



# Second Quarter Report

As of and for the three and six months ended April 30, 2009

## 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 2,827 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 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 through a fuel adjustment clause.

"Operating revenues" for the six months ended April 30, 2009 decreased approximately \$81.3 million compared to the same period in 2008. Member energy revenue decreased \$81.2 million, while member demand revenue remained relatively stable. There are two reasons for the decrease in energy revenue; 1) a decrease in fuel and purchased power costs during the six months ended April 30, 2009 in the amount of \$62.0 million, which is passed on through the fuel adjustment clause, and 2) a 14.5% decrease in member megawatt hour consumption (\$19.2 million), this decrease occurred primarily at two steel manufacturing plants.

"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 own plants based on the most economical source. "Operation and

maintenance, generation" and "power purchased" decreased by \$72.6 million compared to the six months ended April 30, 2008. The \$72.6 million decrease in "Operation and maintenance, generation" and "power purchased" included a \$62.0 million decrease in total fuel costs for the six months ended April 30, 2009 compared to the same period ending April 30, 2008. The total cost of energy as a percentage of operating revenue was 71.2% for the six months ended April 30, 2009, compared to 75.7% for the six months ended April 30, 2008.

"Operation and maintenance, transmission" increased \$1.6 million from the six months ended April 30, 2008. AECC's transmission expense related to the Southwest Power Pool increased \$1.0 million.

"Other income/loss" consists primarily of proceeds from AECC's investment in gas reserves which are sold on the spot market. The average price received during the six months ended April 30, 2009 for AECC's interest in these reserves was \$3.08/mcf compared to \$6.05/mcf during the same period in 2008. In addition, several gas wells were plugged and abandoned during 2009, which caused expenses to be higher than normal.

## LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2009, net cash and cash equivalents decreased \$25.0 million. The major components consisted of the following: AECC made payments on long-term debt of \$15.6 million and had capital expenditures of \$93.0 million. These decreases were offset to some extent by cash flows from operations (\$27.8 million) and net proceeds from notes payable (\$63.4 million).

For the calendar year 2009, AECC has budgeted \$210.2 million for capital expenditures. This amount includes \$192.7 million to be incurred for generation and \$17.5 million for transmission and other miscellaneous general capital expenditures.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation, a \$30.0 million committed line-of-credit with CoBank that terminates on July 14, 2009, and a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2010. In addition, AECC uses advances from the member line-of-credit program (\$107.1 million as of April 30, 2009) to support daily cash needs. On July 3, 2008 AECC entered into a \$210.5 million credit agreement with a syndication of financial institutions to provide a committed line of credit for three years as support for a commercial paper program of an equal amount. As of April 30, 2009, AECC had \$80.0 million outstanding in commercial paper notes.

AECC has a bond rating of AA-/A2/A+ for its secured facility bonds and a commercial paper rating of A-1, Prime-1, and F-1 from Standard and Poor's, Moody's Investors Service and Fitch Ratings respectively.

## OTHER FINANCIAL INFORMATION

The interim financial statements for April 30, 2009 and 2008 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, 2008 Annual Report.

