



BIG RIVERS ELECTRIC CORPORATION

Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2400
400 West Market Street
Louisville, KY 40202

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Big Rivers Electric Corporation, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income (loss), equities, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation, as of December 31, 2021 and 2020, and the results of operations, and cash flows thereof for each of the years in the three-year period ended December 31, 2021 in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Big Rivers Electric Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Big Rivers Electric Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a



substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Big Rivers Electric Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Big Rivers Electric Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2022 on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of that report is solely 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 effectiveness of Big Rivers Electric Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Big Rivers Electric Corporation's internal control over financial reporting and compliance.

KPMG LLP

Louisville, Kentucky
March 31, 2022

BIG RIVERS ELECTRIC CORPORATION

Balance Sheets

December 31, 2021 and 2020

(Dollars in thousands)

Assets	2021	2020
Utility plant – net	\$ 892,988	771,622
Intangible plant	15,000	15,000
Restricted investments – Member rate mitigation	—	666
Other deposits and investments – at cost	16,643	22,377
Current assets:		
Cash and cash equivalents	29,913	20,400
Restricted cash – construction funds trustee	—	353
Short-term investments	352	6,603
Accounts receivable	47,920	40,736
Fuel inventory	17,198	20,391
Nonfuel inventory	18,329	17,457
Prepaid expenses and other assets	5,250	5,129
Total current assets	118,962	111,069
Deferred charges and other assets:		
Regulatory assets	361,521	435,252
Long-term accounts receivable	8,293	—
Deferred charges and other	11,618	2,249
Total deferred charges and other assets	381,432	437,501
Total	\$ 1,425,025	1,358,235
Equities and Liabilities		
Capitalization:		
Equities	\$ 460,226	531,539
Long-term debt	669,295	663,780
Total capitalization	1,129,521	1,195,319
Current liabilities:		
Current maturities of long-term obligations	27,999	32,962
Line of credit	60,000	—
Purchased power payable	5,087	3,713
Accounts payable	42,698	23,535
Accrued expenses	18,567	9,345
Accrued interest	1,135	903
Regulatory liabilities – member rate mitigation	16,332	12,223
Total current liabilities	171,818	82,681
Deferred credits and other:		
Regulatory liabilities – member rate mitigation	1,485	1,111
Regulatory liabilities – TIER credit	35,726	20,000
Asset retirement obligations	72,760	40,410
Deferred credits and other	13,715	18,714
Total deferred credits and other	123,686	80,235
Commitments and contingencies (note 13)		
Total	\$ 1,425,025	1,358,235

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Operations

Years ended December 31, 2021, 2020, and 2019

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenue	\$ 393,144	328,708	378,727
Total operating revenue	<u>393,144</u>	<u>328,708</u>	<u>378,727</u>
Operating expenses:			
Operations:			
Fuel for electric generation	130,019	83,939	119,831
Power purchased and interchanged	37,436	35,756	37,893
Production, excluding fuel	46,945	40,616	45,918
Transmission and other	34,735	37,042	38,078
Maintenance	32,082	36,947	39,066
Depreciation and amortization	<u>172,136</u>	<u>54,630</u>	<u>49,356</u>
Total operating expenses	<u>453,353</u>	<u>288,930</u>	<u>330,142</u>
Electric operating margin (loss)	<u>(60,209)</u>	<u>39,778</u>	<u>48,585</u>
Interest expense and other:			
Interest	28,575	33,393	36,937
Income tax benefit	—	(448)	(28)
Other – net	<u>684</u>	<u>830</u>	<u>696</u>
Total interest expense and other	<u>29,259</u>	<u>33,775</u>	<u>37,605</u>
Operating margin (loss)	<u>(89,468)</u>	<u>6,003</u>	<u>10,980</u>
Nonoperating margin:			
Interest income and other	<u>14,072</u>	<u>4,192</u>	<u>5,735</u>
Total nonoperating margin	<u>14,072</u>	<u>4,192</u>	<u>5,735</u>
Net margin (loss)	<u>\$ (75,396)</u>	<u>10,195</u>	<u>16,715</u>

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION
Statements of Comprehensive Income (Loss)
Years ended December 31, 2021, 2020, and 2019
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net margin (loss)	\$ (75,396)	10,195	16,715
Other comprehensive income (loss):			
Defined-benefit plans:			
Actuarial gain (loss)	3,066	(779)	1,506
Amortization of (gain) loss	<u>(1,289)</u>	<u>296</u>	<u>559</u>
Defined-benefit plans	<u>1,777</u>	<u>(483)</u>	<u>2,065</u>
Postretirement benefits other than pensions:			
Prior service cost	(112)	(112)	(414)
Actuarial gain (loss)	2,418	(1,205)	(820)
Amortization of gain	<u>—</u>	<u>(20)</u>	<u>(198)</u>
Postretirement benefits other than pensions	<u>2,306</u>	<u>(1,337)</u>	<u>(1,432)</u>
Other comprehensive income (loss)	<u>4,083</u>	<u>(1,820)</u>	<u>633</u>
Comprehensive income (loss)	<u><u>\$ (71,313)</u></u>	<u><u>8,375</u></u>	<u><u>17,348</u></u>

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Equities

Years ended December 31, 2021, 2020, and 2019

(Dollars in thousands)

		Other equities			
	Retained margin	Donated capital and memberships	Consumers' contributions to debt service	Accumulated other comprehensive income/(loss)	Total equities
Balance – December 31, 2017	\$ 486,800	764	3,681	(358)	490,887
Net margin	15,230	—	—	—	15,230
Pension and postretirement benefit plans	—	—	—	(301)	(301)
Balance – December 31, 2018	502,030	764	3,681	(659)	505,816
Net margin	16,715	—	—	—	16,715
Pension and postretirement benefit plans	—	—	—	633	633
Balance – December 31, 2019	518,745	764	3,681	(26)	523,164
Net margin	10,195	—	—	—	10,195
Pension and postretirement benefit plans	—	—	—	(1,820)	(1,820)
Balance – December 31, 2020	528,940	764	3,681	(1,846)	531,539
Net margin (loss)	(75,396)	—	—	—	(75,396)
Pension and postretirement benefit plans	—	—	—	4,083	4,083
Balance – December 31, 2021	\$ <u>453,544</u>	<u>764</u>	<u>3,681</u>	<u>2,237</u>	<u>460,226</u>

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Statements of Cash Flows

Years ended December 31, 2021, 2020, and 2019

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:			
Net margin (loss)	\$ (75,396)	10,195	16,715
Adjustments to reconcile net margin (loss) to net cash provided by operating activities:			
Depreciation and amortization	172,641	55,329	49,407
Interest compounded – RUS Series B Note	12,242	11,557	10,911
Interest income compounded – RUS Cushion of Credit (advance payments unapplied)	(111)	(169)	(169)
Forgiveness from long-term obligations	(9,941)	—	—
Noncash member rate mitigation revenue	—	(9,532)	(15,578)
Changes in certain assets and liabilities:			
Accounts receivable	(15,477)	(3,470)	(3,876)
Fuel and nonfuel inventory	2,321	13,333	(1,289)
Prepaid expenses and other	(121)	(831)	2,663
Deferred charges	(4,650)	(12,042)	(13,162)
Purchased power payable	1,374	1,011	(2,632)
Accounts payable	7,620	(3,706)	46
Accrued expenses	9,454	(2,085)	(3,115)
Other – net	(11,518)	6,619	15,113
Net cash provided by operating activities	<u>88,438</u>	<u>66,209</u>	<u>55,034</u>
Cash flows from investing activities:			
Capital expenditures	(149,396)	(61,154)	(23,281)
Proceeds from restricted investments and deposits	8,322	43,902	21,655
Purchases of restricted investments and other deposits and investments	(2,320)	(12,854)	(22,462)
Proceeds of short-term investments	6,994	11,074	11,334
Purchases of short-term investments	(744)	(8,239)	(11,165)
Net cash used in investing activities	<u>(137,144)</u>	<u>(27,271)</u>	<u>(23,919)</u>
Cash flows from financing activities:			
Principal payments on long-term obligations	(26,314)	(141,337)	(38,495)
Proceeds from long-term obligations	24,542	93,241	—
Proceeds from line of credit	75,000	83,300	—
Payments on line of credit	(15,000)	(83,300)	—
Payments on debt issuance costs	(362)	(1,175)	—
Net cash provided by (used in) financing activities	<u>57,866</u>	<u>(49,271)</u>	<u>(38,495)</u>
Net increase (decrease) in cash and cash equivalents	9,160	(10,333)	(7,380)
Cash and cash equivalents – beginning of year	<u>20,753</u>	<u>31,086</u>	<u>38,466</u>
Cash and cash equivalents – end of year	\$ <u>29,913</u>	<u>20,753</u>	<u>31,086</u>
Supplemental cash flow information:			
Cash paid for interest	\$ 19,358	24,801	26,487
Cash paid for income taxes	1	—	2
Supplemental schedule of non-cash financing and investing activities:			
Change in regulatory assets associated with asset retirement obligations	\$ 22,319	13,476	2,897
Change in regulatory assets associated with utility plant	(99,315)	156,122	83,616
Change in deferred charges associated with asset retirement obligations	3,378	—	—
Purchases of utility plant in accounts payable	8,675	4,694	582

See accompanying notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(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 (Jackson Purchase Energy Corporation, Kenergy Corp. ("Kenergy"), and Meade County Rural Electric Cooperative Corporation ("Meade County RECC")) under all requirements contracts. Big Rivers also markets power to nonmember utilities, power marketers, and the Midcontinent Independent System Operator ("MISO"). 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*, and give recognition to the ratemaking and accounting practices of the KPSC and RUS.

