City of Henderson, Kentucky Utility Commission - (Henderson Municipal Power & Light)

REPORT ON AUDITED FINANCIAL STATEMENTS

For the fiscal years ended May 31, 2010 and 2009

TABLE OF CONTENTS

The City of Henderson Utility Commission (HMP&L) is in the business of providing electricity and internet communication services for residential, commercial, and industrial customers within the incorporated territory of the City of Henderson, Kentucky. The Commission also provides electricity and internet communication services to customers in a few areas outside of the incorporated territory of Henderson. The following discussion and analysis of HMP&L's financial performance provides an overview of the Utility's financial activities for fiscal year ended May 31, 2010.

Overview of the Financial Statements:

This annual financial report consists of three parts: 1) Management's Discussion and Analysis, 2) Financial Statements, and 3) Supplemental Additional Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements. The statements are followed by a section of supplemental information that further explains and supports the information in the basic financial statements. The Supplemental schedules present the financial position and results of operations for the Existing System and Station Two. The Consolidated Financial Statements report information about HMP&L using accounting methods similar to those used by private sector companies, except for the reporting of contributions in aid of construction, equity capital, and retained earnings. (Refer to the Summary of Significant Accounting Policies in the footnotes to the Financial Statements relating to the adoption of Statement No. 34 of the Governmental Accounting Standard Board (GASB 34).

The Statement of Net Assets, successor to the Balance Sheet, includes all of the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to HMP&L's creditors (liabilities). It also provides the basis for evaluating the capital structure of HMP&L and assessing the liquidity and financial flexibility of HMP&L.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets, successor to the Income Statement. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all of its costs through the sale of electricity, communications, and other charges, and has earned a reasonable profit, as well as, maintained a sound financial position.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Utility's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides information on the sources and uses of cash and the changes in cash balances during the year.

Financial Statements continued:

- HMP&L's total assets increased from $85,663,324 at May 31, 2009 to $103,346,289 at May 31, 2010. This increase is primarily attributable to the increased balances in investment securities.

- Operating revenues for HMP&L Existing System decreased by approximately $281,000 or 1% from $31,332,000 to $31,051,000. The decrease in existing system sales was primarily due to decreased power demand over that of the previous year. Internet revenue also decreased by $58,000.

Existing System:	2010	2009	Change	Percentage Change
Sale of electricity	$ 29,595	$ 29,332	$ 263	1%
Internet service	982	1,040	(58)	-6%
Other	474	960	(486)	-51%
Total operating revenues	$ 31,051	$ 31,332	$ (281)	-1%

Note: All amounts presented in thousands-000's ommitted

- Operating expenses for HMP&L Existing System increased by approximately $386,000 or 1%. The following table represents the changes in the expenses for the Existing System:

Existing System:	2010	2009	Increase Decrease	Percentage Change
Production of electricity	$ 20,246	$ 19,101	$ 1,145	6%
Other Operating Expenses	5,766	6,410	(644)	-10%
Depreciation	828	943	(115)	-12%
Total operating expenses	$ 26,840	$ 26,454	$ 386	1%

Note: All amounts presented in thousands -000's omitted

Financial Statements continued:

- Operating revenues for Station Two decreased approximately $1.9 million over that of the previous year. The Station Two agreement is not designed to generate a profit for each of the participants in the venture, but rather to break-even on a cash flow basis. Operating expenses decreased for Station Two.

Station Two:	2010	2009	Change
Sales-LEM	$ 22,949	$ 25,201	(2,252)
Sales-HMPL	6,767	6,472	295
Sale of emission allowances and other	48	55	(7)
Total operating revenues	$29,764	$31,728	$ (1,964)
Expenses:			
Production of Electricity	$30,872	$31,747	-$875
Depreciation	4,008	3,875	133
Administrative	-	-	-
Total operating expenses	34,880	35,622	(742)
Income from operations	$ (5,121)	$ (3,907)	$ (1,222)
Interest income	2	19	(17)
Net income before transfers	$ (5,119)	$ (3,888)	$ (1,239)

Note: All amounts in thousands, 000's omitted

Upon the consolidation of the financial statements for each system, transactions between Henderson Municipal Power and Light and Station Two Operator are eliminated.

Statement of Net Assets:

Net assets of HMP&L increased by $13,808,900 for the fiscal year ended May 31, 2010, while net assets decreased by $1,448,959 in the fiscal year ended May 31, 2009.

Cash and cash equivalents decreased by $449,000 and Investment securities increased by $16,768,000 over 2009.

Statement of Net Assets continued:

Cash and cash equivalents decreased by $449,000 for the fiscal year ended May 31, 2010 versus a decrease of $764,000 over that of the previous fiscal year ended.

A summary of the assets of the Commission for the previous three years is as follows:

Assets:	2010	2009	2008
Cash and cash equivalents	$ 243	$ 692	$ 1,456
Investment securities	23,092	6,324	7,607
Accounts receivable and unbilled revenue	4,687	4,813	3,633
Accounts receivable Station Two Operator	1,591	298	-
Inventories	5,168	5,652	5,252
Prepaid expenses	63	97	83
Total current assets	34,844	17,876	18,031
Utility,plant, and equipment, net	68,502	67,787	67,709
Total assets	$ 103,346	$ 85,663	$ 85,740

Note: All amounts in thousands, 000's omitted

Current liabilities increased by $666,146. The Utility has repaid $1.2 million on the short term loan.

A summary of the liabilities section of the Statement of Net Assets is as follows:

Liabilities:	2010	2009	2008
Accounts payable and accrued expenses	$ 5,245	$ 5,917	$ 5,880
Accounts payable-construction	1,758	-	-
Asset retirement obligation	1,513	1,512	1,050
Accounts payable-Station Two Operator	732	-	162
Short-term debt-line of credit	-	1,200	2,400
Customer deposits	633	585	577
Total Current Liabilities	$ 9,881	$ 9,214	$ 10,069

All amounts in thousands,000's omitted

Statement of Revenues, Expenses, and Changes in Net Assets:

Operating Revenues for the entire entity decreased by $3,209,606 over that of the previous year, and as mentioned above, most of the decrease is related to Station Two System. Sales for HMP&L Station Two decreased by $1.9 million or 11.6% while Sales Existing System decreased by $281,000 or 1%.

Operating Expenses decreased by $1.3 million. This was due to decreased operating costs incurred with the operation of both Systems.

The Net Operating Income of the Existing System, after interest expense and interest income, was $4.3 million. Transfers were made to the City of Henderson in the amount of $1.2 million for the fiscal year ended, the value of power furnished to the City of Henderson at no charge was $354,336, and the value of communication services provided to the City of Henderson and other governmental agencies, at no charge, was $420,000.

Station Two had a net operating loss of $3.8 million, however, the net loss relates primarily to depreciation expense which is a non-cash item.

Summary of Changes in Net Assets:	Existing System	Station Two	Total
Income (loss) before transfers	$ 4,390,267	$ (5,119,290)	$ (729,023)
Non-operating items:			
Extraordinary item	$ 17,378,818		$ 17,378,818
Contributed capital-net of HMPL	-	1,677,293	1,677,293
Transfer To City		(400,000)	(400,000)
Gain on sale of emission allowances	-	6,545	6,545
Transfers to City of Henderson	(1,244,724)	-	(1,244,724)
Communication services provided to the City and other governmental agencies	(420,000)		(420,000)
Power furnished to City of Henderson	(354,336)	-	(354,336)
Increase (decrease) in net assets	$ 19,750,025	$ (3,835,452)	$ 15,914,573

Statement of Cash Flows:

Cash generated from operating activities increased by $36,643 over the level from 2009.

Cash Flows from non-capital financing activities include the funds transferred to the City of Henderson. For the fiscal year ended May 31, 2010, $1.2 million was transferred.

Cash used by capital and related financing activities was $4.3 million.

Cash and cash equivalents for the year, which consist primarily of checking and money market accounts of HMP&L, decreased by $449,000.

Cash Flow Summary	**2010**	**2009**	**2008**
Net cash generated by operations	$ 3,043	$ 3,007	$ 7,221
Cash transferred to City of Henderson	(1,244)	(1,244)	(1,244)
Distribution from former Station Two Operator.	17,379		
Net cash used by capital and related financing	(4,318)	(4,188)	(5,591)
Investing activities	(15,308)	1,662	49
Increase (decrease) in cash equivalents	(448)	(763)	435
Cash equivalents beginning of year	692	1,455	1,020
Cash equivalents, end of year	$ 244	$ 692	$ 1,455

Note: All amounts in thousands,000's omitted

The following is a summary of cash and investment balances as of May 31, 2008, to 2010:

	2010	2009	2008
Cash and cash equivalents	$ 243	$ 692	$ 1,455
Investments	23,092	6,324	7,607
	$ 23,335	$ 7,016	$ 9,062

Note: All amounts in thousands, 000's omitted

Capital Assets:

As noted in the footnotes to this report, HMP&L has 16,982 sulfur dioxide emission allowances from the Existing System and Station Two available as of May 31, 2010. The value of the allowances is not reflected in the financial statements due to the fact that the Commission has no cost basis in the allowances. The estimated current market value of these allowances at May 31, 2010, is approximately $407,568.

Debt Administration:

HMP&L entered into two Bond Anticipation Notes with Fifth Third Bank on December 22, 2008, a non-taxable series 2008A in the amount of $3,500,000 and a taxable series 2008B in the amount of $9,000,000. The series 2008A will be used for capital improvements to the City's retail electric system. The taxable series 2008B will be used to make capital improvements to the City's Station Two generating plant. As of May 31, 2010 amount drawn on the series 2008A note was $2.3 million and the amount drawn on the series 2008B was $3.1 million. Both notes must be replaced by new Bond Anticipation Notes or repaid within 36 months from the issuance date. HMP&L entered into an additional Bond Anticipation Note with Fifth Third Bank on March 25 , 2010, a non-taxable series 2010A in the amount of $1,500,000. This note must be replaced by a new Bond Anticipation Note or repaid at the same time as the series 2008A note. The amount which was drawn on the series 2010A note as of May 31, 2010 was $51,062.

