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BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Big Rivers Electric Corporation, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, equities (deficit), and cash flows for each of the years in the three-year period ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 statement 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 auditors' 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 auditors consider internal control relevant to the entity'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 the entity'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.

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Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in accordance with U.S. generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2013, on our consideration of Big Rivers Electric Corporations' internal control over financial reporting and our tests of their 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. The 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 assessing the results of our audits.

KPMG LLP

Philadelphia, Pennsylvania
March 29, 2013

BIG RIVERS ELECTRIC CORPORATION

Balance Sheets

December 31, 2012 and 2011

(Dollars in thousands)

Assets	2012	2011
Utility plant – net	$ 1,087,227	1,092,063
Restricted investments – member rate mitigation	144,514	163,162
Restricted investments – Transition reserve	35,009	—
Restricted investments – NRUCFC Capital Term Certificates	43,156	—
Other deposits and investments – at cost	6,092	5,911
Current assets:		
Cash and cash equivalents	68,860	44,849
Restricted cash	41,313	—
Accounts receivable	48,376	44,287
Fuel inventory	34,146	33,894
Nonfuel inventory	24,957	25,295
Prepaid expenses	4,093	4,217
Total current assets	221,745	152,542
Deferred charges and other	8,935	4,244
Total	$ 1,546,678	1,417,922
Equities and Liabilities		
Capitalization:		
Equities	$ 402,882	389,820
Long-term debt	845,317	714,254
Total capitalization	1,248,199	1,104,074
Current liabilities:		
Current maturities of long-term obligations	79,926	72,145
Purchased power payable	1,402	1,878
Accounts payable	31,611	28,446
Accrued expenses	10,955	10,380
Accrued interest	4,925	9,899
Total current liabilities	128,819	122,748
Deferred credits and other:		
Regulatory liabilities – member rate mitigation	147,732	169,001
Other	21,928	22,099
Total deferred credits and other	169,660	191,100
Commitments and contingencies (note 14)		
Total	$ 1,546,678	1,417,922

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Operations

Year ended December 31, 2012, 2011, and 2010

(Dollars in thousands)

		2012	2011	2010
Operating revenue	$	568,342	561,989	527,324
Total operating revenue		568,342	561,989	527,324
Operating expenses:				
Operations:				
Fuel for electric generation		226,369	226,229	207,749
Power purchased and interchanged		111,465	112,262	99,421
Production, excluding fuel		48,055	50,410	52,507
Transmission and other		40,189	39,085	35,273
Maintenance		45,962	47,718	46,880
Depreciation and amortization		41,090	35,407	34,242
Total operating expenses		513,130	511,111	476,072
Electric operating margin		55,212	50,878	51,252
Interest expense and other:				
Interest		44,414	45,226	46,570
Income tax expense		—	100	259
Other – net		546	220	166
Total interest expense and other		44,960	45,546	46,995
Operating margin		10,252	5,332	4,257
Nonoperating margin:				
Interest income and other		1,025	268	2,734
Total nonoperating margin		1,025	268	2,734
Net margin	$	11,277	5,600	6,991

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Comprehensive Income

Year ended December 31, 2012, 2011, and 2010

(Dollars in thousands)

		2012	2011	2010
Net margin	$	11,277	5,600	6,991
Other comprehensive income:				
Defined-benefit plans:				
Prior service cost		14	14	19
Unamortized actuarial gain (loss)		1,035	(1,797)	297
Defined-benefit plans		1,049	(1,783)	316
Postretirement benefits other than pensions				
Prior service cost		1,974	17	17
Unamortized actuarial loss		(1,269)	(620)	(172)
Transition obligation		31	31	31
Postretirement benefits other than pensions		736	(572)	(124)
Other comprehensive income (loss)		1,785	(2,355)	192
Comprehensive income	$	13,062	3,245	7,183

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Equities (Deficit)

Years ended December 31, 2012, 2011 and 2010

(Dollars in thousands)

	Total equities	Retained margin (deficit)	Other equities: Donated capital and memberships	Other equities: Consumers' contributions to debt service	Accumulated other comprehensive loss
Balance – December 31, 2009	$ 379,392	384,507	764	3,681	(9,560)
Net margin	6,991	6,991	—	—	—
Pension and postretirement benefit plans	192	—	—	—	192
Balance – December 31, 2010	386,575	391,498	764	3,681	(9,368)
Net margin	5,600	5,600	—	—	—
Pension and postretirement benefit plans	(2,355)	—	—	—	(2,355)
Balance – December 31, 2011	389,820	397,098	764	3,681	(11,723)
Net margin	11,277	11,277	—	—	—
Pension and postretirement benefit plans	1,785	—	—	—	1,785
Balance – December 31, 2012	$ 402,882	408,375	764	3,681	(9,938)

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2012, 2011 and 2010

(Dollars in thousands)

