential kWh usage per month was 1,136 kWhs.

- Total miles of line were 3,078 which served an average of 24,507 meters.

- Total purchased power cost as a percent of revenue continues to increase. Power cost was 64.8% of total revenue for FY 2016. 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 promote and sustain the self-reliance of members by providing the most reliable utility service at competitive rates.

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. After the success of LREC's pilot Fiber-To-The-Home project, the Board has decided to continue the endeavor to provide high quality state of the art broadband service to its members by starting the phase one construction of fiber optic lines. This phase includes construction of over 800 miles of fiber optics which will bring high speed internet

to over 9,000 homes. This is the first phase of a three phase project that started in August of 2016. The Phase One project is expected to be completed in the first quarter of 2019.

In December of 2016 the board was pleased to approve a patronage capital retirement/refund of \$1,076,181 to the members, bringing to total funds refunded to the members to \$19,608,444.

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 2016.

Chief Executive Officer

*Hamid Vahdatipour*

Board President

*Bobby Mayfield*

# 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.



**Bobby Mayfield**  
President



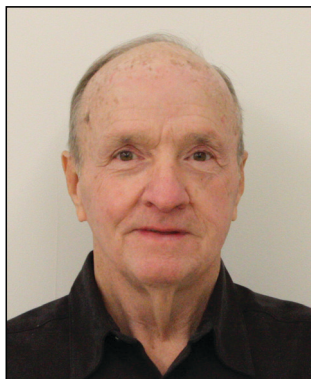
**Scott Manes**  
Vice President



**Lynn Lamons**  
Secretary-Treasurer



**Randall Shankle**  
Asst. Secretary-Treasurer



**Jack Teague**  
Trustee



**James Walls**  
Trustee



**Gary Cooper**  
Trustee

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## Management Staff



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



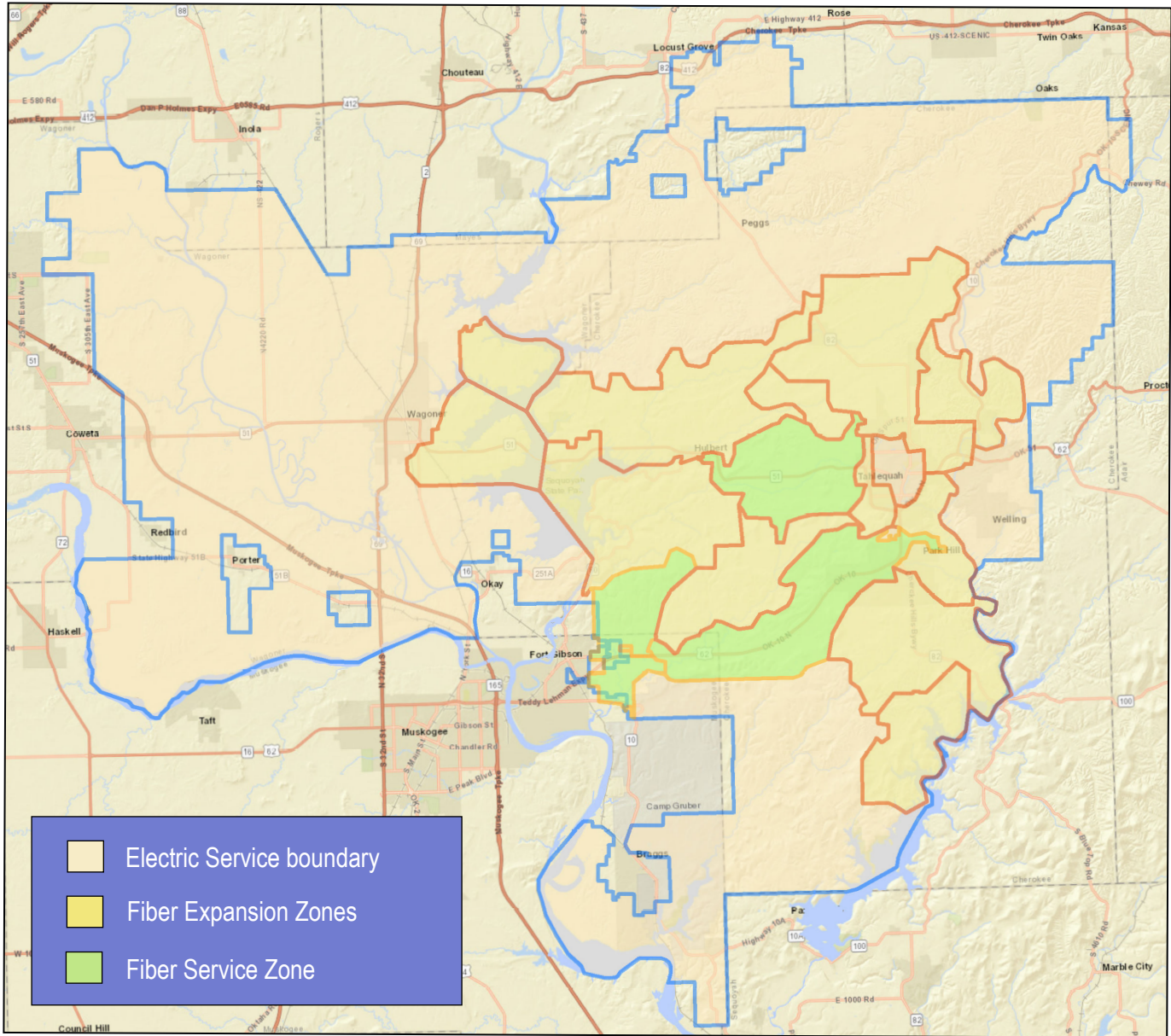
**Logan Pleasent**  
Director of Engineering  
& Operations



