



# Second Quarter Report

As of and for the three and six months ended April 30, 2011

## 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 2,861 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 and purchased power through a fuel adjustment clause.

"Operating revenues" for the six months ended April 30, 2011 increased approximately \$17.4 million compared to the same period in 2010. The increase in operating revenue was primarily the result of an increase in energy revenue of \$18.3 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, 2011 in the amount of \$14.8 million, which was passed on through the fuel adjustment clause, and 2) a 2.4% increase in member megawatt hour consumption (\$3.5 million). In addition, the demand revenue increased \$9.8 million, which is a result of a higher coincidental peak. The demand and energy revenue increase was offset by a decrease in non-member sales in the amount of \$10.7 million (primarily from sales of surplus energy to Entergy Arkansas, Inc.).

"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" increased by \$12.3 million compared to the six months ended April 30, 2010, primarily due to the \$14.8 million increase in fuel and purchased power costs mentioned above. The total cost of energy as a percentage of operating revenue was 68.9% for the six months ended April 30, 2011 compared to 68.8% for the six months ended April 30, 2010.

"Other losses" 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, 2011 for AECC's interest in these reserves was \$3.21/mcf compared to \$4.03/mcf during the same period in 2010.

## LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2011, net cash and cash equivalents increased \$13.4 million. The major components consisted of the following: AECC received proceeds from a private placement debt issuance in First Mortgage Obligation Senior Notes of \$200 million. This was offset by the repayment of the short term commercial paper debt of approximately \$160 million. In addition, AECC made capital expenditures of \$23.3 million along with a reduction of \$16.0 million in the amount of funds held under the member line-of-credit. AECC also made regular payments on long-term debt of \$17.9 million.

For the calendar year 2011, AECC has budgeted \$71.3 million for capital expenditures. This amount includes \$61.9 million to be incurred for generation and \$9.4 million for transmission and other miscellaneous general capital expenditures. The budgeted capital expenditures for 2011 include \$1.1 million for environmental upgrades based on certain permit limits. The Environmental Protection Agency (EPA) has issued a letter questioning such proposed Arkansas Department of Environmental Quality's (ADEQ) permit limits. As a result of the EPA letter, the upgrades have been suspended and will be addressed taking into consideration the revised standards once the EPA has completed its review of ADEQ's permit limits and the final permit limits are issued.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (NRUCFC), a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2012, and a \$30.0 million committed line-of-credit with Wells Fargo Bank that terminates on September 30, 2011. AECC uses advances from the member line-of-credit program (\$67.3 million as of April 30, 2011) to support daily cash needs. AECC also has a \$185.5 million loan approved from NRUCFC for construction of the John W. Turk, Jr. Power Plant, a 600 MW coal-fired ultra supercritical steam turbine generating unit, of which AECC owns 11.667% or 70 MW. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042. In addition, on December 8, 2010, AECC received a final clearance and approval letter from the Rural Utilities Service to provide loan funds in the amount of \$621.0 million for certain generation projects and improvements.

On February 22, 2011 AECC completed a private placement debt issuance by issuing \$200 million in First Mortgage Obligation Senior Notes (Notes). The debt issuance involved two tranches with a \$80 million Series 2011A Notes due December 31, 2030 at an annual rate of 4.71% and a \$120 million Series 2011B Notes due December 31, 2041 at an annual rate of 5.62%. AECC used the proceeds of the Notes to fund past capital expenditures, including: 1) to repay the holders of outstanding short-term commercial paper; 2) to fund on a long-term basis, capital expenditures AECC has incurred during the period 2006 through 2010 involving projects for the acquisition of property and/or the construction, extension, or improvement of AECC's generating, transmission, or general plant; and 3) for payment of the cost associated with issuing the Notes.

On April 28, 2011, AECC closed on a three year \$250 million senior unsecured revolving credit facility. 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. This facility replaces a \$210.5 million unsecured facility which terminated on April 28, 2011.

