



Third Quarter Report

As of and for the three and nine months ended July 31, 2015

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 (members) in Arkansas. Generation resources immediately available to AECC provide 4,110 MW of capacity. The mission of AECC is to provide safe, affordable electric power and related services reliably and responsibly by assisting each of its members in improving the quality of life in the areas they serve. 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) an energy charge, based on total members' usage, which recovers certain variable and a portion of AECC's fixed costs; and 2) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers a portion of AECC's fixed costs. In addition, AECC is also able to recover the actual cost of fuel and purchased power through a fuel adjustment clause approved by the Arkansas Public Service Commission (APSC), along with a separate rider to recover additional expenses related to participating in the energy markets of two separate Regional Transmission Organizations (RTO).

"Operating revenues" for the nine months ended July 31, 2015, decreased approximately \$27.7 million compared to the same period in 2014. The energy revenue component experienced a decrease of \$31.2 million. There are two reasons for the decrease in energy revenue: 1) a decrease in fuel and purchased power costs during the nine months ended July 31, 2015, in the amount of \$24.8 million, which was passed on to members through the fuel adjustment clause; and 2) a 1.3% decline in member megawatt hour consumption, which resulted in an additional \$6.4 million decrease in energy revenue. AECC's member peak demand is set using the rolling four summer months of June through September. For the nine months ended July 31, 2015 the peak was based on August and September of 2014 and June and July of 2015. The member peak demand declined by 1.3%, due to mild weather, and resulted in a decrease in revenue in the amount of \$4.3 million during the nine months ending July 31, 2015, as compared to the same period in 2014. Effective April 2014, AECC received APSC approval to include in rates a Transmission Rider (TO/RTO Rider) to recover transmission expenses incurred in excess of an approximate base of \$5.0 million per month. The TO/RTO Rider recovered \$13.5 million during the nine months ended July 31, 2015. In addition, hourly energy sales in excess of hourly loads settled in the RTO markets declined by \$5.7 million during that same period.

Beginning December 19, 2013, AECC began participating

in day-ahead and real-time energy markets operated by the Midcontinent Independent System Operator, Inc. (MISO) RTO and AECC joined MISO as a transmission-owning member on June 1, 2014. Additionally, on March 1, 2014, AECC began participating in the Integrated Marketplace launched by the Southwest Power Pool (SPP) RTO. The MISO footprint includes the eastern two-thirds of Arkansas. The SPP footprint includes the western one-third of Arkansas. Both RTOs operate wholesale electric markets and are federally-designated as the entities responsible for moving electricity over the interstate power grid. They also coordinate, control and monitor the electricity transmission grid within their footprints. As a result of its participation in the MISO and SPP energy markets, AECC now sells all its share of generation into the RTO markets and purchases all load from the markets. Transactions within each individual hour are netted to a single purchase or sale, within each individual market (MISO and SPP) based on the actual load and net megawatt hour generation.

Because they are so interrelated to the services AECC provides to members, "operation and maintenance, generation", "power purchased" and "operation and maintenance, transmission" are categories that are combined for comparative purposes. "Operation and maintenance, generation", "power purchased" and "operation and maintenance, transmission" decreased during the nine months ended July 31, 2015 by \$30.4 million, compared to the same period in 2014. The total cost of energy and transmission as a percentage of operating revenue was 82.2% for the nine months ended July 31, 2015, compared to 83.5% for the nine months ended July 31, 2014.

"Operation and maintenance, transmission" increased by \$9.3 million during the nine months ended July 31, 2015, compared to same period in 2014. The main driver of this increase was AECC participating in two separate RTO markets.

"Depreciation" expense decreased by \$2.6 million during the nine months ended July 31, 2015 compared to the same period in 2014. AECC received APSC approval to install environmental upgrades to the Flint Creek Power Plant (Flint Creek) coal-fired power plant, which will extend the life of that plant and satisfy certain environmental regulation requirements. AECC engaged an outside consulting firm to prepare a depreciation study related to Flint Creek along with two of its other co-owned coal fired plants that were put into production in the late 1970s and early 1980s. Effective January 1, 2014, AECC decreased the composite depreciation rate of these coal fired plants based on the study results, and regulatory approval by Rural Utilities Service (RUS).