		2012	2011	2010
Cash flows from operating activities:				
Net margin	$	11,277	5,600	6,991
Adjustments to reconcile net margin to net cash provided by operating activities:				
Depreciation and amortization		44,733	37,808	37,650
Interest compounded – RUS Series A Note		7,603	8,398	—
Interest compounded – RUS Series B Note		7,291	6,884	6,499
Noncash member rate mitigation revenue		(22,873)	(18,947)	(23,953)
Changes in certain assets and liabilities:				
Accounts receivable		(4,090)	1,618	1,588
Inventories		87	1,357	(2,304)
Prepaid expenses		124	(1,715)	731
Deferred charges		(1,278)	121	1,251
Purchased power payable		(476)	362	(1,846)
Accounts payable		3,164	(1,336)	(875)
Accrued expenses		(4,399)	(1,481)	2,800
Other – net		278	(70)	555
Net cash provided by operating activities		41,441	38,599	29,087
Cash flows from investing activities:				
Capital expenditures		(39,853)	(38,746)	(42,683)
Proceeds from restricted investments		(58,094)	56,095	28,143
Purchases of restricted investments and other deposits and investments		146	—	—
Change in restricted cash		(41,313)	—	—
Net cash provided by (used in) investing activities		(139,114)	17,349	(14,540)
Cash flows from financing activities:				
Principal payments on long-term obligations		(456,206)	(45,879)	(121,355)
Proceeds from long-term obligations		580,156	—	83,300
Principal payments on short-term notes payable		—	(10,000)	—
Proceeds from short-term notes payable		—	—	10,000
Debt issuance cost on bond refunding		(2,266)	—	(2,002)
Net cash provided by (used in) financing activities		121,684	(55,879)	(30,057)
Net increase in cash and cash equivalents		24,011	69	(15,510)
Cash and cash equivalents – beginning of year		44,849	44,780	60,290
Cash and cash equivalents – end of year	$	68,860	44,849	44,780
Supplemental cash flow information:				
Cash paid for interest	$	34,893	31,441	37,268
Cash paid for income taxes		—	130	260

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) General Information

Big Rivers Electric Corporation (Big Rivers or the Company), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the Aluminum Smelters). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Management evaluated subsequent events up to and including March 29, 2013, the date the financial statements were available to be issued.

(b) Estimates

The preparation of the 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, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

(c) System of Accounts

Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(d) Revenue Recognition

Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned.

(Continued)

(Dollars in thousands)

(e) ***Utility Plant and Depreciation***

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted average debt to the accumulated expenditures for qualifying projects included in construction in progress.

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS and KPSC. During 2010, the Company commissioned a depreciation study to evaluate the remaining economic lives of its assets. In 2011, the study was completed and approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	0.50% – 20.22%
Transmission plant	1.42% – 2.23%
General plant	2.84% – 17.12%

For 2012, 2011, and 2010, the average composite depreciation rates were 2.23%, 1.91%, and 1.86%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

(f) ***Impairment Review of Long-Lived Assets***

Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. FASB ASC 360, *Property, Plant, and Equipment*, requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the future cash flows were not sufficient to recover the carrying value of the asset, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to net margin.

(g) ***Inventory***

Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

(Continued)

(h) ***Restricted Investments***

Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation and a Transition Reserve as described in note 5. These investments have been classified as held-to-maturity and are carried at amortized cost. In addition, Big Rivers was required to purchase investments in National Rural Utilities Cooperative Finance Corporation's (CFC) Capital Term Certificates (CTCs) in connection with a secured term loan agreement with CFC (note 8), which are also classified as held-to-maturity.

(i) ***Cash and Cash Equivalents***

Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

(j) ***Restricted Cash***

Certain cash amounts are restricted under KPSC order for capital expenditures in the ordinary course of business (note 9).

(k) ***Income Taxes***

Big Rivers was formed as a tax-exempt cooperative organization as described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company will not be eligible for tax-exempt status and will be treated as a taxable cooperative.

As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonpatronage-sourced operations are taxable to Big Rivers. Big Rivers files a federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(Continued)

(l) Patronage Capital

As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income.

(m) Derivatives

Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. The Company has elected the Normal Purchase and Normal Sale exception for these contracts, and therefore, the contracts are not required to be recognized at fair value in the financial statements.

(n) Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

(Dollars in thousands)

(2) Utility Plant

At December 31, 2012 and 2011, utility plant is summarized as follows:

		2012	2011
Classified plant in service:			
Production plant	$	1,715,486	1,706,243
Transmission plant		248,276	238,738
General plant		35,103	33,744
Other		543	543
		1,999,408	1,979,268
Less accumulated depreciation		962,994	936,355
		1,036,414	1,042,913
Construction in progress		50,813	49,150
Utility plant – net	$	1,087,227	1,092,063

Interest capitalized for the years ended December 31, 2012, 2011, and 2010, was $767, $548, and $684, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2012 and 2011, the Company had approximately $43,559 and $41,449, respectively, related to nonlegal removal costs included in accumulated depreciation.