AECC's secured facility lease bonds are rated Aa3 by Moody's Investors Service (Moody's) and Moody's has assigned an A1 senior secured rating to AECC's private placement of the Notes. AECC has also been assigned issuer credit ratings 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, 2011 and 2010 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, 2010 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, 2011 (Unaudited) and October 31, 2010

|  | April 30, 2011<br>(Unaudited)<br>(In Thousands) | October 31, 2010<br>(In Thousands) |  | April 30, 2011<br>(Unaudited)<br>(In Thousands) | October 31, 2010<br>(In Thousands) |
|--|---|------------------------------------|--|---|------------------------------------|
| <b>ASSETS</b>                            |   |                                    | <b>EQUITIES AND LIABILITIES</b>                |   |                                    |
| <b>UTILITY PLANT:</b>                    |   |                                    | <b>MEMBERS' EQUITIES:</b>                      |   |                                    |
| Electric plant in service, at cost       | \$ 1,538,527                                    | \$ 1,534,130                       | Membership fees                                | \$ 2  | \$ 2                               |
| Construction work in progress            | 201,160   | 181,968                            | Patronage capital                              | 313,220   | 313,220                            |
|  | 1,739,687                                       | 1,716,098                          | Accumulated margins                            | 43,543  | 28,348                             |
| Less accumulated depreciation            | 872,722   | 857,241                            | Other equities                                 | 118,140   | 118,140                            |
| Net utility plant                        | 866,965   | 858,857                            | Net unrealized loss on investments             | -   | -                                  |
|  |   |                                    | Total members' equities                        | 474,905   | 459,710                            |
| <b>LONG-TERM INVESTMENTS:</b>            |   |                                    | <b>LONG-TERM DEBT:</b>                         |   |                                    |
| Marketable securities                    | 10,000  | 10,000                             | Rural Utilities Service                        | 570   | 848                                |
| Gas reserves                             | 41,304  | 42,409                             | Federal Financing Bank                         | 219,002   | 225,499                            |
| Deposit with RUS - restricted investment | 30,305  | 29,566                             | CoBank   | 99,331  | 104,578                            |
| Other 27,502                             | 26,659  |                                    | First Mortgage Obligation Series 2011 A & B    | 200,000   | -                                  |
| Total long-term investments              | 109,111   | 108,634                            | Other long-term debt                           | 37  | 47                                 |
|  |   |                                    | Total long-term debt                           | 518,940   | 330,972                            |
| <b>CURRENT ASSETS:</b>                   |   |                                    | <b>CURRENT LIABILITIES:</b>                    |   |                                    |
| Cash and cash equivalents                | 87,017  | 73,597                             | Notes payable, members                         | 141,643   | 157,645                            |
| Short-term marketable securities         | -   | 2,000                              | Notes payable, related parties                 | 30,000  | 30,000                             |
| Accounts receivable, members             | 44,413  | 41,451                             | Notes payable, others                          | -   | 159,897                            |
| Fuel inventories and prepaid fuel supply | 38,363  | 30,331                             | Current maturities of long-term debt           | 30,376  | 36,246                             |
| Material and supply inventories          | 16,579  | 16,939                             | Accounts payable and other accrued liabilities | 52,892  | 50,092                             |
| Deposit with RUS - restricted investment | 549   | 537                                | Accrued property taxes                         | 8,344   | 6,369                              |
| Other current assets                     | 5,395   | 4,122                              | Accrued interest                               | 3,576   | 1,734                              |
| Total current assets                     | 192,316   | 168,977                            | Total current liabilities                      | 266,831   | 441,983                            |
|  |   |                                    | <b>COMMITMENTS AND CONTINGENCIES</b>           |   |                                    |
| <b>DEFERRED CHARGES</b>                  | 101,816   | 105,500                            | <b>DEFERRED CREDITS</b>                        | 9,532   | 9,303                              |
| Total assets                             | \$ 1,270,208                                    | \$ 1,241,968                       | Total members' equities and liabilities        | \$ 1,270,208                                    | \$ 1,241,968                       |