Gary Voigt, President/CEO

Michael Henderson, Vice President/CFO

Arkansas Electric Cooperative Corporation

## ARKANSAS ELECTRIC COOPERATIVE CORPORATION BALANCE SHEETS

As of April 30, 2009 (Unaudited) and October 31, 2008

	April 30, 2009 (Unaudited) (In Thousands)	October 31, 2008 (In Thousands)		April 30, 2009 (Unaudited) (In Thousands)	October 31, 2008 (In Thousands)
<b>ASSETS</b>			<b>EQUITIES AND LIABILITIES</b>		
<b>UTILITY PLANT:</b>			<b>MEMBERS' EQUITIES:</b>		
Electric plant in service, at cost	\$ 1,465,569	\$ 1,462,931	Membership fees	\$ 2	\$ 2
Construction work in progress	171,667	83,527	Patronage capital	290,160	290,160
	1,637,236	1,546,458	Accumulated margins	27,477	28,951
Less accumulated depreciation	818,461	799,550	Other equities	118,140	118,140
Net utility plant	818,775	746,908	Net unrealized loss on investments	(115)	(48)
			Total members' equities	435,664	437,205
<b>LONG-TERM INVESTMENTS:</b>			<b>LONG-TERM DEBT:</b>		
Marketable securities	13,803	5,072	Rural Utilities Service	1,644	1,899
Gas reserves	46,465	47,681	Federal Financing Bank	263,314	275,263
Other	25,110	25,333	Independence Steam Electric Station finance obligation	118,857	115,366
Total long-term investments	85,378	78,086	Ellis finance obligation	17,960	26,467
			Other long-term debt	57	65
			Total long-term debt	401,832	419,060
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents	20,221	45,263	Notes payable	187,041	123,626
Short-term marketable securities	1,005	1,000	Current maturities of long-term debt	42,197	40,531
Accounts receivable, members	31,728	36,632	Accounts payable and other accrued liabilities	38,876	39,311
Fuel inventories and prepaid fuel supply	31,468	28,563	Patronage capital payable	-	-
Material and supply inventories	15,968	15,444	Accrued property taxes	7,671	5,898
Other current assets	4,238	6,040	Accrued interest	4,335	4,471
Total current assets	104,628	132,942	Total current liabilities	280,120	213,837
<b>DEFERRED CHARGES</b>			<b>DEFERRED CREDITS</b>		
	116,297	120,491		7,462	8,325
			<b>COMMITMENTS AND CONTINGENCIES</b>		
Total assets	\$ 1,125,078	\$ 1,078,427	Total members' equities and liabilities	\$ 1,125,078	\$ 1,078,427

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

For the three and six months ended April 30, 2009 and 2008 (Unaudited)

	Three Months Ended 2009 (In Thousands)		Six Months Ended 2009 (In Thousands)	
<b>OPERATING REVENUES</b>	\$ 114,539	\$ 163,851	\$ 244,361	\$ 325,686
<b>OPERATING EXPENSES:</b>				
Operation and maintenance, generation	57,100	63,684	125,182	133,099
Power purchased	27,019	66,601	48,789	113,512
Operation and maintenance, transmission	10,222	12,644	23,866	22,250
Administrative and general	4,791	4,274	9,125	8,847
Depreciation	10,854	10,711	21,652	21,363
Taxes, other than income taxes	35	33	71	67
Interest	8,840	8,846	17,937	18,215
Total operating expenses	118,861	166,793	246,622	317,353
<b>MARGIN (LOSS) FROM OPERATIONS</b>	(4,322)	(2,942)	(2,261)	8,333
<b>INTEREST INCOME</b>	530	480	1,057	1,149
<b>OTHER INCOME</b>	(470)	619	(816)	1,171
<b>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</b>	293	303	546	654
<b>NET MARGIN (LOSS)</b>	\$ (3,969)	\$ (1,540)	\$ (1,474)	\$ 11,307

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

For the three and six months ended April 30, 2009 and 2008 (Unaudited)

	Three Months Ended 2009 (In Thousands)		Six Months Ended 2009 (In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Margin (Loss)	\$ (3,969)	\$ (1,540)	\$ (1,474)	\$ 11,307
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,854	10,711	21,652	21,363
Amortization of gas reserves	643	550	1,216	1,366
Allowance for funds used during construction	(293)	(303)	(546)	(654)
Allocation of patronage from associated organizations	(59)	(65)	(83)	(72)
Changes in operating assets and liabilities-				
Accounts receivable	13,450	3,395	4,904	(857)
Fuel inventories	(5,106)	(5,024)	(2,905)	(3,449)
Other current assets	1,778	(343)	1,802	(1,648)
Material and supply inventories	(164)	(405)	(524)	(884)
Deferred charges	5,036	1,813	4,194	3,299
Accounts payable and accrued liabilities	(3,711)	9,126	1,202	475
Other deferred credits	36	257	(710)	59
Net cash provided by operating activities	18,495	18,172	28,728	30,305
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Net sales (purchases) of marketable securities	1,607	3,005	(8,803)	5,625
Net sales of other investments	32	28	153	244
Capital expenditures	(86,185)	(9,630)	(92,973)	(17,107)
Net cash used in investing activities	(84,546)	(6,597)	(101,623)	(11,238)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Net borrowings (payments) on notes payable	55,499	(9,618)	63,415	(23,783)
Principal payments on long-term debt	(5,942)	(7,995)	(15,562)	(16,189)
Proceeds from long-term debt	-	-	-	-
Redemption of patronage capital	-	-	-	-
Net cash provided by (used in) financing activities	49,557	(17,613)	47,853	(39,972)
Net decrease in cash and cash equivalents	(16,494)	(6,038)	(25,042)	(20,905)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	36,715	31,507	45,263	46,374
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 20,221	\$ 25,469	\$ 20,221	\$ 25,469