(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. Significant items subject to such estimates and assumptions include intangible asset recoverability, asset retirement obligations, pension and postretirement obligations, and other contingencies. 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 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 sales are based on month-end meter readings and are recognized as earned when electricity is delivered. Capacity revenues are recognized in the period in which the Company provides capacity to a counterparty.

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Notes to Financial Statements

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(Dollars in thousands)

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The main principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to its customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 became effective for the Company for its annual reporting period beginning on January 1, 2019.

(e) *Utility Plant and Depreciation*

Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, and overhead. In accordance with FASB ASC 835-20, *Interest – Capitalization of Interest*, the Company also includes capitalized interest on projects with an estimated total cost of \$250 or more before consideration of capitalized interest. 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. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

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 2012, a depreciation study was completed to evaluate the remaining economic lives of the Company's assets and establish new depreciation rates. The study was approved by the RUS in 2012 and by the KPSC in 2014, with the rates becoming effective February 1, 2014. The annual composite depreciation rates used to compute depreciation expense are as follows:

Electric plant	0.35%–25.38%
Transmission plant	1.36%–2.29%
General plant	3.76%–9.88%

For 2021, 2020, and 2019, the average composite depreciation rates were 3.09%, 3.19%, and 2.41%, respectively. At the time utility plant is disposed of, the original cost plus cost of removal less salvage value of such utility plant is charged to accumulated depreciation, as required by the RUS. For 2021, 2020 and 2019, Big Rivers TIER credit was charged to depreciation and amortization as discussed in Note 5.

(f) *Intangible Plant*

Intangible plant was recorded as a result of the resolution from a certified dispute amongst Big Rivers, Meade County RECC, and Louisville Gas and Electric in KPSC Case No. 2019-00370. The amount was paid during 2020 and the certified territorial rights do not expire. Intangible plant is subject to impairment testing and if impaired, the carrying value is accordingly reduced. Intangible plant has an indefinite life and is not subject to amortization. There was no impairment recorded in 2021 or 2020.

BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(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 useful 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.

(h) Asset Retirement Obligations

FASB ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*, requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. The liability is accreted each period based on the credit-adjusted risk-free rate of return that existed when the liability, or portion thereof, was initially measured. The period accretion is recognized as an increase in the carrying amount of the liability, and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

Big Rivers has recorded liabilities in its financial statements for asset retirement obligations ("AROs") related to the requirements of the U.S. Environmental Protection Agency's ("EPA") Disposal of Coal Combustion Residuals from Electric Utilities Rule ("CCR Final Rule") and Effluent Limitations Guidelines Rule ("ELG Final Rule") for the coal ash ponds located at its Green Station and the City of Henderson's Station Two ("Station Two") generating units. In 2021, Big Rivers also recorded AROs for the closure of the landfill located at its Sebree Station and closure of Phase Two of the landfill located at its Wilson Station. The Wilson Station landfill is divided into three sections. The Company has begun closure activities for the Phase One section, which will be complete in 2022. The CCR Final Rule and the ELG Final Rule do not apply to the Phase One section, and it is not recorded as part of the ARO. By-product produced as a result of current operations is being deposited into the Phase Two section. Phase Three of the landfill is not expected to be utilized given the remaining useful life of the Wilson Station facility.

The CCR Final Rule was published in the Federal Register on April 17, 2015 and provides a comprehensive set of requirements for the safe disposal of CCRs, commonly known as coal ash, from coal-fired power plants. The EPA subsequently published an update to the CCR Final Rule, effective on September 28, 2020, allowing facilities to submit a demonstration for an extension to the deadline for unlined CCR surface impoundments to stop receiving waste. The Company submitted the demonstration in November 2020 requesting approval to operate its Green Station ash pond until June 2022, with closure commencing at that time. The ELG Final Rule was published in the Federal Register on November 3, 2015 and sets limits on the levels of toxic metals in wastewater that can be discharged from power plants. See Note 3 for further discussion of the Company's AROs.

BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

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(Dollars in thousands)

(i) Inventory

Inventories are carried at average cost and include coal, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Purchased emission allowances are recorded in inventory at actual cost by each vintage year. Allowances issued by the EPA are recorded at zero cost by each vintage year. Total purchased and EPA issued 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.

(j) Restricted Investments

In 2020, the KPSC issued an order that eliminated the restricted investments that had been reserved for Member rate mitigation and required distribution of the remaining reserve funds to Members in 2021.

The 2012 loan agreement with the National Rural Utilities Cooperative Finance Corporation ("CFC") required as a condition of the extension of credit, that an equity ownership position be established by all borrowers. During 2020, the CFC agreed to Big Rivers utilizing the equity ownership position to pay off the 2012B CFC Equity Note. The equity investments did not have readily determinable fair values and were accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. No impairment or observable price changes were recorded during 2021, 2020, or 2019.

(k) 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.

(l) Restricted Cash

Big Rivers had restricted cash related to proceeds from the sale of utility plant as required by the RUS loan contract for the year ended December 31, 2020, and no restricted cash for year-ending 2021. The restricted cash was used to pay RUS principal in 2021 on the 2018 RUS Guaranteed FFB W8 and X8 loans.

(m) Short-Term Investments

Short-term investments include investments in debt securities. The aforementioned short-term investments have original maturities greater than three months and less than one year.

(n) Regulatory Assets and Liabilities

FASB ASC 980 applies to regulated entities for which rates are designed to recover the costs of providing service. In accordance with this FASB topic, certain items that would normally be reflected in the statement of operations are deferred on the balance sheet. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from members through the regulated rate-making process. Regulatory assets are reduced during the period(s) in which the related costs are recovered through rates or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be

BIG RIVERS ELECTRIC CORPORATION

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(Dollars in thousands)

credited, or refunded, to members through the regulated rate-making process. Regulatory liabilities are reduced during the period(s) in which the related amounts are refunded to members through rates or when future refunding of the amounts is no longer probable.

(o) Long-Term Accounts Receivable

During 2021, the Company amended a market-based rate partial and full requirements contract with an existing non-member customer. The amendment included deferral of charges incurred by the customer during 2021. As of December 31, 2021, the total due from the customer was \$9,958, with \$8,293 recorded as long-term accounts receivable and \$1,665 recorded in accounts receivable. The customer began making monthly installment payments during 2021 and will continue these payments through May 2027. An allowance for doubtful accounts is recorded if it is determined it is probable that the Company will not collect all principal and interest contractually due. There is no allowance recorded at December 31, 2021.

(p) Other Deposits and Investments

Other deposits and investments consist primarily of patronage capital, cash collateral/margin call deposits, investments in associated organizations, and investments held in trust for a deferred compensation plan. Investments held in trust consist primarily of equities and money market accounts and are carried at fair value. Remaining deposits are recorded at their original cost as their cost approximates fair value due to the nature of the deposit.

(q) 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 Big Rivers' annual income 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 on the tax return. 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.

BIG RIVERS ELECTRIC CORPORATION

Notes to Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(r) Patronage Capital

As provided in the Company's bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and non-operating, 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.

(s) Derivatives

Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts to which the Company is a party to 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.

(t) 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. 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.

(u) Deferred Loan Costs

The Company capitalizes costs incurred in connection with long-term debt. These costs are amortized using the effective interest method over the term of the respective debt financing agreements.

In accordance with ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)*, deferred loan costs related to a recognized debt liability are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset.

