Arkansas Electric
Cooperative Corporation
We Are Arkansas

One Cooperative Way

Financial Statements as of October 31, 2013 and 2012, and for Each of the Three Years in the Period Ended October 31, 2013, and Independent Auditors' Report

Arkansas Electric Cooperative Corporation

We Are Arkansas

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arkansas Electric Cooperative Corporation
Little Rock, Arkansas

We have audited the accompanying balance sheets of Arkansas Electric Cooperative Corporation (AECC) as of October 31, 2013 and 2012, and the related statements of operations, members' equities and comprehensive income, and of cash flows for each of the three years in the period ended October 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to AECC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AECC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AECC as of October 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2014, on our consideration of AECC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

January 8, 2014

BALANCE SHEETS
AS OF OCTOBER 31, 2013 AND 2012
(In thousands)

ASSETS	2013	2012
UTILITY PLANT:		
Electric plant in service	$ 2,159,776	$ 1,868,728
Construction work in progress	66,968	284,667
Total utility plant	2,226,744	2,153,395
Less accumulated depreciation	1,058,368	1,009,591
Net utility plant	1,168,376	1,143,804
LONG-TERM INVESTMENTS:		
Marketable securities	10,000	10,000
Gas reserves	15,366	16,436
Deposit with RUS — restricted investment	42,845	57,477
Other	20,967	19,702
Total long-term investments	89,178	103,615
CURRENT ASSETS:		
Cash and cash equivalents	107,187	90,461
Accounts receivable — members	58,450	51,180
Fuel inventories and prepaid fuel supply	36,210	46,583
Material and supply inventories	21,939	19,574
Prepaid warranty agreement	144	19,132
Deposit with RUS — restricted investment	60	260
Other current assets	6,407	7,206
Total current assets	230,397	234,396
DEFERRED CHARGES	120,744	110,975
TOTAL	$ 1,608,695	$ 1,592,790

(Continued)

BALANCE SHEETS
AS OF OCTOBER 31, 2013 AND 2012
(In thousands)

LIABILITIES AND MEMBERS' EQUITIES	2013	2012
MEMBERS' EQUITIES:		
Membership fees	$ 2	$ 2
Patronage capital	388,699	389,477
Accumulated margins	8,857	4,461
Other equities	118,140	118,140
Total members' equities	515,698	512,080
LONG-TERM DEBT:		
Federal Financing Bank	489,725	246,198
CoBank, ACB	71,157	82,826
CoBank, Unsecured	12,676	-
Series 2011A First Mortgage Obligation Senior Notes	75,500	78,000
Series 2011B First Mortgage Obligation Senior Notes	120,000	120,000
Rural Utilities Service	90	150
Other long-term debt	13	26
Total long-term debt	769,161	527,200
CURRENT LIABILITIES:		
Notes payable — members	164,298	158,291
Notes payable — related parties	30,000	30,000
Notes payable — others	9,995	249,873
Accounts payable and other accrued liabilities	63,591	58,403
Current maturities of long-term debt	29,664	30,344
Accrued property taxes	6,302	6,377
Accrued interest	5,502	5,113
Total current liabilities	309,352	538,401
DEFERRED CREDITS	14,484	15,109
COMMITMENTS AND CONTINGENCIES		
TOTAL	$ 1,608,695	$ 1,592,790

See notes to financial statements. (Concluded)

STATEMENTS OF OPERATIONS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED OCTOBER 31, 2013
(In thousands)

	2013	2012	2011
OPERATING REVENUES	$ 736,207	$ 653,251	$ 657,811
OPERATING EXPENSES:			
Operation and maintenance — generation	389,867	300,974	323,593
Power purchased	138,983	141,464	136,563
Operation and maintenance — transmission	70,423	66,199	60,038
Administrative and general	25,646	26,014	24,991
Depreciation	56,915	44,577	45,644
Interest	44,588	34,706	34,708
Taxes	152	169	174
Total operating expenses	726,574	614,103	625,711
MARGIN FROM ELECTRIC OPERATIONS	9,633	39,148	32,100
OTHER LOSS — Net	(182)	(2,451)	(761)
GAS RESERVE IMPAIRMENT	-	(20,860)	-
INTEREST INCOME — Net	3,660	4,193	3,829
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	414	1,276	493
NET MARGIN	$ 13,525	$ 21,306	$ 35,661

See notes to financial statements.

STATEMENTS OF MEMBERS' EQUITIES AND COMPREHENSIVE INCOME FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED OCTOBER 31, 2013 (In thousands)

	Membership Fees	Patronage Capital	Accumulated Margins	Other Equities	Net Unrealized Gain (Loss) on Investments	Total Members' Equities
BALANCE — October 31, 2010	$ 2	$ 313,220	$ 28,348	$ 118,140	$	$ 459,710
Comprehensive income:						
Net margin	-	-	35,661	-	-	35,661
Allocation of patronage capital	-	37,783	(37,783)	-	-	-
BALANCE — October 31, 2011	2	351,003	26,226	118,140	-	495,371
Comprehensive income:						
Net margin	-	-	21,306	-	-	21,306
Redemption of patronage capital	-	(4,597)	-	-	-	(4,597)
Allocation of patronage capital	-	43,071	(43,071)	-	-	-
BALANCE — October 31, 2012	2	389,477	4,461	118,140	-	512,080
Comprehensive income:						
Net margin	-	-	13,525	-	-	13,525
Redemption of patronage capital	-	(9,907)	-	-	-	(9,907)
Allocation of patronage capital	-	9,129	(9,129)	-	-	-
BALANCE — October 31, 2013	$ 2	$ 388,699	$ 8,857	$ 118,140	$ -	$ 515,698

See notes to financial statements.

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED OCTOBER 31, 2013
(In thousands)