(Dollars in thousands)

(3) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2012 and 2011 is as follows:

		2012	2011
CFC Refinance Promissory Note, Series 2012 B, serial note pricing, all-in effective interest rate of 4.50%, final maturity date of July 2032	$	298,513	—
CFC Equity Note, Series 2012B, stated interest rate of 5.35%, final maturity date of July 2032		42,845	—
CoBank Promissory Note, Series 2012A, stated interest rate of 4.30%, final maturity date of June 2032		231,426	—
RUS Series A Promissory Note, stated amount of $80,456, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021		80,019	521,250
RUS Series B Promissory Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023		130,340	123,049
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031		83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rates of 3.25% and 3.30% in 2012 and 2011, respectively), maturing in June 2013		58,800	58,800
Total long-term debt		925,243	786,399
Current maturities		79,926	72,145
Total long-term debt – net of current maturities	$	845,317	714,254

The following are scheduled maturities of long-term debt at December 31:

		Amount
Year:		
2013	$	79,926
2014		20,127
2015		20,903
2016		21,717
2017		22,576
Thereafter		759,994
Total	$	925,243

(a) ***National Rural Utilities Cooperative Finance Corporation (CFC) Refinance and Equity Promissory Notes, 2012B***

In July 2012, Big Rivers issued new debt with CFC in the form of a secured term loan in the amount of $302,000 (the Refinance Note) and a CFC Equity Note in the amount of $43,156. The Refinance Note consists of 20 individual notes with different fixed interest rates ranging from 3.05% to 5.35%. The Refinance Note has an all-in effective interest rate of 4.50% and a final maturity date of July 2032. The Equity Note has a fixed interest rate of 5.35% and a final maturity date of July 2032. The proceeds of the Refinance Note were used to prepay $302,000 of the RUS Series A Note. The proceeds of the CFC Equity Note were used to purchase interest-bearing Capital Term Certificates (CTCs), as required in connection with the Refinance Note (note 8).

(b) ***CoBank, ACB (CoBank) Promissory Note, Series 2012A***

In July 2012, Big Rivers issued new debt with CoBank in the form of a secured term loan in the amount of $235,000. The loan has a fixed interest rate of 4.30% per annum and a final maturity date of June 2032. Proceeds from the CoBank term loan were used to prepay $140,000 of the RUS Series A Note and replenish the $35,000 Transition Reserve fund (depleted on April 1, 2011 to prepay the RUS Series A Note and realize a net interest expense reduction). The remaining $60,000 will be used to fund capital expenditures in the ordinary course of business or to refinance existing debt (note 5).

(c) ***RUS Notes***

On July 15, 2009, Big Rivers' previous RUS debt was replaced with the RUS 2009 Promissory Note Series A (the RUS Series A Note) and the RUS 2009 Promissory Note Series B (the RUS Series B Note). The RUS Series A Note is recorded at an interest rate of 5.84%. The RUS Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are secured under the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

In July 2012, Big Rivers prepaid $442,000 of the RUS Series A Note from proceeds of the CFC and CoBank term loans as described above.

(d) ***Pollution Control Bonds***

In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983 (Series 1983 Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate, subject to a maximum interest rate of 13.00%, and mature in June 2013. As of December 31, 2012, the interest rate on the Series 1983 Bonds was 3.25%.

The Series 1983 Bonds are supported by a liquidity facility issued by Credit Suisse First Boston, which was assigned to Dexia Credit in 2006. In addition, the Series 1983 Bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(e) Lines of Credit

The Company has lines of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). In July 2012, a new unsecured CoBank line-of-credit facility (the CoBank Revolver),with a five-year term, was established to replace the line-of-credit facility dated July 2009, having a three-year term. The CFC line-of-credit facility (the CFC Revolver) is for a five-year term and will terminate in July 2014. The maximum borrowing capacity on the Revolvers is $100,000 consisting of $50,000 each for CFC and CoBank. In March 2011, Big Rivers paid down the $10,000 of borrowings outstanding on the CoBank Revolver at December 31, 2010. The Company had no borrowings outstanding on the Revolvers at December 31, 2012 and 2011. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC Revolver by $5,375 for years ended December 31, 2012 and 2011.

As the result of a contract termination notice rendered by Century Aluminum Company on August 20, 2012 (note 5), Big Rivers, based on current language in its line-of-credit agreements, does not have access to borrow under the CoBank Revolver and will lose access to the CFC Revolver on August 20, 2013 (the date on which Century indicated it will terminate and cease aluminum smelting operations at the Hawesville Smelter). The Company is currently in negotiations with both CoBank and CFC to modify the language in the line-of-credit agreements to ensure it has access to the Revolvers upon termination of the Century agreement. Amendments to these agreements are subject to approval by the KPSC.