On January 29, 2009, the City Commission approved an Ordinance increasing electric rates by 3.855 percent for all customer rate classifications. The purpose of the rate increase was to provide additional revenue to make the principal and interest payments on the short-term Bond Anticipation Notes and the long-term Bonds to be issued in the future to replace the Bond Anticipation Notes. HMP&L set up a separate Bond Payment Account and, as of May 31, 2010, HMP&L had accrued $1,117,989 for future principal and interest payments for the Bonds.

During the fiscal year ended May 31, 2006, the Commission borrowed an additional $5.1 million via a revolving line of credit for working capital purposes. As of May 31, 2010, the balance on the line of credit was zero.

System Improvements and Replacement of Capital Assets:

During the period of June 1, 2009, through May 31, 2010, HMP&L made a number of improvements to the electric and communication facilities and replaced certain assets. The improvements to the facilities and asset replacements increased service reliability and extended the useful-life of certain existing assets.

During the FY2009-2010, HMP&L made $3,220,312 in capital improvements and replacements in the Existing System and $2,316,879 in capital improvements and replacements of Station Two.

On September 14, 2008, the remnants of Hurricane Ike hit the Henderson area with 75 mph winds. Extensive damage to HMP&L facilities was caused by trees and tree limbs falling. A large number of customers were without power initially and total service restoration was completed within a couple of days. As a result of the storm related damage, HMP&L requested $118,677.88 in FEMA assistance. In July 2009, HMP&L received $66,478 from FEMA and the remaining balance is expected to be paid by FEMA.

On January 27, 2009, a major ice storm struck Kentucky, including the Henderson area. The weight of the large amount of ice caused major damage to HMP&L's entire transmission and distribution facilities. Initially, more than 80 percent of all customers were without power. Outside contract line crews were hired to help repair damages and restore service. Gradually, all service was restored within seven days. As a result of the storm related damage, HMP&L requested $932,206.37 in storm related FEMA assistance. In July 2009, HMP&L received $856,354 from FEMA and the remaining balance of $75,852 is expected to be paid by FEMA.

Economic Factors

The current economic recession has impacted HMP&L kilowatt hour sales. The decline in HMP&L sales began in December 2008 and has leveled off through the end of May 2010. As the depressed economy continues, HMP&L anticipates static kilowatt hour sales. However, based upon monthly sales data subsequent to June 1, 2010, it appears the material decline in gross sales has stabilized and sales now appear to be increasing due to seasonal weather fluctuations.

Station Two – Future Expenditures:

In 1998, HMP&L and Big Rivers Electric Corporation entered into contracts with Western Kentucky Energy Corporation for the operation of the HMP&L Station Two Power Plant and other Big Rivers Electric Corporation Generation Plants. As of June, 2009, Big Rivers Electric Corporation and Western Kentucky Energy Corporation were in discussions to unwind the original 1998 contracts and return operational control of the Station Two Power Plant and the other Plants to Big Rivers Electric Corporation. The Unwind Transaction closed on July 16, 2009, and Big Rivers, thereafter, resumed operation of the Station Two generating plant. Big Rivers Electric Corporation has identified a number of facility upgrades and maintenance projects for the Station Two Power Plant during the next five year period and developed Work Plans for the five years subsequent to FY2009-2010. These Work Plans indicate HMP&L will incur an additional $18 million to $21 million in maintenance expenses during the five year period at Station Two. Big Rivers and HMP&L are currently involved in litigation concerning the Excess Henderson Energy at Station Two. The litigation was heard in the Henderson County Circuit Court and the judge assigned the dispute to arbitration. As of August 1, 2010, both parties were attempting to select arbitrators. Depending upon the outcome of the arbitration, this legal dispute may continue for several years.

In the recent two year period, HMP&L has increased its reserved capacity at Station Two. The reserve capacity for FY 2010-2011 is 105 megawatts and HMP&L intends to continue increasing the reserved capacity by 5 megawatt increments each year until HMP&L's reserve capacity is equal to the historical system peak demand. Each 5 megawatt increase in the reserved capacity will cost HMP&L approximately $550,000/year. The actual cost of reserved capacity, however, is based upon the Station Two budget which varies each year.

Closing of Station One:

The Utility Commission considered Station One to no longer be a viable generating facility because of increasing federal and state restrictions for new air emissions and the increasing costs of maintenance and fuel for the facility. Therefore, Station One was closed effective December 31, 2008. Upon closing, Station One employed 13 full-time and 2 temporary personnel of which nine were placed internally, one was placed externally, one retired, three were laid off and one temporary employee was terminated. As of May 31, 2010 no decision has been made for the retirement of the Station One assets.

Southeastern Power Administration (SEPA):

The Southeastern Power Administration (SEPA) has contracted with HMP&L to provide HMP&L a total of 18,000 megawatt hours of hydroelectric power each year. The 18,000 megawatt hours represent approximately 3 percent of HMP&L's annual megawatt hour requirements. HMP&L is restricted to not more than 12 megawatt hours during any one-hour period. The hydroelectric power is provided from SEPA generation units on the Cumberland River System Project.

In the fall of 2006, SEPA informed all contract project participants that the Wolf Creek Dam near Jamestown, Kentucky, had been inspected and serious seepage problems existed in the earthen dam. The seepage problems at the dam date back to 1968 and the US Army Corp of Engineers implemented various repairs since that time; however, the seepage became critical to the safety of the Wolf Creek Dam and surrounding communities. In an effort to respond to these safety concerns and make the needed repairs to the dam, SEPA reduced and curtailed electric service to the contract project participants. This reduction and curtailment of SEPA electric service began in early 2007.

In response to SEPA's actions, during FY2010-2011, HMP&L budgeted additional expenses for additional purchases of power from the open market to offset the loss of the SEPA power. The SEPA Cumberland River Hydroelectric Power System may not return to normal operations for several years.

Regulatory Compliance:

The North American Electric Reliability Corporation (NERC) adopted new electric system reliability standards for all electric utilities in the United States. NERC adopted and began enforcement of the new standards beginning in June 2007. The new standards were approved by the Federal Energy Regulatory Commission (FERC). HMP&L is required to comply with the new reliability standards and HMP&L will incur administrative expenses related to NERC compliance. HMP&L has established an internal committee to address NERC Compliance Standards. Also, HMP&L has retained an external consulting firm to assist, support, and facilitate HMP&L's compliance with NERC Standards. In November 2008, SERC audited HMP&L for compliance with NERC Standards. Subsequent to the November audit, a number of formal and informal discussions took place between HMP&L and SERC. HMP&L and SERC reached an agreement concerning non-compliance issues identified during the audit; and a final settlement agreement was approved.

Federal air quality and emission standards continue to be increasingly more stringent. The current standards and proposed new standards will increase the cost of production at Station Two.

Transfer to City:

In FY2008-2009, HMP&L's cash transfer to the City was $1.24 million. HMP&L has budgeted this same level of cash transfer to the City for FY2010-2011 and subsequent budget periods. HMP&L also pays the City $509,717 for internal service fees and HMP&L provides the City free electric service valued at $354,372 and communication services valued at $420,000 annually. Excluding the annual fuel adjustment revenue and expense, the annual cash transfer payments, internal service fees, and value of the free electric and communication services represent 8.48 percent of estimated gross electric revenue in FY2009-2010.

Contact Information:

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Independent Auditor's Report

To the Board of Commissioners
City of Henderson, Kentucky
Utility Commission
Henderson, Kentucky

We have audited the accompanying statement of net assets of the City of Henderson, Kentucky Utility Commission (a component unit of the City of Henderson, Kentucky) as of May 31, 2010 and 2009 and the related statements of revenue, expenses and changes in net assets, and statement of cash flows for the fiscal years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Henderson, Kentucky Utility Commission as of May 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 to 11 is not a required part of the component unit financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2010, on our consideration of the City of Henderson, Kentucky Utility Commission's internal control over financial reporting and our tests of its compliance with laws, regulations and contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City of Henderson, Kentucky Utility Commission of the City of Henderson, Kentucky, taken as a whole. The accompanying supplemental information on pages 29 to 31, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statement.

Neel, Crafton & Phillips, LLP

Henderson, Kentucky
December 8, 2010

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CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
STATEMENT OF NET ASSETS
As of May 31, 2010 and 2009

ASSETS	2010	2009
Current assets		
Cash and cash equivalents	$ 243,156	$ 691,891
Investment securities	23,092,056	6,323,934
Accounts receivable, net of allowance for uncollectible	2,472,377	2,797,758
Accounts receivable, Station Two Operator	1,590,547	298,452
Accrued interest receivable	39,828	100
Accrued revenue	2,174,099	2,015,178
Inventory and supplies	5,168,630	5,652,271
Prepaid expenses	63,602	96,701
Total current assets	**34,844,295**	**17,876,285**
Property plant and equipment		
Utility plant, net of accumulated depreciation	68,501,994	67,787,039
Total property plant and equipment	**68,501,994**	**67,787,039**
TOTAL ASSETS	**$ 103,346,289**	**$ 85,663,324**

LIABILITIES AND NET ASSETS	2010	2009
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 5,244,822	$ 5,916,868
Accounts payable-Construction in progress Station Two	1,758,217	-
Accounts payable-Station Two Operator	732,499	-
Asset retirement obligation	1,512,792	1,512,792
Short term debt-line of credit	-	1,200,000
Customer deposits	632,815	585,339
Total current liabilities	**9,881,145**	**9,214,999**
Long-Term Debt		
Bond anticipation notes	5,433,241	2,225,322
Total liabilities	**15,314,386**	**11,440,321**
Net assets		
Unrestricted	24,963,150	8,661,286
Investment in plant assets, net of related debt	63,068,753	65,561,717
Total net assets	**88,031,903**	**74,223,003**
TOTAL LIABILITIES AND NET ASSETS	**$ 103,346,289**	**$ 85,663,324**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the fiscal years ended May 31, 2010 and 2009