**Member Systems and Board of Directors**

Charles Burdine, Chairman  
Ron Moore, Vice Chairman  
Sam Davis, Secretary-Treasurer

**Arkansas Valley Electric Ozark**  
Sam Davis  
Bill Peters

**Carroll Electric Berryville**  
Charles Burdine  
Rob Boaz

**Farmers Electric Newport**  
Bryan Runsick  
Gene Sweat

**North Arkansas Electric Salem**  
Jasper Freeman  
Mel Coleman

**Petit Jean Electric Clinton**  
Donnie Collins  
David Fugitt

**Southwest Arkansas Electric Texarkana**  
Don Stemple  
Wayne Whitaker

**Ashley-Chicot Electric Hamburg**  
Jerry Pahal  
Ron Moore

**Clay County Electric Corning**  
John Dalton  
David Smith

**First Electric Jacksonville**  
Robert Hill  
Don Crabbe

**Ouachita Electric Camden**  
Walt Piggott  
Mark Cayce

**Rich Mountain Electric Mena**  
Donald Manning  
Leon Philpot

**Woodruff Electric Forrest City**  
J. A. Wampler  
Billy Martin

**C & L Electric Star City**  
Charles Searcy  
W. H. Frizzell

**Craighead Electric Jonesboro**  
Tom Sloan  
Brian Duncan

**Mississippi County Electric Blytheville**  
Robert E. Davis  
Larry Hellums

**Ozarks Electric Fayetteville**  
Jerry Bolinger  
Mitchell Johnson

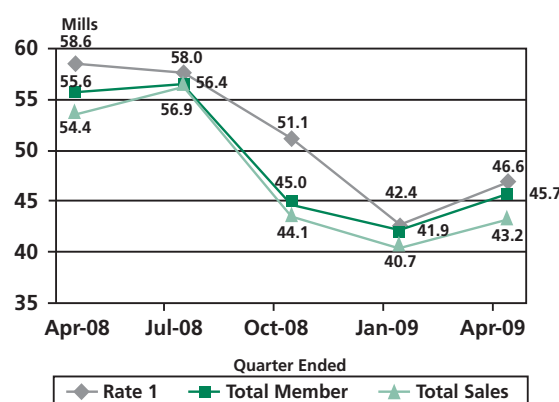
**South Central Arkansas Electric Arkadelphia**  
Terry Allgood  
Bill Conine

**Selected Financial Highlights**

As of April 30, 2009 and October 31, 2008

	April 30, 2009	October 31, 2008
Equity as a Percentage of Assets	38.72%	40.54%
Debt/Equity Ratio	1.02	1.05
Current Ratio	0.37	0.62
Times Interest Earned Ratio	0.91	1.57
Debt Service Coverage Ratio	1.18	1.21
Average Cost of Long-term debt	5.533%	5.511%

**Revenue Per MWH Sold**



**Management Team**

President/CEO	Gary Voigt
Sr. VP & General Counsel	Robert M. Lyford
VP Planning, Rates & Dispatching	Ricky Bittle
VP Information Technology	Robert McClanahan
VP/CFO	Michael Henderson
VP Engineering, Construction & Operations	Jonathan Oliver
VP Systems Services	Doug White
VP Strategic Affairs	Sandra Byrd



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