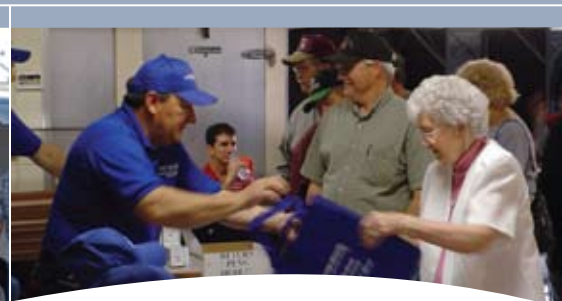




Lake Region Electric Cooperative Inc., 2009 Annual Report



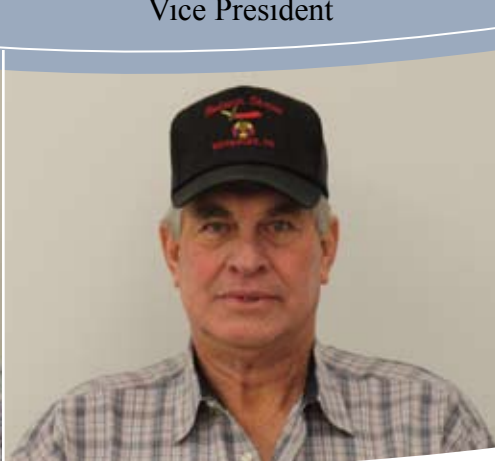
Board of Directors

Jack Tea
Asst. Sec. T

Gary Cooper
President



Bobby Mayfield
Vice President



Jim Loftin
Secr. Treasure



BOARD PRESIDENT & CHIEF EXECUTIVE OFFICER REPORT

Keeping members rates affordable, while dealing with raising operation costs.

There are many things that affect the operation of your cooperative, some we have control of and some we don't. Changes in the economy and increases in the price of certain items have compounded effects on the financial conditions of an entity. Let's consider the increases in fuel costs, for instance. The price of gasoline and diesel has remained high in the past years. It is easy to see the impact of these price changes in the bottom line of the cooperative because our vehicles are seen day in and day out traveling throughout our service territory maintaining the electric lines, trimming trees, and building new facilities. What is not as easy to see is the effect that the increased fuel cost has on all of the supplies that we purchase. Freight and shipping cost is a major portion of the cost of many items and the material that we buy. The larger and heavier the item, the more the impact of the fuel cost will be on the item. Electric poles, transformers and other large items procurement costs have

been going up accordingly and it affects the overall operations of the cooperative.

We have been able to work through such scenarios through proper planning and budgeting. The board and the management team has the philosophy of keeping a financially strong cooperative so that we can ride through such ups and downs to keep our member rates as low and stable as possible. Lake Region Electric Cooperative's mission statement 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.

Electricity prices in Oklahoma have climbed 23 percent since 1999, according to the U.S. Department of Energy. Residential customers in Oklahoma are paying 8.6 cents per kWh on average. The rising cost of natural gas, which is used to make 35 percent of the electricity produced in the state, is the chief cause of Oklahoma's higher electricity prices.

"The board and the management team has the philosophy of keeping a financially strong cooperative, so that we can ride through ups and downs and keep our member rates as low and stable as possible."

~ GARY COOPER | BOARD PRESIDENT

Kenneth Shankle
Member



Lynn Lamons
Member



Scott Manes
Member



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reasure

Over 61 percent of LREC's operating expenses, or \$21.6 million is comprised of the wholesale power cost. We have been fortunate that more than 80 percent of the power generated by our wholesale power generator is produced by coal generation. A mixture of coal, natural gas, wind and hydro generation has allowed us to keep your rates steady where others were forced to increase their rates. Most gas experts believe that we will find natural gas prices to be very volatile in the up coming years. As it stands, coal-fired generation is cheaper than gas.

However, some environmental issues loom over coal generation. The requirements of the Clean Air Act will cost millions of dollars which in turn will be passed on to the end users. Associated Electric Cooperative, Inc., our power generator, has always met its environmental responsibilities and will continue to be environmentally responsible. LREC's power supplier has reduced sulfur dioxide (SO₂) emissions by about 90 percent since 1994 by converting coal units to burn 100 percent low-sulfur western coal. AECL also took an aggressive approach on nitrogen oxides (NO_x), reducing emissions about 70 percent since 1994, during the ozone season of May through September.

