



# 2017 Annual Report



## MESSAGE FROM THE CEO & BOARD PRESIDENT

# To our Members,



LREC wrapped up the fiscal year 2017 (FY 2017) maintaining a healthy financial position despite the lower energy sales due to mild winter and summer temperatures. Total kWh sales were 3.8% lower than projections and 5.4% lower than 2016. Lower sales barely generated adequate revenues to cover all the operating expenses of the cooperative. LREC ended the year with an operating margin of \$31,871. However, the addition of the non-operating revenues enabled us to end the year with \$2,021,238 in total margins.

Our members' equity increased to \$49,869,547 and long-term debts increased to \$56,475,787. The equity as a percent of total assets remains very strong at 42%. The total utility plant was increased by \$4 million to \$107,478,142, and the non-utility plant increased by \$5.7 million to \$17,473,324 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 2017 was 1.64, and the total debt to asset ratio was 37%.
- The average residential kWh usage per month dropped to

1,075 kWhs from 1,136 kWhs in 2016.

- Total miles of line were 3,088 serving an average of 24,648 meters.
- Total purchased power cost was 62% of total revenue for FY 2017. In comparison 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 phase one construction of fiber optic lines. This phase includes construction of over 800 miles of fiber optic lines bringing high-speed internet to over 9,000

homes. This is the first phase of a three-phase project that started in August of 2016. During 2017, LREC more than doubled its broadband customers moving from 865 connected customers to 1,902 connected customers in December of 2017. The Phase One project is expected to be completed in the first quarter of 2019.

In December of 2017, the board was pleased to approve a patronage capital retirement/refund of \$1,188,649 to the members, bringing to total funds refunded to the members to \$20,797,093.

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 2017.

