



# Second Quarter Report

As of and for the three and six months ended April 30, 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 (members) 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 six months ended April 30, 2014 increased approximately \$35.9 million compared to the same period in 2013. Operating revenue experienced an increase in energy revenue of \$42.6 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the six months ended April 30, 2014, in the amount of \$28.2 million, which was passed on to members through the fuel adjustment clause, and 2) a 7.4% increase in member megawatt hour consumption, which resulted in an increase of \$14.4 million in energy revenue. Member megawatt billing demand, which is set over the four summer months, declined by 4.7% or \$4.4 million during the six months ended April 30, 2014 as compared to 2013, due to 2013's unusually cool summer. Effective April 1, 2014, AECC received Arkansas Public Service Commission (APSC) approval to include in rates a Transmission Rider (TO/RTO Rider) to collect transmission expenses incurred in excess of \$5.0 million per month. The amount collected in April 2014 was \$1.0 million. In addition, non-member sales decreased by \$3.3 million during that same period.

Because they are so interrelated to the services AECC provides to members, "Operation and maintenance, generation" and "power purchased" are categories that are combined for comparative purposes. "Operation and maintenance, generation" and "power purchased" increased during the six months ended April 30, 2014, by \$30.1 million, compared to the same period in 2013. The total cost of energy as a percentage of operating revenue was 73.5% for the six months ended April 30, 2014, compared to 72.5% for the six months ended April 30, 2013. Beginning December 19, 2013, AECC began participating in Midcontinent Independent System Operator, Inc.'s (MISO) Regional Transmission Organization (RTO), which included its

day-ahead and real-time markets. MISO covers the Entergy Arkansas, Inc. footprint, which represents the eastern two-thirds of Arkansas. In addition, AECC began operating in the Integrated Marketplace launched by Southwestern Power Pool's (SPP) RTO effective March 1, 2014. SPP covers the western one-third of Arkansas, for the American Electric Power/Southwestern Electric Power Company (AEP/SWEPCO), Oklahoma Gas and Electric Company and The Empire District Electric Company footprints. MISO and SPP coordinate, control and monitor the electricity transmission grid within AECC's load areas. Both RTO markets use Locational Marginal Pricing (LMP) which is the method used to price energy purchases and sales. LMPs reflect the value of energy at a specific location at the time it is delivered.

"Operation and maintenance, transmission" increased by \$10.4 million during the six months ended April 30, 2014, compared to same period in 2013. The main driver of this increase is related to AECC entering the RTO markets.

"Depreciation" expense decreased by \$2.4 million during the six months ended April 30, 2014 compared to the same period in 2013. Along with AEP/SWEPCO, AECC received regulatory 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. AECC 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 1970s and early 1980s. Effective January 1, 2014, AECC decreased the composite depreciation rate of these coal fired plants based on the preliminary study results, subject to regulatory approval by Rural Utilities Service (RUS). The depreciation rate reduction resulted in a decrease of approximately \$6.2 million in depreciation expense for the period from January 2014 to April 2014. The decrease was offset by depreciation related to the John W. Turk, Jr. Plant (Turk), which became operational in December 2012.

"Interest" expense increased by \$2.2 million compared to the six months ended April 30, 2013. This increase was primarily due to AECC's Magnet Cove power plant acquisition in September 2012, 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. The interest on long-term financing that was previously capitalized during Turk construction is now expensed.

## LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2014, net cash and cash equivalents increased \$93.3 million. The major components of this increase were funds received related to AECC's commercial paper program in the amount of \$175.0 million, \$21.8 million in proceeds from the Federal Financing Bank S8 note related to the environmental upgrade equipment at Flint Creek, along with cash provided by operating activities of \$13.7 million. These increases were offset by a patronage capital

retirement in the amount of \$10.2 million, \$40.0 million deposited in the RUS Cushion of Credit program, \$32.6 million of capital expenditures along with reductions of \$29.7 million in the amount of funds held under the member line of credit.