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(v) *Deferred Credits and Other*

Deferred credits and other includes employee-related benefits and capacity revenue sales billed but not yet earned. Employee related benefits include, but are not limited to, pension and post-retirement benefit costs and amounted to \$13,465 and \$18,474 at December 31, 2021 and 2020, respectively. Deferred capacity revenue, which will be recognized within the next year, amounted to \$250 and \$240 at December 31, 2021 and 2020, respectively.

(w) *New Accounting Guidance*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The main principle of this ASU requires that lessees recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of the current guidance, including the lease classification criteria and the lessor accounting model. In May 2020, the FASB delayed the required implementation date of ASU 2016-02 for private entities by one year. The amendments in ASU 2016-02 will be effective for the Company for annual reporting periods beginning after December 15, 2021. The Company is currently assessing the impact of adopting the guidance but does not believe it will have a material effect.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which allows a company to irrevocably elect the fair value option on certain financial instruments. Subsequently, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* and ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief* in May 2019; ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* in November 2019; and ASU 2020-03, *Codification Improvements to Financial Instruments*, in March 2020. The effective date of the guidance for the Company will be for annual reporting periods beginning after December 15, 2022. The Company is currently assessing the impact of adopting the guidance but does not believe this guidance will have a material effect.

(x) *Reclassification*

Certain items in 2020 have been reclassified on the financial statements for comparative purposes to conform with presentation in the current year financial statements. Specifically, the intangible plant is presented separately on the Balance Sheet in the current year and was included in Utility plant, net in the 2020 financial statements. The amount of the intangible plant is \$15,000 in both 2021 and 2020. The reclassification has no impact on net margins.

(y) *Risks and Uncertainties*

The outbreak of the COVID-19 pandemic has resulted in governments and customers enacting emergency measures to combat the spread of the virus. These measures have included the implementation of travel bans, self-imposed quarantine periods, social distancing, additional safety protocols, and temporary customer facility shutdowns. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. The Company met its financial targets in 2020 and 2021, and did not experience any

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material adverse impacts. Continued restrictive measures put in place in order to mitigate the virus could adversely affect the Company's financial results. Additionally, the recent events in the Ukraine have had a negative impact on commodity prices. It is not currently possible to estimate the length, severity, or financial impact of these developments in the future.

(2) Utility Plant

The Company retired Coleman Station and Reid Station Unit 1 on September 30, 2020. The utility plant, net, associated with Coleman Station and Reid Station Unit 1 in the amount of \$124,210 and \$6,731, respectively, were retired and recorded as a regulatory asset. See Note 5 for further discussion of the Company's regulatory asset balances related to the Coleman Station and Reid Station Unit 1 retirement costs. At December 31, 2021 and 2020, utility plant is summarized as follows:

	<u>2021</u>	<u>2020</u>
Classified plant in service:		
Production plant	\$ 1,484,121	1,460,252
Transmission plant	324,393	311,898
General plant	61,130	56,845
Other	67	67
	<u>1,869,711</u>	<u>1,829,062</u>
Less accumulated depreciation	<u>1,151,975</u>	<u>1,102,333</u>
	717,736	726,729
Construction in progress	<u>175,252</u>	<u>44,893</u>
Utility plant – net	<u>\$ 892,988</u>	<u>771,622</u>

Big Rivers' secured long-term debt obligations and 2020 Amended and Restated Syndicated Senior Secured Credit Agreement, dated June 11, 2020, are secured under Big Rivers' Indenture dated as of July 1, 2009, as supplemented and amended (the "Indenture"), between Big Rivers and U.S. Bank National Association, as trustee (the "Indenture Trustee"). Obligations are secured under the Indenture by a mortgage lien on substantially all of Big Rivers' owned tangible, and certain intangible, properties including Big Rivers' production, transmission, general, and other Utility Plant. See Note 4 for further discussion of Big Rivers' Debt and Other Long-Term Obligations secured under its Indenture.

Depreciation expense on utility plant for the years ended December 31, 2021, 2020 and 2019, was \$41,187, \$21,119 and \$20,748, respectively. The increase in depreciation expense on utility plant, net, in 2021 is related to the discontinuation of the deferral of depreciation expense on the Wilson plant as of January 1, 2021. See Note 5 for discussion of Wilson plant depreciation.

Interest capitalized for the years ended December 31, 2021 and 2020, was \$3,246 and \$587, respectively.

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The Company has identified certain legal obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental Obligations*, associated with the retirement of long-lived assets that require the recognition of a liability. See Note 3 for further discussion of the Company's asset retirement obligations.

As of December 31, 2021 and 2020, the Company had recorded an estimated \$50,862 and \$48,683, respectively, related to nonlegal removal costs included in accumulated depreciation as required by the RUS.

(3) Asset Retirement Obligations

The Company has AROs arising from legal obligations associated with the retirements of certain long-lived assets. The liabilities were initially measured at fair value and subsequently adjusted for accretion expense and changes in estimated future cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived assets and depreciated over their remaining useful lives. The following table presents the activity for the ARO liabilities for the years ended December 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>
ARO balance at beginning of year	\$ 40,410		34,557
Additional obligations incurred	22,442 (a)		—
Changes in estimated timing or cost	143 (b)		4,421 (c)
Accretion expense	10,020 (d)		1,732 (d)
Actual costs incurred	<u>(255)</u>		<u>(300)</u>
ARO balance at end of year	<u>\$ 72,760</u>		<u>40,410</u>

- (a) An ARO liability was recorded in 2021 for closure costs associated with the Sebree Station landfill and Phase Two of the Wilson Station Landfill.
- (b) During 2021, a favorable ruling was received in the final order of Case No. 2019-00269, which states the City of Henderson is liable for its share of closing the Station Two ash pond. As a result of this ruling, Big Rivers recorded an adjustment to the Station Two ash pond ARO liability to reflect both a change in cost estimate and extension of the final closure date. See Note 5 for further discussion of litigation with the City of Henderson.
- (c) During 2020, the EPA issued an update to the CCR Final Rule which shortened the deadline to close the ash pond at Green Station. In order to comply with federal regulations, the settlement date for closure of this ash pond was reduced by approximately three years. Accordingly, in 2020, Big Rivers recorded an adjustment to the Green Station ARO liability to reflect the change in the federal regulations. The revised regulations did not impact the ARO liability recorded for the ash pond located at the retired Station Two facility.
- (d) The 2021 and 2020 annual ARO accretion expense of \$7,935 and \$1,732, respectively, was deferred and included in the Regulatory Assets amount reported on the Company's balance sheet as of December 31, 2021 and 2020. The remaining 2021 ARO accretion expense of \$2,085 was deferred

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and included in the Deferred Charges amount reported on the Company's balance sheet as of December 31, 2021. The KPSC final order in Case No. 2019-00435, the Environmental Compliance Plan, approved the recovery of the capital costs for ash pond closure through the environmental surcharge mechanism ("ESM") based on non-levelized amortization of the actual ash pond closure spending-to-date, allocable over a rolling 10-year period. This method ensures that cost recovery from Members through the ESM is based on actual project spending while also allowing Big Rivers to match its amortization expense with ESM revenue.

(4) Debt and Other Long-Term Obligations

A detail of long-term debt at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
CFC Refinance Promissory Note, Series 2012B, serial note pricing, 4.30% effective interest rate, final maturity date of May 2032	\$ 187,540	201,380
RUS 2009 Series B Promissory Note, stated amount of \$245,530, no stated interest rate, 5.80% imputed interest rate, maturing December 2023	218,827	206,585
CoBank Promissory Note, Series 2012A, 4.30% fixed interest rate, final maturity date of June 2032	150,333	161,137
2018 RUS Guaranteed FFB Loan, W8, 2.83% fixed interest rate, final maturity date of January 2033	22,322	23,585
2018 RUS Guaranteed FFB Loan, X8, 2.94% fixed interest rate, final maturity date of December 2043	16,900	17,308
2021 RUS Guaranteed FFB Loan, Y8A, 1.94% fixed interest rate, final maturity date of December 2043	24,542	—
CFC Promissory Note, Series 2020B, 2.49% fixed interest rate, final maturity date of February 2031	83,300	83,300
Old National Bank, Paycheck Protection Program Loan, 1.00% fixed interest rate, maturing in 18 months if determined ineligible (see Note 4(j))	—	9,941
Total long-term debt	703,764	703,236
Less current maturities	27,999	32,962
Less unamortized deferred debt issuance costs	2,701	2,836
Less advance payments unapplied – RUS cushion of credit	3,769	3,658
Total long-term debt – net of current maturities, deferred debt issuance costs, and advance payments	\$ <u>669,295</u>	<u>663,780</u>

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The following are scheduled maturities of long-term debt at December 31, 2021:

	<u>Amount</u>
Year:	
2022	\$ 27,999
2023	248,026
2024	32,356
2025	32,861
2026	34,291
Thereafter	<u>328,231</u>
Total	<u>\$ 703,764</u>

(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 is secured under Big Rivers' Indenture, dated July 1, 2009 between the Company and U.S. Bank National Association, and consists of twenty individual notes with different fixed interest rates ranging from 3.05% to 5.35%. The Refinance Note has an effective interest rate of 4.30% and a final maturity date of May 2032.