	2013	2012	2011
OPERATING ACTIVITIES:			
Net margin	$ 13,525	$ 21,306	$ 35,661
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation	56,915	44,577	45,644
Gas reserve impairment	-	20,860	-
Amortization of gas reserves	1,070	2,942	2,171
Allowance for funds used during construction	(414)	(1,276)	(493)
Allocation of patronage from associated organization	(1,407)	(1,325)	(1,440)
Interest income on deposits with RUS — cushion of credit	(2,315)	(3,650)	(1,853)
Changes in operating assets and liabilities:			
Accounts receivable — members	(7,270)	1,162	(10,891)
Fuel inventories and prepaid fuel supply	10,373	(9,019)	(7,233)
Material and supply inventories	(2,365)	(2,508)	(126)
Other current assets	1,901	(3,931)	847
Deferred charges	(9,769)	10,148	9,947
Accounts payable and other accrued liabilities	(4,041)	(2,219)	(3,853)
Other deferred credits	(1,718)	3,712	627
Net cash provided by operating activities	54,485	80,779	69,008
INVESTING ACTIVITIES:			
Sales of marketable securities	-	-	2,000
Purchase of other investments	-	(1,250)	-
Sales of other investments	1,236	11,255	1,184
Deposit with RUS — restricted investment	-	(10,000)	(40,294)
Withdrawals from RUS — restricted investment	17,147	27,575	-
Repurchase of Ellis residual	-	(25,571)	-
Capital expenditures	(53,645)	(315,937)	(58,824)
Net cash used in investing activities	(35,262)	(313,928)	(95,934)
FINANCING ACTIVITIES:			
Net borrowings (payments) on notes payable, members	6,007	6,479	(5,833)
(Payments) Borrowings on notes payable, other	(239,879)	249,873	(159,897)
Principal payments on long-term debt	(31,012)	(34,821)	(35,658)
Redemption of patronage capital	(9,907)	(4,597)	-
Proceeds from long-term debt	272,294	-	261,393
Net cash (used in) provided by financing activities	(2,497)	216,934	60,005
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,726	(16,215)	33,079
CASH AND CASH EQUIVALENTS — Beginning of year	90,461	106,676	73,597
CASH AND CASH EQUIVALENTS — End of year	$ 107,187	$ 90,461	$ 106,676
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION — Noncash transactions:			
Increase in accounts payable related to capital expenditures	$ 9,542	$ 8,626	$ 9,145
Cash paid for interest — net of amounts capitalized	$ 35,121	$ 26,619	$ 22,763

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Arkansas Electric Cooperative Corporation (AECC), an electric generation and transmission cooperative, follows the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS) and the Federal Energy Regulatory Commission (FERC).

AECC was organized and exists under Arkansas law to provide wholesale electric power and associated energy to its 17 members. AECC provides electric power to its members under wholesale power contracts, which may be terminated only upon 60 months prior written notice and, in any event, no earlier than January 1, 2042. The wholesale power contracts require members to purchase, with the limited exception of one member, 100% of their energy requirements at a demand charge and energy rate, the combination of which is designed to recover the operating costs of AECC, plus a margin as approved by AECC's board of directors (the Board), the RUS, and the Arkansas Public Service Commission (APSC).

AECC's power supply resources are primarily composed of leased, owned, and co-owned generating facilities. AECC delivers energy over its owned and contracted transmission facilities. Additionally, AECC maintains interchange agreements with certain utility companies that allow for the purchase and/or sale of electricity.

Carrying Value of Certain Assets and Liabilities — AECC's accounting policies and the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises and reflect for financial reporting purposes the effects of the rate-making process in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*. In accordance with ASC 980, AECC has regulatory assets in the amount of approximately $98.5 million and $108.3 million as of October 31, 2013 and 2012, respectively. As of October 31, 2013 and 2012, regulatory assets included $5.0 million and $6.5 million, respectively, attributable to premiums associated with debt refinancings and retirements (which are being amortized over the life of the related debt instruments); deferred past service pension cost of $0.4 million and $0.4 million, respectively; $65.5 million and $72.6 million, respectively, for the purchase of the lease residual and subsequent reclassification from an operating lease to a capital lease for the Independence Steam Electric Station Unit 2 (ISES 2) in June 2003; and regulatory assets associated with the Clyde T. Ellis Hydroelectric Station (Ellis) lease and subsequent lease residual purchase of $27.7 million and $28.8 million, respectively (see "Rental and Lease Commitments" — Note 12). In the event operations are no longer subject to the provisions of ASC 980, as a result of a change in regulation or the effects of competition, AECC would be required to recognize the effects of any regulatory change in assets currently in its statements of operations.

Utility Plant and Related Depreciation — All utility plant is recorded at original cost. The cost of additions to utility plant includes contracted work, direct labor, materials, allocable overhead, and an allowance for funds used during construction as allowed by the APSC. The major classes of utility plant as of October 31, 2013 and 2012, are listed below (in thousands):

	2013	2012
Generation plant	$ 1,996,798	$ 1,722,704
Transmission plant	132,171	116,365
General plant	30,807	29,659
Electric plant in service	2,159,776	1,868,728
Construction work in progress	66,968	284,667
Total	$ 2,226,744	$ 2,153,395

The cost of retirements, replacements, or betterments are removed from utility plant and, in accordance with industry practice, the cost of the unit and its removal cost, less salvage, are charged to accumulated depreciation. Maintenance and repairs are charged to operating expenses as incurred.

Depreciation of utility plant is typically recorded using guidelines prescribed by the RUS. A provision has been made for depreciation of steam generation plant, gas turbine generation plant, hydroelectric generation plant, and transmission plant at annual straight-line composite rates of 3.1%, 3%, 2%, and 2.75%, respectively. General plant depreciation rates are applied on an annual straight-line composite basis as follows:

Structures and improvements	2%
Office furniture and equipment	4.8 and 9.6
Transportation equipment	20
Power-operated equipment	15
Tools, shop, and garage equipment	5
Communication equipment	8
Other general plant	5 and 6

Asset Retirement Obligations — AECC has recognized a conditional asset retirement obligation (ARO) related to the future removal and disposal of asbestos from three oil-/gas-fired plants and one coal-fired plant and oil and gas plugging obligations. As of October 31, 2013, there are no assets legally restricted for the purpose of settling any AROs. These AROs are recorded as other deferred credits on the balance sheets. A reconciliation of the aggregate carrying amount of the obligation as of October 31, 2013, is as follows (in thousands):

Balance — October 31, 2012	$ 2,100
Accretion expense	124
Balance — October 31, 2013	$ 2,224

Electric Revenues and Fuel — Revenues are recorded in the same month that power is generated and billed. AECC charges the cost of fuel to expense as fuel is consumed. Uncollectible accounts have historically been negligible, so AECC does not provide an allowance for doubtful accounts.

Carrying Costs Capitalized During Construction — AECC capitalizes the carrying costs on certain significant construction and development projects while in progress. AECC is allowed, based on approval from the APSC, to capitalize the interest costs for debt specifically borrowed to finance projects during construction and development. Additionally, for the portion of construction and development projects funded without specific borrowings, the APSC allows AECC to capitalize carrying costs based first on the incremental rate incurred in relation to its notes payable, and to the extent the construction and development project costs exceed the balance of the notes payable, AECC may capitalize carrying costs attributable to the remaining costs based on the weighted-average interest rate of AECC's long-term debt, excluding any amounts representing specific borrowings.

AECC records the interest costs capitalized related to debt specifically borrowed for construction and development projects as interest during construction, which is reflected as a credit to interest expense as part of operating expenses in the accompanying statements of operations. Additionally, AECC is allowed to record the carrying costs capitalized related to construction and development projects funded without specific borrowings as an allowance for funds used during construction, which is reflected below the margin from operations in the accompanying statements of operations.

