

From quality customer service to assisting schools, rural water districts and rural fire departments, Lake Region Electric Cooperative, Inc. is committed to assisting the members and communities we serve. It is all a part of our dedication as your local electric cooperative.



62nd Annual Meeting



2011 Annual Report

BOARD OF TRUSTEES

Gary Cooper



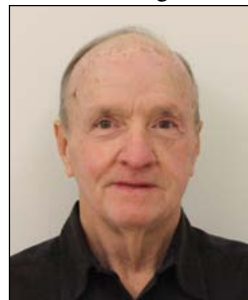
Bobby Mayfield



Jim Loftin



Jack Teague



Randall Shankle



Lynn Lamons



Scott Manes



Take a moment to get to know your board.

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.

Consultants

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

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

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

Board President & Chief Executive Officer Report



A Business Customer-Owners Can Trust...

The electric utility environment is changing continuously. Deregulation and competition are no longer on the front burner in the minds of the law makers. The buzz word in the last few years has been global warming and greenhouse gases. Placing a cap on carbon production or taxing it would have a direct impact on the price of electricity that we provide you. There has to be a balanced approach so that we can be good stewards of the environment and at the same time provide affordable electricity to our members. It is our responsibility, as your electric cooperative, to be among the leading team when it comes to shaping the future of our industry. We have to make sure that the needs of our member/owners are protected in this new changing environment. Our priority is working through National Rural Electric Cooperative Association (NRECA) to preserve the cooperative environment and provide electric power to our members at the lowest possible cost.

The crash of the stock market and the news of the bankruptcies and the bail-outs in the past few years have brought forward a mistrust of the business world by the public. It is important to note that an electric cooperative, due to its unique structure, is immune from such happenings. An electric cooperative's customers are also its owners and stock holders. This is different from an investor-owned utility whose customers and stockholders are two different groups of people. The primary objective of an investor owned utility is maximizing the profits and improving its stock values and dividends. There is nothing wrong with that. This is the basis of our market economy. A for profit corporation is setup to provide a product or service to its customers and in return make a profit for its owners or stockholders.

Of course this shows that the objectives of stockholders and customers are usually not the same. As a matter of fact, they are opposites of each other. Customers benefit from lower prices where the benefits of stockholders are higher revenues. That is where the difference in an electric cooperative shines. Our customers and owners are the same. Our mission is to provide the service at the lowest possible cost. There is no incentive or benefit for an electric cooperative to misrepresent its financial statements to gain stock prices. As a matter of fact, the new law requires that the chief executive and financial officers of a publicly traded organization personally sign and verify the accuracy of the financial statements. We, at the cooperatives across the nation, have been doing this for over fifty years.

We are pleased to report that Lake Region Electric Cooperative (LREC) has had a successful year in 2011. Our rates have remained steady since February of 2009 despite the upwards pressure on the material, supplies, labor, and health-care costs. LREC remains to be financially strong with an equity ratio of 55.45% and continuously improving the quality of service we provide to our members. While our rates have ranked lower than average in the nation and within Oklahoma, we have ranked among the highest in the American Customer Satisfaction Index. We have scored an ACSI score of 89 as compared to the nationwide co-op average of 83 and the investor owned utilities average of 74.

We cannot predict the future, but one thing is certain. The need to communicate and transmit data is becoming more important every year, whether it is the need for the smart grid for cooperatives or access to the internet by our members. Cooperatives brought electricity to the rural areas in the 1930s, they may have to step up and bring broadband access to members in this age of technology. In the future we will continue to be vigilant in exploring other needs and opportunities that would make LREC stronger and our members happier.

Excellent customer service, a 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 2011.