The Equity Note was prepaid during 2020 utilizing proceeds received from the sale of Capital Term Certificates previously held with the CFC.

(b) 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 was repaid in full in 2018.

The RUS Series B Note has no stated interest rate, is recorded at an imputed interest rate of 5.80%, and is secured under Big Rivers' Indenture. The \$245,530 stated amount of the RUS Series B Note is due December 2023.

(c) 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, which is secured under Big Rivers' Indenture. The loan has a fixed interest rate of 4.30% and a final maturity date of June 2032.

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(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 were supported by a promissory note from Big Rivers, bearing the same interest rate as the bonds and secured under Big Rivers' Indenture. These bonds had a fixed interest rate of 6.00% and maturity date of July 2031. These bonds were subject to an optional redemption on or after July 15, 2020, which Big Rivers exercised on July 15, 2020, utilizing proceeds from a CFC loan to pay off the bonds. See Note 4(i) for additional information regarding the 2020 CFC loan used to redeem the Series 2010A Bonds.

(e) *2018 RUS Guaranteed FFB Loan, W8*

In April 2018, Big Rivers received a \$25,630 loan from the Federal Financing Bank ("FFB") (the "W8 Loan") which is guaranteed by the RUS and secured under Big Rivers' Indenture. The W8 Loan is for long-term financing of capital projects included in Big Rivers' 2012 Environmental Compliance Plan ("ECP") to comply with the EPA's Mercury and Air Toxics Standards ("MATS") rule. These capital projects were completed in 2016 and were originally funded with Big Rivers' general funds. Accordingly, the proceeds of the W8 Loan were used to replenish Big Rivers' general funds. The W8 Loan has a fixed interest rate of 2.828%, which includes a 0.125% RUS administration fee, and has a final maturity date of January 2033.

(f) *2018 RUS Guaranteed FFB Loan, X8*

In April 2018, Big Rivers received a \$17,965 loan from the FFB, (the "X8 Loan") which is guaranteed by the RUS and secured under Big Rivers' Indenture. The X8 Loan is for long-term financing of capital projects included in Big Rivers' 2013-2015 Transmission Construction Work Plan, which were completed in 2017 and were originally funded with Big Rivers' general funds. Accordingly, the proceeds of the X8 Loan were used to replenish Big Rivers' general funds. The X8 Loan has a fixed interest rate of 2.935%, which includes a 0.125% RUS administration fee, and has a final maturity date of December 2043.

(g) *2021 RUS Guaranteed FFB Loan, Y8 A*

In November 2021, Big Rivers received a \$24,542 loan from the FFB, (the "Y8 A Loan") which is guaranteed by the RUS and secured under Big Rivers' Indenture. The Y8 A Loan is for long-term financing of capital projects included in Big Rivers' 2016-2019 Transmission Construction Work Plan, which were completed in 2020 and were originally funded with Big Rivers' general funds. Accordingly, the proceeds of the Y8 A Loan were used to replenish Big Rivers' general funds. The Y8 A Loan has a fixed interest rate of 1.936%, which includes a 0.125% RUS administration fee, and has a final maturity date of December 2043.

(h) *Line of Credit (CFC Syndicated Line, Series 2020A)*

On March 5, 2015, Big Rivers entered into a \$130,000 Syndicated Senior Secured Credit Agreement (the "2015 Agreement") with CFC, CoBank, Fifth Third Bank, KeyBank National Association, and Regions Bank. In conjunction with the 2015 Agreement, Big Rivers issued secured promissory notes (the "Series 2015A Notes"), equal to each lender's commitment, which are secured under Big Rivers' Indenture.

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On September 19, 2017, the 2015 Agreement was amended to, among other things, reduce the total facility amount from \$130,000 to \$100,000, and extend the maturity date from March 5, 2018 to September 18, 2020.

On July 11, 2020, the existing 2015 Agreement, that was previously amended and restated in 2017, was replaced with a \$150,000 Syndicated Secured Credit Agreement (the "2020 Agreement") with CFC, CoBank, Fifth Third Bank, KeyBank National Association, Regions Bank, and Bank of America. In conjunction with the 2020 Agreement, Big Rivers issued secured promissory notes (the "Series 2020A Notes"), equal to each lender's commitment, which are secured under Big Rivers' Indenture.

As of December 31, 2021, Big Rivers had outstanding borrowings of \$60,000 under the 2020 Agreement and \$37,190 in issued letters of credit outstanding, which reduced its available borrowing capacity under the 2020 Agreement from \$150,000 to \$52,810.

As of December 31, 2020, Big Rivers had no outstanding borrowings under the 2020 Agreement and \$4,729 in issued letters of credit outstanding, which reduced its available borrowing capacity under the 2020 Agreement from \$150,000 to \$145,271.

(i) CFC Promissory Note, 2020B

On December 23, 2020, Big Rivers issued new debt with CFC in the form of a secured balloon note in the amount of \$83,300 for the purpose of early redemption of the Series 2010A Bonds. This note is secured under Big Rivers' Indenture, with a fixed interest rate of 2.49% and a final maturity date of February 2031.

(j) Old National Bank, Paycheck Protection Program ("PPP") Note

In response to the COVID-19 pandemic, the federal government passed and signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law on March 27, 2020. This act allowed qualified businesses to borrow money through the Paycheck Protection Program administered by the Small Business Administration ("SBA") to cover payroll and other related expenses. On April 7, 2020, Big Rivers applied for PPP funds in the amount of \$9,941. The unsecured loan was approved, and funds were received on April 21, 2020. On August 18, 2020, Big Rivers submitted an application requesting forgiveness of the \$9,941 loan. Big Rivers received notice on August 17, 2021, that the PPP loan principal and accrued interest was forgiven in full and is recorded in the Interest income and other line on the statement of operations.

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(k) *RUS Cushion of Credit*

In 2018, Big Rivers began participating in the cushion of credit program administered by the RUS in conjunction with the execution of the 2018 W8 and X8 RUS Guaranteed FFB Loans. Under the cushion of credit program, RUS borrowers may make voluntary irrevocable deposits into the cushion of credit account. Per the terms of the RUS' commitment to guarantee Big Rivers' W8 and X8 Loans, Big Rivers agreed to make an initial deposit of \$3,200 to the cushion of credit account upon receipt of the loan funds and to make additional deposits, as needed, so that the balance at the beginning of each year going forward is equal to or greater than the annual payments due on the W8 and X8 Loans during the year. The interest rate dropped from 5% to 4% on October 1, 2020 and became a variable rate, which is equal to the one-year Treasury rate as of October 1 of each year. The rate in effect as of December 31, 2021 is 0.09%. During 2021, the cushion of credit account accrued interest at an annual rate of 2.99%.

Big Rivers' amounts in the cushion of credit account (deposits and accrued interest) may only be used to make scheduled principal and interest payments on the W8 and X8 Loans. As of December 31, 2021 and 2020, Big Rivers' balance in the RUS cushion of credit account was \$3,769 and \$3,658, respectively, which is included on the Company's balance sheet as a reduction to long-term debt.

(l) *Covenants*

Big Rivers is in compliance with all debt covenants associated with both its long-term and short-term debt obligations. 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 2020 Agreement requires that Big Rivers, throughout the duration of the agreement, maintain a minimum Members' Equities' Balance at the end of each fiscal quarter-end and as of the last day of each fiscal year in an amount at least equal to \$417,000 plus 50% of the cumulative positive net margin for the period from December 31, 2019 to the end of the Borrower's most recently ended fiscal year. Big Rivers' MFIR for the fiscal year ended December 31, 2021 was 1.30, and its Equities balance was \$480,226.

An MFIR of less than 1.10, per the Indenture and other debt agreements, may result in the following actions, restrictions, or consequences: Big Rivers may not secure additional debt under the Indenture; the Company must seek rates that are reasonably expected to yield a 1.10 MFIR; 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; an event of default may occur; interest rates may increase; and its line of credit may be terminated with an acceleration of any outstanding amounts becoming due immediately.