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

---

## Management Staff



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



**Logan Pleasant**  
Director of Engineering  
& Operations

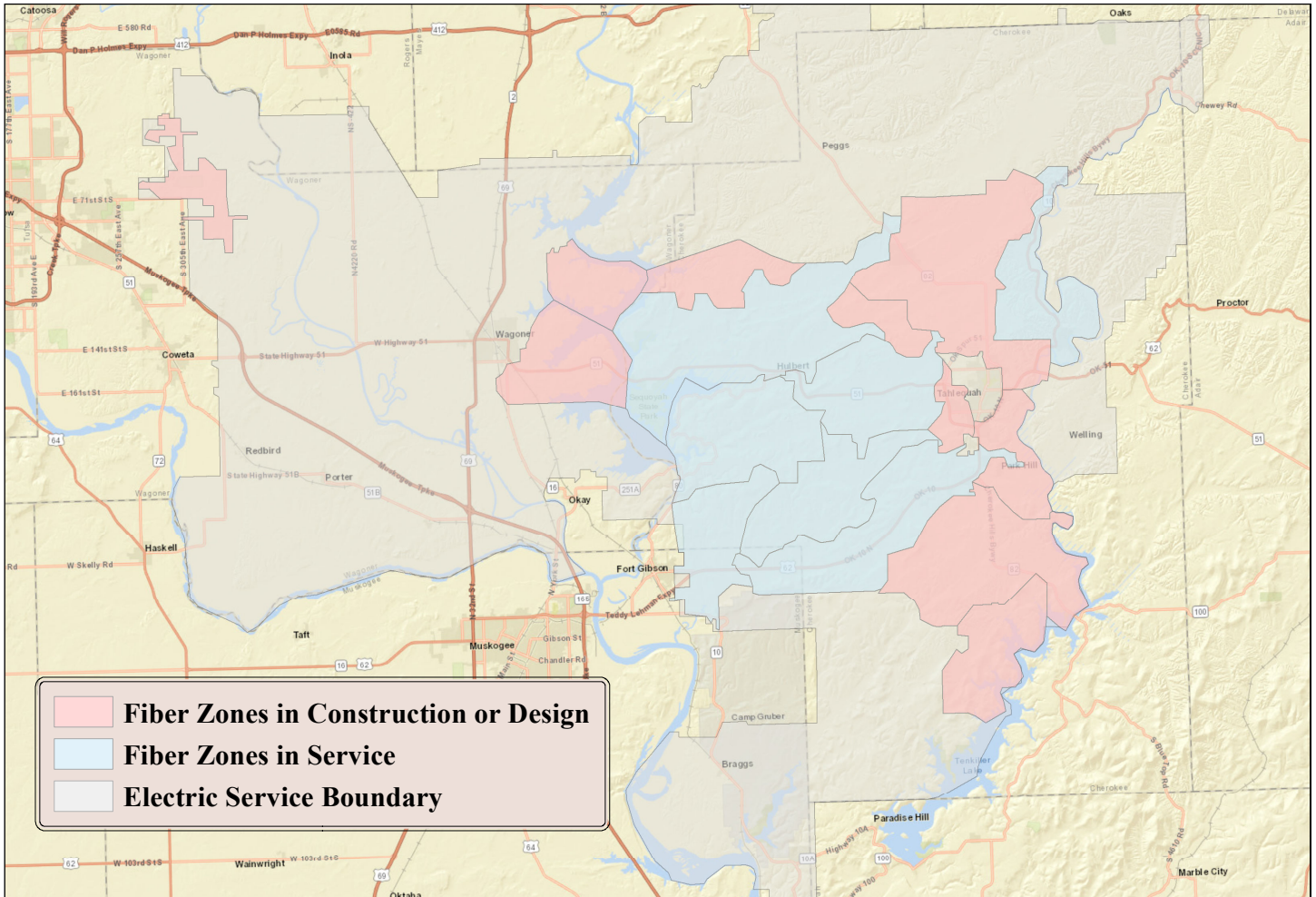


**Ben McCollum**  
Director of  
Fin. & Admin



**Glen Clark**  
Director of  
Marketing

# Service Territory



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

## System Facts at a Glance - 2017

**Total miles of electric line:** 3,088 (Overhead 2,980) (Underground 108) **Total miles of fiber line:** 577

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

**Square miles:** 1,144 **Number of meters:** 24,708 **Number of members:** 19,736

**Number of employees:** 82 **Total kilowatt hours sold:** 370,067,984 **Number of new poles:** 679

**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



## Where the Dollar Comes From

Residential Sales	\$31,655,097
Commercial Sales	\$6,293,202
Schools & Churches	\$827,358
Other Revenue & Interest	\$679,013
<b>Total Revenue</b>	<b>\$39,454,670</b>



## Revenues and Expenses

Total Revenue **\$39,454,670**

### Expenses Controlled By Other Entities

Cost of Power	\$24,252,117
Depreciation & Amortization	\$3,191,708
Interest on Long-Term Debt	\$1,589,278
Taxes	\$786,920
Other Interest and Deductions	\$172,383

**Total Controlled Expenses \$29,992,406**

### Expenses Controlled By LREC

Operations & Maintenance	\$5,028,192
Consumer & Customer Service	\$1,602,018
Administration & General	\$2,800,182

**Total Controllable Expenses \$9,430,392**

**TOTAL EXPENSES \$39,422,798**

**Net Operating Margins \$31,871**

## Where the Dollar Goes - Operating Expenses



Purchased Power - 61.5%

Accounting, Member Service & Admin. - 14.5%

Operation & Maintenance - 12.7%

Depreciation and Amortization - 11.2%

# Operating Revenues

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Statements of Revenue and Patronage Capital

*For the Years Ended December 31, 2017 and 2016*

	2017	2016
<b>Operating revenues</b>	<b>\$ 39,454,669</b>	<b>\$ 39,010,177</b>
<b>Operating expenses:</b>		
Cost of power	24,252,117	25,279,733
Distribution expense - operation	2,264,172	2,349,509
Distribution expense - maintenance	2,764,020	2,823,474
Consumer accounts expense	1,370,219	1,177,594
Customer service and information	231,799	276,114
Administration and general	2,800,182	2,956,219
Depreciation and amortization	3,191,708	2,718,352
Taxes	786,920	765,038
Interest on long-term debt	1,589,278	1,239,699
Other interest and deductions	172,383	119,313
<b>Total operating expenses</b>	<b>39,422,798</b>	<b>39,705,045</b>
<b>Net operating margins (loss)</b>	<b>31,871</b>	<b>(694,868)</b>
Nonutility revenue	3,065,982	2,329,655
<b>Nonutility expenses:</b>		
Nonutility cost of goods sold	174,887	192,390
Nonutility operating and general expense	2,961,868	2,657,370
	<b>3,136,755</b>	<b>2,849,760</b>
<b>Net nonutility margins (loss)</b>	<b>(70,773)</b>	<b>(520,105)</b>
<b>Non operating margins:</b>		
Interest and dividend income	39,157	67,823
Other income	68,998	78,109
Gain on sale of equipment	13,150	-
<b>Total nonoperating margins</b>	<b>\$ 121,305</b>	<b>\$ 145,932</b>