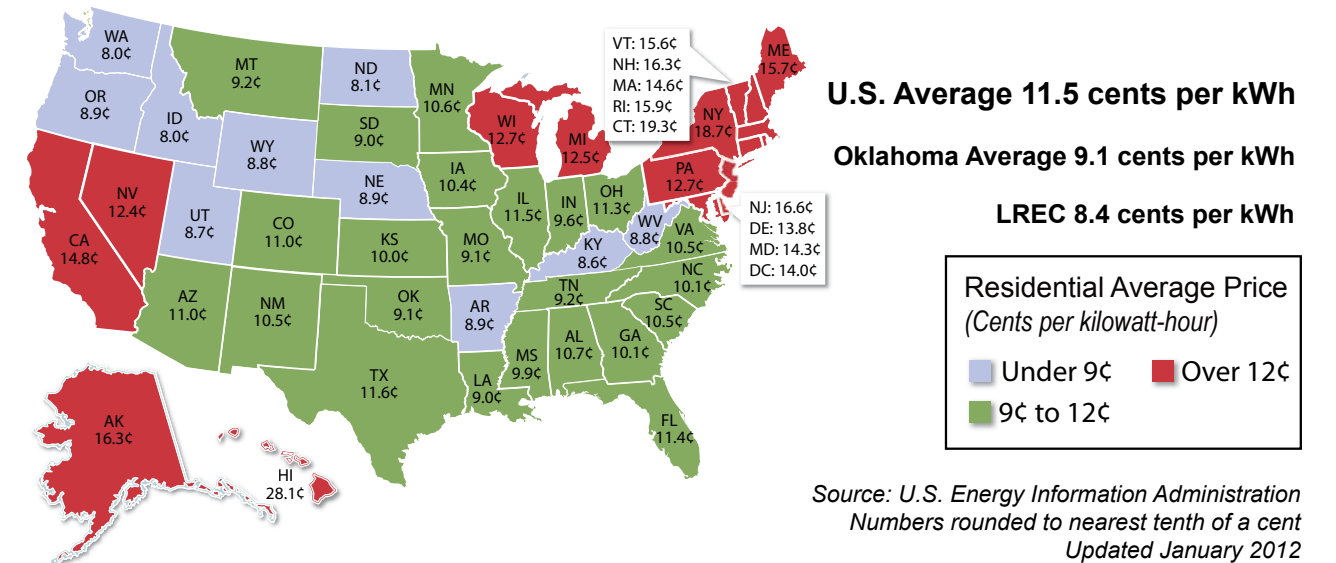
Board President
Gary Cooper

Chief Executive Officer
Hamid Vahdatipour

Consolidated Statements of Revenues and Patronage Capital
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues	\$ 37,861,806	\$ 38,200,464
Operating expenses:		
Cost of power	23,501,993	22,668,591
Distribution expense - operation	1,746,039	1,571,243
Distribution expense - maintenance	3,292,782	3,208,708
Consumer accounts expense	1,320,202	1,262,950
Customer service and information	225,690	228,152
Administration and general	2,380,834	2,171,282
Depreciation and amortization	2,224,678	2,130,732
Taxes	839,825	780,181
Interest on long-term debt	1,388,002	1,524,632
Other interest and deductions	63,416	61,475
Total operating expenses	36,983,461	35,607,946
Net operating margins	878,345	2,592,518
Nonutility revenue	665,760	667,119
Nonutility expenses:		
Nonutility cost of goods sold	147,932	132,380
Nonutility operating and general expense	498,478	463,692
	646,410	596,072
Net nonutility margins	19,350	71,047
Non operating margins:		
Interest and dividend income	58,842	65,459
Wildblue net margins	169,208	193,813
Other income	103,929	108,959
Gain on sale of equipment	14,805	27,082
Total nonoperating margins	\$ 346,784	\$ 395,313

Average Prices for Residential Electricity in cents per kWh



Where your electric dollar went in 2011



American Customer Satisfaction Index (ACSI) score

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 to the right is our American Customer Satisfaction Index rating. LREC has a score of 89.