Interest cost capitalized related to debt specifically borrowed was approximately $1.0 million, $7.3 million, and $5.1 million for the years ended October 31, 2013, 2012, and 2011, respectively, and was recorded as a reduction in interest expense. In addition, for the years ended October 31, 2013, 2012, and 2011, the carrying costs capitalized relating to projects funded without specific borrowings were approximately $0.4 million, $1.3 million, and $0.5 million, respectively, and were recorded as an allowance for funds used during construction in the accompanying statements of operations.

Statements of Cash Flows — For purposes of the statements of cash flows, cash and cash equivalents represent demand deposits in financial institutions and securities with original maturity dates of three months or less when issued. No amounts were paid for income taxes for the years ended October 31, 2013, 2012, and 2011.

Inventories — Fuel inventories and material and supply inventories are stated at average cost.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used in preparing the accompanying financial statements.

Restricted Investment — AECC has established a cushion of credit program administered by the RUS. Under the cushion of credit program, RUS borrowers may make voluntary irrevocable deposits into a special account. The account balance accrues interest at a rate of 5% per year. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed by the RUS. At October 31, 2013 and 2012, AECC's balances in the cushion of credit program were $42.9 million and $57.7 million, respectively. During the years ended October 31, 2013 and 2012, AECC made scheduled payments from the cushion of credit program in the amount of $17.1 million and $27.6 million, respectively. In addition, AECC earned interest income from the cushion of credit program in the amount of $2.3 million, $3.7 million and $1.9 million for the years ending October 31, 2013, 2012 and 2011, respectively.

Fair Value Measurements — AECC has adopted ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands

disclosures about fair value measurements. The statement applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize observable market data in active markets for identical assets or liabilities. Level 2 inputs consist of observable market data, other than that included in Level 1, that are either directly or indirectly observable. Level 3 inputs consist of unobservable market data, which are typically based on an entity's own assumptions of what a market participant would use in pricing an asset or liability as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. AECC's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following tables summarize AECC's assets and liabilities measured at fair value on a recurring basis as of October 31, 2013 and 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	Fair Value Measurements as of October 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets — marketable securities	$ 3,363	$ 10,000	$ -	$ 13,363

	Fair Value Measurements as of October 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets — marketable securities	$ 2,853	$ 10,000	$ -	$ 12,853

ASC 825, *Financial Instruments*, was issued in February 2007, which permits entities to choose to measure many financial instruments and certain other items at fair value (Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning accumulated margins. Following the election of the Fair Value Option for certain financial assets and liabilities, unrealized gains and losses would be reported due to changes in fair value in earnings at each subsequent reporting date.

Regional Transmission Organization Accounting — AECC participates in an Energy Imbalance Services Market under the Southwest Power Pool Regional Transmission Organization (RTO). A RTO is an organization that is established to control and manage the transportation and flows of electricity over an area that is generally larger than a single power company's system. AECC records RTO transactions on an hour-to-hour basis. Transactions within each individual hour are netted to a single purchase or sale based on actual load and net megawatt hour generation.

Restatement of Prior Year Statement of Cash Flows — Subsequent to the issuance of AECC's 2012 financial statements, AECC's management determined that in the prior year, two transactions were not properly presented within the 2012 Statement of Cash Flows. The first transaction related to AECC netting a $27.6 million withdrawal from the RUS cushion of credit program asset, classified as a restricted investment on the balance sheet, against principal payments on long-term debt, within Financing Activities, on the Statement of Cash Flows. Additionally, AECC disclosed the withdrawal from the cushion of credit program in the Supplemental Disclosures of Cash Flow Information. The 2012 Cash Flow Statement has been restated from the amounts previously reported to show the withdrawal from the cushion of credit program as a separate investing activity and removing it from financing activities. The supplemental non-cash disclosure has been removed.

The second transaction related to a long-term warranty agreement (the Agreement) with Siemens Energy, Inc. (Siemens) (see "Commitments and Contingencies" — Note 13). AECC disclosed the prepayment of $19.1 million that was subsequently used to acquire capital assets in 2013, as an operating activity. The 2012 Cash Flow Statement has been restated to reflect this amount as an investing activity.

In total, once restated, cash provided by operating activities increased by $19.1 million; cash used in investing activities decreased by $8.4 million; and, cash provided by financing activities decreased by $27.6 million. These errors did not have an impact on our reported results of operations or financial condition.

2. INCOME TAXES

In December 1982, AECC elected to revoke its tax-exempt status for federal income tax purposes. For state income tax purposes, AECC operates as a tax-exempt cooperative under Arkansas statutes. No amounts were expensed for income taxes for the years ended October 31, 2013, 2012, and 2011.

The differences between the statutory federal income tax rate on income before income taxes and AECC's effective income tax rate are summarized as follows (in thousands):

	2013	Percent	2012	Percent	2011	Percent
Statutory federal income	$ 4,734	35.0 %	$ 7,457	35.0 %	$ 12,481	35.0 %
Nontaxable member income	(4,734)	(35.0)	(7,457)	(35.0)	(12,481)	(35.0)
Tax credit carryforwards not benefited	-	-	-	-	-	-
Effective income tax rate	$ -	- %	$ -	- %	$ -	- %

The components of the net deferred tax liability as of October 31, 2013 and 2012, were as follows (in thousands):

	2013	2012
Deferred tax assets:		
Patronage exclusions available	$ 90,184	$ 79,330
Alternative minimum tax (AMT) credit carryforwards	4,052	4,052
Other	9,068	9,548
	103,304	92,930
Valuation allowance	(4,052)	(4,052)
	99,252	88,878
Deferred tax liabilities:		
Utility plant	(61,075)	(56,149)
Safe harbor lease	(30,287)	(29,368)
Other	(7,890)	(3,361)
	(99,252)	(88,878)
Net deferred tax liability	$ -	$ -

At October 31, 2013, AECC had an AMT credit carryforward of approximately $4.1 million. Based on AECC's historical transactions resulting in nonmember losses and the patronage provisions of its bylaws, AECC does not anticipate any future taxable income sufficient to realize the benefit of the tax credits existing at October 31, 2013. Accordingly, AECC has established a valuation allowance for these credits as reflected above.

3. INVESTMENTS

In accordance with ASC 320, *Investments: Debt and Equity Securities*, AECC has classified all marketable investments as available for sale. Available-for-sale investments are stated at fair value with unrealized gains and losses included in members' equities. There were no realized gains or losses in 2013, 2012, or 2011. The cost of investments sold is based on the specific-identification method.