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF OPERATIONS**  
For the three and six months ended April 30, 2011 and 2010 (Unaudited)

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | 2011               | 2010       | 2011             | 2010       |
|   | (In Thousands)     |            | (In Thousands)   |            |
| <b>OPERATING REVENUES</b>                           | \$ 142,963         | \$ 128,569 | \$ 295,023       | \$ 277,651 |
| <b>OPERATING EXPENSES:</b>                          |                    |            |                  |            |
| Operation and maintenance, generation               | 72,125             | 62,274     | 145,629          | 133,009    |
| Power purchased                                     | 28,632             | 24,783     | 57,612           | 57,975     |
| Operation and maintenance, transmission             | 14,420             | 12,484     | 29,034           | 26,519     |
| Administrative and general                          | 3,566              | 5,355      | 9,134            | 9,975      |
| Depreciation  | 11,405             | 10,905     | 22,776           | 21,832     |
| Taxes, other than income taxes                      | 43                 | 35         | 86               | 71         |
| Interest 8,477                                      | 8,084              | 16,903     | 16,687           |            |
| Total operating expenses                            | 138,668            | 123,920    | 281,174          | 266,068    |
| <b>MARGIN FROM OPERATIONS</b>                       | 4,295              | 4,649      | 13,849           | 11,583     |
| <b>INTEREST INCOME</b>                              | 853                | 1,462      | 1,729            | 1,984      |
| <b>OTHER (LOSS) INCOME</b>                          | (386)              | 309        | (487)            | 173        |
| <b>ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION</b> | 58                 | 270        | 104              | 545        |
| <b>NET MARGIN</b>                                   | \$ 4,820           | \$ 6,690   | \$ 15,195        | \$ 14,285  |

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION**  
**INTERIM STATEMENTS OF CASH FLOWS**  
For the three and six months ended April 30, 2011 and 2010 (Unaudited)

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | 2011               | 2010      | 2011             | 2010      |
|   | (In Thousands)     |           | (In Thousands)   |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                    |           |                  |           |
| Net Margin  | \$ 4,820           | \$ 6,690  | \$ 15,195        | \$ 14,285 |
| Adjustments to reconcile net margin to net cash provided by operating activities- |                    |           |                  |           |
| Depreciation  | 11,405             | 10,905    | 22,776           | 21,832    |
| Amortization of gas reserves  | 633                | 737       | 1,105            | 1,331     |
| Allowance for funds used during construction                                      | (58)               | (270)     | (104)            | (545)     |
| Allocation of patronage from associated organizations                             | (1,369)            | (58)      | (1,369)          | (69)      |
| Deposit into Cushion of Credit  | (373)              | -         | (751)            | -         |
| Changes in operating assets and liabilities-                                      |                    |           |                  |           |
| Accounts receivable   | 10,054             | 26,298    | (2,962)          | 2,803     |
| Fuel inventories  | (5,189)            | (3,284)   | (8,032)          | (746)     |
| Other current assets  | (107)              | (1,049)   | (1,273)          | (2,631)   |
| Material and supply inventories   | 889                | (322)     | 360              | (323)     |
| Deferred charges  | 920                | 2,708     | 3,684            | (74)      |
| Accounts payable and accrued liabilities  | 4,350              | (20,237)  | (853)            | (14,785)  |
| Other deferred credits  | (12)               | (12)      | (207)            | (185)     |
| Net cash provided by operating activities   | 25,963             | 22,106    | 27,569           | 20,893    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                    |           |                  |           |
| Net sales of marketable securities  | 2,000              | -         | 2,000            | 2,914     |
| Net sales purchases of other investments  | 840                | 32        | 963              | 176       |
| Capital expenditures  | (16,509)           | (13,253)  | (23,311)         | (21,739)  |
| Net cash used in investing activities   | (13,669)           | (13,221)  | (20,348)         | (18,649)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                    |           |                  |           |
| Net (payments) borrowings on notes payable  | (5,085)            | 19,228    | (16,002)         | (10,546)  |
| (Payments) borrowings on notes payable, other                                     | (159,937)          | 5         | (159,897)        | 49,982    |
| Principal payments on long-term debt  | (9,156)            | (8,592)   | (17,902)         | (156,445) |
| Proceeds from long-term debt  | 200,000            | -         | 200,000          | 122,000   |
| Net cash provided by financing activities   | 25,822             | 10,641    | 6,199            | 4,991     |
| Net increase in cash and cash equivalents   | 38,116             | 19,526    | 13,420           | 7,235     |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                             | 48,901             | 20,506    | 73,597           | 32,797    |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                                   | \$ 87,017          | \$ 40,032 | \$ 87,017        | \$ 40,032 |