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 April 30, 2014, AECC had \$185.0 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 Prime-1, A1+ and F-1 from Moody's, S&P and Fitch respectively.

## OTHER FINANCIAL INFORMATION

The interim financial statements for April 30, 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 April 30, 2014 (Unaudited) and October 31, 2013

	April 30, 2014 (Unaudited) (In Thousands)	October 31, 2013 (In Thousands)		April 30, 2014 (Unaudited) (In Thousands)	October 31, 2013 (In Thousands)
<b>ASSETS</b>			<b>EQUITIES AND LIABILITIES</b>		
<b>UTILITY PLANT:</b>			<b>MEMBERS' EQUITIES:</b>		
Electric plant in service, at cost	\$ 2,161,057	\$ 2,159,776	Membership fees	\$ 2	\$ 2
Construction work in progress	113,243	66,968	Patronage capital	378,458	388,699
	2,274,300	2,226,744	Accumulated margins	10,538	8,857
Less accumulated depreciation	1,082,794	1,058,368	Other equities	118,140	118,140
Net utility plant	1,191,506	1,168,376	Total members' equities	507,138	515,698
<b>LONG-TERM INVESTMENTS:</b>			<b>LONG-TERM DEBT:</b>		
Marketable securities	-	10,000	Rural Utilities Service	71	90
Gas reserves	15,076	15,366	Federal Financing Bank	501,754	489,725
Deposit with RUS - restricted investment	84,328	42,845	CoBank	65,113	71,157
Other	21,856	20,967	CoBank, Unsecured	12,004	12,676
Total long-term investments	121,260	89,178	First Mortgage Obligation Series 2011 A & B	193,000	195,500
<b>CURRENT ASSETS:</b>			Other long-term debt	-	13
Cash and cash equivalents	200,528	107,187	Total long-term debt	771,942	769,161
Accounts receivable, members	57,399	58,450	<b>CURRENT LIABILITIES:</b>		
Fuel inventories and prepaid fuel supply	32,588	36,210	Notes payable, members	134,594	164,298
Material and supply inventories	21,658	21,939	Notes payable, related parties	30,000	30,000
Prepaid warranty agreement	489	144	Notes payable, others	184,968	9,995
Deposit with RUS - restricted investment	38	60	Current maturities of long-term debt	32,992	29,664
Other current assets	12,361	6,407	Accounts payable and other accrued liabilities	62,255	63,591
Total current assets	325,061	230,397	Accrued property taxes	8,297	6,302
			Accrued interest	5,466	5,502
			Total current liabilities	458,572	309,352
<b>DEFERRED CHARGES</b>			<b>COMMITMENTS AND CONTINGENCIES</b>		
	114,063	120,744	<b>DEFERRED CREDITS</b>		
				14,238	14,484
Total assets	\$ 1,751,890	\$ 1,608,695	Total members' equities and liabilities	\$ 1,751,890	\$ 1,608,695

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

For the three and six months ended April, 2014 and 2013 (Unaudited)

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	(In Thousands)		(In Thousands)	
<b>OPERATING REVENUES</b>	\$ 190,797	\$ 174,603	\$ 388,645	\$ 352,786
<b>OPERATING EXPENSES:</b>				
Operation and maintenance, generation	82,372	92,431	174,102	196,172
Power purchased	57,598	34,129	111,652	59,474
Operation and maintenance, transmission	22,244	17,162	43,539	33,118
Administrative and general	4,862	5,627	11,940	11,480
Depreciation	10,845	14,126	24,800	27,243
Taxes, other than income taxes	38	41	76	82
Interest	11,407	11,497	23,154	20,910
Total operating expenses	189,366	175,013	389,263	348,479
<b>MARGIN (LOSS) FROM OPERATIONS</b>	1,431	(410)	(618)	4,307
<b>INTEREST INCOME</b>	1,107	653	1,795	1,424
<b>OTHER INCOME (LOSS)</b>	416	(98)	383	(71)
<b>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</b>	45	41	122	235
<b>NET MARGIN</b>	\$ 2,999	\$ 186	\$ 1,682	\$ 5,895