	2010	2009
REVENUES		
Sale of electricity-Existing System	$ 29,595,620	$ 29,332,083
Sale of electricity-Station Two	22,271,304	25,200,799
Communication services	982,636	1,040,013
Other	516,119	1,002,390
TOTAL REVENUES	**53,365,679**	**56,575,285**
OPERATING EXPENSES		
Production of electricity	40,863,973	40,364,994
Operating expenses	8,574,304	10,422,656
Depreciation	4,836,523	4,819,060
TOTAL OPERATING EXPENSES	**54,274,800**	**55,606,710**
INCOME (LOSS) FROM OPERATIONS	**(909,121)**	**968,575**
INTEREST AND DEBT EXPENSE		
Interest income	285,556	141,306
Interest expense	(105,458)	(112,214)
TOTAL INTEREST AND DEBT EXPENSE	**180,098**	**29,092**
INCOME (LOSS) BEFORE TRANSFERS	**(729,023)**	**997,667**
NON-OPERATING		
Gain on sale of emission allowances	6,545	12,637
Capital contributions(distributions)-Station Two Operator	(828,380)	-
Transfers to City of Henderson	(1,244,724)	(1,244,734)
Power furnished to City of Henderson	(354,336)	(354,345)
Communication services provided to the City of Henderson and other local government agencies	(420,000)	(420,000)
TOTAL NON-OPERATING ITEMS	**(2,840,895)**	**(2,006,442)**
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE AND EXTRAORDINARY ITEM	(3,569,918)	(1,008,775)
Settlement from Previous Station Two Operator	17,378,818	-
Asset Retirement Obligation	-	(440,184)
INCREASE (DECREASE) IN NET ASSETS	**13,808,900**	**(1,448,959)**
Net assets, beginning of year	74,223,003	75,671,962
NET ASSETS, END OF YEAR	**$ 88,031,903**	**$ 74,223,003**

The accompanying notes are an integral part of these financial statements

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
STATEMENT OF CASH FLOWS
For the fiscal years ended May 31, 2010 and 2009

		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$	52,750,264	$	55,170,577
Payments to suppliers and employees		(49,706,347)		(52,163,303)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**3,043,917**		**3,007,274**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Distribution from Former Station Two Operator		17,378,818		-
Distributions to the City of Henderson		(1,244,724)		(1,244,734)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		**16,134,094**		**(1,244,734)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets		(5,392,720)		(5,101,964)
Principal payments on line of credit		3,207,919		(1,200,000)
Distribution to Station Two Operator		(828,380)		-
Interest payments on line of credit		(1,200,000)		(112,214)
Proceeds from bond anticipation notes		(105,458)		2,225,322
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		**(4,318,639)**		**(4,188,856)**
CASH FLOWS PROVIDED BY INVESTING ACTVITIES				
Proceeds from sale of emission allowances		6,545		12,637
Proceeds from sale and maturities of investments		6,245,920		1,508,447
Investment income		325,284		141,306
Purchases of investments		(21,885,856)		-
NET CASH PROVIDED(USED) BY INVESTING ACTIVITIES		**(15,308,107)**		**1,662,390**
Decrease in cash and cash equivalents		(448,735)		(763,926)
Cash and cash equivalents, beginning of year	**$**	**691,891**		**1,455,817**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**243,156**	**$**	**691,891**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS
For the fiscal years ended December 31, 2010 and 2009

		2010		*2009*
OPERATING ACTIVITIES				
Operating income (loss)	$	(909,121)	$	968,575
Adjustments to reconcile operating income				
(loss) to net cash provided by operations				
Depreciation		4,836,523		4,819,060
Power furnished to the City of Henderson		(354,336)		(354,345)
Communication services provided at no charge		(420,000)		(420,000)
Other reconciling item		-		23,417
Changes in operating assets and liabilities:				
Accounts receivable		(325,381)		(1,404,708)
Due from Station Two Operator		(1,292,095)		(298,452)
Accrued revenue		158,921		202,530
Inventory and supplies		(483,641)		(399,654)
Prepaid expenses and other assets		(33,099)		(13,195)
Accounts payable-construction		1,758,217		-
Accounts payable and accrued expenses		(672,046)		37,419
Customer deposits		47,476		8,893
Due to Station Two Operator		732,499		(162,266)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**3,043,917**		**3,007,274**

1. ORGANIZATION AND CONTRACTS

The City of Henderson Utility Commission is organized under the provisions of Section 96.530 of the Kentucky Revised Statutes to operate, manage, and control the Henderson Municipal Power & Light System. The members of the Utility Commission are appointed by the Mayor and are approved by the City Commissioners of the City of Henderson, Kentucky (City). The Mayor and the City Commission authorize all rates and bond issues of the Utility Commission. As a municipal entity, the Utility Commission is exempt from all federal and state income taxes. Certain real estate utilized by the Utility Commission is owned by the City of Henderson.

The Utility Commission operates the “Existing System” and pursuant to certain contracts and agreements described as follows, reserves power from “Station Two” which is owned by the Commission, and operated by Big Rivers Electric Corporation (Big Rivers) through July 17, 1998, and subsequently an affiliate of LG&E Energy Corporation, pursuant to various lease, assignment, and other agreements between the parties.

The Commission provides retail electric service to the residents of the City of Henderson within its service territory. The Commission also provided wholesale electricity to Big Rivers through July 18, 1998 and subsequently to an affiliate of LG&E Energy Corporation. LG&E was purchased by Powergen in 2000 and thereafter acquired by E.ON. Effective July 9, 2009, Big Rivers resumed its role as operator of Station Two as part of the “Unwind Transaction”.

The Commission has entered into certain contracts with Big Rivers and LG&E, as assignee under such agreements relating to Station Two, as follows:

A. Power Plant Construction and Operation Agreement

Under this agreement, Big Rivers agreed to furnish certain construction and start-up services for which it was paid out-of pocket expenses plus overhead allowances and operate Station Two upon completion for which the Station Two Operator is paid reasonable expenditures allocable to the operation and maintenance of Station Two, as defined in the agreement. The original agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

B. Power Sales Contract

Under this agreement, The Station Two Operator purchases all of the Station Two capacity in excess of the City of Henderson’s requirements. Payments for capacity purchased by the Station Two Operator are made monthly based on the portion of Station Two capacity allocated to the Station Two Operator compared to the total monthly Station Two capacity costs as defined in the agreement. The original agreement was executed in 1970 and extended through 2023. During 1993, the agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998

Continued

1. ORGANIZATION AND CONTRACTS

C. Joint Facilities Agreement

This agreement provides for the continuing joint use by the Commission and Station Two Operator of certain auxiliary facilities presently owned and used by the Station Two Operator at its generating station and of auxiliary facilities provided by the Commission in connection with the construction of Station Two, which is located adjacent to the generating station also operated by the Station Two Operator.

Power sales to the Station Two Operator under the agreement amounted to $22,271,304 and $25,200,799 for the fiscal years ended May 31, 2010 and 2009, respectively.

In connection with the negotiations related to the funding and construction of the Flue Gas Desulfurization System (FGD System) Station Two various aforementioned contracts were amended effective May 31, 1993. Significant provisions of the amendments include:

The total capacity of Station Two, a factor in determining various Station Two costs allocations, was reduced as a result of the power required to operate the FGD System.

Proceeds from the sale of sulfur dioxide emission allowances (Emission allowances) will be divided between the Commission and the Station Two Operator based on current capacity allocation.

FGD System costs, up to the amount of proceeds from the sale of Emission Allowances, will be borne in the same proportion as the Emission Allowances are allocated. Additional FGD System costs will be borne in proportion to the new capacity allocation as determined by the contract amendments.

The Commission will reimburse the Station Two Operator for certain allocated costs of an existing Big Rivers' FGD System to be jointly used by the Station Two Operator and Station Two based upon an allocation formula defined in the amendments.

Amounts charged by the Station Two Operator as reasonable expenditures allocable to the operation and maintenance of Station Two are subject to review and approval by the Commission. Differences, if any, between amounts originally charged as allocable by the Station Two Operator and amounts accepted by the Utility Commission are recorded when a final determination of such amounts is made. Operating revenues and expenses would be reduced by any amount subsequently determined not to be allocable to Station Two.

Station Two became commercially operable and construction was substantially completed during 1974. A certificate of completion from the consulting engineers has been filed with the Trustee.

Continued

2. Summary of Significant Accounting Policies

The Commission is a component unit of the City of Henderson, Kentucky (the primary government), due to its financial accountability to the City Commission.

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission applies all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the Commission's accounting policies are described below:

A. Cash and Cash Equivalents

Cash and cash equivalents consist of certificates of deposit and repurchase agreements with an original maturity of three months or less from the date of purchase. The carrying amount of each of these instruments approximates fair value.

B. Investment Securities

Investments are recorded at fair value based on quoted market prices. Any gains or losses are reflected in the statement of revenues, expenses and changes in net assets in accordance with GASB No.31," Accounting and Reporting For Certain Investments and For Internal Investment Pools." Kentucky Revised Statute 66.480 limits the types of securities that a municipal entity may invest in to obligations of the United States Treasury and Agencies, certain Federal securities, repurchase agreements, commercial bank's certificates of deposit, and the Commonwealth of Kentucky Investment Pool.

C. Accounts Receivable and Unbilled Revenue

The Commission has entered into an agreement with the City of Henderson to perform its billing and collection services. All monies due to the Utility Commission are collected and deposited in the City of Henderson's Utility Clearing Fund and are remitted to the Utility Commission on a weekly basis. The amount included in accounts receivable due from the Utility Clearing Fund was $2,022,842 and $1,797,193 as of May 31, 2010 and 2009 respectively.

D. Inventories

Coal inventories of the Existing System and Station Two are stated at cost using the first-in-first-out method. Materials and supplies are stated at the weighted average cost.

Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Utility Plant and Equipment

The utility plant is carried at cost, which includes interest capitalized, aggregating $15,342,300, which was capitalized during the period of construction. No interest was capitalized during the fiscal years ended May 31, 2009 and 2008. The Commission's policy is to provide for depreciation over its utility plant and equipment as follows:

Production plant and structures	33 ½ years
Transmission and distribution	25 years
Automotive equipment	6 years
Wireless internet equipment	5 years
Other equipment	10 years

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at May 31, 2010 and 2009, as well as revenues and expenses for the years then ended. Actual results could differ from the estimates and assumptions used.

G. Compensated Absences

Employees of the Commission are entitled to paid vacations and sick-leave. The Commission's policy is to recognize these costs when earned under the accrual method of accounting in accordance with GASB No.16 "Accounting For Compensated Absences."

H. Emission Allowances

The Commission does not record the value of emission allowances granted by the Environmental Protection Agency for sulfur dioxide and nitrous oxide on its financial statements as there is no cost basis in these allowances.