Marketable securities classified as available for sale as of October 31, 2013 and 2012, were as follows (in thousands):

	2013			
Description	**Amortized Cost**	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Fair Value**
Other U.S. government agency securities	$ 10,000	$ -	$ -	$ 10,000

	2012			
Description	**Amortized Cost**	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Fair Value**
Other U.S. government agency securities	$ 10,000	$ -	$ -	$ 10,000

As of October 31, 2013, contractual maturities of marketable securities available for sale were as follows:

Description	**Less Than One Year**	**One Through Five Years**	**After Five Years**	**Total**
Other U.S. government agency securities	$ -	$ -	$ 10,000	$ 10,000

Subordinated term certificates were purchased in connection with the issuance of the National Rural Utilities Cooperative Finance Corporation (CFC) Guaranteed Pollution Control Revenue Bonds. These amounts are recorded in the accompanying balance sheets as part of long-term investments — other, and totaled $6.7 million at October 31, 2013 and 2012. In accordance with ASC 320, these investments have been classified as held to maturity and, accordingly, are recorded at amortized cost. These investments have maturity dates which extend through 2080.

AECC has a leasehold interest in the revenue stream of certain gas wells. AECC is accounting for its mineral interest using the successful efforts method of accounting and the mineral interest is being depleted on a field-by-field basis using the unit-of-production method based on estimated proven reserves. At October 31, 2013 and 2012, AECC's leasehold interests in the gas reserves totaled approximately $15.4 million and $16.4 million, respectively. The net interest received, less the depletion of the gas reserves, resulted in a loss of approximately $0.2 million, $2.5 million, and $0.9 million for the years ended October 31, 2013, 2012, and 2011, respectively.

AECC evaluates the recoverability of assets by comparing the carrying amount of the relevant asset group against the related estimated undiscounted future cash flows expected over the remaining useful life of the asset group. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the asset group, the carrying value of the asset group is reduced to its estimated fair value. AECC completed an impairment valuation as of October 31, 2013, related to its leasehold interest in the gas reserves and concluded that the gas reserves were not impaired. During 2012, AECC recorded a gas reserve impairment of $20.9 million, which is presented on the statement of operations.

4. PATRONAGE CAPITAL

Patronage allocations are based on an amount not less than the fiscal year's taxable income for federal income tax purposes. Patronage allocations are assigned to patrons' accounts as credits on a patronage basis. Using this allocation method, approximately $ 9.1 million, $43.1 million, and $37.8 million of patronage capital were allocated for the years ended October 31, 2013, 2012, and 2011, respectively.

Patronage retirements are restricted by the Indenture of Mortgage, Security, and Financing Statement dated as of June 1, 2009, made by AECC, as grantor, to Regions Bank, as trustee, as supplemented (the Indenture). The Indenture prohibits AECC from making any distribution of patronage capital to its members if, at the time of the distribution or immediately following the distribution, (i) an event of default exists or (ii) AECC's aggregate margins and equities at the end of the most recent fiscal quarter would be less than 20% of its total long-term debt and equities. AECC may, however, distribute up to the lesser of 5% of its aggregate margins and equities as of the end of the immediate preceding fiscal year, or 25% of its prior year's margins..

During the years ended October 31, 2013 and 2012, the Board authorized patronage retirements of approximately $9.9 million and $4.6 million. There was no patronage retirement for the year ended October 31, 2011.

5. OTHER EQUITIES

Other equities include proceeds of approximately $43.2 million from the sale of tax benefits under the Economic Recovery Tax Act of 1981 — net of applicable expenses. The tax benefits sold were the depreciation and tax credits applicable to the Independence Steam Electric Station Unit No. 1 (ISES 1) boiler and turbine, coal handling equipment, and certain common and related items having a cost of approximately $113.6 million.

In connection with the sale of tax benefits, AECC has agreed to indemnify the purchaser against the loss of such tax benefits. CFC, in turn, agreed to guarantee up to $58.9 million of the indemnification, with the guaranteed amount decreasing annually until the expiration of the indemnification on December 31, 2012.

The other equities balance also includes $75.6 million income related to the amortization of the deferred gain resulting from the ISES 2 sale and leaseback transaction. In accordance with ASC 980, due to rate-making treatment, the gain from this sale was recognized for financial reporting purposes over the lease term until June 27, 2003, when AECC purchased the ISES 2 lease residual resulting in the operating lease being reclassified as a capital lease. On December 16, 2009, AECC entered into a purchase and sale agreement to buyout the ISES 2 leased assets. On December 30, 2009, closing of the transaction, the ISES 2 lease was terminated and now AECC owns a 35.0% undivided interest in ISES 2 (see "Rental and Lease Commitments" — Note 12).

6. LONG-TERM DEBT

Long-term debt as of October 31, 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Mortgage notes payable to Federal Financing Bank (FFB) at varying interest rates from 2.77% to 6.89%, due in quarterly installments through December 2040	$ 503,832	$ 263,139
Series 2011A First Mortgage Obligation Senior Notes payable at an annual interest rate of 4.71%, due in semiannual installments beginning December 2012 through December 2030	78,000	80,000
Series 2011B First Mortgage Obligation Senior Notes payable at an annual interest rate of 5.62%, due in semiannual installments beginning December 2031 through December 2041	120,000	120,000
CoBank ACB (CoBank) notes payable at an annual interest rate of 4.74%, due in quarterly installments through January 2020	82,826	93,958
CoBank unsecured notes payable at an annual interest rate of 2.62%, due in quarterly installments through March 2023	13,992	-
RUS 2% and 5% mortgage notes, due in quarterly installments through May 2018	150	410
Other debt	25	37
Total debt	798,825	557,544
Current maturities of long-term debt	29,664	30,344
Total long-term debt less current maturities	$ 769,161	$ 527,200

The estimated maturities of long-term debt for each of the next five years ending October 31 and in the aggregate thereafter are as follows (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
FFB	$ 14,107	$ 18,551	$ 18,407	$ 16,819	$ 15,432	$ 420,516	$ 503,832
CoBank	11,669	12,232	12,822	13,441	14,090	18,572	82,826
CoBank — unsecured	1,316	1,351	1,386	1,424	1,463	7,052	13,992
Series 2011A	2,500	2,500	2,500	2,500	3,000	65,000	78,000
Series 2011B	-	-	-	-	-	120,000	120,000
RUS	60	36	21	22	11	-	150
Other	12	13	-	-	-	-	25
Total	$ 29,664	$ 34,683	$ 35,136	$ 34,206	$ 33,996	$ 631,140	$ 798,825

All long-term debt, with the exception of the above disclosed CoBank unsecured debt, is secured equally and ratably by a first priority lien on substantially all of the owned tangible and certain of the intangible assets of AECC, subject to certain exceptions and limitations. Under the terms of AECC's Indenture,

substantially all of the after-acquired assets of AECC become subject to the lien of the Indenture. Also, under the terms of the Indenture, the RUS loan contract and other loan agreements, AECC must maintain certain financial covenants. AECC was in compliance with these financial covenants at October 31, 2013.

