KPMG

BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2011 and 2010

(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:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the Company) as of December 31, 2011 and 2010, and the related statements of operations, equities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying financial statements of the Company for the year ended December 31, 2009 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated March 26, 2012, on our consideration of Big Rivers Electric Corporation'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 audits.

KPMG LLP

March 26, 2012

BIG RIVERS ELECTRIC CORPORATION

Balance Sheets

December 31, 2011 and 2010

(Dollars in thousands)

Assets	**2011**	**2010**
Utility plant – net	$ 1,092,063	$ 1,091,566
Restricted investments – member rate mitigation	163,162	217,562
Other deposits and investments – at cost	5,911	5,473
Current assets:		
Cash and cash equivalents	44,849	44,780
Accounts receivable	44,287	45,905
Fuel inventory	33,894	37,328
Nonfuel inventory	25,295	23,218
Prepaid expenses	4,217	2,502
Total current assets	152,542	153,733
Deferred charges and other	4,244	3,851
Total	$ 1,417,922	$ 1,472,185
Equities and Liabilities		
Capitalization:		
Equities	$ 389,820	$ 386,575
Long-term debt	714,254	809,623
Total capitalization	1,104,074	1,196,198
Current liabilities:		
Current maturities of long-term obligations	72,145	7,373
Notes payable	—	10,000
Purchased power payable	1,878	1,516
Accounts payable	28,446	29,782
Accrued expenses	10,380	10,627
Accrued interest	9,899	11,134
Total current liabilities	122,748	70,432
Deferred credits and other:		
Regulatory liabilities – member rate mitigation	169,001	185,893
Other	22,099	19,662
Total deferred credits and other	191,100	205,555
Commitments and contingencies (see note 14)		
Total	$ 1,417,922	$ 1,472,185

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Operations

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	2011	2010	2009
Operating revenue	$ 561,989	$ 527,324	$ 341,333
Lease revenue	—	—	32,027
Total operating revenue	561,989	527,324	373,360
Operating expenses:			
Operations:			
Fuel for electric generation	226,229	207,749	80,655
Power purchased and interchanged	112,262	99,421	116,883
Production, excluding fuel	50,410	52,507	22,381
Transmission and other	39,085	35,273	35,444
Maintenance	47,718	46,880	29,820
Depreciation and amortization	35,407	34,242	32,485
Total operating expenses	511,111	476,072	317,668
Electric operating margin	50,878	51,252	55,692
Interest expense and other:			
Interest	45,226	46,570	59,898
Amortization of loss from termination of long-term lease	—	—	2,172
Income tax expense	100	259	1,025
Other – net	220	166	112
Total interest expense and other	45,546	46,995	63,207
Operating margin	5,332	4,257	(7,515)
Nonoperating margin:			
Gain on unwind transaction (see note 2)	—	—	537,978
Interest income and other	268	2,734	867
Total nonoperating margin	268	2,734	538,845
Net margin	$ 5,600	$ 6,991	$ 531,330

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Equities (Deficit)

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	Total equities (deficit)	Accumulated margin (deficit)	Other equities: Donated capital and memberships	Other equities: Consumers' contributions to debt service	Accumulated other comprehensive income
Balance – December 31, 2008	$ (154,602)	$ (146,823)	$ 764	$ 3,681	$ (12,224)
Comprehensive income:					
Net margin	531,330	531,330	—	—	—
Defined benefit plans	2,664	—	—	—	2,664
Total comprehensive income	533,994	531,330	—	—	2,664
Balance – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	—	—	—
Defined benefit plans	192	—	—	—	192
Total comprehensive income	7,183	6,991	—	—	192
Balance – December 31, 2010	386,575	391,498	764	3,681	(9,368)
Comprehensive income:					
Net margin	5,600	5,600			
Defined benefit plans	(2,355)				(2,355)
Total comprehensive income	3,245	5,600	—	—	(2,355)
Balance – December 31, 2011	$ 389,820	$ 397,098	$ 764	$ 3,681	$ (11,723)