3. CASH AND CASH EQUIVALENTS

As of May 31, 2010, the City of Henderson Utility Commission maintained deposits with several local financial institutions. Of the bank balance, all was insured by the Federal Depositor's Insurance Corporation and excess of FDIC was secured by pledged United States Government securities.

4. Investment Securities

Investments are included in the statement of net assets under the caption "Investments Securities." A summary of investments held by the City of Henderson Utility Commission along with the scheduled maturities is presented below:

Investment Type:	Fair Value	Less Than One Year	One to Five Years	Six to Ten Years
U.S. Government Short-term	$14,666,822	$ 4,950,340	$ 9,716,482	$ -
Certificate of Deposits and Money Markets	8,425,234	8,425,234	-	-
Totals	$23,092,056	$ 13,375,574	$ 9,716,482	$ -

A. Interest Rate Risk

The City of Henderson Utility Commission has a formal investment policy that limits investment maturities as a means to manage its exposure to fair value losses resulting from increasing interest rates.

B. Credit Risk

The City of Henderson Utility Commission limits its investments to those allowed by Kentucky Revised Statute 66.480. Kentucky Revised Statute 66.480 limits investments to U.S. Government Treasury and Agency securities, certificates of deposit, securities issued by a state or local government rated in one of the three highest categories by a nationally recognized credit agency.

C. Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, The City of Henderson Utility Commission will not be able to recover the value of its investments, or collateral securities that are in the possession of the outside party. All investments of the Commission, with the exception of certificates of deposit, consist of unregistered and uninsured securities held by the Commission's trustee in their trust department not in the name of the Commission.

Continued

5. Utility Plant and Equipment

Utility plant and equipment consisted of the following as of May 31, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Existing System:				
Vehicles	$ 1,819,408	$ 452,384	$ -	$ 2,271,792
Asset Retirement Obligation	295,331	-		295,331
Transmission Plant	9,046,726	32,615	-	9,079,341
Distribution Plant	18,823,481	2,660,425	-	21,483,906
Land and Land Rights	1,235,451	-	-	1,235,451
Telecommunications, internet and fiber optics	5,320,650	74,888	-	5,395,538
General Plant	11,065,585	-	-	11,065,585
	47,606,632	3,220,312	-	50,826,944
Accumulated depreciation-Asset Retirement Obligation	(283,757)	-	-	(283,757)
Accumulated depreciation	(40,162,780)	(828,125)	-	(40,990,905)
Total Station One	**$ 7,160,095**	**$ 2,392,187**	$ -	**$ 9,552,282**
Station Two:				
General Plant	$ 167,546,986	$ 2,316,879	$ -	$ 169,863,865
Accumulated depreciation	(106,920,042)	(3,994,111)	-	(110,914,153)
Total Station Two	**$ 60,626,944**	**$ (1,677,232)**	-	**$ 58,949,712**
Totals	**$ 67,787,039**	**$ -**		**$ 68,501,994**

Depreciation expense for the fiscal years ended May 31, 2010 and 2009 was $4,836,523 and $4,819,060 respectively

6. Retirement Plan

All Commission employees participate in the County Employees Retirement System (CERS), a multi-employer defined benefit retirement plan sponsored by the City of Henderson and administered by the Commonwealth of Kentucky. Under the plan, employees contribute 5% of their gross salary to the plan. The Commission also contributes a percentage of the employee's gross salary to the plan. The Commission's contribution rate into the plan is determined on an annual basis by the Kentucky General Assembly.

6. Retirement Plan

Contributions and the related percentages for the previous three fiscal years ended was as follows:

Fiscal year ended May 31	*Amount*	Matching *percentage*
2010	$ 420,197	16.16%
2009	435,888	13.50%
2008	477,299	16.17%

A copy of the annual report for the County Employees Retirement System can be obtained from the County Employees Retirement System 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling1.502.564.4646.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following as of May 31, 2010 and 2009:

	2010	2009
Accounts payable-and accrued expenses-existing system	$ 1,761,641	$ 1,858,905
Accounts payable and accrued liabilities-Station Two	2,823,049	2,210,870
Excess energy deferral	-	1,122,093
SCR Settlement liability	660,132	725,000
Total	$ 5,244,822	$ 5,916,868

8. Emission Allowances

Amendments to the Clean Air Act in 1990 established a system whereby emission allowances were created and allocated to generating units subject to Phase 1 of the emission restrictions. Station Two was allotted a total of 226,901 allowances through 1999 (one emission allowance represents the authorization to emit one ton of sulfur dioxide in a given year). The allowances are allocated between the Commission and the Station Two Operator based upon the Station Two capacity allocations. As of May 31, 2010, and 2009, there were remaining sulfur dioxide emission allowances of 16,982 and 14,820 respectively.

The remaining allowances had a market value as of May 31, 2010 and 2009 of approximately$407,568 and $1,059,630, respectively and are held by the Commission for future sale or to satisfy emission requirements of the Clean Air Act. Emission allowances attributable to Station Two are shared proportionally between HMP&L and the Station Two Operator based on megawatt hours as per the respective contract.

Continued

9. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. RELATED PARTY

The Commission incurred the following transactions with the City of Henderson, Kentucky for the fiscal years ended May 31, 2010 and 2009:

Paid the City $509,717 and $496,083 each year, respectively, for data processing and other services related to billings and collections.

Paid the City $1,244,724 and $1,244,734 May 31, 2010 and 2009 of the fiscal years ended, respectively.

Paid the City $523,039 and $527,967 for participation in the City of Henderson's self-insured employee health insurance plan for the fiscal years ended May 31, 2010 and 2009 respectively. Risk is minimized in this area by the purchase of re-insurance for amounts in excess of the $125,000 stop loss limit. Charges are based on estimated amounts determined by the City of Henderson's insurance coordinator as necessary to fund claims as they become due and payable.

Provided the City of Henderson with power for the fiscal years ended May 31, 2010 and 2009 in the amount of $354,336 and $354,345 respectively. The City of Henderson was also provided significantly reduced communication service fees totaling approximately $205,484 for the fiscal years ended.

11. SALES SIGNIFICANT CUSTOMERS

All of the sales generated by Station Two are exclusively to the Station Two Operator as per the respective contracts in force. Three industrial customers from the Existing System accounted for sales in the amount of $9,445,000 (32% of sales) and $8,273,191 (28% of sales) for the fiscal years ended May 31, 2010 and 2009, respectively.

12. BANK LOAN

On June 1, 2009, the Commission authorized a $1.2 million line of credit from an area financial institution for working capital purposes. The obligation bears an interest rate of 3.79% with interest payable quarterly. Principle was paid in full at maturity on May 31, 2010. The loan was secured by the revenues of the system.

Continued

13. BOND ANTICIPATION NOTES

During December, 2008, the Commission issued bond anticipation notes through an area financial institution. A summary of the obligations is as follows:

City of Henderson, Kentucky Bond Anticipation Note Series 2008A;maximum advance of $3,500,000; or the outstanding principal, whichever is less is due December 1, 2011. Interest shall accrue based on the 30-Day LIBOR,plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.	$	2,313,874
City of Henderson, Kentucky Bond Anticipation Note Taxable Series 2008B; maximum advance of $9,000,000; or the outstanding principal, whichever is less is due December 1, 2011. Interest shall accrue based on the 30-Day LIBOR,plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.	$	3,068,305
City of Henderson, Kentucky Bond Anticipation Note Taxable Series 2010A; maximum advance of $1,500,000; or the outstanding principal, whichever is less is due semiannually. Interest shall accrue based on the 30-Day LIBOR,plus 1.75%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.		51,062
Balance, May 31, 2010	$	5,433,241

Each of the above obligations is secured by a pledge of the revenues of the Commission. The Commission intends to issue bonds in the near future and proceeds from the bond issue will be used to retire the above notes.

14. DISCOUNTED INTERNET AND BROADBAND SERVICES

The Utility Commission provided internet and broadband services to local governmental, educational, and religious organizations at substantially discounted rates. Discounted services provided were as follows for the fiscal year ended May 31, 2010:

Customer		Discounted Amount
Henderson County GIS System	$	98,568
Henderson Water Utility		106,395
City of Henderson		205,484
Various other organizations		9,553
	$	420,000

15. Cumulative Effect of Change in Accounting Principle- Adoption of SFAS No. 143- Asset Retirement Obligations

The Commission adopted SFAS No. 143 on June 1, 2007. SFAS No. 143 addresses financial reporting for legal obligations associated with the retirement of tangible long-lived assets and the related retirement costs. The standard applies to the legal obligations associated with the retirement of long-lived assets that result from the construction, acquisition, or normal use of the asset. SFAS No. 143 requires that the fair value of the liability for an asset retirement obligation be recognized over the period in which it was incurred, if a reasonable estimate of the fair value can be made. Asset retirement obligations of the Commission relate to the asbestos and lead paint abatement at its Station One generation facility, which ceased operations on September 30, 2008. The estimated fair value of the Station One liability as of May 31, 2007 by management was $1,050,000. The initial recording of this liability resulted in an adjustment to net assets of $1,019,956 as of June 1, 2007. Management determined the asset retirement liability of the Station Two facility for lead paint and asbestos to be $440,184 as of June 1, 2008. This amount was reflected via a prior period adjustment to the financial statements as of May 31, 2009.

The following is a reconciliation of the aggregate asset retirement liability associated with the Commission's obligation to remove asbestos and lead paint from its facilities:

Balance May 31, 2009	$ 1,512,792
Additional obligation incurred- prior period adjustment to record the estimate of the Commission's portion of the liability at Station Two	-
Increase in revised estimate and costs to remove assets	-
Liabilities settled	-
Balance May 31, 2010	$ 1,512,792

Continued

16. COMMITMENT AND CONTINGENCIES

A. Southeastern Power Administration (SEPA)

The Southeastern Power Administration (SEPA) has contracted with the Commission to provide it a total of 18,000 megawatt hours of hydroelectric power each year. The 18,000 megawatt hours represent approximately 3 % of the Commission's annual megawatt hour requirements. Henderson Municipal Power & Light is restricted to not more than 12 megawatt hours during any hour, and not more than 2,640 megawatts during any month.

