



First Quarter Report

As of and for the three months ended January 31, 2014

ORGANIZATION

Arkansas Electric Cooperative Corporation (AECC) is a generation and transmission cooperative incorporated under the laws of the state of Arkansas, headquartered in Little Rock. AECC is the wholesale power supplier for 17 electric distribution cooperatives in Arkansas. Generation resources immediately available to AECC provide 3,916 MW of capacity. The mission of AECC is to assist each of its member cooperatives in improving the quality of life in the areas they serve through the delivery of reliable electric power and other related services, which address essential consumer needs. This is to be done at the lowest possible cost consistent with sound business practices.

RESULTS OF OPERATIONS

AECC has two components of revenue: 1) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers fixed costs; and 2) an energy charge, based on total members' usage, which recovers variable costs. AECC is also able to recover the actual cost of fuel and purchased power through a fuel adjustment clause.

"Operating revenues" for the three months ended January 31, 2014 increased approximately \$19.7 million compared to the same period in 2013. Operating revenue experienced an increase in energy revenue of \$25.4 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the three months ended January 31, 2014 in the amount of \$16.9 million, which was passed on to members through the fuel adjustment clause, and 2) a 10.8% increase in member megawatt hour consumption which resulted in an increase of \$8.5 million in energy revenue. Effective January 1, 2013, AECC was granted a 5% wholesale rate increase by the Arkansas Public Service Commission under Arkansas Act 676 of 2009. This rate increase resulted in \$5.4 million in additional revenue. Member megawatt billing demand, which is set over the four summer months, declined by 4.8% or \$3.3 million during the three months ended January 31, 2014 as compared to 2013. In addition, non-member sales decreased by \$7.8 million (primarily from sales of economy energy).

"Operation and maintenance, generation" and "power purchased" are categories that should be considered together for comparative purposes. On an hour-to-hour basis, AECC makes decisions whether to purchase energy on the open market or generate energy out of its plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" increased by \$16.7 million compared to the three months ended January 31, 2013. The total cost of energy as a percentage of operating revenue was 73.7% for the three months ended January 31, 2014 compared to 72.4% for the three months ended January 31, 2013.

"Depreciation" expense increased slightly during the three months ended January 31, 2014 compared to 2013. The increase was attributable to several factors including an increase in depreciation related to the John W. Turk, Jr. Plant, which became operational in December 2012. AECC has received regulatory approval to install environmental upgrades to one of its coal fired power plants that will consequently significantly extend the life of the plant. AECC has engaged an outside consulting firm to prepare a depreciation study related to three of its co-owned coal fired plants that were put into production in the late 1970's and early 1980's. Effective January 1, 2014, AECC decreased the composite depreciation rate of these coal fired plants based on the preliminary study results and subject to regulatory approval. The depreciation rate reduction resulted in a decrease of approximately \$1.5 million in depreciation expense for the month of January 2014.

"Interest" expense increased \$2.3 million compared to the three months ended January 31, 2013. This increase was primarily due to AECC's Magnet Cove power plant acquisition, which was fully funded by RUS long-term debt in February 2013. The increase was also due to the Turk power plant being placed into commercial operation in December 2012; therefore, capitalized interest during construction on long-term financing ceased and is now expensed.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the three months ended January 31, 2014, net cash and cash equivalents increased \$115.2 million. The major components of this increase were funds received related to AECC's commercial paper program in the amount of \$140 million along with \$21.8 million in proceeds from the Federal Financing Bank T8 note related to the environmental upgrade equipment at the Flint Creek Power Plant (Flint Creek). These increases were offset by a patronage capital retirement in the amount of \$10.2 million, \$9.7 million of capital expenditures, reductions of \$6.7 million in the amount of funds held under the member line of credit, and cash used in operating activities of \$10.8 million.

For the calendar year 2014, AECC has budgeted \$159.5

million for capital expenditures. This amount includes \$109.9 million to be incurred for generation and \$49.6 million for transmission and other miscellaneous general capital expenditures. The budgeted generation capital expenditures for 2014 include \$71.0 million for environmental controls at Flint Creek.

AECC has a \$75.0 million perpetual line of credit with the National Rural Utilities Cooperative Finance Corporation and a \$10.0 million committed line of credit with Regions Bank which matures on August 15, 2014. AECC intends to renew the Regions Bank line of credit. AECC uses advances from the member line of credit program to support daily cash needs.

On April 28, 2011, AECC entered into a three year \$250 million senior unsecured revolving credit facility. On June 13, 2013, this agreement was extended through June 12, 2016. This \$250 million credit facility will be used to support AECC's commercial paper program, for general purposes and for the issuance of letters of credit. On January 31, 2014, AECC had \$150 million of outstanding commercial paper.