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2011, 2010, and 2009

(Dollars in thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net margin	$ 5,600	$ 6,991	$ 531,330
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,808	37,650	37,084
Amortization of deferred loss (gain) on sale-leaseback – net	—	—	2,172
Deferred lease revenue	—	—	(3,768)
Residual value payments obligation gain	—	—	(3,881)
Interest compounded – RUS Series A Note	8,398	—	—
Interest compounded – RUS Series B Note	6,884	6,499	6,136
Noncash gain on unwind transaction		—	(269,441)
Cash received for member rate mitigation		—	217,856
Noncash member rate mitigation revenue	(18,947)	(23,953)	(12,033)
Changes in certain assets and liabilities:			
Accounts receivable	1,618	1,588	(26,049)
Inventories	1,357	(2,304)	(3,497)
Prepaid expenses	(1,715)	731	(2,783)
Deferred charges	121	1,251	(1,538)
Purchased power payable	362	(1,846)	(5,973)
Accounts payable	(1,336)	(875)	24,825
Accrued expenses	(1,481)	2,800	7,881
Other – net	(70)	555	6,852
Net cash provided by operating activities	38,599	29,087	505,173
Cash flows from investing activities:			
Capital expenditures	(38,746)	(42,683)	(58,388)
Proceeds from restricted investments	56,095	28,143	8,982
Purchases of restricted investments and other deposits and investments		—	(252,798)
Net cash provided by (used in) investing activities	17,349	(14,540)	(302,204)
Cash flows from financing activities:			
Principal payments on long-term obligations	(45,879)	(121,355)	(168,956)
Proceeds from long-term obligations	—	83,300	—
Principal payments on short-term notes payable	(10,000)	—	(12,380)
Proceeds from short-term notes payable	—	10,000	—
Debt issuance cost on bond refunding	—	(2,002)	(246)
Net cash used in financing activities	(55,879)	(30,057)	(181,582)
Net increase (decrease) in cash and cash equivalents	69	(15,510)	21,387
Cash and cash equivalents – beginning of year	44,780	60,290	38,903
Cash and cash equivalents – end of year	$ 44,849	$ 44,780	$ 60,290
Supplemental cash flow information:			
Cash paid for interest	$ 31,441	$ 37,268	$ 51,078
Cash paid for income taxes	130	260	626

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, *Certain Types of Regulation*, 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 26, 2012, the date the financial statements were available to be issued.

(b) Principles of Consolidation

The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, Big Rivers Leasing Corporation (BRLC). All significant intercompany transactions have been eliminated. BRLC was dissolved July 7, 2009.

(c) 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.

(d) 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.

(Continued)

(Dollars in thousands)

(e) Revenue Recognition

Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, *Leases*, Big Rivers' revenue from the Lease Agreement was recognized on a straight-line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in note 2).

(f) 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:

	Jan-Nov 2011	Dec 2011
Electric plant	1.60 – 2.47%	0.50 – 20.22%
Transmission plant	1.76 – 3.24	1.42 – 2.23
General plant	1.11 – 5.62	2.84 – 17.12

For 2011, 2010, and 2009, the average composite depreciation rates were 1.91%, 1.86%, and 1.85%, 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.

(g) 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.

(Continued)

(h) 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.

(i) Restricted Investments

Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see note 9).

(j) 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.

(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 non-patronage 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.