In the Fall of 2006, SEPA informed all participants that the Wolf Creek Dam near Jamestown, Kentucky, had been inspected and serious seepage problems existed. In an effort to respond to these safety concerns and make the needed repairs to the dam, SEPA reduced and curtailed electric service to the project participants. This reduction and curtailment of electric service began in early 2007 and is expected to continue for an extended period of time until repairs are completed.

In response to SEPA's actions, for the next fiscal year, the Commission has budgeted for additional purchases of power from the open market to offset the loss of the SEPA power. The SEPA Cumberland River Hydroelectric Power System may not return to normal operations for several years.

During the year ended May 31, 2010 and 2009, the Commission purchase power on the spot market to supply the needs of its customers. Purchased power for the fiscal year ended May 31, 2010 was $621,020 versus $1,398,952 during 2009.

B. Regulatory Compliance

The North American Electric Reliability Corporation (NERC) adopted new electric system reliability standards for all electric utilities in the United States. NERC has adopted and began enforcement of the new standards effective June of 2007. The new standards have been approved by the Federal Energy Regulatory Commission (FERC). The Commission must comply with the new standards and will incur administrative expenses related to NERC compliance.

Federal air quality and emission standards have become more stringent. The current standards and proposed standards resulted in the cost of compliance being excessive to operate Station One. As a result of the new regulations, the Commission approved the cessation of operations at Station One on August 25, 2008, and Station One was taken out of service in December of 2008.

Continued

16. COMMITMENT AND CONTINGENCIES	**A. Unwind Transaction – Station Two** In 1998, HMP&L, Big Rivers Electric Corporation, and Western Kentucky Energy Corporation entered into contracts (for the operation of the HMP&L Station Two Power Plant and other Big Rivers Electric Corporation Generation Plants. On July 16, 2009, Big Rivers Electric Corporation and Western Kentucky Energy Corporation (E.ON) signed an agreement under which the original 1998 contracts are rescinded and operational control of the Station Two Power Plant returned to Big Rivers Electric Corporation. As part of this agreement E.On paid the Commission approximately $17.4 million to settle claims concerning the condition of the Station Two power plant and related matters. HMP&L and Big Rivers Electric Corporation have identified a number of facility upgrades and maintenance projects for the Station Two Power Plant during the next five year period. Big Rivers Electric Corporation has developed Work Plans for the five years period 2009 to 2014. These preliminary Work Plans estimate that HMP&L will incur additional maintenance expenses at Station Two during the five year period. During the FY 2010-2011 Budget period the Utility Commission will review financing options and may present a formal recommendation to the City Commission concerning the issuance of general obligation bonds or revenue bonds to finance the upgrades and maintenance projects at Station Two and for the existing system. **B. Pending Litigation** The Commission is currently engaged in litigation with the Station Two Operator, Big Rivers Electric Corporation, related to which party has the rights to certain surplus generation capacity of the Commission's Station Two Facility. Big Rivers has filed a petition in Henderson County, Kentucky Circuit Court requesting binding arbitration over the matter. It is the assertion of the Commission that it has the right to all surplus power from the facility related to its reserved capacity. **C. Annual Operating Settlement-Station Two Operators** The Commission is also engaged in negotiations over the amount due to or from the Station Two Operator, Western Kentucky Energy Corporation (WKEC) for the fiscal year ended May 31, 2009. The amount due to WKEC from HMPL is estimated to be $732,499 per HMP&L's calculations. The amount due from Big Rivers Electric Corporation to HMPL as of May 31, 2010 is estimated to be $1,590,547
17. Subsequent Events	Subsequent events have been evaluated through December 8, 2010.

Continued

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
SUPPLEMENTAL SCHEDULE-COMBINING STATEMENT OF NET ASSETS - BY SYSTEM
As of May 31, 2010 and 2009

ASSETS	**May 31, 2010**				**May 31, 2009**			
CURRENT ASSETS	**Existing System**	**Station Two**	**Elimination**	**Total**	**Existing System**	**Station Two**	**Elimination**	**Total**
Cash and cash equivalents	$ 48,732	$ 194,424	$ -	$ 243,156	$ 190,540	$ 501,351	$ -	$ 691,891
Investment securities	22,592,056	500,000	-	23,092,056	5,823,934	500,000	-	6,323,934
Accounts receivable, net of	-							
allowance for uncollectible	2,151,007	321,370	-	2,472,377	2,797,758	-	-	2,797,758
Accounts receivable-Station Two Operator	1,590,547	-	-	1,590,547	298,452	-	-	298,452
Accrued interest receivable	39,828	-	-	39,828	-	100	-	100
Accrued revenue	2,174,099	-	-	2,174,099	2,015,178	-	-	2,015,178
Inventory and supplies	2,769,142	2,399,488	-	5,168,630	3,450,616	2,201,655	-	5,652,271
Prepaid expenses	63,602	-	-	63,602	96,701	-	-	96,701
TOTAL CURRENT ASSETS	**31,429,013**	**3,415,282**	**-**	**34,844,295**	**14,673,179**	**3,203,106**	**-**	**17,876,285**
Utility plant, net of accumulated depreciation	9,552,282	58,949,712	-	68,501,994	7,160,095	60,626,944	-	67,787,039
Investment in Station Two	28,906,102	-	(28,906,102)	-	26,800,429	-	(26,800,429)	-
TOTAL ASSETS	**$ 69,887,397**	**$ 62,364,994**	**$ (28,906,102)**	**$ 103,346,289**	**$ 48,633,703**	**$ 63,830,050**	**$ (26,800,429)**	**$ 85,663,324**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
SUPPLEMENTAL SCHEDULE- COMBINING STATEMENT OF NET ASSETS BY SYSTEM
As of May 31, 2010 and 2009

LIABILITIES AND NET ASSETS	May 31, 2010				May 31, 2009			
Current Liabilities	**Existing System**	**Station Two**	**Elimination**	**Total**	**Existing System**	**Station Two**	**Elimination**	**Total**
Accounts payable and accrued expenses	$ 2,421,773	$ 2,823,049	$ -	$ 5,244,822	$ 3,705,998	$ 2,210,870	$ -	$ 5,916,868
Accounts payable-Construction in progress Station Two	-	1,758,217		1,758,217	-	-	-	-
Asset retirement obligation	1,512,792	-	-	1,512,792	1,512,792	-	-	1,512,792
Accounts payable-Station Two Operator	732,499	-	-	732,499	-	-	-	-
Short-term note payable	-	-	-	-	1,200,000	-	-	1,200,000
Customer deposits	632,815	-	-	632,815	585,339	-	-	585,339
Total current liabilities	**5,299,879**	**4,581,266**	**-**	**9,881,145**	**7,004,129**	**2,210,870**	**-**	**9,214,999**
Long-Term Debt								
Bond anticipation notes	**5,433,241**	**-**	**-**	**5,433,241**	**2,225,322**	**-**	**-**	**2,225,322**
Net Assets:								
Unrestricted	55,035,236	(1,165,984)	(28,906,102)	24,963,150	34,469,479	992,236	(26,800,429)	8,661,286
Investment in plant assets , net of related debt	4,119,041	58,949,712	-	63,068,753	4,934,773	60,626,944	-	65,561,717
Total net assets	**59,154,277**	**57,783,728**	**(28,906,102)**	**88,031,903**	**39,404,252**	**61,619,180**	**(26,800,429)**	**74,223,003**
TOTAL LIABILITIES AND NET ASSETS	**$ 69,887,397**	**$ 62,364,994**	**$ (28,906,102)**	**$ 103,346,289**	**$ 48,633,703**	**$ 63,830,050**	**$ (26,800,429)**	**$ 85,663,324**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS-BY SYSTEM
For the fiscal years ended May 31, 2010 and 2009

	May 31, 2010				May 31, 2009			
	Existing System	**Station Two**	**Elimination**	**Consolidated Total**	**Existing System**	**Station Two**	**Elimination**	**Consolidated Total**
REVENUES								
Sale of electricity	$ 29,595,620	$ 29,717,486	$ (7,446,182)	$ 51,866,924	$ 29,332,083	$ 31,673,144	$ (6,472,345)	$ 54,532,882
Communication services	982,636	-	-	982,636	1,040,013	-	-	1,040,013
Other	474,119	42,000	-	516,119	960,390	42,000	-	1,002,390
TOTAL REVENUES	**31,052,375**	**29,759,486**	**(7,446,182)**	**53,365,679**	**31,332,486**	**31,715,144**	**(6,472,345)**	**56,575,285**
OPERATING EXPENSES								
Production of electricity	20,245,914	28,064,241	(7,446,182)	40,863,973	19,100,909	27,736,430	(6,472,345)	40,364,994
Operating, general and administrative	5,765,981	2,808,323	-	8,574,304	6,410,803	4,010,647	1,206	10,422,656
Depreciation	828,486	4,008,037	-	4,836,523	943,096	3,875,964	-	4,819,060
TOTAL OPERATING EXPENSES	**26,840,381**	**34,880,601**	**(7,446,182)**	**54,274,800**	**26,454,808**	**35,623,041**	**(6,471,139)**	**55,606,710**
INCOME (LOSS) FROM OPERATIONS	**4,211,994**	**(5,121,115)**	**-**	**(909,121)**	**4,877,678**	**(3,907,897)**	**(1,206)**	**968,575**
INTEREST AND DEBT EXPENSE								
Investment income	283,731	1,825	-	285,556	122,011	19,295	-	141,306
Interest expense	(105,458)	-	-	(105,458)	(112,214)	-	-	(112,214)
TOTAL INTEREST AND DEBT EXPENSE	**178,273**	**1,825**	**-**	**180,098**	**9,797**	**19,295**	**-**	**29,092**
INCOME (LOSS) BEFORE TRANSFERS	**4,390,267**	**(5,119,290)**	**-**	**(729,023)**	**4,887,475**	**(3,888,602)**	**(1,206)**	**997,667**
NON-OPERATING								
Gain on sale of emission allowances	-	6,545	-	6,545	-	12,637	-	12,637
Capital contributions-distributions	-	1,677,293	(2,505,673)	(828,380)	-	4,152,569	(4,152,569)	-
Transfers to City of Henderson	(1,244,724)	(400,000)	400,000	(1,244,724)	(1,244,734)	-	-	(1,244,734)
Power furnished to City of Henderson	(354,336)	-	-	(354,336)	(354,345)	-	-	(354,345)
Communication services provided to the City of Henderson and local governmental agencies	(420,000)	-	-	(420,000)	(420,000)	-	-	(420,000)
INCREASE (DECREASE) IN NET ASSETS BEFORE EXTRAORDINARY ITEM	2,371,207	(3,835,452)	(2,105,673)	(3,569,918)	2,868,396	276,604	(4,153,775)	(1,008,775)
EXTRAORDINARY ITEMS AND CHANGE IN ACCOUNTING PRINCIPLE								
Settlement from Previous Station Two Operator	17,378,818	-	-	17,378,818				
Cumulative effect of adoption of SFAS No. 143	-	-	-	-	(440,184)	-	-	(440,184)
INCREASE (DECREASE) IN NET ASSETS	19,750,025	(3,835,452)		13,808,900				
Net assets, beginning of year	39,404,252	61,619,180	(26,800,429)	74,223,003	36,976,040	61,342,576	(22,646,654)	75,671,962
NET ASSETS, END OF YEAR	**$ 59,154,277**	**$ 57,783,728**	**$ (28,906,102)**	**$ 88,031,903**	**$ 39,404,252**	**$ 61,619,180**	**$ (26,800,429)**	**$ 74,223,003**