**Member Systems and Board of Directors**

Sam Davis, Chairman  
Mitchell Johnson, Vice Chairman  
John Dalton, Secretary-Treasurer

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

**Carroll Electric**  
Berryville  
Alan Hunnicutt  
Rob Boaz

**Farmers Electric**  
Newport  
James Pigg  
Larry Bright

**Salem**  
Harlin Hames  
Mel Coleman

**Clinton**  
Terry Kirkendoll  
Bill Conine

**Electric**  
Texarkana  
Don Stemple  
Wayne Whitaker

**Ashley-Chicot Electric**  
Hamburg  
Dennis Holland  
Rodney Chapman

**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  
Robert McBryde  
W. H. Frizzell

**Craighead Electric**  
Jonesboro  
Tom Sloan  
Brian Duncan

**Mississippi County Electric**  
Blytheville  
Robert E. Davis  
Brad Harrison  
**North Arkansas Electric**

**Ozarks Electric**  
Fayetteville  
Jerry Bolinger  
Mitchell Johnson  
**Petit Jean Electric**

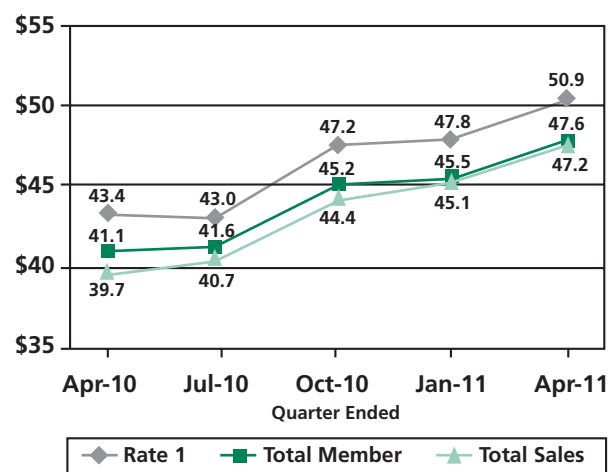
**South Central Arkansas Electric**  
Arkadelphia  
Hansel Hill  
Kevin Brownlee  
**Southwest Arkansas**

**Selected Financial Highlights**

As of April 30, 2011 and October 31, 2010

|                                | April 30, 2011 | October 31, 2010 |
|--------------------------------|----------------|------------------|
| Equity as a Percent of Assets  | 37.39%         | 37.01%           |
| Debt/Equity Ratio              | 1.16           | 0.80             |
| Current Ratio                  | 0.72           | 0.38             |
| Times Interest Earned Ratio    | 2.37           | 2.25             |
| Margins for Interest Ratio     | 2.37           | 2.34             |
| Debt Service Coverage Ratio    | 1.70           | 1.84             |
| Average Cost of Long-term debt | 5.260%         | 5.179%           |

**Revenue Per MWH Sold**



**Management Team**

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



**Arkansas Electric**  
**Cooperative Corporation**

Your Local Energy Partner

1 Cooperative Way  
PO Box 194208  
Little Rock, Arkansas 72219-4208  
(501) 570-2200  
Internet: <http://www.aecc.com>