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the nine months ended July 31, 2015, net cash and cash equivalents decreased \$142.5 million. The major components of this decrease were \$100 million in payments related to AECC's commercial paper

program, \$64.1 million of capital expenditures, \$28.0 million in principal payments on long term debt, along with reductions of \$21.9 million in the amount of funds held under the member line of credit funds. These decreases were offset by \$47.6 million in loan proceeds from the Federal Financing Bank (FFB) S8 note related to the environmental upgrade equipment at Flint Creek.

For the calendar year 2015, AECC has budgeted \$168.1 million for capital expenditures. This amount includes \$131.5 million for generation and \$36.6 million for transmission and other miscellaneous general capital expenditures. The budgeted generation capital expenditures for 2015 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, 2016. 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 July 31, 2015, AECC had \$50.0 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, A1+, Prime-1 and F-1 from S&P, Moody's and Fitch respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for July 31, 2015, and 2014, 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, 2014 Annual Report.

Duane Highley, President/CEO

Michael Henderson, Executive Vice President/CFO

Arkansas Electric Cooperative Corporation

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of July 31, 2015 (Unaudited) and October 31, 2014

	July 31, 2015 (Unaudited) (In Thousands)	October 31, 2014 (In Thousands)		July, 2015 (Unaudited) (In Thousands)	October 31, 2014 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 2,171,897	\$ 2,167,322	Membership fees	\$ 2	\$ 2
Construction work in progress	226,199	162,157	Patronage capital	378,458	378,458
	2,398,096	2,329,479	Accumulated margins	38,751	24,341
Less accumulated depreciation	1,131,640	1,103,038	Other equities	118,140	118,140
Net utility plant	1,266,456	1,226,441	Total members' equities	535,351	520,941
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Gas reserves	13,980	14,443	Rural Utilities Service	38	54
Deposit with RUS - restricted investment	69,242	76,596	Federal Financing Bank	576,918	546,005
Other	22,422	22,098	CoBank	49,365	58,925
Total long-term investments	105,644	113,137	CoBank, Unsecured	10,289	11,325
			First Mortgage Obligation Series 2011 A & B	190,500	193,000
CURRENT ASSETS:			Total long-term debt	827,110	809,309
Cash and cash equivalents	54,998	197,530	CURRENT LIABILITIES:		
Accounts receivable, members	67,982	52,233	Notes payable, members	99,882	121,775
Fuel inventories and prepaid fuel supply	40,635	28,624	Notes payable, related parties	30,000	30,000
Material and supply inventories	21,961	21,199	Notes payable, others	49,973	149,972
Prepaid warranty agreement	565	565	Current maturities of long-term debt	38,287	36,464
Deposit with RUS - restricted investment	24	36	Accounts payable and other accrued liabilities	60,610	67,982
Other current assets	8,053	11,501	Accrued property taxes	8,946	6,751
Total current assets	194,218	311,688	Accrued interest	3,020	5,565
			Total current liabilities	290,718	418,509
DEFERRED CHARGES	100,894	111,519	COMMITMENTS AND CONTINGENCIES		
			DEFERRED CREDITS	14,033	14,026
Total assets	\$ 1,667,212	\$ 1,762,785	Total members' equities and liabilities	\$ 1,667,212	\$ 1,762,785

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS**

For the three and nine months ended July 31, 2015 and 2014 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2015	2014	2015	2014
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 189,908	\$ 186,642	\$ 547,612	\$ 575,287
OPERATING EXPENSES:				
Operation and maintenance, generation	78,271	95,892	203,484	269,994
Power purchased	52,145	33,518	171,932	145,170
Operation and maintenance, transmission	25,483	21,831	74,703	65,370
Administrative and general	7,107	6,456	19,248	18,396
Depreciation	10,969	10,887	33,079	35,687
Taxes, other than income taxes	37	39	111	115
Interest	11,268	11,476	33,553	34,630
Total operating expenses	185,280	180,099	536,110	569,362
MARGIN FROM OPERATIONS	4,628	6,543	11,502	5,925
INTEREST INCOME	1,004	1,252	3,021	3,047
OTHER (LOSS) INCOME	(180)	773	(185)	1,156
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	34	33	72	155
NET MARGIN	\$ 5,486	\$ 8,601	\$ 14,410	\$ 10,283