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(5) Rate Matters

In connection with the rate matters discussed below, the following tables provide a summary of Regulatory Assets and Liabilities reflected in the Balance Sheet as of December 31, 2021 and 2020:

		Regulatory assets	
		2021	2020
Coleman plant deferred depreciation	\$	13,870	13,870
Wilson plant deferred depreciation		32,364	141,353
Non-FAC PPA		12,863	7,772
Asset retirement obligations		31,899	26,645
Environmental costs (CCR)		13,814	15,583
ECP case expense		233	289
Station Two contract termination		92,957	92,102
Coleman plant retire/decommission		132,615	129,869
Reid 1 plant retire/decommission		9,342	7,769
Green plant gas conversion		21,564	—
Total regulatory assets	\$	<u>361,521</u>	<u>435,252</u>
		Regulatory liabilities	
		2021	2020
Economic reserve-member rate mitigation	\$	17,817	13,334
TIER Credit		35,726	20,000
Total regulatory liabilities	\$	<u>53,543</u>	<u>33,334</u>

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 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. For the rural customers, the demand charge is based on Maximum Adjusted Net Local Load (as defined in Big Rivers' tariff).

The Company has certain KPSC approved tariff riders; including a fuel adjustment clause and an environmental surcharge. The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the Regulatory Liability – Member Rate Mitigation described below.

Coleman plant depreciation and Wilson plant depreciation:

The net impact of the tariff riders to members' rates is currently mitigated by a Member Rate Stability Mechanism ("MRS"). An offsetting regulatory liability – member rate mitigation reflects the obligation associated with the funding of these reserve accounts. As described below, on June 25, 2020, the KPSC approved several changes to the MRS beginning in January 2021.

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The KPSC entered an order on October 29, 2013, granting Big Rivers an annual revenue increase of \$54,227, effective August 20, 2013 (Case No. 2012-00535). In its order, the KPSC excluded the Coleman plant depreciation from rate recovery. The KPSC directed the Company to defer this depreciation expense and record the deferred amounts in a regulatory asset account. The KPSC's order indicated this action was being taken due to the planned temporary idling of Coleman, the length of time the plant would be idled, and the impact of the rate increase on customers. As of December 31, 2021, cumulative depreciation expense of \$13,870 was deferred for the Coleman plant, which includes the TIER credit reduction from 2019, as discussed below. Management believes the remaining balance is probable of recovery in future rates. The Coleman plant was retired September 30, 2020, as described below for Case No. 2020-00064.

The KPSC entered an order on April 25, 2014, granting Big Rivers an annual revenue increase of \$36,160, effective February 1, 2014 (Case No. 2013-00199). In its order, the KPSC approved Big Rivers' 2012 Depreciation Study, but excluded Wilson plant depreciation from rate recovery. The KPSC directed the Company to defer the Wilson depreciation expense and record in a regulatory asset account, similar to the Coleman depreciation expense deferral per the KPSC's order in Case No. 2012-00535. As of December 31, 2021, cumulative depreciation expense of \$32,364 was deferred for the Wilson plant, which is recoverable in future rates. The KPSC also approved Big Rivers' proposal to temporarily offset the rate increase by utilization of the MRSM. The KPSC further granted Big Rivers' proposed accounting treatment for transmission revenues related to the Hawesville smelter and authorized Big Rivers to pass the transmission revenues to its members through the MRSM. The net effect of this accounting treatment was the recognition of revenue on a monthly basis with an offset to the applicable regulatory liability accounts as the reserve funds were used to offset the impact of the base rate increase on the members' monthly bills.

Non-FAC PPA:

Effective July 17, 2009, the KPSC approved the implementation of the Non-Fuel Adjustment Clause-Purchased Power Adjustment ("Non-FAC PPA") which is a rate mechanism allowing Big Rivers to recover certain costs of purchased power that are not recoverable through its Fuel Adjustment Clause ("FAC"). An accrual is recorded monthly to a regulatory asset or liability account based on the difference between the actual purchased power costs recoverable through the Non-FAC PPA and the purchased power base cost included in base rates. The balance in the regulatory asset or liability account as of June 30 each year is billed or refunded to members during the following twelve-month period beginning September 1 through August 31 of the following year.

Asset Retirement Obligations:

The CCR Final Rule requires Big Rivers to address the eventual permanent closures of its Green Station coal ash pond and the coal ash pond at the City of Henderson, Kentucky's Station Two, as well as its landfills at Sebree Station and Wilson Station. Big Rivers recorded asset retirement obligations for its ash ponds at its Green Station and Station Two generating stations and for its landfills at Sebree Station and Wilson Station. See Note 3 for further discussion of the Company's asset retirement obligations. In accordance with FASB ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations* and under the RUS Uniform System of Accounts, Big Rivers initially recognized its coal ash pond AROs at fair value and subsequently adjusted for accretion expense and changes in estimated timing of pond closures and changes in estimated costs as of December 31, 2021 (Note 3).

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On January 5, 2016, the KPSC issued an order in Case No. 2015-00333 approving Big Rivers' request to establish regulatory assets for the deferral of certain expenses it would incur for compliance with the CCR Final Rule, including accretion and depreciation expense related to the Green Station and Station Two ash ponds AROs and other incremental expenses. On June 11, 2021, the KPSC issued an order in Case No. 2021-00079 approving Big Rivers' request to establish a regulatory asset for the deferral of certain expenses related to the Green Station. The new ARO for the Sebree Station landfill is recorded in this regulatory asset. The new ARO for the Wilson Station landfill is deferred pending an application requesting a regulatory asset.

Environmental Costs (CCR) and ECP Case Expense:

On August 6, 2020, the KPSC approved Big Rivers' 2020 Environmental Compliance Plan ("2020 ECP"), (1) granting Big Rivers the authority to close the Green Station and Station Two ash ponds; (2) granting Big Rivers the authority to move the Coleman Station flue gas desulfurization system ("FGD") to Wilson Station to replace Wilson's FGD; (3) conditionally granting Big Rivers' request to establish regulatory assets for the accretion and depreciation expense related to the Coleman Station legacy ash ponds, should the CCR Final Rule be extended to apply to such legacy ash ponds; (4) conditionally granting Big Rivers the authority to close the Coleman Station ash ponds, should the CCR Final Rule be extended to apply to such legacy ash ponds; (5) authorizing Big Rivers to amortize the Green Station and Station Two ash pond AROs through its environmental surcharge; (6) conditionally authorizing Big Rivers to amortize the costs incurred to close the Coleman Station ash pond through its environmental surcharge should the CCR Final Rule be extended to apply to the Coleman Station ash ponds; (7) authorizing Big Rivers to amortize the regulatory asset for CCR-related expenses through its environmental surcharge; and (8) authorizing Big Rivers to establish a regulatory asset for the costs of preparing and prosecuting the 2020 ECP case, the recovery of which regulatory asset was approved in Case No. 2021-00061.

As of December 31, 2021, the total amount of CCR-related expenses and costs for asset retirement obligations deferred and included in Regulatory Assets on the Company's balance sheet was \$31,889, and the costs of preparing and prosecuting the ECP case that have been deferred and included in Regulatory Assets on the Company's balance sheet was \$233.

Station Two Contract Termination:

On August 29, 2018, the KPSC entered an order (Case No. 2018-00146) (i) finding that the Station Two units were no longer capable of the normal, continuous, reliable operation for the economically competitive production of electricity; (ii) finding that the Station Two contracts, except for the Joint Facilities Agreement, have therefore terminated pursuant to their own terms; (iii) granting Big Rivers' request for authority to continue to operate Station Two under terms of the Station Two contracts for a period up to May 31, 2019; and (iv) reserving a ruling on Big Rivers' request for authority to establish a Station Two regulatory asset. The remaining issues in this case were resolved with a Settlement Agreement between the Office of the Attorney General, the Kentucky Industrial Utility Customers ("KIUC"), and Big Rivers. The Settlement Agreement provided that the KPSC would approve the Station Two regulatory asset, that Big Rivers would establish a Station Two Depreciation Credit, starting in the month that Station Two is retired, to reduce customer bills based on the revenues Big Rivers would receive associated with depreciation expense on Station Two, that Big Rivers would establish a TIER Credit to reduce existing regulatory assets in the event Big Rivers achieves a TIER in excess of 1.45 in 2020 or 2021, and that in Big Rivers' next general rate

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case, the intervenors would support Big Rivers' recovery of the Station Two, Wilson plant, and, conditionally, the Coleman plant regulatory assets. On October 23, 2018, the KPSC issued a final order approving the Settlement Agreement in full. RUS approved the Settlement Agreement on February 22, 2019. Big Rivers retired Station Two on January 31, 2019. On February 26, 2019, Big Rivers filed revised tariff sheets with the KPSC to incorporate the Station Two Depreciation Credit. As of December 31, 2021, the total amount of the Station Two contract termination included in the Regulatory Assets on the Company's balance sheet was \$92,957. This includes Station Two assets transferred from utility plant to Regulatory Assets, Station Two Depreciation Credit and the Company's portion of decommissioning costs incurred to date.