On November 11, 2008, AECC entered into a long-term loan agreement with CFC in the amount of $185.5 million for the purpose of financing AECC's share of the John W. Turk, Jr. Power Plant (Turk), a 600 MW coal-fired ultra-supercritical steam turbine generating unit and related facilities located in Hempstead County, Arkansas (see "Power Plants" — Note 10). The loan agreement was subsequently amended as of April 5, 2010, to reflect AECC's move to the Indenture. The loan commitment had a maximum draw period ending on December 31, 2012, and a maturity date of December 31, 2041. AECC made no draws on this loan; therefore, the loan agreement terminated on December 31, 2012.

On December 9, 2009, AECC entered into a long-term loan agreement with CoBank in the amount of $122 million for the purpose of funding the lease buyout and purchase of ISES 2. The loan has a maturity date of January 20, 2020. As of October 31, 2013 and 2012, $82.8 and $94 million, respectively, was outstanding to CoBank. On April 23, 2013, AECC entered into an unsecured long-term loan agreement with CoBank in the amount of $14.7 million for the purpose of funding certain pension plan prepayments (see "Employee Benefits" — Note 8). The loan has a maturity date of March 30, 2023. As of October 31, 2013, $14.0 million was outstanding to CoBank.

On December 8, 2010, AECC entered into a long-term loan agreement with RUS on the FFB S-8 loan in the amount of $621.0 million. This loan is being used to finance $103.6 million of system improvements mostly incurred at AECC's coal-fired plants. The remaining $517.4 million of the loan will be used to finance AECC's share of environmental control equipment upgrades at Flint Creek Power Plant (Flint Creek) and White Bluff Steam Electric Station (WBSES) (see "Commitments and Contingencies" — Note 13). The loan commitment has a maximum draw period ending on September 30, 2015, and a maturity date of December 31, 2040. The total unadvanced amount as of October 31, 2013 and 2012, was $546.9 million and $559.6 million, respectively.

On February 22, 2011, AECC completed a private placement debt issuance by issuing $200.0 million in First Mortgage Obligation Senior Notes (the Notes). The debt issuance involved two tranches, with outstanding amounts of $78.0 million in Series 2011A Notes, due December 30, 2030, at a coupon rate of 4.71% and a $120.0 million in Series 2011B Notes, due December 30, 2041, at a coupon rate of 5.62%. AECC primarily, used the proceeds of the Notes to repay the holders of outstanding short-term commercial papers (see "Notes Payable" — Note 7).

On September 25, 2012, the RUS approved a loan guarantee commitment in the amount of $245 million. AECC subsequently entered into a long-term loan agreement with RUS by executing the Series 2012 (FFB T8) Note, dated November 30, 2012, in the amount of $245 million. This loan is being used to finance AECC's acquisition of the Magnet Cove Power Plant (Magnet Cove) (see "Power Plants" — Note 10). The loan commitment has a maximum draw period ending on September 30, 2017, and a maturity date of December 31, 2041. The total unadvanced amount as of October 31, 2013, was $4.9 million.

7. NOTES PAYABLE

AECC maintains a $75.0 million perpetual line of credit with CFC, which bears interest at 1.0% above the prime rate or such lesser total rate per annum as may be fixed by CFC. AECC also has a $10.0 million committed line of credit with Regions Bank through August 15, 2014, which bears interest at 1.5% over the 30-day London InterBank Offered Rate. No amounts were outstanding under these lines of credits during the fiscal years 2013 and 2012.

AECC has signed related-party master promissory notes with all of its members. These notes allow members to advance AECC funds with such advances payable upon demand. When needed, AECC may use such advances for its own operating requirements and recognizes interest as a component of interest expense in the statements of operations. However, when AECC is in a financial position such that it does not require these advances for operations, members may continue to advance funds to AECC for investment purposes, in which case AECC recognizes the interest expense in interest income — net, in the statements of operations. AECC collectively invests such funds, along with AECC's general funds, and pays its members an interest rate comparable to the monthly average rate earned on the combined investments. AECC invests these funds in U.S. Treasury notes, bills and bonds, other U.S. government agency securities, and various other debt securities, such as corporate notes, bonds, and commercial paper.

At October 31, 2013 and 2012, member advances to AECC totaled approximately $164.3 million and $158.3 million, respectively. At October 31, 2013 and 2012, the variable interest rate on the notes payable was 1.56% and 1.37%, respectively.

Total interest expense related to the member advances for the years ended October 31, 2013, 2012, and 2011, was as follows (in thousands):

	2013	2012	2011
Operating interest, included in interest expense	$ 1,780	$ 1,742	$ 3,657
Nonoperating interest, included in interest income — net	842	1,274	119
Total interest expense	$ 2,622	$ 3,016	$ 3,776

On April 28, 2011, AECC entered into a $250 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. On June 3, 2013 this agreement was extended through June 12, 2016. There was no outstanding balance on this credit agreement at October 31, 2013 or 2012.

AECC also entered into an agreement with Goldman Sachs to act as dealer for commercial paper notes issued by AECC. At October 31, 2013, $10.0 million of commercial paper notes were outstanding at rates varying from 0.20% to 0.23% and with maturities varying from 91 to 94 days. At October 31, 2012, $249.9 million of commercial paper notes were outstanding at rates varying from 0.23% to 0.25% and with maturities varying from 60 to 91 days (see "Power Plants" — Note 10).

AECC has a 3.57% promissory note with Arkansas Electric Cooperatives, Inc. (AECI) for $30.0 million with a maturity date of December 31, 2013. A new promissory note with AECI was executed to replace this expiring promissory note (see "Subsequent Events" — Note 16).

8. EMPLOYEE BENEFITS

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a master multiple employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a master multiple employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

AECC's contributions to the RS Plan in 2013, 2012 and in 2011 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. AECC made contributions to the plan of $19.3 million, $5.1 million and $4.9 million for the years ended October 31, 2013, 2012 and 2011, respectively. Contributions in 2013 are significantly higher than those in 2012 due to AECC electing to participate in the prepayment option offered to participating employers in 2013. See description below for more information on the prepayment program.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2013 and between 65 percent and 80 percent funded on January 1, 2012 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is the cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period. On April 3, 2013, the Board approved a prepayment of $14.7 million to the NRECA RS Plan. AECC is amortizing this amount over ten years. At October 31, 2013, the balance of the prepayment was $13.4.

AECC also has a defined contribution plan for eligible employees, for which contributions are determined annually. Additionally, AECC contributes a portion of the premiums related to medical insurance for eligible employees. Total benefit costs were approximately $9.5 million, $8.4 million, and $7.9 million, for the years ended October 31, 2013, 2012, and 2011, respectively.