# Capital Credits

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

### Consolidated Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Capital credits:</b>		
Generation and transmission cooperative capital credits	\$ 1,673,829	\$ 1,349,487
Other capital credits and patronage capital	<u>265,096</u>	<u>213,944</u>
<b>Total capital credits</b>	<b><u>1,938,925</u></b>	<b><u>1,563,431</u></b>
<b>Net margins before income taxes</b>	<b>2,021,328</b>	<b>494,390</b>
<b>Provision for income tax:</b>		
Current	-	-
Deferred	<u>-</u>	<u>-</u>
<b>Net margins for year</b>	<b>2,021,328</b>	<b>494,390</b>
Patronage capital - beginning of year	47,427,739	48,009,529
Retirement of patronage capital	<u>(1,188,649)</u>	<u>(1,076,180)</u>
<b>Patronage capital - end of year</b>	<b><u>\$ 48,260,418</u></b>	<b><u>\$ 47,427,739</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

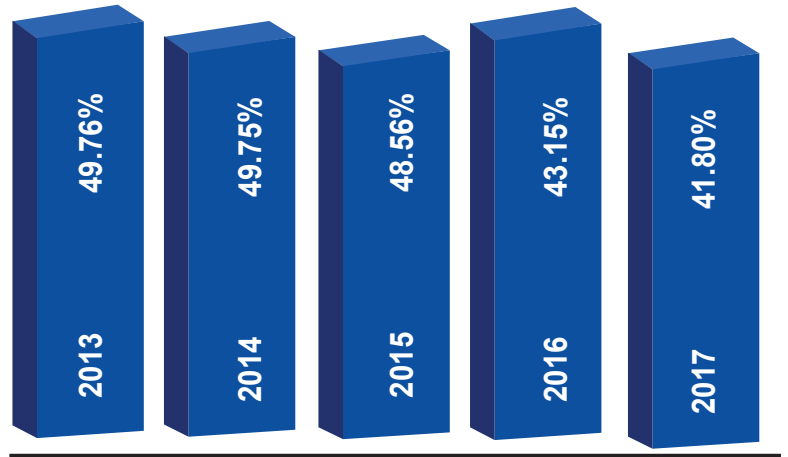
electricity you, the member purchased during a year.

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.



# Five-Year Comparison

Cooperative members' equity over last five years ▶



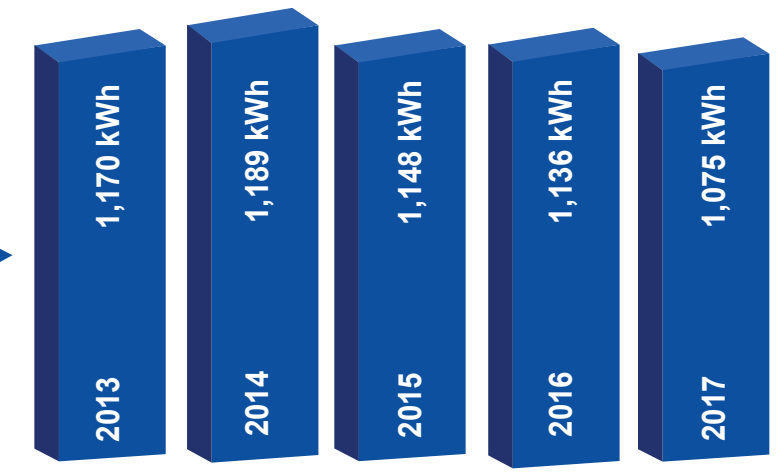
## Member Equity (percent)