Advances on the CFC Revolver bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line-of-Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank Revolver may be made as either London Interbank Offered Rate Loans or Base Rate Loans. LIBOR Loans bear interest at a rate per annum equal to the LIBOR Rate determined for such day plus the Applicable Margin for each day during the Interest Period. The Applicable Margin is determined based on the Company's credit rating. The Interest Period commences on the borrowing, continuation, or conversion date and ends on the numerically corresponding day, either one, two, three, six, nine, or twelve months thereafter, as selected by the Company. Base Rate Loans bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin. The Base Rate is defined as "the rate of interest in effect from day to day defined as a rate per annum announced by the Administrative Agent on the first Banking Day of each week equal to the greatest of (A) 100 basis points greater than the LIBOR or (B) the Prime Rate."

On February 25, 2011, a $2,500 CFC line of credit, available to the Company to finance storm emergency repairs and expenses related to electric utility operations, matured.

(f) ***Covenants***

Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and other debt agreements require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line-of-credit agreement requires that the Company have a Total Debt to Total Capitalization Ratio of no greater than 80% at the end of each fiscal year, and the CFC line-of-credit agreement requires an Equity to Asset Ratio of no less than 12%. Big Rivers' MFIR for the fiscal year ended December 31, 2012 was 1.25. Big Rivers' Total Debt to Total Capitalization Ratio, as of December 31, 2012, was 70% and its Equity to Asset Ratio was 26%. The CoBank Revolver that expired and was replaced in July 2012 included a Debt Service Coverage Ratio reporting requirement. Big Rivers existing debt agreements do not have a Debt Service Coverage Ratio requirement.

A MFIR less than 1.10, per the Indenture and other debt agreements, results in the following actions, restrictions or consequences: Big Rivers cannot secure additional debt under the Indenture; the Company must seek rates that are reasonably expected to yield a 1.10 MFIR; in consultation with RUS, the Company must provide a written plan satisfactory to the RUS setting forth actions to be taken to achieve the specified MFIR on a timely basis; can result in an event of default and increased interest rates; termination of lines of credit and acceleration of outstanding amounts under the lines of credit.

(4) Rate Matters

The rates charged to Big Rivers' members consist of a demand charge per kilowatt (kW) and an energy charge per kilowatt-hour (kWh) consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers, and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Effective September 1, 2011, the Company received approval from the KPSC to base the member rural demand charge on its Maximum Adjusted Net Local Load (as defined in Big Rivers tariff).

Effective July 17, 2009, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelters in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with a partial offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members' rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that is funded by certain cash reserves (the Economic and Rural Economic Reserves) established and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation reflects the obligation associated with the funding of these reserve accounts.

On March 1, 2011, the Company filed an application with the KPSC requesting, among other things, authority to adjust its rates for wholesale electric service. The KPSC entered an order on November 17, 2011, granting Big Rivers an annual revenue increase of $26,745. Big Rivers petitioned for and was granted a rehearing by the KPSC to address certain issues. The KPSC later expanded the scope of the rehearing to include other issues raised by one of the intervenors in the case. An evidentiary hearing was held by the KPSC in September 2012 and an order was issued January 29, 2013. The KPSC order granted the Company an additional increase in annual revenues of approximately $1,043 effective retroactive to September 1, 2011 (the effective date of the rates granted on November 17, 2011 order).

Under the Aluminum Smelters' agreements, the wholesale rates established for the members' nonsmelter large direct-served industrial customers (the Large Industrial Rate) provide the basis for pricing the energy consumed by the Aluminum Smelters (Century Aluminum Company and Alcan Primary Products Corporation). The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per megawatt hour (MWh) determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

(5) Aluminum Smelters Termination Notices

On August 20, 2012, Big Rivers as wholesale power supplier, and Kenergy Corp. (Kenergy) as retail power supplier, received a letter from Century Aluminum Company (Century) serving Notice of Termination of its Retail Service Agreement with Kenergy. Big Rivers provided notification to the three credit rating agencies and certain creditors, in accordance with its debt covenant requirements, of the Century termination notice. As a result of Century's notice, two credit rating agencies revised their Outlook for Big Rivers to negative from stable and the other revised Outlook from stable to under review for further downgrade during late August of 2012. Standard & Poor's Rating Services (Standard & Poor's) and Fitch Ratings (Fitch) maintained their credit ratings at BBB-, while Moody's Investors Service, Inc. (Moody's) downgraded its rating of Big Rivers' Series 2010A Bonds (in the amount of $83,300) to Baa2 from Baa1 and placed the rating under review. Big Rivers has developed and is in the process of implementing its Load Concentration Mitigation Plan (LCMP) to preserve its financial position notwithstanding Century's termination, which will become effective August 20, 2013. On January 15, 2013, Big Rivers filed an application for a $74,500 increase in rates with the KPSC — the first phase of its mitigation plan. Big Rivers' rate request represents a base retail rate increase of approximately: 19% for rural customers; 17% for large industrial customers; and 15.6% for the remaining aluminum smelter (Alcan Primary Products Corporation).