On December 12, 2018, the KPSC approved Big Rivers' request to phase out its existing Demand Side Management ("DSM") programs, to establish a new Low-Income Weatherization Program, and to establish a regulatory liability for the savings associated with the phase out of the existing DSM programs. As of December 31, 2021, the DSM savings were no longer recorded in a Regulatory Liability based on the ruling received in Case No. 2020-00064, as discussed below.

Coleman Plant and Reid 1 Plant Retire/Decommission:

On June 25, 2020, the KPSC entered an order in Case No. 2020-00064 approving a Settlement Agreement, as modified by the Commission, between Big Rivers, KIUC and the Attorney General, which approved Big Rivers' requests to: (1) establish regulatory assets for the remaining net book value of Coleman Station and Reid Station Unit 1 at retirement, and for the costs to decommission those units; (2) cease charging DSM savings to a regulatory liability; (3) utilize the existing DSM regulatory liability in 2020 and 80% of equity headroom in 2021 to reduce certain regulatory assets (the Wilson and Coleman depreciation regulatory assets; the Coleman, Reid 1, and Station Two retirement and decommissioning regulatory assets; and a regulatory asset through which the costs related to a focused management audit were deferred); and (4) recover the amounts deferred in those regulatory assets through amortization. The KPSC also approved replacing the TIER Credit mechanism in Big Rivers' MRSM tariff with a new TIER Credit mechanism. Under the new TIER Credit, in years in which Big Rivers earns in excess of a 1.30 TIER, 40% of the excess margins will be returned to Big Rivers' members over the following year through a monthly bill credit. The remaining 60% of the excess margins will be deferred in regulatory liability accounts, with a minimum required balance of \$9,000, to be utilized in a year in which Big Rivers does not achieve a 1.30 TIER or to further decrease the balance of the regulatory assets with KPSC approval. The first \$700 of the bill credit each year will be allocated to Rural customers, and any bill credit over \$700 will be allocated between the Rural and Large Industrial customers based on revenues.

On March 8, 2022, Big Rivers filed a motion for clarification of the KPSC's Order entered on June 25, 2020, in Case No. 2020-00064. Specifically, Big Rivers asked the KPSC to clarify that the utilization of equity headroom to reduce the Smelter Load Mitigation (SLM) regulatory assets is not recoverable from its members. The KPSC issued an order on March 15, 2022, clarifying the June 25, 2020 Order, by stating that Big Rivers' member equity headroom in 2021 to record a one-time amortization of the SLM regulatory assets is not recoverable from Big Rivers' members in current or future rates. Big Rivers recorded \$84,945 for utilization of its equity headroom as a charge to amortization expense in 2021. During 2021 and 2020, the Company reduced the SLM regulatory asset balances by recording amortization of \$108,989 against Wilson Plant deferred depreciation and \$705 against focused management audit, respectively. The

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amortization recorded was ordered in Case No. 2020-00064 and includes the equity headroom adjustment, annual TIER credit allocation, monthly amortization and phase out of the DSM programs.

Green Plant Gas Conversion:

On June 11, 2021, the KPSC granted Big Rivers a certificate of public convenience and necessity ("CPCN") to convert Big Rivers' two existing coal-fired generating units at its Green Station to run on natural gas, authorized the gas conversion assets to be depreciated over a seven-year period, and granting Big Rivers the authority to establish a regulatory asset to defer recognition of the costs that Big Rivers expects to incur as a result of the retirement of certain Green Station assets that will no longer be utilized after the conversion. As of December 31, 2021, the total amount of this regulatory asset incurred to date was \$21,564.

Regulatory Liabilities:

In years in which Big Rivers earns in excess of a 1.30 TIER, excluding the utilization of equity headroom, 40% of the excess margins will be returned to Big Rivers' members over the following year through a monthly bill credit. The remaining 60% of the excess margins will be deferred in regulatory liability Big Rivers' new TIER Credit was \$44,543 for 2021, with 40%, or \$17,817 to be returned to members over a twelve-month period beginning February 2022. This amount is recorded as a regulatory liability at December 31, 2021 presented between current and long-term maturities based on the timing of future bill credits expected to be provided to the members. The remaining 60%, or \$26,726, was also deferred in regulatory liability accounts and is expected to offset the regulatory assets, as described above, pending KPSC approval. The regulatory liability of \$9,000 remaining from 2021 will continue to remain as a minimum required balance as described above. The new TIER Credit was recorded as depreciation and amortization expense on the statement of operations.

On February 28, 2022, Big Rivers filed an application with the KPSC, Case No. 2022-00028, for review of its MRSM charge for calendar year 2021. In its application, Big Rivers proposed to use the regulatory liability amount in excess of the minimum required balance of \$9,000, or \$26,726 that was established in Case No. 2020-00064, discussed above, to further reduce the SLM Regulatory Assets in 2022. This case is pending.

(6) Income Taxes

At December 31, 2021, Big Rivers had a Non-Patron Net Operating Loss ("NOL") Carryforward of approximately \$35,280 expiring at various times between 2029 and 2037 which was entirely offset by a full valuation allowance.

On January 16, 2020, the Internal Revenue Service issued News Release IR 2020-12 announcing that it would refund all amounts sequestered from refundable AMT credits under IRC Section 168(k)(4) since 2013. The Company received a refund of \$449 and recorded a benefit to federal income tax expense during 2020.

On March 27, 2020, H.R. 748, the CARES Act was signed into legislation which includes tax provisions relevant to businesses. The CARES Act provides that any unused Alternative Minimum Tax ("AMT") credits can be claimed fully in tax years beginning in 2018 and 2019. The Company claimed a refund of the

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remaining AMT credit carryforward of \$107 on its 2019 federal tax return and received the refund during fiscal 2020.

The components of the net deferred tax assets as of December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 8,802	10,213
Fixed asset basis difference	6,901	5,906
Total deferred tax assets	<u>15,703</u>	<u>16,119</u>
Deferred tax liabilities:		
RUS Series B Note	(3,343)	(3,343)
Bond refunding costs	(51)	(56)
Total deferred tax liabilities	<u>(3,394)</u>	<u>(3,399)</u>
Net deferred tax asset (pre-valuation allowance)	12,309	12,720
Valuation allowance	<u>(12,309)</u>	<u>(12,720)</u>
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

A reconciliation of the Company's effective tax rate for 2021, 2020, and 2019 is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Federal rate	21.0 %	21.0 %	21.0 %
State rate – net of federal benefit	4.0	4.0	4.0
Permanent differences	—	0.2	0.5
Patronage allocation to members	(25.0)	(25.2)	(25.4)
Alternative minimum tax credit recovery	—	(4.6)	(0.3)
Effective tax rate	<u>— %</u>	<u>(4.6)%</u>	<u>(0.2)%</u>

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal income tax examination are 2018 through 2020. The major state tax jurisdiction currently open for income tax examination is Kentucky for years 2017 through 2020. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies tax-related interest and penalties as an operating expense on the statement of operations and accrued expenses on the balance sheet. No material tax-related interest or penalties have been recorded during 2021, 2020, or 2019.

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(7) Pension Plans

(a) *Defined-Benefit Plans*

Big Rivers has a noncontributory defined-benefit pension plan covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plan closure dates cited below. The plan provides 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 plan in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Prior to January 1, 2014, Big Rivers had two separate defined-benefit pension plans. 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.

In order to meet minimum participation requirements, Big Rivers' salaried employees defined benefit plan was merged into the bargaining employees defined benefit plan. The merger was effective January 1, 2014 for purposes of Internal Revenue Code and effective December 31, 2014 for all other purposes. Effective January 1, 2017, participation was frozen in the merged plan for highly compensated employees in order to comply with IRS code section 401(a)(26).

Effective December 31, 2021, all employees within the defined benefit plan were frozen. No employee shall accrue any benefits under the plan on or after December 31, 2021. The employees impacted will subsequently become eligible for the base contribution accounts described above.

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plan and other postretirement plans (Note 11 – Postretirement Benefits Other than Pensions). 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.

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 of 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, 2021 and 2020.