Moody's Investors Service (Moody's) has assigned an A1 senior secured rating to AECC's First Mortgage Obligation Series 2011 A & B private placement. AECC has also been assigned an issuer credit rating of AA by Standard and Poor's (S&P) and A+ by Fitch Ratings (Fitch). AECC's short-term debt ratings are Prime-1, A1+ and F-1 from Moody's, S&P and Fitch respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for January 31, 2014 and 2013 are unaudited. In the opinion of AECC management, the accompanying unaudited financial information furnished herewith reflects all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of its financial position and its results of operations for the interim periods presented; however, the business of AECC is subject to rate changes, seasonal fluctuations in sales and other factors. Accordingly, the results for the interim periods presented should not be used as a basis for estimating results of operations for a full year.

It is suggested that these interim financial statements be read in conjunction with financial statements and notes thereto included in AECC's October 31, 2013 Annual Report.

Duane Highley, President/CEO

Michael Henderson, Executive Vice President/CFO

Arkansas Electric Cooperative Corporation

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of January 31, 2014 (Unaudited) and October 31, 2013

	January 31, 2014 (Unaudited) (In Thousands)	October 31, 2013 (In Thousands)		January 31, 2014 (Unaudited) (In Thousands)	October 31, 2013 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 2,159,988	\$ 2,159,776	Membership fees	\$ 2	\$ 2
Construction work in progress	85,013	66,968	Patronage capital	378,458	388,699
	2,245,001	2,226,744	Accumulated margins	7,540	8,857
Less accumulated depreciation	1,072,321	1,058,368	Other equities	118,140	118,140
Net utility plant	1,172,680	1,168,376	Total members' equities	504,140	515,698
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	-	10,000	Rural Utilities Service	80	90
Gas reserves	15,301	15,366	Federal Financing Bank	506,555	489,725
Deposit with RUS - restricted investment	43,375	42,845	CoBank	68,153	71,157
Other	21,096	20,967	CoBank, Unsecured	12,342	12,676
Total long-term investments	79,772	89,178	First Mortgage Obligation Series 2011 A & B	193,000	195,500
			Other long-term debt	13	13
CURRENT ASSETS:			Total long-term debt	780,143	769,161
Cash and cash equivalents	222,381	107,187	CURRENT LIABILITIES:		
Short term marketable securities	10,000	-	Notes payable, members	157,592	164,298
Accounts receivable, members	74,924	58,450	Notes payable, related parties	30,000	30,000
Fuel inventories and prepaid fuel supply	41,227	36,210	Notes payable, others	149,986	9,995
Material and supply inventories	22,149	21,939	Current maturities of long-term debt	31,135	29,664
Prepaid warranty agreement	402	144	Accounts payable and other accrued liabilities	74,045	63,591
Deposit with RUS - restricted investment	49	60	Accrued property taxes	8,192	6,302
Other current assets	11,404	6,407	Accrued interest	2,988	5,502
Total current assets	382,536	230,397	Total current liabilities	453,938	309,352
DEFERRED CHARGES	117,417	120,744	COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 1,752,405	\$ 1,608,695	DEFERRED CREDITS	14,184	14,484
			Total members' equities and liabilities	\$ 1,752,405	\$ 1,608,695

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
 For the three months ended January 31, 2014 and 2013 (Unaudited)

	Three Months Ended 2014	2013 (In Thousands)
OPERATING REVENUES	\$ 197,848	\$ 178,183
OPERATING EXPENSES:		
Operation and maintenance, generation	91,730	103,741
Power purchased	54,054	25,345
Operation and maintenance, transmission	21,295	15,956
Administrative and general	7,078	5,853
Depreciation	13,955	13,117
Taxes, other than income taxes	38	41
Interest	11,747	9,413
Total operating expenses	<u>199,897</u>	<u>173,466</u>
(LOSS) MARGIN FROM OPERATIONS	(2,049)	4,717
INTEREST INCOME, NET	688	771
OTHER (LOSS) INCOME	(33)	27
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	77	194
NET (LOSS) MARGIN	\$ (1,317)	\$ 5,709

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
 For the three months ended January 31, 2014 and 2013 (Unaudited)