Current projections estimate costs of complying with new federal environmental regulations will be significant. The biggest uncertainty in the cost of electricity generation is the Climate Change Legislation. Carbon Taxes or limits placed on the emission of carbon will increase the cost of electricity. It is estimated that a carbon tax of \$20 per ton could increase an average home's electric bill by about \$25 per month.

At LREC, we have been good stewards of our members' money. We are making sure that the expenses are kept at the minimum while at the same time monies are spent for the operation and maintenance of the cooperative in the critical areas. In order to

maintain the electric distribution lines and provide quality service to our members, we are spending over \$2 million annually in vegetation management or tree trimming which adds up to 37 percent of total operation and maintenance expenses of the cooperative.

Lake Region Electric Cooperative, Inc. was incorporated in 1949 when the members of East Central Electric Cooperative, located in Okmulgee, decided to divide its territory into two separate cooperatives in order to be able to provide better service to its members. A portion of East Central Electric Cooperative, east of the Arkansas River, which now surrounds Lake Fort Gibson and Lake Tenkiller, became Lake Region Electric Cooperative, Inc. LREC at its inception had 1,700 member consumers and 116 employees. Today LREC has over 23,750 consumers and only 68 employees.

In 1951 an average household used 75 kilowatt hours per month and an average electric (light) bill of \$4.39. The cost of each kilowatt hour was 5.8 cents. Today, an average household uses 1,200 kilowatt hours and the average electric bill (not just the light bill) is \$103.00, approximately 8.6 cents per kilowatt hour. This adds up to less than 3/4 of one percent increase per year, which is far below the rate of the inflation. The average cost of a new car has risen by about 20 percent a year in the past ten years.

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 2009.

Gary Cooper, Board President
Hamid Vahdatipour, CEO



BOARD SECRETARY-TREASURER REPORT

Lake Region Electric Cooperative INC, a Strong Financial Performance

Lake Region Electric Cooperative is in excellent fiscal condition with positive prospects for the future. Effective cost controls, sound budgeting and solid administrative procedures ensure proper management of cooperative funds.

Sales of electricity increased in 2009, with many members using more power than before with flat screen TV's, computers and other electronics. We want to keep encouraging members to be more energy efficient with their electric use. We are also continually updating our efforts to save you money through more energy efficiency rebate programs and exploring the possibilities of new technology such as our prepaid meters.

The cost of wholesale power, which required over 61 percent of total revenue, remained stable. Lake Region's power supplier, KAMO Power and its power generator, Associated Electric Cooperative, project the need for additional generation capacity in the future as our demand for electric grows. The need for capacity and environmental requirements will be putting pressure on wholesale power costs in the future. We encourage members to stay up to date with "Our Energy, Our Future" campaign, which lets members speak to elected officials about any regulations

put on power generation and curbing emissions of greenhouse gases, such as carbon dioxide, blamed for contributing to climate change. Lake Region and other electric co-ops are fighting to ensure that any climate change policy goals adopted are fair, affordable, and achievable. To make your voice heard in this debate, join NRECA's "Our Energy, Our Future" grassroots awareness campaign at www.ourenegy.coop.

Lake Region's emphasis on our distribution system improvements continued to provide a higher quality of service to our members. The cooperative's line inspection and right-of-way clearing programs have led to an overall system reliability of 99.9 percent. Outage time continued to trend downward in 2009.

Lake Region continued to provide an array of services to members in 2009, including Wildblue satellite internet service along with DirecTV services, Marathon hot water tanks and energy efficiency rebates. We are committed to provide reliable electric energy at a reasonable cost while providing services that are worthwhile to the membership.

—Jim Loftin, Board Secretary – Treasurer



LAKE REGION ELECTRIC COOPERATIVE INC.

Owned by those we serve.

The owners, also called members of Lake Region Electric Cooperative are those who receive electric service from the utility. Co-op members pay a one time five dollar membership fee.