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Independent Auditors' Report on Internal Control Over Financial Reporting, Compliance and Other Matters Based on an Audit of Component Unit Financial Statements Performed in Accordance with *Government Auditing Standards*

Dr. William Smith, Chairman
and the Board of Commissioners
City of Henderson, Kentucky Utility Commission
Henderson, Kentucky

We have audited the financial statements of the City of Henderson, Kentucky Utility Commission as of and for the year ended May 31, 2010, and have issued our report thereon dated December 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Henderson, Kentucky Utility Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Henderson, Kentucky Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Henderson, Kentucky Utility Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as a result of our audit procedures we did not note any items that constitute significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness in internal control is a deficiency, significant deficiency, or combination of control deficiencies, that adversely affects the City of Henderson, Kentucky Utility Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the City of Henderson, Kentucky Utility Commission's internal control. We consider the deficiency noted on the following page to be significant deficiencies in internal control over financial reporting.

- Improvement and Enhancement of Audit Trail in the Station Two Financial Reporting Process (2010-1)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the City of Henderson, Kentucky Utility Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the City of Henderson, Kentucky Utility Commission in a separate letter dated December 8, 2010.

The City of Henderson, Kentucky's management response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the response of management and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the audit committee, Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Crafton & Phillips, LLP

December 8, 2010

APPENDIX F

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011A

GENERAL INFORMATION AND DATA - BIG RIVERS ELECTRIC CORPORATION

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General

Big Rivers Electric Corporation ("Big Rivers") is an electric generation and transmission ("G&T") rural electric cooperative corporation. It was organized as a not-for-profit rural electric cooperative under the laws of Kentucky in 1961 to enable its Members (as defined below) to pool their resources and provide for the power and transmission needs of their combined service territories. Big Rivers currently operates as a taxable cooperative. It provides wholesale electric service to its three Members under a number of wholesale power contracts which, in the aggregate, supply the total wholesale power requirements of the Members except for the exceptions discussed below. The wholesale power contracts are discussed under the heading, "Wholesale Power Contracts with Members" below.

Big Rivers owns 1,444 net MW of electric generating facilities and approximately 1,265 miles of transmission lines and 22 substations.

In addition to the electric generation and transmission facilities Big Rivers owns, it also operates the Station Two generating station located on the Green River in Henderson County, Kentucky and owned by the City of Henderson, Kentucky (the "City") through its Utility Commission (the "Utility Commission") in accordance with the Power Plant Construction and Operation Agreement dated August 1, 1970 between the City and Big Rivers (the "Operation Agreement"). Big Rivers also purchases all the capacity and energy from Station Two not reserved by the Utility Commission in accordance with the Power Sales Contract dated August 1, 1970 between the City and Big Rivers (the "Power Sales Contract").

In 2010, Big Rivers' average wholesale revenue per kWh to its Members, including amounts withdrawn from its own economic reserve, was $0.04426 or $0.04515 per kWh for rural loads and $0.04189 per kWh for large industrial loads (exclusive of the Smelter loads served by one of its Members, Kenergy Corp. ("Kenergy"). The Smelters are described below under the heading, "The Smelter Agreements." Big Rivers' average wholesale revenue per kWh from Kenergy to serve the two Smelter loads in 2010 was $0.04405 per kWh on sales of 6.3 million MWh. Excluding the Smelters, sales to its Members were 3.4 million MWh in 2010, composed of 2.5 million MWh for rural loads and 0.9 million MWh for large industrial loads. Member Non-Smelter MWh sales in 2010 increased by 8.0% from 2009; 10.8% for rural loads and 1.2% for large industrial loads. To the extent surplus capacity and energy are available, Big Rivers may sell electricity to non-Member utilities and power marketers ("Non-Members"). During 2010, Big Rivers sold approximately 2.2 million MWh to Non-Members.

Big Rivers serves directly and indirectly a diverse customer base that includes farms and residences, commercial and industrial facilities, mining, irrigation and other miscellaneous customers. Farm and residential customers constitute the largest class of customers in terms of numbers throughout the Member service areas.

Cooperative Structure

In general, a cooperative is a business organization owned by its members, which are also its customers. Cooperatives provide goods or services to their members on a not-for-profit basis, in part by eliminating the need to produce profits or a return on equity in excess of required margins. Generally, electric cooperatives design rates on an overall basis to recover cost-of-service and collect a reasonable amount of revenue in excess of expenses (i.e., margins). Margins are typically repaid to the members in subsequent years on the basis of their patronage during the years the margins were earned. Big Rivers was formed in 1961 as a tax-exempt cooperative under Section 501(c)(12) of the Internal Revenue Code. To retain exempt status, at least 85% of Big Rivers' receipts must be generated from transactions with its Members. Since 1983, Big Rivers' sales to Members did not meet the 85% requirement due to sales to Non-Members. Since 1983, the Internal Revenue Service has considered Big Rivers a taxable organization.

A G&T cooperative is a cooperative engaged primarily in providing wholesale electricity to its members, which may be either wholesale or retail power suppliers. Electricity sold by a G&T cooperative is provided from its own generating facilities or through power purchase agreements with its wholesale power suppliers. A distribution cooperative is a local membership cooperative whose members are the individual retail customers of an electric distribution system.

The Members

General

Big Rivers' members are Kenergy, Meade County Rural Electric Cooperative Corporation ("Meade") and Jackson Purchase Energy Corporation ("Jackson Purchase" and, together with Kenergy and Meade, the "Members"). The Members of Big Rivers are local consumer-owned distribution cooperatives providing retail electric service on a not-for-profit basis to their customers, who are their members. The customer base of the Members generally consists of residential, commercial, and industrial consumers within specific geographic areas. The Members provide electric power and energy to customers located in portions of 22 western Kentucky counties. As of December 31, 2010, the Members served approximately 112,000 member-customers (meters). Kenergy has approximately 55,000 retail members, Meade has approximately 28,000 retail members and Jackson Purchase has approximately 29,000 retail members.

Territorial Integrity

Distribution cooperatives generally exercise a monopoly in their service areas. Under a Kentucky statute adopted in 1972, the Members are "Retail Electric Suppliers" that are certified by the Kentucky Public Service Commission (the "KPSC") as the exclusive suppliers of energy to their respective certified service areas. Thus, the Members are the exclusive suppliers of energy to electricity consumers located in their respective certified service areas, as against other Retail Electric Suppliers. If a Retail Electric Supplier is providing adequate service within its certified territory, other Retail Electric Suppliers may not sell power to retail customers located within that certified territory. Municipal utilities are not Retail Electric Suppliers under the statute. If a new electric consuming facility locates in two or more adjacent certified territories, the KPSC determines which Retail Electric Supplier may provide retail electric service to that facility based on a number of factors, designed to avoid wasteful duplication of electric generation facilities.

Rate Regulation of Members

The KPSC regulates the rates and service of Big Rivers and its Members. Under Kentucky law, a utility may revise its rates on 30 days' notice to the KPSC of the proposed changes and the effective date of such changes. The KPSC has the statutory power to suspend such changes pending a hearing for a period not to exceed five or six months, as appropriate, from the proposed effective date of such changes. Rate changes may be placed in effect, in whole or in part, during any such suspension period on a finding by the KPSC that an emergency exists or that the utility's credit or operations will be materially impaired by the suspension. Rates placed into effect on an emergency basis are subject to refund to the extent that the final rates approved by the KPSC are lower than the emergency rates. The KPSC's decision on a new rate schedule filed by a utility must be issued not later than ten months after the filing of the rate schedule.

Financial Information

Big Rivers' Members operate their systems on a not-for-profit basis. Accumulated margins constitute patronage capital for the consumer members. Refunds of accumulated patronage capital to the individual consumer members are made from time to time on a patronage basis subject to limitations contained in Member mortgages to the United States Department of Agriculture Rural Utilities Service (the "RUS"), if applicable.

Big Rivers' Members are Big Rivers' owners and not its subsidiaries. Except with respect to the obligations of the Members under their respective wholesale power contracts and the Smelter Agreements (as defined below), Big Rivers has no legal interest in, or obligation in respect of, any of the assets, liabilities, equity, revenue or margins of its Members, other than its rights and obligations under those contracts. The revenues of Big Rivers' Members are not pledged to Big Rivers, but their revenues are the source from which they pay for power and energy and transmission services purchased from Big Rivers. Revenues of its Members are, however, often pledged under their respective mortgages.

Bankruptcy and Subsequent Operation

In September 1996, Big Rivers filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The filing was precipitated largely by Big Rivers' inability to sell its capacity in excess of that required to serve its Members at prices sufficient to cover all its costs, which shortfall was exacerbated by long-term coal contracts under which prices had escalated well above market prices. In July 1998, a bankruptcy court-approved Plan of Reorganization (the "Plan of Reorganization") became effective. The Plan of Reorganization fundamentally changed Big Rivers' operation and resulted in the restructuring of its long-term debt. Such long-term debt was owed primarily to the RUS and was primarily incurred to finance Big Rivers' generating assets.