AECC has deferred compensation agreements with certain employees that provide benefits upon death, disability, at age 65 and retired, or retirement. The present value of total estimated deferred compensation is being accrued over the remaining years to the full eligibility date. Contributions to the

plans were $0.1 million for each of the fiscal years ended October 31, 2013, 2012, and 2011. AECC has acquired certain assets, principally life insurance policies and mutual fund shares, to provide benefits under the deferred compensation agreements. At October 31, 2013 and 2012, AECC had accrued deferred compensation liabilities of $8.6 million and $8.3 million, respectively, which are reflected in other deferred credits in the accompanying balance sheets. In addition, at October 31, 2013 and 2012, AECC had $9.6 million and $8.7 million, respectively, related to life insurance policies and mutual fund shares to fund the deferred compensation plans, which are reflected in other long-term investments in the accompanying balance sheets.

AECC provides certain postretirement benefits to employees. In accordance with ASC 715, *Compensation — Retirement Benefits*, the accumulated postretirement benefit obligation was calculated to be $1.1 million, which is included in deferred credits on AECC's balance sheets.

9. RELATED-PARTY TRANSACTIONS

AECC has limited joint management with AECI and certain members of the Board also serve on the AECI board. AECI, among other things, is engaged in the construction and maintenance of electrical substations and transmission facilities, and the marketing of new pole-mount and pad-mount transformers and pole-line hardware. Under contractual agreements, AECC and AECI share certain facilities and personnel. Separate accounting records and related information are maintained for each cooperative. AECC had patronage allocations from AECI in the amount of $0.8 million and $0.7 million at October 31, 2013 and 2012, respectively.

AECI pays AECC monthly rent for use of the general office facilities and other expenses. The total amounts paid to AECC for the years ended October 31, 2013, 2012, and 2011, were approximately $3.4 million, $3.6 million, and $3.7 million, respectively. AECI owed AECC approximately $0.3 million at October 31, 2013 and 2012, related to the reimbursement of these expenses. As of October 31, 2013 and 2012, AECC owed AECI $30 million in notes payable (see "Notes Payable" — Note 7).

AECI provides various services for AECC. The amounts incurred by AECC for shared salaries, reimbursement of expenses, purchases of supplies and services, and right-of-way clearing and construction were approximately $4.4 million, $4.6 million, and $4.1 million for the years ended October 31, 2013, 2012, and 2011, respectively. At October 31, 2013 and 2012, AECC owed AECI approximately $0.4 million and $0.4 million, respectively, for materials and services.

AECI has a wholly owned subsidiary, Electric Research and Manufacturing Cooperative, Inc. (ERMCO). On November 4, 2005, AECC purchased $10 million preferred stock in ERMCO with a cumulative dividend rate of 8%. Dividends are paid semiannually. The preferred stock was redeemed on August 15, 2012.

10. POWER PLANTS

AECC has an ownership or leasehold interest in and is responsible for providing its share of the costs for wholly owned, jointly owned or certain leased facilities in Arkansas, with the corresponding direct expenses included in the statements of operations as operating expenses. AECC's share of each facility in operation as of October 31, 2013, is as follows (in thousands):

Generating Plants	Ownership or Leasehold Interest %	Utility Plant in Service	Accumulated Provision for Depreciation	Amount of Plant Under Construction	Current Available Net Capacity (MW) (Unaudited)
Flint Creek	50 %	$ 111,464	$ 76,893	$ 38,349	264 MW
White Bluff 1 and 2	35	315,721	260,115	10,803	580
ISES 1 and 2	35	358,086	281,473	1,849	588
Fitzhugh	100	71,377	28,379	231	165
Bailey	100	13,458	13,369	300	122
McClellan	100	19,068	18,430	461	134
Ellis	100	70,321	65,711	354	26
Whillock	100	75,454	29,002	24	17
Electric Cooperatives of Arkansas	100	184,331	51,509	95	35
Fulton CT 1	100	58,701	21,632	309	153
Oswald	100	84,749	24,007	410	548
Elkins	100	35,200	2,662	-	60
Magnet Cove (Lease)	100	259,521	16,394	53	660
Turk (Lease)	11.667	221,294	6,024	1,255	70

Under a purchase agreement with Southwestern Power Administration (SPA), which expires June 30, 2020, AECC has the right to purchase, except in certain circumstances, up to 189 MW of power and associated energy from SPA. AECC can draw power and energy under this contract for up to 200 hours a month, but not over 600 hours in any four consecutive months and not over 1,200 hours in any 12-month period.

In March 2012, AECC entered into a purchase power agreement with BP Wind Energy North America, Inc., to purchase the net output from a wind-powered generating facility for a fixed price. The facility has 51 MW of installed capacity and became operational on December 26, 2012. The agreement is for a 20-year term.

In July 17, 2013, AECC entered into a purchase power agreement with Origin Wind Energy, LLC, to purchase the net output from a wind-powered generating facility for a fixed price. The facility has 150 MW of installed capacity and has a scheduled commercial operation date of December 31, 2014. The agreement is for a 20-year term.

On October 3, 2007, the Board passed a resolution approving AECC's purchase of 11.667% (70 MW) of Turk from Southwestern Electric Power Company (SWEPCO). On December 12, 2008, AECC was granted a Certificate of Conveyance and Necessity by the APSC approving AECC's purchase of an 11.667% undivided interest in Turk. RUS approved Turk as a system addition on January 8, 2009. As a result of receiving these required approvals, AECC paid accrued project costs of approximately $59.3 million upon purchasing its share of Turk on February 12, 2009. In connection with the Turk acquisition AECC, as lessee, purchased and assumed certain leasehold interests in the fee interest in the real property and right, title, and interest in the personal property of Turk owned by Hempstead County, Arkansas, as lessor, under a certain lease agreement related to an existing agreement for payment in lieu of taxes. Turk was declared operational on December 20, 2012.

In 2013, AECC completed construction of Elkins, a 60 MW natural gas-fired power plant located near Elkins in northwest Arkansas. This simple cycle plant consists of three aeroderivative-type combustion turbines and is owned, operated and dispatched by AECC. May 1, 2010, AECC placed two of the combustion turbines into operation. The third turbine was placed into operation on May 1, 2013. AECC purchases natural gas for Elkins primarily on the daily spot market.

AECC completed the acquisition of the Magnet Cove, a 660 MW 2x1 natural gas-fired combined cycle plant from Hot Spring Power Company, LLC on September 10, 2012, for $240 million. In connection with the acquisition, AECC, as lessee, purchased and assumed certain leasehold interests in the fee interest in the real property and right, title, and interest in the personal property of Magnet Cove owned by Hot Spring County, Arkansas, as lessor, under a certain lease agreement related to an existing agreement for payment in lieu of taxes. The purchase was financed at closing with short-term commercial paper and is being financed in the long term by the RUS through a FFB T8 Note. AECC borrowed loan funds on February 5, 2013, with RUS approval, in order to pay down the interim commercial paper debt.