(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 Measurements and Disclosures*, 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) LG&E Lease Agreement

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the Unwind Transaction or Unwind). LG&E and KU, WKEC, and LEM are collectively referred to in the notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

	Unwind gain
Assets received:	
Cash	$ 506,675
Coleman scrubber	98,500
Inventory	55,000
Construction in progress	23,074
Utility plant assets	19,679
SO2 allowances	980
Liabilities (assumed) forgiven:	
Economic reserve	(157,000)
Rural economic reserve	(60,856)
Post-retirement benefits liability	(8,768)
Residual value payments obligation	145,251
LEM Settlement Note	15,440
Recognition of (expenses) income:	
Deferred lease income	7,187
Deferred loss from termination of sale/leaseback	(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note	(14,520)
Unwind transaction costs	(18,991)
Other	156
Gain on unwind transaction	$ 537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

On July 15, 1998 (Effective Date), a lease was consummated (Lease Agreement), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation (WKEC), a wholly owned subsidiary of LG&E and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

Big Rivers continued to operate its transmission facilities and charged LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement were as follows:

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

c. WKEC paid Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

d. On the Effective Date, Big Rivers received $69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtained the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy Corp.'s retail service for the Aluminum Smelters was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the Monthly Margin Payments).

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs—20% prior to termination of the lease) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. Big Rivers entered into a note payable with LEM for $19,676 (the LEM Settlement Note) to be repaid over the term of the Lease Agreement, with an interest rate at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of $89. For the year 2011, Big Rivers was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as Arbitrage). Pursuant to the New RUS Promissory Note (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

(Dollars in thousands)

(3) Utility Plant

At December 31, 2011 and 2010, utility plant is summarized as follows:

	2011	2010
Classified plant in service:		
Production plant	$ 1,706,243	$ 1,689,024
Transmission plant	238,738	237,689
General plant	33,744	18,937
Other	543	543
	1,979,268	1,946,193
Less accumulated depreciation	936,355	909,501
	1,042,913	1,036,692
Construction in progress	49,150	54,874
Utility plant – net	$ 1,092,063	$ 1,091,566

Interest capitalized for the years ended December 31, 2011, 2010, and 2009, was $548, $684, and $133, 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, 2011 and 2010, the Company had approximately $41,449 and $38,000, respectively, related to nonlegal removal costs included in accumulated depreciation.

(Continued)

(Dollars in thousands)

(4) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2011 and 2010 is as follows:

	2011	2010
RUS Series A Promissory Note, stated amount of $523,192, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$ 521,250	$ 558,731
RUS Series B Promissory Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	123,049	116,165
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 rate of 3.30% and 3.27% in 2011 and 2010, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	786,399	816,996
Current maturities	72,145	7,373
Total long-term debt – net of current maturities	$ 714,254	$ 809,623

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

	Amount
Year:	
2012	$ 72,145
2013	79,260
2014	21,661
2015	22,955
2016	231,882
Thereafter	358,496
Total	$ 786,399

(a) RUS Notes

On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) 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 and mature in June 2013.

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.

The Series 1983 Bonds are subject to a maximum interest rate of 13.00%. The December 31, 2011 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) Notes Payable

Notes payable represent the Company’s borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit 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 line of credit at December 31, 2010. The Company had no borrowings outstanding on the lines of credit at December 31, 2011. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,375 and $5,928 at December 31, 2011 and 2010, respectively. Advances on the CFC line of credit 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 line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3, and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company’s credit rating. 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.

(d) Covenants

Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC 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 at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' lines of credit with CFC and CoBank require Equity to Asset ratios of 12% and 15%, respectively. Big Rivers' 2011 MFIR was 1.12, its DSCR was 1.47 and the Asset to Equity Ratio was 27%.

(5) 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).

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, 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 was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. 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. One of the intervenors in the case has filed an appeal seeking, among other things, an approximate $6,200 reduction in the revenue relief granted in the order, and will presumably ask that any relief obtained be retroactive to the effective date of the rates approved in the order (September 1, 2011). Big Rivers has also sought rehearing on certain matters raised in the order that could increase Big Rivers' annual revenue by $2,735.

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.

(Dollars in thousands)

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).

(6) Income Taxes

At December 31, 2011, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $32,434 expiring at various times between 2011 and 2031, and an Alternative Minimum Tax Credit Carryforward of approximately $7,138, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2011, 2010, and 2009, 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 $3,613, $3,846, and $19,619 in current regular tax expense for the years ended December 31, 2011, 2010 and 2009, respectively.