In accordance with the Plan of Reorganization, Big Rivers leased all of its generating facilities to Western Kentucky Energy Corp. ("WKEC"), a wholly-owned subsidiary of LG&E Energy Corp., now LG&E & KU Energy, LLC ("LG&E & KU Energy"). Big Rivers also assigned to WKEC all of its intangible assets, including its rights under real property leases, equipment leases, permits, intellectual property and contracts used or held exclusively by it in connection with the operation of its generating facilities. WKEC assumed and agreed to perform and discharge substantially all of Big Rivers' obligations under these assets that first arose or accrued on or after the effective date of the Plan or Reorganization. In addition to assuming responsibility for operating Big Rivers' generating facilities, WKE Station Two Inc. ("WKE Station Two"), another wholly-owned subsidiary of LG&E & KU Energy, assumed responsibility for the operation of Station Two and Big Rivers' obligation to purchase power from Station Two under the Power Sales Contract. This assignment and assumption was effected in accordance with an Agreement and Amendments to Agreements by and among the Utility Commission, WKE Station Two, LG&E Energy Marketing Inc. ("LEM"), WKEC and Big Rivers dated as of July 15, 1998 (the "Station Two Agreement"). Pursuant to the Plan of Reorganization, WKEC and WKE Station Two (which was subsequently merged into WKEC) became responsible for Big Rivers' prior responsibilities to operate and maintain Big Rivers' generating facilities and Station Two.

The Plan of Reorganization (the "LG&E Arrangements") also included a power purchase agreement (the "LEM Power Purchase Agreement") between Big Rivers and LEM. The LEM Power Purchase Agreement established minimum hourly and annual power purchase amounts that Big Rivers was required to take and certain maximum hourly and annual power purchase amounts that LEM was required to make available to Big Rivers. Big Rivers paid specified fixed rates for power purchased under the LEM Power Purchase Agreement that were not dependent upon market prices for electric power and energy nor the costs associated with power and energy generated by its generating facilities and Station Two. In addition to power and energy purchased from LEM under the LEM Power Purchase Agreement, during the duration of the LG&E Arrangements Big Rivers continued to dispatch its Members' 178 MW Southeastern Power Administration (the "SEPA") allocations of hydroelectric power and associated energy in accordance with its contractual obligations with the SEPA (the "SEPA Contract").

Unwind of LG&E Arrangements

In March 2007, Big Rivers executed a Transaction Termination Agreement (the "Termination Agreement") among LEM, WKEC and Big Rivers setting forth the term and conditions upon which Big Rivers and LG&E and KU Energy agreed to terminate the LG&E Arrangements (the "Unwind"). Protracted negotiations with creditors, governmental agencies, the Smelters constituting the largest customers on the Big Rivers system and others followed the execution of the Termination Agreement. The closing of the Unwind took place on July 16, 2009.

Summary of Major Provisions of Unwind

In connection with the closing of the Unwind, LG&E & KU Energy compensated Big Rivers with approximately $864.6 million and it took certain other actions, several of which are described below:

- LG&E & KU Energy made a cash payment to Big Rivers of approximately $506.7 million. This amount represented (1) a termination payment by WKEC to Big Rivers to compensate it for the risks associated with assuming responsibility for the operation of its generating facilities and Station Two and (2) the netted amount of various payment obligations by both WKEC and Big Rivers contemplated by the Termination Agreement.

- WKEC waived the requirement in the LG&E Arrangements that Big Rivers make a payment at the expiration or early termination of the LG&E Arrangements in respect of the residual value of WKEC's capital contributions to Big Rivers' generating facilities and Station Two. Additionally, WKEC conveyed to Big Rivers certain utility plant assets used in connection with the operation of its generating plants previously leased to WKEC. The value of these items was approximately $188.0 million.

- Big Rivers established three reserves, (i) an economic reserve with an initial principal amount equal to $157 million (the "Economic Reserve"), (ii) a second economic reserve with an initial principal amount equal to $60.9 million (the "Rural Economic Reserve"), and (iii) a transition reserve with an initial principal amount equal to $35 million (the "Transition Reserve"). The Economic Reserve and Rural Economic Reserve accounts were established to help Big Rivers cushion the effect of any potential future rate increases for fuel and environmental expenses on its rates to its Members for service to their non-Smelter members. The Transition Reserve was established as a financial reserve that would help Big Rivers mitigate financial costs, if any, associated with the termination of the Smelter Agreements by a Smelter.

- WKEC conveyed to Big Rivers a flue gas desulphurization system which had recently been constructed at Big Rivers' Kenneth Coleman Plant. The value ascribed to the flue gas desulphurization facility was approximately $98.5 million.

- WKEC conveyed to Big Rivers personal property and inventories of coal, petroleum coke, fuel oil, lime, limestone and spare parts, and materials and supplies. The value of those items was approximately $55.0 million.

- WKEC forgave a promissory note of approximately $15.4 million that Big Rivers owed to LEM.

- WKEC conveyed to Big Rivers 14,000 sulfur dioxide allowances allotted by the Environmental Protection Agency (the "EPA") with a fair market value of approximately $1.0 million on July 16, 2009.

- The lease of the generating facilities to WKEC and all the other property interests of WKEC and LEM in the generating facilities previously leased to WKEC were terminated.

- The Station Two Agreement was terminated and Big Rivers resumed its responsibility to operate Station Two and to purchase the capacity of Station Two in excess of the City's reserved capacity and related energy in accordance with the Power Sales Contract.

Change in Big Rivers' Capital Structure Resulting from Unwind

On July 16, 2009, Big Rivers prepaid $140.2 million of the indebtedness it owed to the RUS and the schedule of maximum permitted outstanding balances on the amortizing debt it owes to the RUS was adjusted. A non-interest bearing RUS Series B Note was also restructured in concert with the Unwind into a single "bullet" payment due December 31, 2023. Big Rivers' debt to the RUS was incurred primarily to finance its generating assets. In connection with the Unwind Big Rivers obligated itself to reduce the maximum permitted outstanding balances of its RUS debt by $60.0 million by October 1, 2012 and $200.0 million by January 1, 2016. Currently, Big Rivers intends to refinance that debt in the capital markets.

Big Rivers also terminated a secured credit facility with National Rural Utilities Cooperative Finance Corporation ("CFC") providing for a maximum outstanding balance of $15 million and entered into two unsecured revolving credit facilities with a maximum of $50 million each with CFC and CoBank ACB.

As a result of the Unwind, Big Rivers went from an equity to total capitalization ratio of (19)% as of December 31, 2008, to 31% as of December 31, 2009.

Resumption of Operational Responsibilities in Connection with Generating Facilities

In connection with the Unwind, the lease of Big Rivers' generating facilities to WKEC was terminated and Big Rivers resumed responsibility for the operation of its generating facilities. Thus, Big Rivers assumed responsibility for the risks associated with such operation (e.g. fuel, capital costs associated with change in law). Big Rivers intends to use the output of its generating facilities to supply the needs of its Members, including approximately 850 MW of power that is necessary for Kenergy to supply a portion of its contractual obligations to the Smelters, which were primarily serviced by LEM before the Unwind. Power and energy generated above the requirements of the Members is sold into the wholesale power market.

Wholesale Power Contracts with Members

Each of Meade, Jackson Purchase and Kenergy is party to a wholesale power contract with Big Rivers (the "All Requirements Contracts") providing that it sell and deliver to the Members, and the Members purchase and receive from Big Rivers, all the electric power and energy which the Members require for the operation of the Member's system (except Kenergy's requirements for the Smelters) to the extent that Big Rivers has power and energy and facilities available. The term of each All Requirements Contract extends through December 31, 2043 and neither of the parties may unilaterally terminate the contract, without cause, before such date. Each All Requirements Contract may be terminated by either party thereto after December 31, 2043, upon six months notice.

The All Requirements Contracts require each Member to pay Big Rivers monthly for capacity and energy furnished. The All Requirements Contracts provide that if a Member fails to pay any bill by the first business day following the twenty-fourth day of the month, Big Rivers may, upon five (5) business days' written notice, discontinue delivery of electric power and energy to that Member. The All Requirements Contracts also provide that, so long as any notes and note guarantees are outstanding from Big Rivers to the RUS, no Member may reorganize, dissolve, consolidate, merge, or sell, lease or transfer all or a substantial portion of its assets unless it has either (i) obtained Big Rivers' written consent and the written consent of the RUS, or (ii) paid a portion of the outstanding indebtedness on the notes and Big Rivers' other commitments and obligations then outstanding, such portion to be determined by Big Rivers with RUS approval. The All Requirements Contracts may only be amended with the approval of the RUS and upon compliance with such other reasonable terms and conditions as Big Rivers and the RUS may agree.

Each Member is required to pay Big Rivers for capacity and energy furnished under its All Requirements Contract in accordance with Big Rivers' established rates as approved by the KPSC. All Requirements Contracts with Members provide that Big Rivers' Board of Directors establish rates to produce revenue sufficient, but only sufficient, together with all of its other revenue, to pay the cost of operation and maintenance of all its generating, transmission and related facilities, to pay the cost of capacity and energy purchased by it for resale, to pay the cost of transmission service, to pay the principal of and interest on all its indebtedness and to provide for the establishment and maintenance of reasonable financial reserves.

The All Requirements Contracts require Big Rivers' Board of Directors to review the rates at least annually and to revise such rates as necessary to produce revenue as described above. Big Rivers must give Members no less than thirty (30) days' or more than forty-five (45) days' written notice of every rate revision. Its electric rate revisions are subject to the approval of the RUS and the KPSC, after which its Members are permitted to incorporate such rate changes into their own rate structures.

Existing Generation and Transmission Resources

Big Rivers supplies capacity and energy to its Members principally from a combination of owned generating plants and also from power purchased under long-term contracts with other power suppliers and short-term and spot market purchases. Big Rivers owns seven base load coal-fired generating units and one oil- or natural gas-fired combustion turbine generating unit, all of which are in commercial operation. These units provide Big Rivers with approximately 1,444 MW of capacity. Big Rivers also has a variety of purchase arrangements, including the Power Sales Contract with the City and the SEPA Contract, which supplies it with up to 380 MW of power. Big Rivers currently purchases 202 MW from the Utility Commission pursuant to the Power Sales Contract and up to 178 MW under the SEPA Contract. Big Rivers also owns 1,265 miles of transmission lines and 22 substations and has additional access to approximately 100 MW of transmission service through agreements with another utility.