◀ 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

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

### Consolidated Balance Sheets

December 31, 2017 and 2016

ASSETS	2017	2016
<b>Utility plant (Notes 1 and 2)</b>		
Electric plant in service - at cost	\$ 105,950,233	\$ 100,923,372
Construction work in progress	1,527,909	2,500,116
	<b>107,478,142</b>	<b>103,423,488</b>
Less: accumulated provision for depreciation and amortization	36,618,587	34,115,765
<b>Net utility plant</b>	<b>70,859,555</b>	<b>69,307,723</b>
<b>Nonutility plant (Note 2)</b>		
Nonutility plant	15,257,154	13,305,429
Construction work in progress	6,612,021	1,862,428
	<b>21,869,175</b>	<b>15,167,857</b>
Less: accumulated depreciation	4,395,851	3,458,901
<b>Net nonutility plant</b>	<b>17,473,324</b>	<b>11,708,956</b>
<b>Other assets:</b>		
Investments in associated organizations (Note 3)	21,698,429	20,246,866
Other long-term investments	1,274	1,275
Intangible assets, net	63,725	67,762
<b>Total other assets</b>	<b>21,763,428</b>	<b>20,315,903</b>
<b>Current assets:</b>		
Cash - general fund	792,992	3,027,745
Accounts receivable - less allowance for doubtful accounts: 2017 - \$257,528; 2016 - \$264,381	3,439,220	3,364,515
Materials and supplies - at average cost	3,776,086	3,688,398
Other current and accrued assets	244,177	239,628
<b>Total current assets</b>	<b>8,252,475</b>	<b>10,320,286</b>
Deferred debits (Note 4)	960,793	925,793
<b>Total other assets</b>	<b>960,793</b>	<b>925,793</b>
<b>TOTAL ASSETS</b>	<b>\$ 119,309,575</b>	<b>\$ 112,578,661</b>

# Liabilities and Members' Equity

## LAKE REGION ELECTRIC COOPERATIVE, INC. and SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

<b>LIABILITIES and MEMBERS' EQUITY</b>	<u>2017</u>	<u>2016</u>
<b>Equities and margins</b>		
Memberships	\$ 100,305	\$ 99,785
Patronage capital (Note 5)	48,260,418	47,427,739
Accumulated other comprehensive gain	698,140	255,244
Other equities (Note 6)	810,684	799,732
<b>Total equities and margins</b>	<u><b>49,869,547</b></u>	<u><b>48,582,500</b></u>
<b>Long-term liabilities:</b>		
Long-term debt less current maturities (Note 7)	51,497,172	43,836,903
Other non-current liabilities (Note 11)	4,978,615	5,116,115
<b>Total long-term liabilities</b>	<u><b>56,475,787</b></u>	<u><b>48,953,018</b></u>
<b>Current liabilities</b>		
Current maturities of long-term debt (Note 7)	1,750,361	1,952,503
Line of credit	1,250,000	3,400,000
Accounts payable	3,442,743	3,538,659
Consumer deposits	2,097,578	2,036,010
Other current and accrued liabilities	3,709,730	3,387,738
<b>Total current liabilities</b>	<u><b>12,250,412</b></u>	<u><b>14,314,910</b></u>
Deferred credits (Note 8)	713,829	728,233
<b>TOTAL LIABILITIES and MEMBERS' EQUITY</b>	<u><u><b>\$ 119,309,575</b></u></u>	<u><u><b>\$ 112,578,661</b></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, 2017 and 2016, 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 March 16, 2018, 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

Tulsa, Oklahoma  
March 16, 2018

## **Board Treasurer Update**

I am pleased to present the 2017 financial results for Lake Region Electric Cooperative, Inc and subsidiaries. Briscoe, Burke & Grigsby audited the cooperative's 2017 financial statements, LLC, Certified Public Accountants. In their opinions, the 2017 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.

Electric | Internet | Cable TV | Home Phone

[www.lrecok.coop](http://www.lrecok.coop) | [www.lrecok.net](http://www.lrecok.net)