Co-op membership has its rewards. As a nonprofit utility, Lake Region Electric returns capital margins — the money left over after expenses — to its members in the form of capital credits. In 2009, Lake Region Electric refunded \$246,283 to members. Returning profits to its members sets a cooperative apart from municipal or investor-owned utilities. Those who receive electric services from Lake Region Electric Cooperative own and control it through the democratic process. All members, regardless of how much electricity they buy, have an equal voice in the outcome of the elections — one vote per member.

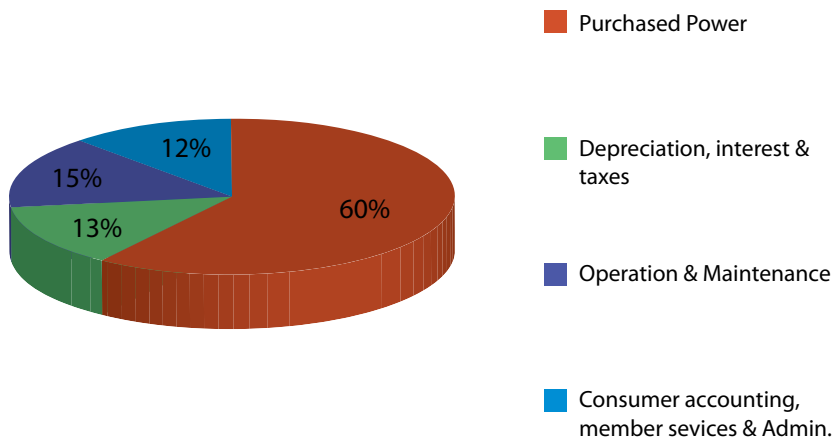
This cooperative way of doing business prevents a small or outspoken group from controlling the utility. A member's primary responsibility is to attend the cooperative's annual meeting once each year to vote for trustees and important bylaw changes. LREC holds its annual meeting of the membership the last Saturday in April. The annual meeting is the co-op's opportunity to bring members up to date and the members' opportunity to talk with trustees and employees. Members elect seven cooperative members to

serve as trustees governing the cooperative. Each trustee serves a three-year term and may seek to be elected for additional terms.

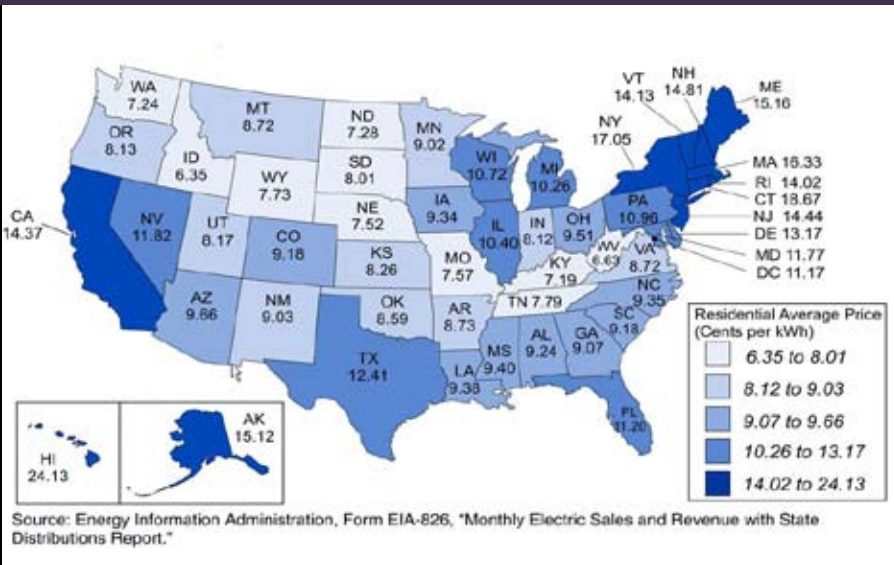
The board of trustees establishes policies for the cooperative, hires the chief executive officer, who oversees the daily operations, monitors cooperative finances, reviews policies and procedures and represents the cooperative in legislative matters. The board meets monthly at the main office in Hulbert to discuss issues requiring action by the cooperative. Trustees work in special committees and are required to attend workshops and conferences to further educate themselves about the electric cooperatives way of business.