The components of the net deferred tax assets as of December 31, 2011 and 2010 were as follows:

	2011	2010
Deferred tax assets:		
Net operating loss carryforward	$ 12,812	$ 16,730
Alternative minimum tax credit carryforwards	7,138	6,038
Member rate mitigation	10,326	10,326
Fixed asset basis difference	3,980	10,752
RUS Series B Note	19,689	14,767
Total deferred tax assets	53,945	58,613
Deferred tax liabilities:		
RUS Series B Note	—	—
Bond refunding costs	(9)	(8)
Total deferred tax liabilities	(9)	(8)
Net deferred tax asset (prevaluation allowance)	53,936	58,605
Valuation allowance	(53,936)	(58,605)
Net deferred tax asset	$ —	$ —

(Dollars in thousands)

A reconciliation of the Company's effective tax rate for 2011, 2010, and 2009 follows:

	2011	2010	2009
Federal rate	35.0%	35.0%	35.0%
State rate – net of federal benefit	4.5	4.5	4.5
Permanent differences	0.9	0.5	—
Patronage allocation to members	(40.8)	(38.8)	(35.4)
Tax benefit of operating loss carryforwards and other	0.4	(1.2)	(4.1)
Alternative minimum tax	3.5	3.0	0.2
Effective tax rate	3.5%	3.0%	0.2%

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 2011 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 2011, 2010, or 2009.

(7) Power Purchased

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not reduce the contract limits by more than 12 MW in any year or by more than a total of 72 MW over the lease term. In the event Big Rivers failed to take the minimum requirement during any hour or year, Big Rivers was liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the year ended December 31, 2009, was $51,592 and is included in power purchased and interchanged on the statement of operations.

(8) 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.

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 (see note 11 – 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, 2011 and 2010.

(Dollars in thousands)

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, 2011 and 2010 follows:

	2011	2010
Benefit obligation – beginning of period	$ 28,804	$ 25,493
Service cost – benefits earned during the period	1,279	1,289
Interest cost on projected benefit obligation	1,296	1,368
Benefits paid	(481)	(806)
Actuarial loss	845	1,460
Benefit obligation – end of period	$ 31,743	$ 28,804

The accumulated benefit obligation for all defined benefit pension plans was $25,482 and $21,977 at December 31, 2011 and 2010, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2011 and 2010 follows:

	2011	2010
Fair value of plan assets – beginning of period	$ 25,267	$ 22,270
Actual return on plan assets	324	2,707
Employer contributions	2,890	1,096
Benefits paid	(481)	(806)
Fair value of plan assets – end of period	$ 28,000	$ 25,267

The funded status of the Company's pension plans at December 31, 2011 and 2010 follows:

	2011	2010
Benefit obligation – end of period	$ (31,743)	$ (28,804)
Fair value of plan assets – end of period	28,000	25,267
Funded status	$ (3,743)	$ (3,537)

(Continued)

(Dollars in thousands)

Components of net periodic pension costs for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Service cost	$ 1,279	$ 1,289	$ 1,241
Interest cost	1,296	1,368	1,466
Expected return on plan assets	(1,737)	(1,533)	(1,332)
Amortization of prior service cost	14	19	19
Amortization of actuarial loss	461	584	834
Settlement loss	—	—	1,690
Net periodic benefit cost	$ 1,313	$ 1,727	$ 3,918

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2011 and 2010 follows:

	2011	2010
Prior service cost	$ (26)	$ (40)
Unamortized actuarial loss	(11,151)	(9,354)
Accumulated other comprehensive income	$ (11,177)	$ (9,394)

In 2012, $14 of prior service cost and $696 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income (loss) at December 31, 2011 and 2010 follows:

	2011	2010
Prior service cost	$ 14	$ 19
Unamortized actuarial gain (loss)	(1,797)	297
Other comprehensive income (loss)	$ (1,783)	$ 316

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

	2011	2010
Deferred credits and other	$ (3,743)	$ (3,537)

(Dollars in thousands)

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

	2011	2010	2009
Discount rate – projected benefit obligation	4.26%	4.95%	5.59%
Discount rate – net periodic benefit cost	4.95	5.59	6.38
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, 2011 and 2010, the investment allocation was 56% and 58%, respectively, in U.S. Equities, 8% and 9%, respectively, in International Equities, and 36% and 33%, 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 semi-annually.