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

For the three and six months ended April 30, 2014 and 2013 (Unaudited)

	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	(In Thousands)		(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Margin	\$ 2,999	\$ 186	\$ 1,682	\$ 5,895
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,845	14,126	24,800	27,243
Amortization of gas reserves	225	248	290	357
Allowance for funds used during construction	(45)	(41)	(122)	(235)
Allocation of patronage from associated organizations	(1,259)	(1,246)	(1,259)	(1,264)
Interest earned on deposit into cushion of credit	(964)	(567)	(1,504)	(1,253)
Changes in operating assets and liabilities-				
Accounts receivable	17,525	8,107	1,051	(1,711)
Fuel inventories and prepaid fuel supply	8,639	3,658	3,622	2,682
Other current assets	(957)	2,619	(5,954)	3,147
Material and supply inventories	491	(13)	281	(1,714)
Deferred charges	3,354	(11,625)	6,681	(9,047)
Accounts payable and accrued liabilities	(16,036)	599	(14,956)	(6,991)
Other deferred credits	(378)	(391)	(939)	(946)
Net cash provided by operating activities	24,439	15,660	13,673	16,163
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Sales of marketable securities	10,000	-	10,000	-
Net sales of other investments	931	925	1,063	1,052
Deposit with RUS - restricted investment	(40,000)	-	(40,000)	-
Withdrawals from RUS - restricted investments	22	7,695	43	17,046
Capital expenditures	(22,885)	(24,230)	(32,574)	(33,403)
Net cash used in investing activities	(51,932)	(15,610)	(61,468)	(15,305)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Net payments on notes payable	(22,998)	(2,060)	(29,704)	(37,233)
Borrowings (payments) on notes payable, other	34,982	(79,970)	174,973	(79,889)
Principal payments on long-term debt	(6,344)	(6,413)	(15,726)	(17,361)
Redemption of patronage capital	-	-	(10,242)	(9,908)
Proceeds from long-term debt	-	254,751	21,835	254,751
Net cash provided by financing activities	5,640	166,308	141,136	110,360
Net (decrease) increase in cash and cash equivalents	(21,853)	166,358	93,341	111,218
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	222,381	35,321	107,187	90,461
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 200,528	\$ 201,679	\$ 200,528	\$ 201,679

**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

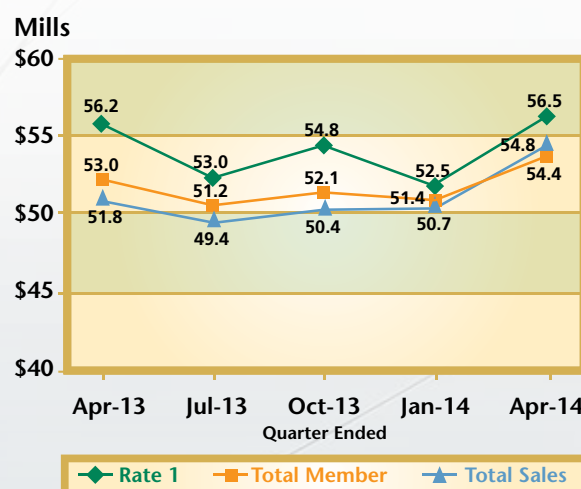
**South Central Arkansas Electric**  
 Arkadelphia  
 Elton Buck  
 Kevin Brownlee

**Selected Financial Highlights**

As of April, 2014 and October 31, 2013

	April 31, 2014	October 31, 2013
Equity as a Percent of Assets	28.95%	32.06%
Debt/Equity Ratio	1.59	1.55
Current Ratio	0.71	0.74
Margins for Interest Ratio	1.10	1.43
Debt Service Coverage Ratio	1.33	1.62
Average Cost of Long-term Debt	4.207%	4.243%

**Revenue Per MWH Sold**



**Management Team**

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



**Arkansas Electric Cooperative Corporation**  
 We Are Arkansas

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