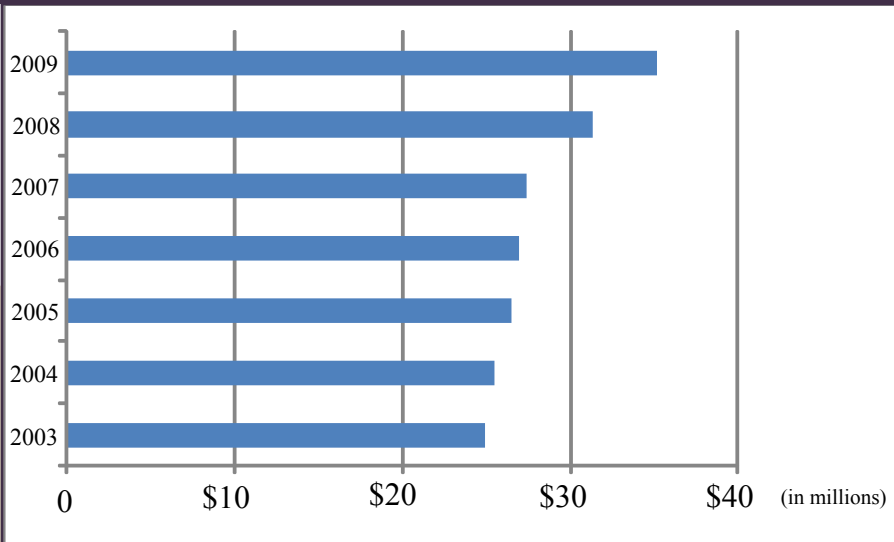
LR EC operating expenses



Average price for residential electricity (2009)



LR EC electricity sales



Financial Highlights

Members' ownership percentage (equity) decreased 51.84% to 49.24%.

\$246,283 in capital credits returned in 2009 bringing the total amount refunded to the membership to \$13,593,657.

60 percent spent on wholesale power.

Total kWh sales for 2009 were \$366,668,566. Total sales in 2008 was 365,865,116. This is a .2% decrease from last year.

Operation & Maintenance expenses in 2009 had a 14% increase from last year.

Administrative & general expenses were \$2,461,071.

LREC is spending up to 37% of the total operation and maintenance expenses on vegetation management or tree trimming. (right-of-way)

Oklahomans are paying 8.6 cents per kWh on average. One of the lower rates in the United States.

LREC has over 23,750 consumers and 68 employees.

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Revenues and Patronage Capital

For the Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenues	\$ 35,191,844	\$ 31,307,268
Operating expenses:		
Cost of power	21,580,607	19,262,080
Distribution expense - operation	2,251,872	1,784,063
Distribution expense - maintenance	3,266,923	3,054,204
Consumer accounts expense	1,535,164	1,247,332
Customer service and information	244,080	186,850
Administration and general	2,461,071	2,016,886
Depreciation and amortization	2,063,715	1,984,974
Taxes	765,950	620,737
Interest on long-term debt	1,328,481	1,258,414
Other interest and deductions	301,675	191,963
Total operating expenses	35,799,538	31,607,503
Net operating margins	(607,694)	(300,235)
Nonutility revenue	649,875	544,409
Nonutility expenses:		
Nonutility cost of goods sold	133,153	143,041
Nonutility operating and general expense	422,551	417,435
	555,704	560,476
Net nonutility margins	94,171	(16,067)
Non operating margins:		
Interest and dividend income	46,453	53,134
Wildblue net margins	159,869	133,887
Other income	106,645	75,121
(Loss) on sale of equipment	(3,839)	(25,228)
Total nonoperating margins	\$ 309,128	\$ 236,914

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Revenues and Patronage Capital

For the Years Ended December 31, 2009 and 2008

	2009	2008
Capital credits:		
Generation and transmission cooperative capital credits	\$ 1,728,874	\$ 679,224
Other capital credits and patronage capital	291,308	301,917
Total capital credits	2,020,182	981,141
Net margins before income taxes	1,815,787	901,753
Provision for income tax:		
Current	-	-
Deferred	-	-
Net margins for year	1,815,787	901,753
Patronage capital - beginning of year	35,154,464	34,448,565
Retirement of patronage capital	(246,283)	(195,854)
Patronage capital - end of year	\$ 36,723,968	\$ 35,154,464

“We measure our performance according to the impact that we have in saving our members’ money.”