(Dollars in thousands)

At December 31, 2011 and 2010, the fair value of Big Rivers' defined benefit pension plan assets by asset category are as follows:

	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

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ —	$ 1,517
Equity securities:			
U.S. large-cap stocks	9,731	—	9,731
U.S. mid-cap stock mutual funds	2,926	—	2,926
U.S. small-cap stock mutual funds	1,448	—	1,448
International stock mutual funds	2,194	—	2,194
Preferred stock	490	—	490
Fixed:			
TIPS bond fund	161	—	161
U.S. government agency bonds	—	1,843	1,843
Taxable U.S. municipal bonds	—	2,635	2,635
U.S. corporate bonds	—	2,322	2,322
	$ 18,467	$ 6,800	$ 25,267

(Continued)

(Dollars in thousands)

Expected retiree pension benefit payments projected to be required during the years following 2011 are as follows:

		Amount
Years ending December 31:		
2012	$	2,330
2013		4,386
2014		1,799
2015		3,196
2016		3,265
2017 – 2020		10,986
Total	$	25,962

In 2012, the Company expects to contribute $970 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 pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

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 $4,464 and $4,389 for the years ended December 31, 2011 and 2010, 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 pre-tax 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 2011 employer contribution was $58 and deferred compensation expense was $81. As of December 31, 2011, the trust asset was $283 and the deferred liability was $202.

(Dollars in thousands)

(9) Restricted Investments

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Amortized costs	Fair values	Amortized costs	Fair values
Cash and money market	$ 12,765	$ 12,764	$ 12,812	$ 12,812
Debt securities:				
U.S. Treasuries	62,073	63,917	60,941	62,582
U.S. government agency	88,324	88,485	143,809	143,922
Total	$ 163,162	$ 165,166	$ 217,562	$ 219,316

Gross unrealized gains and losses on restricted investments at December 31, 2011 and 2010 were as follows:

	2011		2010	
	Gains	Losses	Gains	Losses
Cash and money market	$ —	$ —	$ —	$ —
Debt securities:				
U.S. Treasuries	1,843	—	1,641	—
U.S. government agency	161	—	331	217
Total	$ 2,004	$ —	$ 1,972	$ 217

Debt securities at December 31, 2011 and 2010 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2011		2010	
	Amortized costs	Fair values	Amortized costs	Fair values
In one year or less	$ 43,021	$ 43,092	$ 71,111	$ 71,193
After one year through five years	120,141	122,074	146,451	148,123
Total	$ 163,162	$ 165,166	$ 217,562	$ 219,316

(Dollars in thousands)

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, 2011 and 2010 were as follows:

	2011		2010	
	Less than 12 months		Less than 12 months	
	Losses	Fair values	Losses	Fair values
Debt securities:				
U.S. Treasuries	$ —	$ —	$ —	$ —
U.S. government agency	—	—	217	15,783
Total	$ —	$ —	$ 217	$ 15,783

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2011 and 2010 was zero and one, 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.

(10) 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 and cash equivalents 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:

	2011	2010
Institutional money market government portfolio	$ 44,844	$ 44,774

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, 2011 consists of RUS notes totaling $644,299, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see note 4). The RUS debt cannot be traded in the market and, therefore, a value other than its 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, 2011, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $86,399.

(Dollars in thousands)

(11) 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.