RUS regulatory accounting requires AECC to record the Magnet Cove purchase at the original cost incurred by the entity, which first devoted the property to utility service, along with a related acquisition adjustment. Accordingly, AECC has recorded the Magnet Cove purchase at its original cost of $423 million with the related $85 million of accumulated depreciation, representing depreciation on Magnet Cove from its initial commercial operation in January 2006 through AECC's acquisition in September 2012. As a result of acquiring Magnet Cove at its original net book value cost of $338.0 for $240.0 million, AECC has recorded a related acquisition adjustment credit in the amount of $98.0 million as of October 31, 2012.

11. FUEL SUPPLY AND TRANSMISSION AGREEMENTS

AECC pays Entergy Arkansas, Inc. (Entergy), in accordance with provisions of joint operating agreements, for its 35% interest in the coal stockpiles at the White Bluff and ISES generating plants. Entergy retains all ownership rights to the coal. AECC makes monthly payments to Entergy to maintain the stockpiles. These payments are classified as prepaid fuel supply in the accompanying balance sheets.

AECC also has a joint operating agreement with SWEPCO, in connection with its 50% interest of the Flint Creek generating station and 11.667% interest in Turk, whereby AECC pays for its share of the fuel consumed at those stations.

AECC owns approximately 322 miles of transmission lines, but relies primarily on the transmission facilities of Entergy, SWEPCO, Oklahoma Gas & Electric, and SPA to deliver electricity to the members pursuant to long-term delivery agreements or tariffs.

12. RENTAL AND LEASE COMMITMENTS

ISES 2 — Pursuant to the terms of a sale-leaseback agreement dated December 4, 1984, AECC sold and leased back for 35 years its 35% undivided interest in ISES 2. On June 27, 2003, AECC repurchased its future ownership interest in the leased ISES 2 assets effective December 31, 2019. As a result of this transaction, the operating lease was reclassified as a capital lease and an associated regulatory asset was created. The balance of this regulatory created asset was $65.5 million and $72.6 million as of October 31, 2013 and 2012, respectively.

On November 23, 2009, AECC executed a purchase and sale agreement with General Electric Capital Corporation (GECC) to purchase the entire beneficial interest that GECC retained in the ISES 2 leased

assets (the Transaction). On December 16, 2009, the APSC entered an order that the Transaction was in the public interest and approved the Transaction. The Transaction closed on December 30, 2009, with a purchase price of $122.2 million (see "Long-term Debt" — Note 6).

AECC negotiated with a lender for a 10-year term loan for approximately $122 million in order to fund the lease buyout and purchase of ISES 2 (see "Long-term Debt" — Note 6). As a result of this buyout transaction, the ISES 2 finance obligation of approximately $115.4 million was effectively refinanced with the new $122.0 million loan with CoBank. Upon the closing of the Transaction, the ISES 2 lease terminated and AECC now owns a 35.0% undivided interest in ISES 2.

Related expenses were $15.3 million for each of the years ended October 31, 2013, 2012, and 2011, respectively. These expenses include depreciation expense of approximately $3.9 million for each of the years ended October 31, 2013, 2012, and 2011, respectively. In addition, interest expense was approximately $4.3 million, $4.8 million, and $5.3 million for the years ended October 31, 2013, 2012, and 2011, respectively. Amortization expense on the regulatory-created asset was approximately $7.1 million, $6.6 million, and $6.1 million for the years ended October 31, 2013, 2012, and 2011, respectively.

Ellis — On December 19, 1988, AECC sold and leased back its interest in Ellis. As a result of the sale and leaseback, under the provisions of ASC 840, *Leases*, this transaction was accounted for as a long-term finance obligation. This lease was treated as an operating lease for rate-making purposes. In accordance with ASC 980, the timing of expense recognition was modified during the lease term to conform to rate treatment. As a result, an associated regulatory asset exists with a balance of $3.9 million and $4.1 million as of October 31, 2013 and 2012, respectively.

On December 4, 2009, AECC executed a consent and agreement along with a trust agreement with other parties to the Ellis lease which created an irrevocable trust to provide for the legal defeasance of the remaining Ellis lease rental payments of approximately $28.9 million.. The creation of this legal defeasance constitutes an extinguishment of debt in accordance with ASC 860, *Transfers and Servicing.*

On November 30, 2011, AECC executed an agreement of sale and purchase, with The Bank of New York Mellon as owner trustee, to purchase the Ellis leased assets and the entire beneficial interest that the owner trustee retained in the leased assets for $35.6 million (the Lease Buyout). On December 20, 2011, the purchase closed with the purchase price being funded by AECC's use of general funds in the amount of $25.6 million and $10.0 million of trust funds. Upon closing, the Ellis lease and trust agreement terminated.

As a result of the Lease Buyout, $25.9 million was accounted for as a deferred regulatory asset and is being amortized straight line over the remaining FERC license life for Ellis through 2033. As of October 31, 2013 and 2012 this regulatory asset had a balance of $23.8 million and $24.9 million, respectively. Upon the lease buyout the remaining unamortized regulatory and other deferred costs were $5.5 million which are also being amortized straight line through 2033. At October 31, 2013 and 2012 these remaining unamortized costs were $5.0 million and $5.3 million, respectively.

Related expenses, including the effect of the Lease Buyout and legal defeasance, were $2.9 million, $3.3 million, and $5.3 million for the years ended October 31, 2013, 2012, and 2011, respectively. These expenses include depreciation expense of approximately $1.5 million, $2.0 million, and $4.9 million for the years ended October 31, 2013, 2012, and 2011, respectively. Amortization of regulatory and other deferred costs was approximately $1.4 million, $1.3 million, and $0.4 million for the years ended October 31, 2013, 2012, and 2011, respectively.

13. COMMITMENTS AND CONTINGENCIES

AECC is not a party to any pending legal proceedings, which management believes to be material to the financial condition or results of its operations. AECC maintains liability insurance against risks, subject to certain self-insurance limits, arising out of the normal course of its business.

AECC purchased a leasehold interest in Magnet Cove (see "Power Plant" — Note 10) on September 10, 2012. At that time, AECC also purchased the Hot Spring Power Company, LLC interest in a long-term warranty agreement (the Agreement) with Siemens, for $16.9 million and executed a new agreement between AECC and Siemens. The Agreement calls for quarterly payments to Siemens based on, among other items, the number of hours that Magnet Cove runs during a quarter. The Agreement covers, among other items, regularly scheduled maintenance and all replacement costs related to the 501G Combustion Turbine replacements at regularly schedule intervals during the life of the Agreement. At October 31, 2013 and 2012, a balance of $0.1 million and $19.1, respectively was included in the Agreement.

At October 31, 2013, contractual commitments have been entered into for construction totaling approximately $95.8 million related to capital improvements estimated for 2014 at AECC's jointly owned coal-fired power plants.