On January 31, 2013, Alcan Primary Products Corporation (Alcan) provided a Notice of Termination of its Kenergy Retail Service Agreement to Big Rivers and Kenergy. Alcan stated in its notice that with the proposed rate increase of 15.6% its smelter was "unprofitable and therefore unsustainable." Big Rivers provided notification to the three credit rating agencies and its creditors of the Alcan termination notice. As a result of Alcan's notice, the three credit rating agencies downgraded Big Rivers' credit ratings in early February 2013 as follows: Standard & Poor's to BB- from BBB-; Fitch to BB from BBB-; and Moody's to Ba1 from Baa2. In addition, all three credit rating agencies maintained their Outlooks. Big Rivers'

(Continued)

continues to implement its LCMP, which includes the filing of an application requesting approval of a second rate increase to become effective January 31, 2014. The Company expects to file this application no later than June 28, 2013. In addition, Big Rivers is actively pursuing replacement load for the 850 MW currently being utilized by Century and Alcan.

In accordance with the Amended and Consolidated Loan Contract between Big Rivers and the United States of America (acting by and through the RUS Administrator), Big Rivers provided notification to the RUS Administrator via letter dated February 7, 2013 of a failure to maintain two Credit Ratings of Investment Grade. Based on this, the Company is required to provide a corrective plan to the RUS. Big Rivers in consultation with RUS is in the process of developing a corrective plan setting forth the actions that will be taken by management that are reasonably expected to achieve two Credit Ratings of Investment Grade.

As a result of the termination notice from Century, as of December 31, 2012 Big Rivers does not have access to draw on its $50,000 line of credit with CoBank. In addition, in order for Big Rivers to have access to the $50,000 line of credit with CFC after August 20, 2014, that agreement must be amended. Big Rivers is currently negotiating with CFC and CoBank to modify certain terms of the Company's line-of-credit agreements to ensure access to the lines of credit, given receipt of the two Smelter termination notices. Amendments to these agreements are subject to approval by the KPSC.

On November 14, 2012, Big Rivers filed an application with the KPSC seeking approval to issue new debt to be used to refund the $58,800 Series 1983 Bonds (note 3) that mature in June 2013. However, with the uncertainty created by the Aluminum Smelters' termination notices, and potential cumulative impact on prospective bond purchasers, the Company has decided to seek KPSC approval to repay the bonds from repurposed funds currently restricted by previously issued orders of the KPSC. The restricted funds consist of CoBank borrowings to be used for capital expenditures in the ordinary course of business; and a Transition Reserve established for use upon the loss of one or both of the Aluminum Smelter loads (the December 31, 2012 balances were $41,313 and $35,009, respectively). On March 26, 2013, the KPSC issued an Order granting the approval sought by the Company in this matter.

Certain legislators in Western Kentucky have filed companion bills in the Kentucky General Assembly (HB 211 and SB 71) in an attempt to legislate power supply pricing options for the Aluminum Smelters on Big Rivers' system that will encourage the smelters to continue operating their facilities. Big Rivers does not support those legislative proposals, and cannot predict whether the efforts will be successful.

While the ultimate outcome of the filings with the KPSC, discussions with lenders, and possible legislation are all uncertain, management of Big Rivers believes that the Company's results of operations and cash flows will provide sufficient liquidity for the Company to operate its business and meet its obligations as they come due for the foreseeable future. However, negative outcomes in one or more of these matters could potentially have a material impact on the Company's results of operations, cash flows, and liquidity.

(Dollars in thousands)

(6) Income Taxes

At December 31, 2012, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $31,933 expiring at various times between 2012 and 2031, and an Alternative Minimum Tax Credit Carryforward of approximately $7,028, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2012, 2011, and 2010, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $0, $3,613, and $3,846 in current regular tax expense for the years ended December 31, 2012, 2011, and 2010, respectively.

The components of the net deferred tax assets as of December 31, 2012 and 2011 were as follows:

		2012	2011
Deferred tax assets:			
Net operating loss carryforward	$	12,614	12,812
Alternative minimum tax credit carryforwards		7,028	7,138
Member rate mitigation		10,326	10,326
Fixed asset basis difference		3,352	3,980
RUS Series B Note		19,689	19,689
Total deferred tax assets		53,009	53,945
Deferred tax liabilities:			
RUS Series B Note		—	—
Bond refunding costs		(9)	(9)
Total deferred tax liabilities		(9)	(9)
Net deferred tax asset (prevaluation allowance)		53,000	53,936
Valuation allowance		(53,000)	(53,936)
Net deferred tax asset	$	—	—

(Continued)

(Dollars in thousands)

A reconciliation of the Company's effective tax rate for 2012, 2011, and 2010 is as follows:

	2012	2011	2010
Federal rate	35.0%	35.0%	35.0%
State rate – net of federal benefit	4.5	4.5	4.5
Permanent differences	0.9	0.9	0.5
Patronage allocation to members	(40.4)	(40.8)	(38.8)
Tax benefit of operating loss carryforwards and other	—	0.4	(1.2)
Alternative minimum tax	—	3.5	3.0
Effective tax rate	—%	3.5%	3.0%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2007 through 2011 and 1996 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2004 through 2012 and years 2001 through 2003, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2012, 2011, or 2010.