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

	2011	2010	2009
Discount rate – projected benefit obligation	4.29%	4.96%	5.78%
Discount rate – net periodic benefit cost	4.96	5.78	6.32

The health care cost trend rate assumptions as of December 31, 2011 and 2010 were as follows:

	2011	2010
Initial trend rate	7.40%	7.60%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

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

	2011	2010
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (211)	$ (201)
Effect on year end benefit obligation	(1,056)	(1,131)
One-percentage-point increase:		
Effect on total service and interest cost components	254	236
Effect on year end benefit obligation	1,226	1,306

(Dollars in thousands)

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2011 and 2010 follows:

		2011		2010
Benefit obligation – beginning of period	$	15,864	$	13,864
Service cost – benefits earned during the period		1,253		1,313
Interest cost on projected benefit obligation		754		743
Participant contributions		160		85
Benefits paid		(611)		(313)
Actuarial loss		620		172
Benefit obligation – end of period	$	18,040	$	15,864

A reconciliation of the Company's postretirement plan assets at December 31, 2011 and 2010 follows:

		2011		2010
Fair value of plan assets – beginning of period	$	—	$	—
Employer contributions		451		228
Participant contributions		160		85
Benefits paid		(611)		(313)
Fair value of plan assets – end of period	$	—	$	—

The funded status of the Company's postretirement plan at December 31, 2011 and 2010 follows:

		2011		2010
Benefit obligation – end of period	$	(18,040)	$	(15,864)
Fair value of plan assets – end of period		—		—
Funded status	$	(18,040)	$	(15,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2011, 2010, and 2009 were as follows:

		2011		2010		2009
Service cost	$	1,253	$	1,313	$	878
Interest cost		754		743		464
Amortization of prior service cost		17		17		17
Amortization of actuarial (gain)		—		—		(17)
Amortization of transition obligation		31		31		31
Net periodic benefit cost	$	2,055	$	2,104	$	1,373

(Dollars in thousands)

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income (loss) at December 31, 2011 and 2010 follows:

		2011		2010
Prior service cost	$	(130)	$	(147)
Unamortized actuarial gain (loss)		(385)		235
Transition obligation		(31)		(62)
Accumulated other comprehensive income (loss)	$	(546)	$	26

In 2012, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2011 and 2010 follows:

		2011		2010
Prior service cost	$	17	$	18
Unamortized actuarial loss		(620)		(172)
Transition obligation		31		30
Other comprehensive loss	$	(572)	$	(124)

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

		2011		2010
Accounts payable	$	(762)	$	(600)
Deferred credits and other		(17,278)		(15,264)
Net amount recognized	$	(18,040)	$	(15,864)

Expected retiree benefit payments projected to be required during the years following 2011 are as follows:

		Amount
Year:		
2012	$	761
2013		963
2014		1,148
2015		1,277
2016		1,383
2017 – 2021		8,754
Total	$	14,286

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a 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 $579 and $391 at December 31, 2011 and 2010, respectively. The postretirement expense recorded was $191, $21, and $45 for 2011, 2010, and 2009, respectively, and the benefits paid were $3, $5, and $78 for 2011, 2010, and 2009, respectively.

(12) Related Parties

For the years ended December 31, 2011, 2010, and 2009, Big Rivers had tariff sales to its members of $151,472, $151,001, and $125,826, respectively. In addition, for the years ended December 31, 2011, 2010, and 2009, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of $306,420, $281,473, and $167,885, respectively.

At December 31, 2011 and 2010, Big Rivers had accounts receivable from its members of $40,314 and $36,636, respectively.

(13) 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.

Big Rivers plans to seek KPSC approval for its 2012 environmental compliance plan (ECP) in an April 2012 filing. This ECP will consist of $283,490 of capital projects, primarily for a new scrubber at the D.B. Wilson station and a new selective catalytic reduction facility at the R.D. Green station, and certain additional operations and maintenance costs. The purpose of the ECP is to allow Big Rivers to comply, in the most cost-effective manner, with the U.S. Environmental Protection Agency Cross-State Air Pollution Rule, and Mercury and Other Air Toxics Standards. Among other things, the ECP filing will seek 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. The regulatory process is expected to last six months after the filing date.