In the last few years, the federal Environmental Protection Agency (EPA) has issued new rules that are designed to reduce interstate transport of nitrogen oxide and sulfur dioxide, nationwide levels of hazardous air pollutants, and pollutants which are believed to cause visibility impacts to federal Class I Areas — mostly national parks and wilderness areas.

The EPA issued a ruling in 2012 that partially disapproved Arkansas' Regional Haze Rule State Implementation Plan (RHR SIP). This ruling gave the Arkansas Department of Environmental Quality (ADEQ) two years to update, submit, and receive EPA approval of a revised RHR SIP. Several of AECC's power generating facilities are impacted by this ruling and emission control upgrades or fuel switching will be necessary to comply with the final RHR SIP. The most significant expenditure will be flue gas desulfurization (FGD) equipment, which is expected to be required at Flint Creek and WBSES to reduce emissions of sulfur dioxide and fine particulates, pollutants, which can impair visibility.

The deadline under Arkansas air regulations to comply with the RHR SIP is defined as five years after the EPA approves Arkansas' RHR SIP, unless the EPA requires an earlier compliance date (which is not expected, but possible). The RHR SIP is not expected to be approved by the EPA until 2014, which would require compliance in 2019. As a result, the FGD equipment upgrade projects at the two WBSES units that were scheduled for 2016/2017 have been suspended and are on hold until the final RHR SIP approval. The FGD equipment upgrade project at Flint Creek is currently planned to be in place in 2016. It is not expected that ISES will be subject to the final RHR SIP approval and, therefore, is not expected to have to install FGD equipment due to the Regional Haze Rule.

The Utility Mercury and Air Toxics Standards (MATS) Rule was announced as final by the EPA on December 21, 2011. It sets strict emission limits and aggressive timelines for compliance to control certain hazardous air pollutants. Operators/owners must be in compliance with the MATS Rule three years from its effective date (April 16, 2012), with the possibility of a one-year extension, if granted by the state permitting agency. With a one-year extension the compliance date would be April 16, 2016. The MATS Rule will require the retrofit of controls to reduce emissions of mercury at existing plants. Turk will be able to comply with the MATS Rule with no modifications.

To comply with the MATS Rule, WBSES and ISES must install activated carbon injection equipment (to control mercury) and upgrade the existing pollution control equipment (to improve control of particulate matter); this option is significantly less expensive than installation of FGD equipment. Activated carbon injection must also be installed at Flint Creek to control mercury. However, Flint Creek's existing environmental control equipment is not effective enough to meet compliance with the remaining parts of the MATS Rule limiting particulate matter. Although some other options are available at Flint Creek to comply with the MATS Rule, except for FGD equipment, those modifications would be obsolete just a few years after installation since they could not help Flint Creek meet the RHR SIP requirements. As a result, FGD equipment (which will be required by the RHR SIP in 2019) will be installed "early" to meet the MATS Rule's. FGD equipment, although primarily used to control sulfur dioxide, will readily meet the MATS Rule requirements. SWEPCO and AECC anticipate the one-year extension for MATS compliance will be granted allowing Flint Creek to complete installation of pollution control equipment by 2016.

SWEPCO and AECC, as joint owners of Flint Creek, determined that it was prudent and economical to install the FGD equipment since this technology can comply with both the MATS Rule (to meet an April 2016 compliance date) and the RHR SIP (to meet a later compliance date). SWEPCO applied to the APSC for a ruling, prior to committing to the purchase of the FGD equipment, that the project was in the public interest. AECC intervened in the proceeding in support of SWEPCO's request. SWEPCO and AECC received a favorable ruling from the APSC during 2013 and the project is now in process with an expected completion date of spring 2016.

AECC's current estimate, based on certain plans and cost estimates provided by Entergy and SWEPCO, for its total ownership share of these emission control equipment upgrades is approximately $566.4 million. AECC has incurred related project costs of approximately $17.5 million as of October 31, 2013. AECC has secured financing for these equipment upgrades from the RUS with an FFB loan in the amount of $517.4 million (see "Long-term Debt" — Note 6).

14. SIGNIFICANT CUSTOMERS

Sales to members amounted to 95%, 98%, and 97% of operating revenues for the years ended October 31, 2013, 2012, and 2011, respectively. For the years ended October 31, 2013, 2012, and 2011, AECC had the following members that accounted for more than 10% of operating revenue (in thousands):

	2013		2012		2011	
Customer	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Mississippi County Electric Cooperative, Inc.	$147,076	20.0 %	$ 132,627	20.3 %	$ 134,804	20.5 %
First Electric Cooperative Corporation	106,962	14.5	97,194	14.9	101,032	15.4
Carroll Electric Cooperative Corporation	102,386	13.9	92,770	14.2	96,374	14.7
Arkansas Valley Electric Cooperative Corporation	70,842	9.6	65,806	10.1	40,206	6.1

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, other than those instruments recorded at fair value in the accompanying balance sheets, at October 31, 2013 and 2012, for which it is possible to estimate the fair value:

Long-Term Investments — The fair value of the gas reserves is estimated based on reserve estimates provided by an independent oil and gas consulting firm and using current market prices at October 31, 2013. Future cash flows were discounted using a rate of 10%.

Cash and Cash Equivalents — The carrying amount of cash and cash equivalents approximates fair value.

Long-Term Debt — The fair value of long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates available to AECC for debt of the same remaining maturation.

Notes Payable — The carrying amount of the notes payable to distribution members and others represents the fair value as these notes are due on demand and bear interest at market rates.

Based on the above methods and assumptions, as of October 31, 2013 and 2012, the following amounts represent the carrying amount and fair value of each financial instrument of AECC (in thousands):

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term investments:				
Gas reserves	$ 15,366	$ 13,025	$ 16,436	$ 16,001
Other	15,620	15,620	14,661	14,661
Cash and cash equivalents	107,187	107,187	90,461	90,461
Long-term debt:				
FFB	503,832	518,924	263,139	320,963
CoBank	82,826	89,481	93,958	104,201
CoBank — unsecured	13,992	13,639		
Series 2011A Notes	78,000	86,248	80,000	91,069
Series 2011B Notes	120,000	135,137	120,000	138,954
RUS	150	152	410	419
Notes payable — members	164,298	164,298	158,291	158,291
Notes payable — others	30,000	30,000	30,000	30,000

16. SUBSEQUENT EVENTS

AECC has evaluated events or transactions through January 8, 2014, in conjunction with the preparation of these financial statements.

Effective December 31, 2013, AECC executed a new 3.57% promissory note in the amount of $30.0 million with AECI with a maturity date of March 31, 2014.

On December 12, 2013 AECC became a transmission owner under Midcontinent Independent System Operator, Inc.'s (MISO) tariff.

On December 19, 2013, AECC began operation in the MISO RTO. MISO approximately covers the eastern two-thirds of Arkansas. MISO is responsible for moving electricity over large interstate areas. They also coordinate, control and monitor the electricity transmission grid within their area.

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