(7) Pension Plans

(a) *Defined-Benefit Plans*

Big Rivers has noncontributory defined-benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The salaried employees defined-benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined-benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined-contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined-benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

(Dollars in thousands)

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (note 10 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined-benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2012 and 2011.

The following provides an overview of the Company's noncontributory defined-benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined-benefit pension plans at December 31, 2012 and 2011 is as follows:

		2012	2011
Benefit obligation – beginning of period	$	31,743	28,804
Service cost – benefits earned during the period		1,428	1,279
Interest cost on projected benefit obligation		1,304	1,296
Benefits paid		(6,499)	(481)
Actuarial loss		2,931	845
Benefit obligation – end of period	$	30,907	31,743

Big Rivers' defined-benefit pension plans provide retirees with a lump-sum payment option. Benefits paid in 2012 include lump-sum payments in the amounts of $6,462 – the result of ten retirees electing the lump-sum payment option. In 2011, only one retiree elected the lump-sum payment option for an amount of $441.

The accumulated benefit obligation for all defined-benefit pension plans was $24,211 and $25,482 at December 31, 2012 and 2011, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2012 and 2011 is as follows:

		2012	2011
Fair value of plan assets – beginning of period	$	28,000	25,267
Actual return on plan assets		3,020	324
Employer contributions		4,810	2,890
Benefits paid		(6,499)	(481)
Fair value of plan assets – end of period	$	29,331	28,000

(Dollars in thousands)

The funded status of the Company's pension plans at December 31, 2012 and 2011 is as follows:

		2012	2011
Benefit obligation – end of period	$	(30,907)	(31,743)
Fair value of plan assets – end of period		29,331	28,000
Funded status	$	(1,576)	(3,743)

Components of net periodic pension costs for the years ended December 31, 2012, 2011, and 2010 were as follows:

		2012	2011	2010
Service cost	$	1,428	1,279	1,289
Interest cost		1,304	1,296	1,368
Expected return on plan assets		(1,897)	(1,737)	(1,533)
Amortization of prior service cost		14	14	19
Amortization of actuarial loss		779	461	584
Settlement loss		2,064	—	—
Net periodic benefit cost	$	3,692	1,313	1,727

As a result of the 2012 lump-sum payments there was a settlement required to the defined-benefit pension plans as provided in FASB ASC 715. The 2012 settlement loss of $2,064 reflects an accelerated amortization of unrecognized losses existing at the settlement date of December 31, 2012. The settlement loss is determined by multiplying the total unrecognized losses as of the settlement date by the projected benefit obligation that was settled or eliminated due to the lump-sum payments.

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2012 and 2011 is as follows:

		2012	2011
Prior service cost	$	(12)	(26)
Unamortized actuarial loss		(10,116)	(11,151)
Accumulated other comprehensive income	$	(10,128)	(11,177)

In 2013, $11 of prior service cost and $635 of actuarial loss is expected to be amortized to periodic benefit cost.

(Dollars in thousands)

The recognized adjustments to other comprehensive income (loss) at December 31, 2012 and 2011 are as follows:

		2012	2011
Prior service cost	$	14	14
Unamortized actuarial gain (loss)		1,035	(1,797)
Other comprehensive income (loss)	$	1,049	(1,783)

At December 31, 2012 and 2011, amounts recognized in the balance sheets were as follows:

		2012	2011
Deferred credits and other	$	(1,576)	(3,743)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2012	2011	2010
Discount rate – projected benefit obligation	3.57%	4.26%	4.95%
Discount rate – net periodic benefit cost	4.26	4.95	5.59
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement level based on (a) forward-looking rate of return expectations for passively managed asset categories over a 20-year time horizon and (b) historical rates of return for passively managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

Big Rivers utilizes a third-party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45% – 55%), 15% International Equities (an acceptable range of 10% – 20%), and 35% fixed income (an acceptable range of 30% – 40%). As of December 31, 2012 and 2011, the investment allocation was 49% and 56%, respectively, in U.S. Equities, 6% and 8%, respectively, in International Equities, and 45% and 36%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semiannually.

(Dollars in thousands)

At December 31, 2012 and 2011, the fair value of Big Rivers' defined-benefit pension plan assets by asset category are as follows:

	Level 1	Level 2	December 31, 2012
Cash and money market	$ 5,820	—	5,820
Equity securities:			
U.S. Large-Cap Stocks	9,839	—	9,839
U.S. Mid-Cap Stock Mutual Funds	2,796	—	2,796
U.S. Small-Cap Stock Mutual Funds	1,513	—	1,513
International Stock Mutual Funds	1,888	—	1,888
Preferred stock	228	—	228
Fixed:			
Short-Term Bond Fund	—	300	300
U.S. Government Agency Bonds	—	921	921
Taxable U.S. Municipal Bonds	—	3,109	3,109
U.S. Corporate Bonds	—	2,617	2,617
Global Bond Fund	—	300	300
	$ 22,084	7,247	29,331