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

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A reconciliation of the Company's benefit obligations of its noncontributory defined-benefit pension plan at December 31, 2021 and 2020 is as follows:

	2021	2020
Benefit obligation – beginning of period	\$ 23,439	21,620
Service cost – benefits earned during the period	649	597
Interest cost on projected benefit obligation	469	625
Plan curtailments	(4,437)	—
Benefits paid	(8,837)	(2,194)
Actuarial loss	1,860	2,791
Benefit obligation – end of period	<u>\$ 13,143</u>	<u>23,439</u>

Big Rivers' defined-benefit pension plan provides retirees and terminated employees with a lump-sum payment option. Benefits paid in 2021 include lump-sum payments totaling \$8,749 – the result of nine former employees electing the lump-sum payment option. Benefits paid in 2020 include lump-sum payments totaling \$2,154 – the result of three former employees electing the lump-sum payment option.

The accumulated benefit obligation for the defined-benefit pension plan was \$13,143 and \$18,998 at December 31, 2021 and 2020, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2021 and 2020 is as follows:

	2021	2020
Fair value of plan assets – beginning of period	\$ 22,255	20,898
Employer contributions	47	222
Actual return on plan assets	1,711	3,329
Benefits paid	(8,837)	(2,194)
Fair value of plan assets – end of period	<u>\$ 15,176</u>	<u>22,255</u>

The funded status of the Company's pension plan at December 31, 2021 and 2020 is as follows:

	2021	2020
Benefit obligation – end of period	\$ (13,143)	(23,439)
Fair value of plan assets – end of period	15,176	22,255
Funded status	<u>\$ 2,033</u>	<u>(1,184)</u>

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Components of net periodic pension costs for the years ended December 31, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
Service cost	\$ 649	597	599
Interest cost	469	625	834
Expected return on plan assets	(1,221)	(1,318)	(1,194)
Amortization of prior service cost	(33)	(33)	(33)
Amortization of actuarial loss	130	41	325
Settlement and curtailment (gain) loss	(1,386)	289	268
Net periodic benefit cost	\$ (1,392)	201	799

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2021 and 2020 is as follows:

	2021	2020
Prior service cost	\$ —	(11)
Unamortized actuarial loss	(1,301)	(3,068)
Accumulated other comprehensive income	\$ (1,301)	(3,079)

In 2021, \$0 of prior service credit and \$0 of actuarial loss is expected to be amortized to periodic pension benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2021 and 2020 are as follows:

	2021	2020
Prior service cost	\$ —	—
Unamortized actuarial gain/(loss)	(1,777)	483
Other comprehensive (income)/loss	\$ (1,777)	483

At December 31, 2021 and 2020, amounts recognized in the balance sheets were as follows:

	2021	2020
Deferred credits and other	\$ 2,033	(1,184)

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Discount rate – projected benefit obligation	2.57 %	2.05 %	2.99 %
Discount rate – net periodic benefit cost	2.05	2.99	4.12
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	5.75	6.50	6.50

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 plan. The expected long-term rate of return on assets is based on the median expected rate of return for a passively-managed portfolio plus the incremental return from active management.

Big Rivers utilizes a third-party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy which was revised in 2021, including a target asset allocation mix of 10% U.S. equities (an acceptable range of 5%–15%), 10% international equities (an acceptable range of 5%–15%), 60% Long-Term Government Fixed Income (an acceptable range of 50%–70%), and 20% U.S. Credit (an acceptable range of 10%–30%). The former policy in effect during 2020 included 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, 2021, the investment allocation was 10% in U.S. equities, 9% in international equities, 62% in Long Term Government Fixed income and 19% in U.S. Credit. As of December 31, 2020 the investment allocation was 57% U.S. Equities, 13% International Equities and 30% 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 plan. 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.

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At December 31, 2021 and 2020, the fair value of Big Rivers' defined-benefit pension plan assets by asset category are as follows:

	Level 1	Level 2	December 31, 2021
Cash and money market	\$ 578	—	578
Equity securities:			
Common stock	1,217	—	1,217
Mutual funds	1,667	—	1,667
Fixed:			
Corporate bonds and notes	—	11,714	11,714
	<u>\$ 3,462</u>	<u>11,714</u>	<u>15,176</u>

	Level 1	Level 2	December 31, 2020
Cash and money market	\$ 1,006	—	1,006
Equity securities:			
Common stock	9,494	—	9,494
Preferred stock	290	—	290
Mutual funds	6,025	—	6,025
Fixed:			
Tax exempt bonds and notes	—	54	54
Corporate bonds and notes	—	5,386	5,386
	<u>\$ 16,815</u>	<u>5,440</u>	<u>22,255</u>

Expected retiree pension benefit payments projected to be required during the next ten years following 2021 are as follows:

	Amount
Year ending December 31:	
2022	\$ 633
2023	515
2024	821
2025	721
2026	1,069
Thereafter	<u>5,687</u>
Total	<u>\$ 9,446</u>

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(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.

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 \$4,583, \$4,518, and \$4,749 for the years ended December 31, 2021, 2020 and 2019, respectively, recorded as operating expenses on the statement of operations.

(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 employer contribution for December 31, 2021 and 2020 was \$222 and \$214, respectively, and the deferred compensation expense for December 31, 2021, 2020, and 2019 was \$364, \$388, and \$248, respectively. As of December 31, 2021 and 2020, the trust assets were \$1,653 and \$1,333, and the deferred liability was \$1,653 and \$1,333, respectively.

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(8) Restricted Investments

The amortized costs and fair values (Level 1 measurement) of Big Rivers' restricted investments held for Member rate mitigation at December 31, 2021 and 2020 were as follows:

	2021		2020	
	Amortized costs	Fair values	Amortized costs	Fair values
Debt securities:				
U.S. Treasury – Money Market	\$ —	—	666	666
Total	<u>\$ —</u>	<u>—</u>	<u>666</u>	<u>666</u>

There were no gross unrealized gains or losses on restricted investments at December 31, 2021 and 2020.

	2021		2020	
	Gains	Losses	Gains	Losses
Debt securities:				
U.S. Treasury – Money Market	\$ —	—	—	—
Total	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

Debt securities at December 31, 2021 and 2020 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2021		2020	
	Amortized costs	Fair values	Amortized costs	Fair values
In one year or less	\$ —	—	666	666
Total	<u>\$ —</u>	<u>—</u>	<u>666</u>	<u>666</u>

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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, 2021 and 2020 were as follows:

	2021		2020	
	Less than 12 months		Less than 12 months	
	Losses	Fair values	Losses	Fair values
Debt securities:				
U.S. Treasury – Money Market	\$ —	—	—	666
Total	\$ —	—	—	666

There are no restricted investments as of December 31, 2021. None of the Company's restricted investments held for Member rate mitigation were in an unrealized loss position as of December 31, 2020.

In conjunction with the CFC \$302,000 secured term loan (Note 4), Big Rivers was required to invest in CFC 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 was fixed at 4.28% and was equal to 80% of the Equity Note rate of 5.35%. The CTCs cannot be traded in the market, and therefore, they do not have readily determinable fair values and were accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. During 2020, the Company sold the investments and used the proceeds to pay off the CFC Equity Note (see Note 4(a)).

(9) Short-Term Investments

At December 31, 2021, the Company's short-term investments included \$353 of investments in debt securities which are included in the Company's balance sheet at amortized cost. At December 31, 2020, the Company's short-term investments included \$5,103 of investments in debt securities and \$1,500 of investments in certificates of deposit ("CDs"), which are both included in the Company's balance sheet at amortized cost. The investments in debt securities are classified as held-to-maturity, based on management's intent and ability to hold them to maturity. Both CDs and investments in debt securities are included in "Cash and Cash Equivalents" (if the original maturity date is less than or equal to three months) or "Short-term-investments" (if the original maturity date is greater than three months but less than one year).

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The amortized costs and fair values (Level 1 measurement) of Big Rivers' short-term investments at December 31, 2021 and 2020, were as follows:

	2021		2020	
	Amortized costs	Fair values	Amortized costs	Fair values
Debt securities:				
Corporate notes	\$ —	—	1,201	1,196
U.S. Treasuries	353	352	3,902	3,894
Total debt securities	353	352	5,103	5,090
Other:				
Certificates of deposit	—	—	1,500	1,502
Total short-term investments	\$ 353	352	6,603	6,592

Gross unrealized gains and losses on short-term investments at December 31, 2021 and 2020, were as follows:

	2021		2020	
	Gains	Losses	Gains	Losses
Debt securities:				
Corporate notes	\$ —	—	—	(5)
U.S. Treasuries	—	(1)	—	(8)
Total debt securities	—	(1)	—	(13)
Other:				
Certificates of deposit	—	—	2	—
Total short-term investments	\$ —	(1)	2	(13)

(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.