	Three Months Ended 2014	2013 (In Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Margin	\$ (1,317)	\$ 5,709
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation	13,955	13,117
Amortization of gas reserves	65	109
Allowance for funds used during construction	(77)	(194)
Allocation of patronage from associated organizations	-	(18)
Interest on deposit with RUS - Cushion of credit	(540)	(686)
Changes in operating assets and liabilities-		
Accounts receivable, members	(16,474)	(9,818)
Fuel inventories and prepaid fuel supply	(5,017)	(976)
Material and supply inventories	(210)	(1,701)
Other current assets	(4,997)	528
Deferred charges	3,327	2,578
Accounts payable and accrued liabilities	1,080	(7,590)
Other deferred credits	(561)	(555)
Net cash (used in) provided by operating activities	<u>(10,766)</u>	<u>503</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of other investments	132	127
Withdrawals from RUS - restricted investment	21	9,351
Capital expenditures	(9,689)	(9,173)
Net cash (used in) provided by investing activities	<u>(9,536)</u>	<u>305</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on notes payable	(6,706)	(35,173)
Borrowings on notes payable, other	139,991	81
Principal payments on long-term debt	(9,382)	(10,948)
Proceeds from long-term debt	21,835	-
Redemption of patronage capital	(10,242)	(9,908)
Net cash provided by (used in) financing activities	<u>135,496</u>	<u>(55,948)</u>
Net increase (decrease) in cash and cash equivalents	115,194	(55,140)
CASH AND CASH EQUIVALENTS, beginning of period	107,187	90,461
CASH AND CASH EQUIVALENTS, end of period	\$ 222,381	\$ 35,321

MEMBER SYSTEMS AND BOARD OF DIRECTORS

Mel Coleman, Chairman
 Jerry Pahal, Vice-Chairman
 Bill Conine, Secretary-Treasurer

Arkansas Valley Electric
 Ozark
 John Pendergrass
 Bill Peters

Carroll Electric
 Berryville
 Alan Hunnicutt
 Rob Boaz

Farmers Electric
 Newport
 Sam Houston
 Larry Bright

North Arkansas Electric
 Salem
 Sonya Wiles
 Mel Coleman

Petit Jean Electric
 Clinton
 Jerel Brown
 Bill Conine

Southwest Arkansas Electric
 Texarkana
 Don Stemple
 Wayne Whitaker

Ashley-Chicot Electric
 Hamburg
 Jerry Pahal
 Rodney Chapman

Clay County Electric
 Corning
 John Dalton
 David Smith

First Electric
 Jacksonville
 Robert Hill
 Don Crabbe

Ouachita Electric
 Camden
 Corbet Lamkin
 Mark Cayce

Rich Mountain Electric
 Mena
 Mark Robbins
 Leon Philpot

Woodruff Electric
 Forrest City
 J. A. Wampler
 Billy Martin

C & L Electric
 Star City
 Phil Wilson
 W. H. Frizzell

Craighead Electric
 Jonesboro
 Tom Sloan
 Brian Duncan

Mississippi County Electric
 Blytheville
 Robert E. Davis
 Brad Harrison

Ozarks Electric
 Fayetteville
 Jerry Bolinger
 Mitchell Johnson

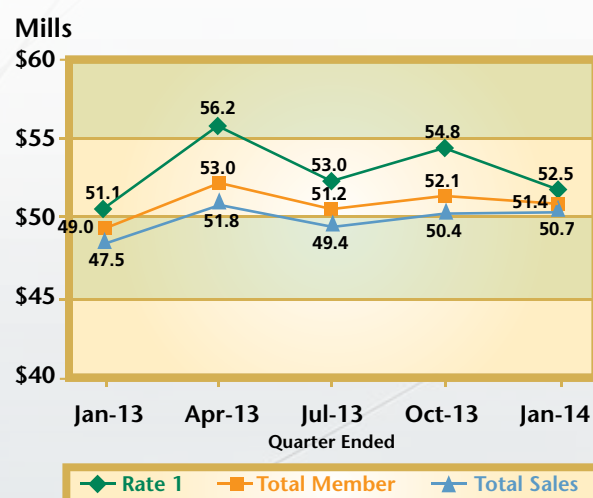
South Central Arkansas Electric
 Arkadelphia
 Elton Buck
 Kevin Brownlee

Selected Financial Highlights

As of January 31, 2014 and October 31, 2013

	January 31, 2014	October 31, 2013
Equity as a Percent of Assets	28.77%	32.06%
Debt/Equity Ratio	1.61	1.55
Current Ratio	0.84	0.74
Margins for Interest Ratio	0.84	1.43
Debt Service Coverage Ratio	1.18	1.62
Average Cost of Long-term Debt	4.213%	4.243%

Revenue Per MWH Sold



Management Team

President/CEO Duane Highley
Executive VP and General Counsel Robert M. Lyford
Executive VP/CFO Michael Henderson
VP Planning, Rates and Dispatching Ricky Bittle
VP/CIO Robert McClanahan
VP Power Production Jonathan Oliver
VP Public Affairs and Member Services Sandra Byrd
VP Human Resources Maria Smedley



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 We Are Arkansas

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