(Dollars in thousands)

		Level 1	Level 2	December 31, 2011
Cash and money market	$	2,129	—	2,129
Equity securities:				
U.S. Large-Cap Stocks		10,178	—	10,178
U.S. Mid-Cap Stock Mutual Funds		3,365	—	3,365
U.S. Small-Cap Stock Mutual Funds		1,666	—	1,666
International Stock Mutual Funds		2,168	—	2,168
Preferred stock		493	—	493
Fixed:				
TIPS Bond Fund		723	—	723
U.S. Government Agency Bonds		—	1,085	1,085
Taxable U.S. Municipal Bonds		—	3,258	3,258
U.S. Corporate Bonds		—	2,630	2,630
Global Bond Fund		—	305	305
	$	20,722	7,278	28,000

Expected retiree pension benefit payments projected to be required during the years following 2012 are as follows:

		Amount
Year(s) ending December 31:		
2013	$	4,718
2014		1,682
2015		3,034
2016		3,573
2017		1,865
2018 – 2022		13,563
Total	$	28,435

In 2013, the Company expects to contribute $924 to its pension plan trusts.

(b) Defined-Contribution Plans

Big Rivers has two defined-contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pretax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pretax basis.

(Dollars in thousands)

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $4,808 and $4,464 for the years ended December 31, 2012 and 2011, respectively.

(c) Deferred Compensation Plan

Big Rivers sponsors a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined-contribution retirement savings plan (formerly, the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pretax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2012 employer contribution was $60 and deferred compensation expense was $122. As of December 31, 2012, the trust asset was $404 and the deferred liability was $263.

(8) Restricted Investments

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation and the Transition Reserve at December 31, 2012 and 2011 are as follows:

		2012		2011	
		Amortized costs	**Fair values**	**Amortized costs**	**Fair values**
Cash and money market	$	1,292	1,292	12,765	12,764
Debt securities:					
U.S. Treasuries		63,208	64,097	62,073	63,917
U.S. government agency		115,023	115,040	88,324	88,485
Total	$	179,523	180,429	163,162	165,166

(Dollars in thousands)

Gross unrealized gains and losses on restricted investments at December 31, 2012 and 2011 were as follows:

		2012		2011	
		Gains	**Losses**	**Gains**	**Losses**
Debt securities:					
U.S. Treasuries	$	889	—	1,843	—
U.S. government agency		20	3	161	—
Total	$	909	3	2,004	—

Debt securities at December 31, 2012 and 2011 mature, according to their contractual terms, are as follows (actual maturities may differ due to call or prepayment rights):

		2012		2011	
		Amortized costs	**Fair values**	**Amortized costs**	**Fair values**
In one year or less	$	56,315	56,330	43,021	43,092
After one year through five years		123,208	124,099	120,141	122,074
Total	$	179,523	180,429	163,162	165,166

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011 were as follows:

		2012		2011	
		Less than 12 months		Less than 12 months	
		Losses	**Fair values**	**Losses**	**Fair values**
Debt securities:					
U.S. Treasuries	$	—	—	—	—
U.S. government agency		3	34,997	—	—
Total	$	3	34,997	—	—

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2012 and 2011 was two and zero, respectively. Since the Company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

(Continued)

(Dollars in thousands)

In conjunction with the CFC $302,000 secured term loan (note 3), Big Rivers was required to invest in Capital Term Certificates (CTCs) equal to 14.29% of the Refinance Note. Proceeds of the Equity Note were used to purchase the investments in CTCs as required under the loan agreement. The interest rate on the CTCs is fixed at 4.28% and is equal to 80% of the Equity Note rate of 5.35%. The CTCs cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined.

(9) Fair Value of Other Financial Instruments

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash, cash equivalents, and restricted cash included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities*, that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	2012	2011
Institutional money market government portfolio	$ 110,165	44,844

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

Big Rivers' long-term debt at December 31, 2012 consists of CFC loans totaling $341,358, a CoBank loan in the amount of $231,426, RUS notes totaling $210,359, variable rate pollution control bonds in the amount of $58,800, and fixed-rate pollution control bonds in the amount of $83,300 (note 3). The RUS, CFC, and CoBank debt cannot be traded in the market, and therefore, a value other than their outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2012, the fair value of Big Rivers' fixed-rate pollution control debt was determined based on quoted prices in active markets of similar instruments (Level 1 measure) and totaled $86,778.