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



**Stanley Young**  
Director of  
Marketing



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

## System Facts at a Glance - 2016

**Total miles of electric line:** 3,078 (Overhead 2,976) (Underground 102) **Total Miles of fiber line:** 358

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

**Square miles:** 1,144

**Number of meters:** 24,507

**Number of employees:** 74

**Total kilowatt hours sold:** 390,378,599

**Number of new poles:** 510

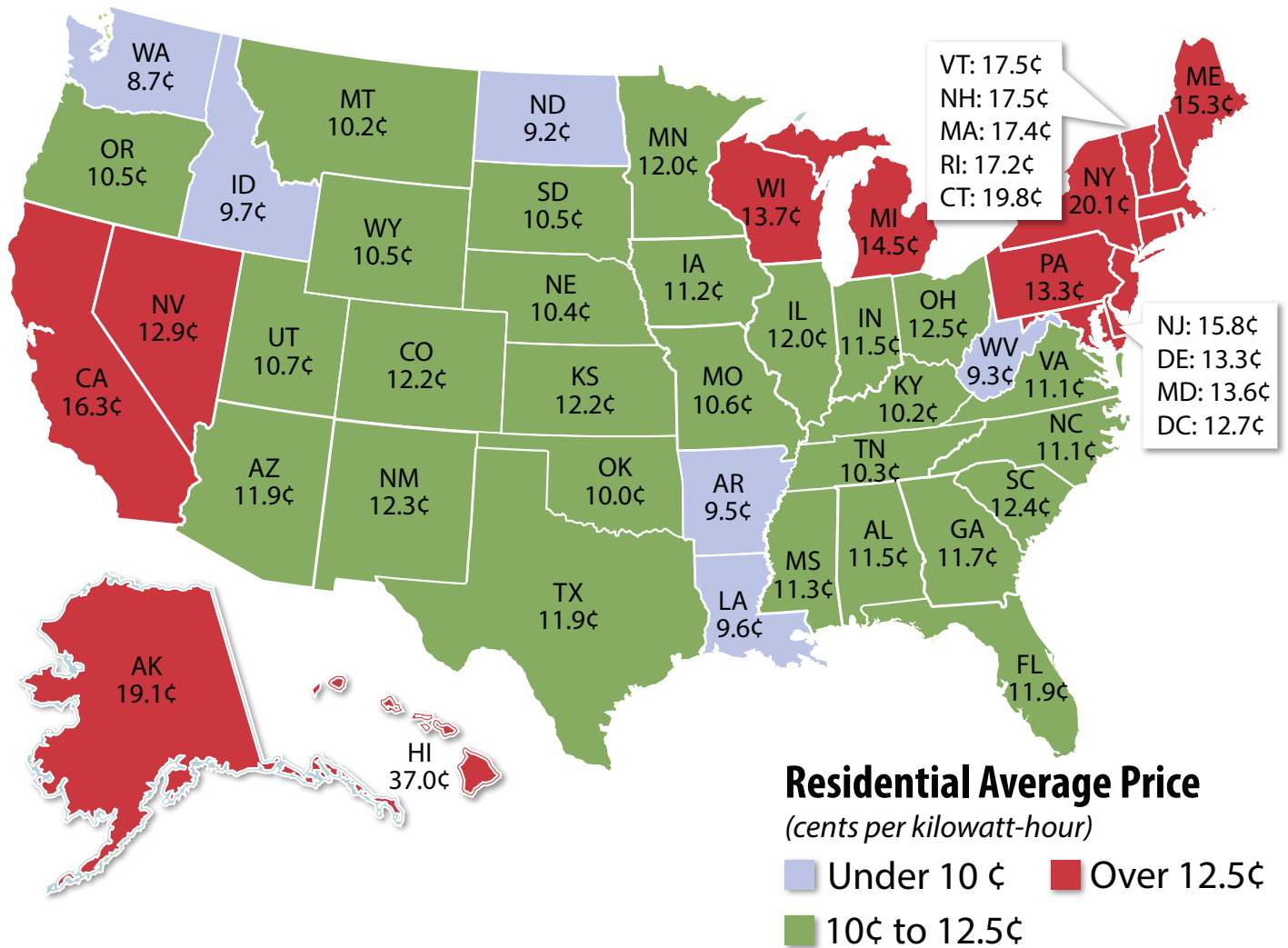
**Board meeting:** First Tuesday of each month

**Year first energized:** 1935

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

# Electricity Average Price

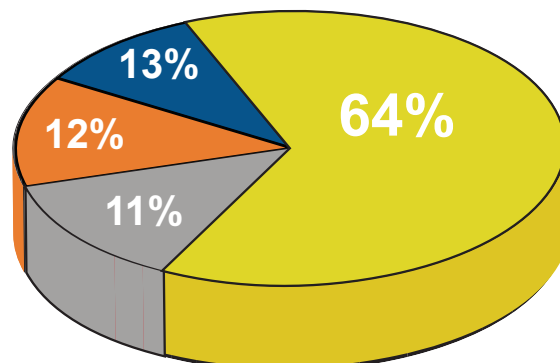
U.S. Co-op Average 12.5 cents per kWh | LREC Average 9.5 cents per kWh



Source: U.S. Energy Information Administration  
Numbers rounded to nearest tenth of a cent  
Updated May 2016