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The carrying value of accounts receivable and accounts payable approximate fair value due to their short maturity. The carrying value of long-term accounts receivable is the net amount deemed certain of collection, which approximates fair value. At December 31, 2021 and 2020, the Company's cash and cash equivalents included short-term investments in an institutional U.S. government money market portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities*, that were recorded at fair value which was determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	<u>2021</u>	<u>2020</u>
Institutional U.S. government money market portfolio	\$ 3,926	11,000

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, 2021, consisted of CFC notes totaling \$270,840, a CoBank note in the amount of \$150,333, an RUS note totaling \$218,827, and RUS guaranteed FFB loans totaling \$63,764 (Note 4). The CFC, CoBank, RUS, and FFB debt is carried at amortized cost which approximates fair value.

(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 age 55 to 61. 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 \$1.40 per year of service up to 30 years. The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 2% and a maximum of 4%. 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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Discount rate – projected benefit obligation	2.77%	2.44%	3.34%
Discount rate – net periodic benefit cost	2.44	3.34	4.34

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The healthcare cost trend rate assumptions as of December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Initial trend rate	5.48 %	5.73 %
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2038	2038

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

	<u>2021</u>	<u>2020</u>
One-percentage-point decrease:		
Effect on total service and interest cost components	\$ (103)	(110)
Effect on year-end benefit obligation	(1,160)	(1,529)
One-percentage-point increase:		
Effect on total service and interest cost components	\$ 133	142
Effect on year-end benefit obligation	1,424	1,927

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Benefit obligation – beginning of period	\$ 15,808	14,674
Service cost – benefits earned during the period	491	490
Interest cost on projected benefit obligation	354	472
Participant contributions	405	340
Benefits paid	(978)	(1,373)
Actuarial loss (gain)	(2,418)	1,205
Benefit obligation – end of period	<u>\$ 13,662</u>	<u>15,808</u>

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Big Rivers revised the eligibility requirements for postretirement medical with regard to age and service. Beginning January 1, 2013, 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. A reconciliation of the Company's postretirement plan assets at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Fair value of plan assets – beginning of period	\$ —	—
Employer contributions	573	1,033
Participant contributions	405	340
Benefits paid	(978)	(1,373)
Fair value of plan assets – end of period	\$ <u>—</u>	<u>—</u>

The funded status of the Company's postretirement plan at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Benefit obligation – end of period	\$ (13,662)	(15,808)
Fair value of plan assets – end of period	<u>—</u>	<u>—</u>
Funded status	\$ <u>(13,662)</u>	<u>(15,808)</u>

The components of net periodic postretirement benefit costs for the years ended December 31, 2021, 2020, and 2019 were as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Service cost	\$ 491	490	447
Interest cost	354	472	544
Amortization of prior service cost	(112)	(112)	(138)
Amortization of gain	—	(20)	(198)
Curtailment recognized	—	—	(49)
Special termination benefits	—	—	204
Net periodic benefit cost	\$ <u>733</u>	<u>830</u>	<u>810</u>

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Notes to Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Prior service credit	\$ 381	493
Unamortized actuarial gain	<u>3,155</u>	<u>737</u>
Accumulated other comprehensive income	\$ <u><u>3,536</u></u>	<u><u>1,230</u></u>

In 2022, \$112 of prior service cost and \$137 of actuarial gain is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income (loss) at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Prior service cost	\$ (112)	(112)
Unamortized actuarial gain/(loss)	2,418	(1,205)
Amortization of net gain	<u>—</u>	<u>(20)</u>
Other comprehensive income/(loss)	\$ <u><u>2,306</u></u>	<u><u>(1,337)</u></u>

At December 31, 2021 and 2020, amounts recognized in the balance sheets were as follows:

	<u>2021</u>	<u>2020</u>
Accounts payable	\$ (1,262)	(1,424)
Deferred credits and other	<u>(12,400)</u>	<u>(14,384)</u>
Net amount recognized	\$ <u><u>(13,662)</u></u>	<u><u>(15,808)</u></u>

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(Dollars in thousands)

Expected retiree benefit payments projected to be required during the years following 2021 are as follows:

	<u>Amount</u>
Year:	
2022	\$ 1,262
2023	1,120
2024	925
2025	945
2026	916
Thereafter	<u>4,414</u>
Total	<u>\$ 9,582</u>

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 \$767 and \$766 at December 31, 2021 and 2020, respectively. The postretirement expense recorded was \$141, \$96, and \$61, for 2021, 2020, and 2019, respectively, and the benefits paid were \$140, \$7, and \$67 for 2021, 2020, and 2019, respectively.

(12) Related Parties

For the years ended December 31, 2021, 2020, and 2019, Big Rivers had tariff sales to its members of \$221,959, \$226,152, and \$256,280, respectively. In addition, for the years ended December 31, 2021, 2020, and 2019, Big Rivers had certain sales to Kenergy for the Domtar Paper Co. load of \$4,673, \$3,013, and \$4,182, respectively.

At December 31, 2021 and 2020, Big Rivers had accounts receivable from its members of \$19,912 and \$20,926, respectively.

(13) Commitments and Contingencies

Big Rivers is involved in ongoing litigation with the City of Henderson and the City of Henderson Utility Commission doing business as Henderson Municipal Power and Light (collectively, "HMP&L") in which Big Rivers is seeking damages from HMP&L relating to HMP&L's refusal to pay the costs associated with Excess Henderson Energy produced at Station Two. HMP&L has filed a counterclaim alleging that if HMP&L is required to pay the costs of the Excess Henderson Energy, it is entitled to an offset for the revenues related to that energy. In December 2017, Big Rivers and HMP&L entered into an agreement to settle all claims relating to Excess Henderson Energy. Under the settlement agreement, HMP&L agreed to be responsible for all costs related to Excess Henderson Energy generated after the effective date of the settlement agreement. Big Rivers does not dispute that HMP&L is entitled to the Excess Henderson Energy-related revenues after the payment date in the settlement agreement if it pays the costs of that energy.

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On May 1, 2018, the contracts under which Big Rivers was operating Station Two terminated as a result of the Station Two units no longer being capable of the economically competitive production of electricity. To allow HMP&L time to make alternate arrangements for its power supply, Big Rivers continued to operate the units under the terms of the Station Two contracts until the units were retired on January 31, 2019. The termination of the Station Two contracts has given rise to disputes between the parties, including (i) a declaratory judgment action HMP&L has filed relating to the interpretation of the deed to the real estate on which the Station Two units were constructed; (ii) a claim HMP&L has filed seeking amounts HMP&L claims it is owed as a result of the annual budget settlement process that occurred during the term of the Station Two contracts; (iii) a claim HMP&L filed seeking a declaratory judgment on the percentage owed by each party for the decommissioning and post-closure compliance costs for the Station Two Ash Pond; (iv) a separate action HMP&L filed seeking a declaratory order that the December 2017 settlement agreement only applies to some of the Excess Henderson Energy; and (v) a proceeding Big Rivers filed with the KPSC to resolve all outstanding disputes between it and HMP&L arising out of the Station Two contracts (KPSC Case No. 2019-00269). HMP&L's claims relating to the annual budget settlement process, the Station Two Ash Pond, and the settlement agreement are being held in abeyance pending the outcome of the KPSC case and all appeals therefrom. On August 2, 2021, the KPSC entered a final order in Case No. 2019-00269, largely in Big Rivers' favor. HMP&L appealed that order to the Franklin Circuit Court, which is pending. On September 29, 2021, Big Rivers filed a proceeding with the KPSC asking the KPSC to enforce its final order from Case No. 2019-00269. That proceeding is pending. The Company believes there will be no material adverse effect to its financial statements when the litigation and disputes with HMP&L are resolved.

Big Rivers is involved in other 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.

(14) Subsequent Events

In February 2022, Russia invaded the Ukraine. As of the date of this filing, the Company does not expect the invasion of the Ukraine to materially affect its 2022 results of operations or financial position. However, the Company cannot reasonably estimate the overall length or severity of this war, or the extent to which a prolonged war may affect the Company's financial position or results of operations beyond 2022.

See Note 5 relating the KPSC's March 15, 2022 clarification order for the KPSC's Order entered on June 25, 2020 in Case No. 2020-00064, *Electronic Application of Big Rivers Electric Corporation for Approval to Modify its MRSM Tariff, Cease Deferring Depreciation Expenses, Establish Regulatory Assets, Amortize Regulatory Assets, and Other Appropriate Relief*.

Management evaluated subsequent events up to and including March 31, 2022, the date the financial statements were available to be issued.