Consolidated Statements of Revenues and Patronage Capital
For the Years Ended December 31, 2011 and 2010

	2011	2010
Capital credits:		
Generation and transmission cooperative capital credits	\$ 1,347,112	\$ 1,260,330
Other capital credits and patronage capital	249,302	340,171
Total capital credits	1,596,414	1,600,501
Net margins before income taxes	2,840,893	4,659,379
Provision for income tax:		
Current	-	-
Deferred	-	-
Net margins for year	2,840,893	4,659,379
Patronage capital - beginning of year	40,829,582	36,723,968
Retirement of patronage capital	(1,204,683)	(553,765)
Patronage capital - end of year	\$ 42,465,792	\$ 40,829,582

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 retirement

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

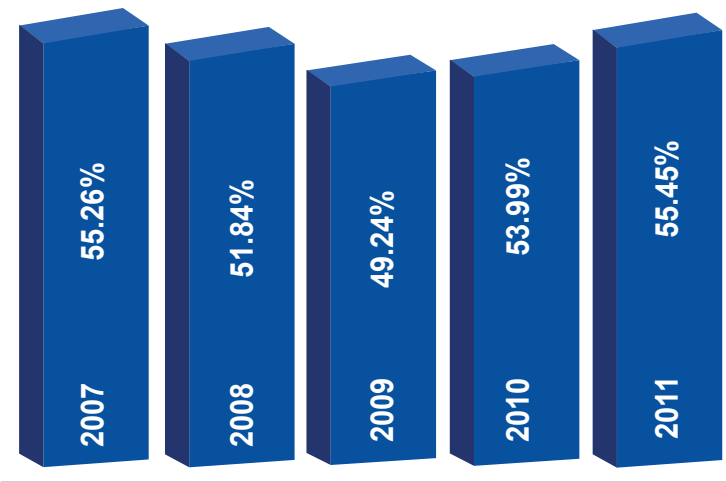


Courtesy photo

December 31, 2011 and 2010

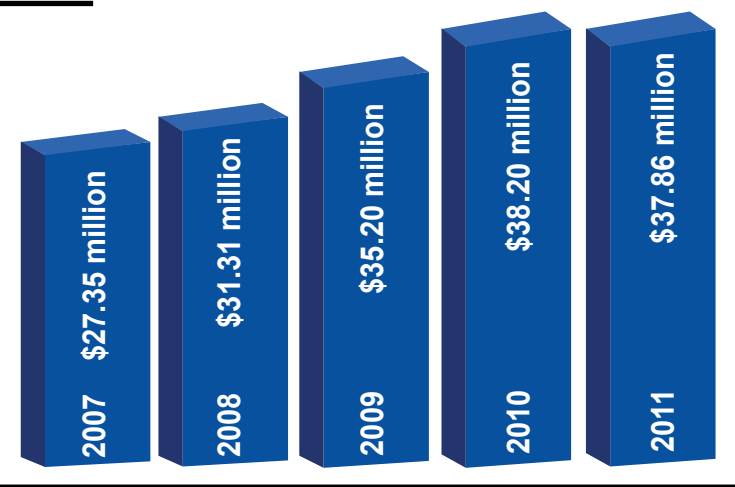
	2011	2010
ASSETS		
Utility plant (Notes 1 and 2)		
Electric plant in service - at cost	\$ 85,859,328	\$ 81,834,640
Construction work in progress	1,069,183	702,144
	86,928,511	82,536,784
Less accumulated provision for depreciation and amortization	26,804,235	25,714,152
Net utility plant	60,124,276	56,822,632
Nonutility plant (Note 2)		
Nonutility plant	4,012,403	3,876,133
Less accumulated depreciation	1,330,804	1,198,547
Net nonutility plant	2,681,599	2,677,586
Other assets:		
Investments in associated organizations (Note 3)	14,389,123	13,086,906
Other long-term investments (Note 12)	139,675	144,327
Total other assets	14,528,798	13,231,233
Current assets:		
Cash - general fund	391,652	1,132,594
Accounts receivable - less allowance for doubtful accounts: 2011 - \$95,571; 2010 - \$53,466	3,672,747	6,226,978
Materials and supplies - at average cost	666,122	532,456
Other current and accrued assets	210,998	184,820
Total current assets	4,941,519	8,076,848
Deferred charges (Note 4)	2,419	5,152
Total other assets	2,419	5,152
TOTAL ASSETS	\$ 82,278,611	\$ 80,813,451