## LREC Operating Expenses

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





# Operating Revenues

	2016	2015
<b>Operating revenues</b>	<b>\$ 39,010,177</b>	<b>\$ 37,183,657</b>
<b>Operating expenses:</b>		
Cost of power	25,279,733	23,910,161
Distribution expense - operation	2,349,509	2,050,316
Distribution expense - maintenance	2,823,474	2,623,898
Consumer accounts expense	1,177,594	1,031,602
Customer service and information	276,114	252,140
Administration and general	2,956,219	2,771,771
Depreciation and amortization	2,718,352	2,578,162
Taxes	765,038	743,265
Interest on long-term debt	1,239,699	1,142,221
Other interest and deductions	119,313	109,871
<b>Total operating expenses</b>	<b>39,705,045</b>	<b>37,213,407</b>
<b>Net operating margins</b>	<b>(694,868)</b>	<b>(29,750)</b>
Nonutility revenue	2,329,655	2,225,464
<b>Nonutility expenses:</b>		
Nonutility cost of goods sold	192,390	155,200
Nonutility operating and general expense	2,657,370	2,373,982
	<b>2,849,760</b>	<b>2,529,182</b>
<b>Net nonutility margins</b>	<b>(520,105)</b>	<b>(303,718)</b>
<b>Non operating margins:</b>		
Interest and dividend income	67,823	70,753
Wildblue net margins	-	(26)
Other income	78,109	72,118
Gain on sale of equipment	-	6,007
<b>Total nonoperating margins</b>	<b>\$ 145,932</b>	<b>\$ 148,852</b>

# Capital Credits

	<u>2016</u>	<u>2015</u>
<b>Capital credits:</b>		
Generation and transmission cooperative capital credits	\$ 1,349,487	\$ 986,669
Other capital credits and patronage capital	<u>213,944</u>	<u>235,926</u>
<b>Total capital credits</b>	<b><u>1,563,431</u></b>	<b><u>1,222,595</u></b>
<b>Net margins before income taxes</b>	<b>494,390</b>	<b>1,037,979</b>
<b>Provision for income tax:</b>		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
<b>Net margins for year</b>	<b>494,390</b>	<b>1,037,979</b>
Patronage capital - beginning of year	48,009,529	48,064,430
Retirement of patronage capital	<u>(1,076,180)</u>	<u>(1,092,880)</u>
<b>Patronage capital - end of year</b>	<b><u>\$ 47,427,739</u></b>	<b><u>\$ 48,009,529</u></b>

## What are Capital Credits?

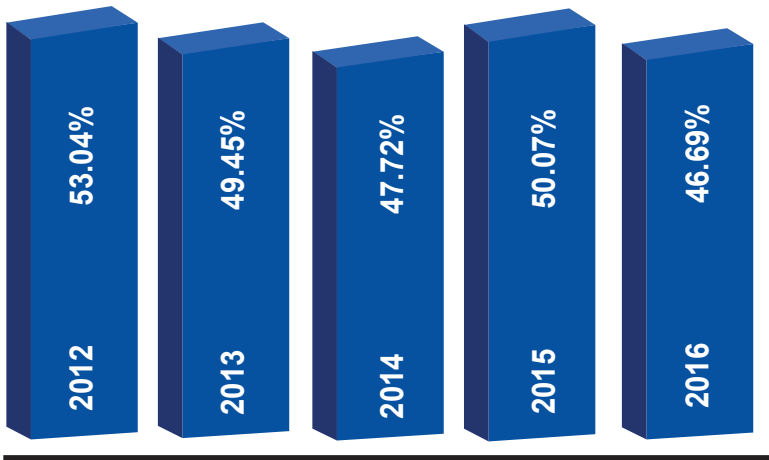
Lake Region Electric Cooperative (LREC) operates on an at-cost, not for profit basis. Instead of returning profits, known as margins, to stockholders who may not live in the same region or even the same state as you, the members,

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.





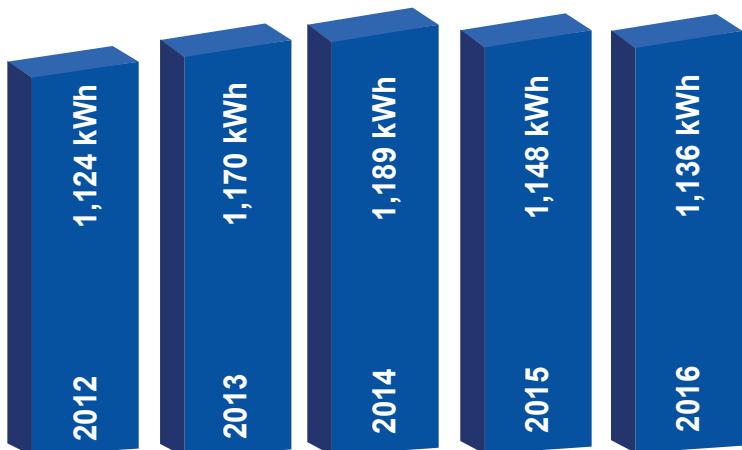
◀ Cooperative members' equity over last five years