(10) Postretirement Benefits Other than Pensions

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

(Dollars in thousands)

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2012	2011	2010
Discount rate — projected benefit obligation	3.72%	4.29%	4.96%
Discount rate — net periodic benefit cost	4.29	4.96	5.78

The healthcare cost trend rate assumptions as of December 31, 2012 and 2011 were as follows:

	2012	2011
Initial trend rate	7.30%	7.40%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

		2012	2011
One-percentage-point decrease:			
Effect on total service and interest cost components	$	(209)	(211)
Effect on year-end benefit obligation		(1,454)	(1,056)
One-percentage-point increase:			
Effect on total service and interest cost components	$	253	254
Effect on year-end benefit obligation		1,723	1,226

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2012 and 2011 is as follows:

		2012	2011
Benefit obligation – beginning of period	$	18,040	15,864
Service cost – benefits earned during the period		1,169	1,253
Interest cost on projected benefit obligation		766	754
Participant contributions		177	160
Amendments		(1,957)	—
Benefits paid		(796)	(611)
Actuarial loss		1,270	620
Benefit obligation – end of period	$	18,669	18,040

(Dollars in thousands)

Big Rivers revised the eligibility requirements for postretirement medical with regard to age and service. Beginning January 1, 2014, eligibility for retirement is age 62 with 10 years of service. The service requirement is waived for active employees on December 31, 2012 who will not have 10 years of service at age 62. These amendments to the plan represent a $1,957 reduction in the accrued liability as of December 31, 2012.

A reconciliation of the Company's postretirement plan assets at December 31, 2012 and 2011 is as follows:

		2012	2011
Fair value of plan assets – beginning of period	$	—	—
Employer contributions		619	451
Participant contributions		177	160
Benefits paid		(796)	(611)
Fair value of plan assets – end of period	$	—	—

The funded status of the Company's postretirement plan at December 31, 2012 and 2011 is as follows:

		2012	2011
Benefit obligation – end of period	$	(18,669)	(18,040)
Fair value of plan assets – end of period		—	—
Funded status	$	(18,669)	(18,040)

The components of net periodic postretirement benefit costs for the years ended December 31, 2012, 2011, and 2010 were as follows:

		2012	2011	2010
Service cost	$	1,169	1,253	1,313
Interest cost		766	754	743
Amortization of prior service cost		17	17	17
Amortization of transition obligation		31	31	31
Net periodic benefit cost	$	1,983	2,055	2,104

(Continued)

(Dollars in thousands)

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income (loss) at December 31, 2012 and 2011 is as follows:

		2012	2011
Prior service cost	$	1,844	(130)
Unamortized actuarial loss		(1,655)	(385)
Transition obligation		—	(31)
Accumulated other comprehensive income (loss)	$	189	(546)

In 2013, $17 of prior service cost and $0 of actuarial gain is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2012 and 2011 are as follows:

		2012	2011
Prior service cost	$	1,974	17
Unamortized actuarial loss		(1,269)	(620)
Transition obligation		31	31
Other comprehensive income (loss)	$	736	(572)

At December 31, 2012 and 2011, amounts recognized in the balance sheets were as follows:

		2012	2011
Accounts payable	$	(992)	(762)
Deferred credits and other		(17,677)	(17,278)
Net amount recognized	$	(18,669)	(18,040)

Expected retiree benefit payments projected to be required during the years following 2012 are as follows:

		Amount
Year(s):		
2013	$	992
2014		1,160
2015		1,231
2016		1,330
2017		1,488
2018 – 2022		8,033
Total	$	14,234

(Continued)

In addition to the postretirement plan discussed above, Big Rivers has another postretirement benefit plan, which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent, an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $589 and $579 at December 31, 2012 and 2011, respectively. The postretirement expense recorded was $57, $191, and $21 for 2012, 2011, and 2010, respectively, and the benefits paid were $47, $3, and $5 for 2012, 2011, and 2010, respectively.

(11) Related Parties

For the years ended December 31, 2012, 2011, and 2010, Big Rivers had tariff sales to its members of $158,893, $151,472, and $151,001, respectively. In addition, for the years ended December 31, 2012, 2011, and 2010, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of $366,758, $306,420, and $281,473, respectively.

At December 31, 2012 and 2011, Big Rivers had accounts receivable from its members of $42,759 and $40,314, respectively.

(12) Commitments and Contingencies

Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

On April 2, 2012, Big Rivers filed an application with the KPSC seeking approval of its 2012 environmental compliance plan (ECP). As filed, the ECP requested KPSC approval to install certain equipment allowing Big Rivers to comply, in the most cost-effective manner, with the U.S. Environmental Protection Agency Cross-State Air Pollution Rule (CSAPR), and Mercury and Air Toxics Standards (MATS). In addition, the ECP filing requested approval to recover the costs of the ECP through an amendment to Big Rivers' existing environmental surcharge tariff rider, an automatic cost-recovery mechanism that is similar in function to the fuel adjustment clause. Prior to the evidentiary hearing conducted on August 22 and 23, 2012 at the KPSC's offices, a ruling by the United States Court of Appeals for the District of Columbia Circuit resulted in CSAPR being vacated. On August 22, 2012, with CSAPR vacated and only MATS compliance remaining (at an estimated cost of $58,440), the parties to the KPSC hearing were able to reach a full and unanimous settlement of all issues related to the ECP case. On October 1, 2012, the KPSC issued an order approving Big Rivers' ECP.