Statistics Over 5-Year Period Graphs



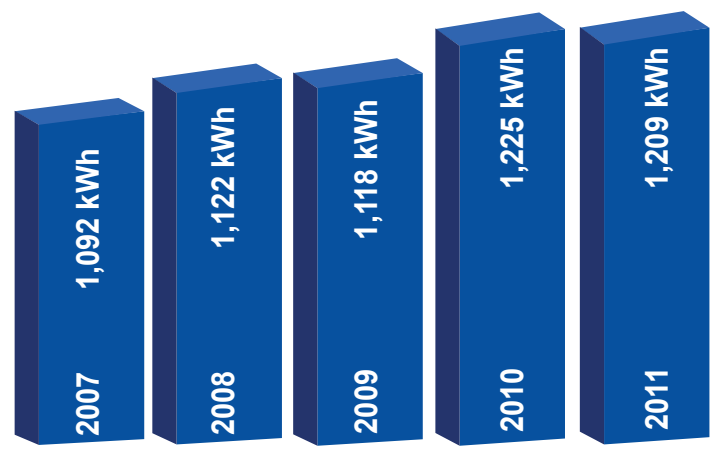
◀ Cooperative members' equity over last five years

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

Lake Region Electric Cooperative, Inc. and Subsidiary

December 31, 2011 and 2010

LIABILITIES and MEMBERS' EQUITY

Equities and margins

	2011	2010
Memberships	\$ 95,500	\$ 95,555
Patronage capital (Note 5)	42,465,792	40,829,582
Accumulated other comprehensive loss	(218,425)	(341,048)
Other equities (Note 6)	764,561	754,057

Total equities and margins

43,107,428	41,338,146
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Long-term liabilities:

Long-term debt less current maturities (Note 7)	25,983,902	26,749,851
Other non-current liabilities (Note 11)	4,185,628	4,037,905

Total long-term liabilities

30,169,530	30,787,756
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Current liabilities

Current maturities of long-term debt (Note 7)	1,765,999	1,667,657
Line of credit	100,000	-
Accounts payable	2,775,411	2,898,122
Consumer deposits	1,671,793	1,610,691
Other current and accrued liabilities	1,791,495	1,659,182

Total current liabilities

8,104,698	7,835,652
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Deferred credits (Note 8)

896,955	851,897
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Contingent liabilities (Note 9)

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TOTAL LIABILITIES and MEMBERS' EQUITY

\$ 82,278,611	\$ 80,813,451
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Independent Auditor's Report

System Facts

Total miles of line: (Overhead 2,948) (Underground 83)