## 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	2016	2015
<b>Utility plant (Notes 1 and 2)</b>		
Electric plant in service - at cost	\$ 100,923,372	\$ 97,429,935
Construction work in progress	2,500,116	864,115
	<b>103,423,488</b>	<b>98,294,050</b>
Less accumulated provision for depreciation and amortization	34,115,765	32,235,194
<b>Net utility plant</b>	<b>69,307,723</b>	<b>66,058,856</b>
<b>Nonutility plant (Note 2)</b>		
Nonutility plant	13,305,429	12,685,332
Construction work in progress	1,862,428	-
	<b>15,167,857</b>	<b>12,685,332</b>
Less accumulated depreciation	3,458,901	2,746,821
<b>Net nonutility plant</b>	<b>11,708,956</b>	<b>9,938,511</b>
<b>Other assets:</b>		
Investments in associated organizations (Note 3)	20,246,866	19,057,161
Other long-term investments (Note 12)	1,275	1,275
Intangible assets, net	67,762	71,798
<b>Total other assets</b>	<b>20,315,903</b>	<b>19,130,234</b>
<b>Current assets:</b>		
Cash - general fund	3,027,745	718,423
Accounts receivable - less allowance for doubtful accounts: 2016 - \$264,381; 2015 - \$251,774	3,364,515	2,657,232
Materials and supplies - at average cost	3,688,398	1,386,499
Other current and accrued assets	239,628	250,361
<b>Total current assets</b>	<b>10,320,286</b>	<b>5,012,515</b>
Deferred debits (Note 4)	925,793	1,099,794
<b>Total other assets</b>	<b>925,793</b>	<b>1,099,794</b>
<b>TOTAL ASSETS</b>	<b>\$ 112,578,661</b>	<b>\$ 101,239,910</b>

<b>LIABILITIES and MEMBERS' EQUITY</b>	<u>2016</u>	<u>2015</u>
<b>Equities and margins</b>		
Memberships	\$ 99,785	\$ 97,240
Patronage capital (Note 5)	47,427,739	48,009,529
Accumulated other comprehensive gain	255,244	255,244
Other equities (Note 6)	799,732	799,732
	<u>48,582,500</u>	<u>49,161,745</u>
<b>Total equities and margins</b>		
<b>Long-term liabilities:</b>		
Long-term debt less current maturities (Note 7)	43,836,903	36,796,565
Other non-current liabilities (Note 11)	5,116,115	4,812,483
	<u>48,953,018</u>	<u>41,609,048</u>
<b>Total long-term liabilities</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt (Note 7)	1,952,503	1,855,074
Line of credit	3,400,000	250,000
Accounts payable	3,538,659	2,811,670
Consumer deposits	2,036,010	1,894,758
Other current and accrued liabilities	3,387,738	2,941,425
	<u>14,314,910</u>	<u>9,752,927</u>
<b>Total current liabilities</b>		
Deferred credits (Note 8)	728,233	716,190
	<u>728,233</u>	<u>716,190</u>
<b>TOTAL LIABILITIES and MEMBERS' EQUITY</b>	<u><u>\$ 112,578,661</u></u>	<u><u>\$ 101,239,910</u></u>



## **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, 2016 and 2015, 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 March 13, 2017, 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 2016 financial results for Lake Region Electric Cooperative, Inc and subsidiaries. The cooperative's 2016 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In their opinions, the 2016 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

*Lynn Lamons*

# Lake Region Electric Cooperative, Inc.

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