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets
December 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 79,383,455	\$ 76,246,140
Construction work in progress	<u>1,091,518</u>	<u>1,383,523</u>
	80,474,973	77,629,663
Less accumulated provision for depreciation and amortization	<u>24,681,473</u>	<u>23,615,494</u>
Net utility plant	<u>55,793,500</u>	<u>54,014,169</u>
Nonutility plant (Note 2)		
Nonutility plant	3,817,085	3,474,960
Less accumulated depreciation	<u>1,071,164</u>	<u>956,470</u>
Net nonutility plant	<u>2,745,921</u>	<u>2,518,490</u>
Other assets:		
Investments in associated organizations (Note 3)	11,937,539	10,254,298
Other long-term investments (Note 12)	<u>223,769</u>	<u>254,791</u>
Total other assets	<u>12,161,308</u>	<u>10,509,089</u>
Current assets:		
Cash - general fund	2,799,326	539,922
Accounts receivable - less allowance for doubtful accounts: 2009 - \$19,943; 2008 - \$32,327	5,125,892	4,238,270
Materials and supplies - at average cost	594,773	1,015,821
Other current and accrued assets	<u>699,716</u>	<u>204,273</u>
Total current assets	<u>9,219,707</u>	<u>5,998,286</u>
Deferred charges (Note 4)	<u>7,364</u>	<u>17,477</u>
Total other assets	<u>7,364</u>	<u>17,477</u>
TOTAL ASSETS	<u><u>\$ 79,927,800</u></u>	<u><u>\$ 73,057,511</u></u>

LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARY
Consolidated Balance Sheets
December 31, 2009 and 2008

LIABILITIES and MEMBERS' EQUITY	<u>2009</u>	<u>2008</u>
Equities and margins		
Memberships	\$ 94,920	\$ 94,550
Patronage capital (Note 5)	36,723,968	35,154,464
Other equities (Note 6)	1,221,910	1,302,800
Total equities and margins	<u>38,040,798</u>	<u>36,551,814</u>
 Long-term liabilities:		
Long-term debt less current maturities (Note 7)	28,419,534	21,073,474
Other non-current liabilities (Note 11)	3,073,044	2,883,018
Total long-term liabilities	<u>31,492,578</u>	<u>23,956,492</u>
 Current liabilities		
Current maturities of long-term debt (Note 7)	1,560,421	1,138,234
Line of credit (Note 7)	-	5,350,000
Accounts payable	5,129,266	2,778,047
Consumer deposits	1,380,997	1,118,860
Other current and accrued liabilities	1,530,526	1,495,647
Total current liabilities	<u>9,601,210</u>	<u>11,880,788</u>
 Deferred credits (Note 8)	 <u>793,214</u>	 <u>668,417</u>
 Contingent liabilities (Note 9)	 <u>-</u>	 <u>-</u>
 TOTAL LIABILITIES and MEMBERS' EQUITY	 <u>\$ 79,927,800</u>	 <u>\$ 73,057,511</u>

INDEPENDENT AUDITOR'S REPORT **For the year ended December 31, 2009.**

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, 2009 and 2008, 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, 2009 and 2008 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 March 26, 2010, 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.

Certified Public
Accountants
March 26, 2010
Tulsa, Oklahoma

Consultants

Attorney, Tina Glory-Jordan

Engineering Consultants,
Electrical Systems Consultants,
Ft. Collins, Colo.

Cost of Service & Rate Consultants,
C.H. Guernsey & Associates,
Oklahoma City, Okla.

Financial Consultant, National Rural
Utilities Cooperative Finance Corporation
(CFC) Herndon, VA.

General Consultant, National Rural
Electric Cooperative Association (NRECA)
Arlington, VA.

Power Supplier, KAMO Power,
Vinita, Okla.

I am pleased to present the 2009 financial results for Lake Region Electric Cooperative. The cooperative's 2009 financial statements were audited by Briscoe, Burke & Grigsby, LLP Certified Public Accountants. In the opinions, the 2009 financial statements present fairly, in all material respects, the financial position and results of operation for Lake Region Electric Cooperative and the LREC Foundation in conformity with generally accepted accounting principles.

Jim Loftin
Secretary/Treasurer,
Board of Trustees

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