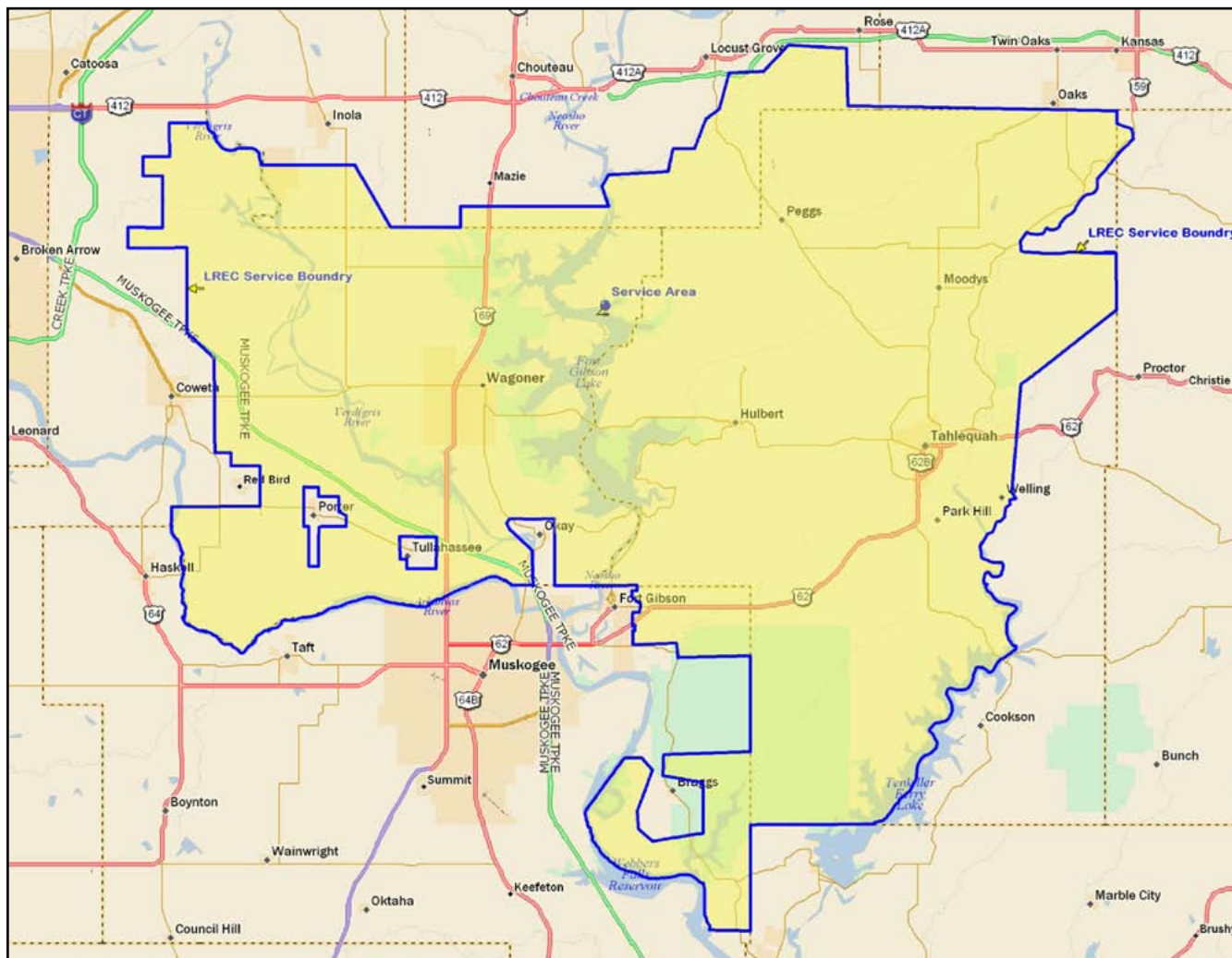
Counties served: Wagoner, Cherokee, Mayes, Rogers, Muskogee, Delaware and Adair

Square miles: 1,144 **Number of meters:** 23,909 **Number of employees:** 67

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

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

Lake Region Electric Cooperative Service Map



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, 2011 and 2010, 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, 2011 and 2010 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 20, 2012, 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.

Briscoe, Burke & Grigsby, LLC
Certified Public Accountants
March 20, 2012
Tulsa, Oklahoma

Board Treasurer Update

I am pleased to present the 2011 financial results for Lake Region Electric Cooperative. The cooperative's 2011 financial statements were audited by Briscoe, Burke & Grigsby, LLC, Certified Public Accountants. In the opinions, the 2011 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.

Secretary/Treasurer,
Jim Loftin

Lake Region Electric Cooperative, Inc.

Your Touchstone Energy® Cooperative

The power of human connections®



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