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS**

For the three and nine months ended July 31, 2015 and 2014 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2015	2014	2015	2014
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin	\$ 5,486	\$ 8,601	\$ 14,410	\$ 10,283
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,969	10,887	33,079	35,687
Amortization of gas reserves	181	228	463	518
Allowance for funds used during construction	(34)	(33)	(72)	(155)
Allocation of patronage from associated organizations	(168)	(7)	(1,202)	(1,266)
Interest earned on deposit into cushion of credit	(861)	(1,063)	(2,609)	(2,567)
Changes in operating assets and liabilities-				
Accounts receivable	(23,408)	(4,011)	(15,749)	(2,960)
Fuel inventories and prepaid fuel supply	6,846	8,467	(12,011)	12,089
Other current assets	913	(356)	3,448	(6,310)
Material and supply inventories	(899)	(36)	(762)	245
Deferred charges	3,592	3,281	10,625	9,962
Accounts payable and accrued liabilities	6,534	4,010	(16,670)	(10,946)
Other deferred credits	(639)	(236)	(531)	(1,175)
Net cash provided by operating activities	8,512	29,732	12,419	43,405
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sales of marketable securities	-	-	-	10,000
Net sales of other investments	157	-	1,415	1,063
Deposit with RUS - restricted investment	-	-	-	(40,000)
Withdrawals from RUS - restricted investments	10	10	9,976	53
Capital expenditures	(26,528)	(29,733)	(64,073)	(62,307)
Net cash used in investing activities	(26,361)	(29,723)	(52,682)	(91,191)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net payments on notes payable	(4,721)	(9,596)	(21,893)	(39,300)
(Payments) borrowings on notes payable, other	-	(134,990)	(99,999)	39,983
Principal payments on long-term debt	(8,767)	(6,384)	(28,006)	(22,110)
Redemption of patronage capital	-	-	-	(10,242)
Proceeds from long-term debt	23,523	28,351	47,629	50,186
Net cash provided by (used in) financing activities	10,035	(122,619)	(102,269)	18,517
Net decrease in cash and cash equivalents	(7,814)	(122,610)	(142,532)	(29,269)
CASH AND CASH EQUIVALENTS, beginning of period	62,812	200,528	197,530	107,187
CASH AND CASH EQUIVALENTS, end of period	\$ 54,998	\$ 77,918	\$ 54,998	\$ 77,918

MEMBER SYSTEMS AND BOARD OF DIRECTORS

Jerry Pahal, Chairman
Bill Conine, Vice Chairman
Alan Hunnicutt, 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
Beth Carter
Mel Coleman

Petit Jean Electric
Clinton
Carroll Bradford
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
Mike Hutchinson
Mark Cayce

Rich Mountain Electric
Mena
Mark Robbins
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Michael Swan

C & L Electric
Star City
Charles White
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

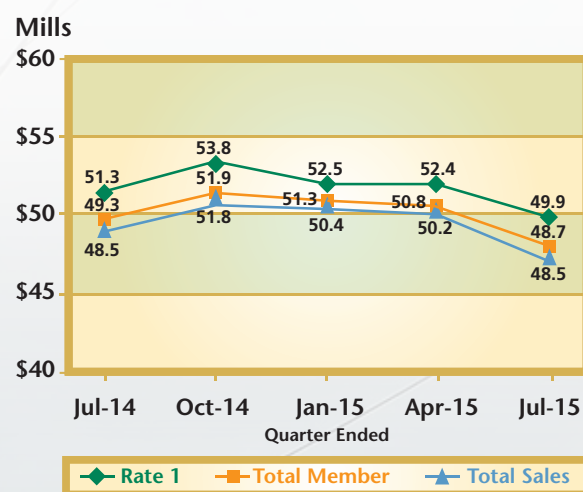
South Central Arkansas Electric
Arkadelphia
Brian Kirksey
Kevin Brownlee

Selected Financial Highlights

As of July 31, 2015 and October 31, 2014

	July 31, 2015	October 31, 2014
Equity as a Percent of Assets	32.11%	29.55%
Debt/Equity Ratio	1.62	1.62
Current Ratio	0.67	0.74
Margins for Interest Ratio	1.56	1.46
Debt Service Coverage Ratio	1.35	1.50
Average Cost of Long-term Debt	4.011%	4.139%

Revenue Per MWH Sold



Management Team

- President/CEO
Duane Highley
- Executive VP/CFO
Michael Henderson
- VP and General Counsel
Lori Burrows
- VP Planning and Market Operations
Andrew Lachowsky
- VP/CIO
Robert McClanahan
- VP Power Production and Delivery
Jonathan Oliver
- VP Public Affairs and Member Services
Sandra Byrd
- VP Human Resources
Maria Smedley



**Arkansas Electric
Cooperative Corporation**
We Are Arkansas

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