Big Rivers operates and maintains its transmission facilities and provides transmission services to its Members and Non-Members. As of December 31, 2010, Big Rivers had in service 833 miles of 69 kV transmission lines, 14 miles of 138 kV transmission lines, 350 miles of 161 kV transmission lines, 68 miles of 345 kV transmission lines, and related station land and equipment. It also owns 22 substations. The current firm transmission capability is sufficient to allow Big Rivers to export all available excess generation capacity plus an amount equal to the peak demand of the larger Smelter on its system. With the completion of several projects in 2015, its export capability will be increased to approximately 1380 MW, which will provide the capability to export all of the peak demand for both Smelters.

In December 2010, Big Rivers integrated into the Midwest Independent Transmission Operator (the "Midwest ISO") as a transmission-owning member. Its membership in the Midwest ISO allows Big Rivers to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. In addition, its Midwest ISO membership provides market services for energy, operating reserves, and transmission service as well as serving as its regional balancing authority.

Big Rivers has several interconnections between its transmission system and those of other power suppliers. These interconnections permit mutual support in emergencies, decrease overall transmission losses, facilitate the arrangement of electric power and energy sales and minimize the duplication of transmission lines. Big Rivers currently has interconnection agreements with these power suppliers: (i) the Utility Commission; (ii) the Midwest ISO; (iii) Southern Illinois Power Cooperative; (iv) Hoosier Energy Rural Electric Cooperative and Southern Indiana Gas and Electric Company – Vectren; (v) E.ON U.S.; (vi) Kentucky Utilities Company and Louisville Gas and Electric Company ("LG&E"); and (vii) the Tennessee Valley Authority (the "TVA"). However, Big Rivers cannot purchase power from the TVA due to restrictions on the TVA's authority to sell power outside of its service area fixed by statute. An agreement with the TVA provides transmission service by the TVA to enable Big Rivers to interchange power and energy with four utilities located in the southern United States.

In addition to improvements with neighboring transmission systems, Big Rivers also has received several requests from independent power producers that may determine to locate within Big Rivers' balancing area and Big Rivers has developed certain interconnection procedures and guidelines which Big Rivers uses when generators request interconnection service without a concurrent request for transmission service. once Big Rivers joined the Midwest ISO, independent power producers may apply through the Midwest ISO to connect to Big Rivers' transmission facilities. Upon receiving an application, the Midwest ISO will work with Big Rivers to study the impacts of such interconnection and to identify the cost of accommodating the interconnection. The allocation of costs will be determined under the MISO Tariff. Interconnections will be effectuated through a standard-form, three-way interconnection agreement among Big Rivers, the Midwest ISO and the independent power producer seeking use of its transmission service.

Big Rivers voluntarily agreed to comply with Order No. 888 of the Federal Energy Regulatory Commission (the "FERC") by filing the Open Access Transmission Tariff (the "OATT") with the FERC in 1988. The OATT was filed with the KPSC and the KPSC determined to assert jurisdiction over it to extent the FERC does not exert such jurisdiction. FERC Order No. 888 requires utilities regulated by FERC to offer third parties access to, and terms for the use of, their transmission systems on a basis comparable to the access and terms under which such transmission system owners provide transmission service to themselves. FERC Order No. 888 permits such utilities to deny transmission service to a utility which does not have a comparable open access transmission tariff. Although it is not subject to FERC Order No. 888, Big Rivers could require reciprocal access to other utilities' transmission systems in order to meet future obligations to the Members or sell power off-system.

Pursuant to the OATT, Big Rivers provided firm and non-firm transmission service and network services on its transmission system to parties desiring to purchase available transmission capacity on its transmission system. Big Rivers maintained the Open Access Same-Time Information System (the "OASIS") on which it posted transmission capacity available between certain points of time, with requests for longer periods of time taking precedence over those for shorter periods, and with firm service taking precedence over non-firm service. In operating the OASIS, Big Rivers was subject to certain standards of conduct that prevented its employees in the transmission function from communicating with employees engaging in wholesale sales function. As a part of Big Rivers' OATT, it had implemented certain guidelines for interconnection by generators that seek to interconnect to its transmission system without a concurrent request for transmission services. These generator interconnection procedures were posted on Big Rivers' OASIS.

When Big Rivers joined the Midwest ISO, it withdrew its OATT and the use of its transmission facilities became governed by the MISO Tariff. Big Rivers provides the Midwest ISO with its revenue requirement for use in establishing the rate for transmission services under the MISO Tariff, but Big Rivers' revenue requirement will not be directly reviewed by FERC. As a Midwest ISO transmission owner, Big Rivers also participates in the Midwest ISO transmission planning process, and is responsible for investments in transmission projects assigned to it in accordance with that process. Big Rivers participates in regional transmission planning with the Midwest ISO. Participation in the Midwest ISO planning process increases the scope of Big Rivers' regional planning process and subjects Big Rivers to decisions by the Midwest ISO and, ultimately, FERC, concerning allocations of costs for meeting regional transmission needs. Finally, Big Rivers is subject to the Midwest ISO reserve requirements established pursuant to Module E of the MISO Tariff.

The Smelter Agreements

Big Rivers and Kenergy have entered into wholesale electric service arrangements with the two large aluminum smelters located within Kenergy's service area (each a "Smelter" and collectively the "Smelters"). Under the agreements, Big Rivers provides a fixed amount of power and energy of approximately 850 MW of power that is necessary for Kenergy to supply a portion of its contractual obligations to the Smelters through December 31, 2023. These agreements are exceptions to the "all requirements" obligations in the All Requirements Contracts with Kenergy. The Smelters have largely identical obligations under the agreements described below, so the following discussion does not distinguish between obligations to a particular Smelter, even though, from a legal perspective, their rights and obligations are separate and not joint.

The principal terms and conditions relating to Big Rivers' sale of electric services to Kenergy for resale to the Smelters are set forth in six agreements, three with respect to service to each Smelter. The basic structure of the sale of electric services is that Big Rivers sells the electric services to Kenergy and then Kenergy in turn sells those electric services to each Smelter. Because the Smelters are customers of Kenergy, Big Rivers has entered into two, separate wholesale service agreements (each a "Smelter Wholesale Agreement" and together the "Smelter Wholesale Agreements") with Kenergy. Under each Smelter Wholesale Agreement, Big Rivers supplies Kenergy with electric service for resale to a particular Smelter. Kenergy has entered into a separate retail electric service agreement (each a "Smelter Retail Agreement" and together the "Smelter Retail Agreements") with each Smelter. Big Rivers and each

Smelter have also entered into a Smelter Coordination Agreement (a "Smelter Coordination Agreement" and, together with the Smelter Wholesale Agreements and the Smelter Retail Agreements, the "Smelter Agreements") that sets forth certain direct obligations between Big Rivers and a Smelter. Due to the pass-through nature of the principal obligations between Big Rivers and each Smelter, the Smelter Wholesale Agreement and the Smelter Retail Agreement relating to each Smelter are substantially the same.

The obligation of Kenergy to supply electric service to the Smelters pursuant to the Smelter Retail Agreements will terminate on December 31, 2023, unless terminated earlier pursuant to the terms thereof. A Smelter may terminate its Smelter Retail Agreement upon not less than one year's prior written notice of such termination to Kenergy and Big Rivers if such Smelter ceases all smelting operations in Kenergy's service territory.

Pricing under the Smelter Agreements is designed so that the Base Rate for the Smelters will always be 25 cents per MWh over the rate charged to large direct-served industrial customers having an equivalent load factor. The contracts provide that the Smelters are obligated to pay various surcharges, including fuel adjustment surcharges and environmental surcharges. In addition, the Smelter Agreements provide for annual adjustments to rates designed to assist Big Rivers in achieving positive margins in each year.

Risk Factors Impacting Big Rivers' Ability to Fulfill its Obligations Under the Operation Agreement and/or the Power Sales Contract:

A significant portion of Big Rivers' anticipated gross revenues and retail load of one of its Members, Kenergy, is related to serving the Smelters

Approximately 57% of Big Rivers' total load demand and 75% of the energy of one of its Members, Kenergy, is represented by two aluminum smelters: Alcan Primary Products Corporation ("Alcan"), an indirect subsidiary of Rio Tinto Alcan, and Century Aluminum of Kentucky General Partnership ("Century"), a wholly-owned subsidiary of Century Aluminum Company. Kenergy supplies Alcan and Century under retail electric service agreements and passes through the payments made thereunder to Big Rivers, except for a retail fee that Kenergy retains. Such pass-through payments by Kenergy are expected to comprise 65% of Big Rivers' Member revenue in 2011. Both retail electric service agreements provide that if Alcan or Century plans to discontinue its smelting operations, it may terminate the retail electric service agreement with one year notice. Alcan and Century typically use nearly 368 MW and 482 MW per hour, respectively, and operate 24 hours per day and seven days a week. While Big Rivers is unaware of any plan of Alcan or Century to discontinue its operations, if one or both were to do so, Big Rivers would have a large amount of surplus energy that may be difficult to sell economically. This possibility is especially a concern until Big Rivers completes its planned upgrade to its transmission lines in 2011 as discussed herein to allow it access to a broader number of third-party purchasers.

Big Rivers' rates and service and those of its Members are subject to state regulation

Big Rivers rates and service and those of the Members are subject to regulation by the KPSC. Among other powers, Kentucky law authorizes the KPSC to (i) approve Big Rivers' rates and those of the Members as "fair, just and reasonable," (ii) regulate construction of new generation and transmission facilities by issuing certificates of public convenience and necessity, (iii) approve changes in ownership or control of Big Rivers through sales of assets or otherwise, (iv) approve the issuance or assumption of any securities or evidence of indebtedness, other than to the United States of America acting through the RUS, and (v) administer the state laws assigning each jurisdictional electric distribution utility the exclusive right to provide retail electric service within specified geographic boundaries.

Big Rivers and its Members may only charge rates that are approved by the KPSC. When Big Rivers files a schedule stating new rates with the KPSC, the KPSC may suspend the effective date of that new rate schedule for five or six months, depending upon the methodology Big Rivers employs to support the new rate schedule. If the proceeding to review the new rate schedule has not been concluded and an order made at the expiration of the suspension period, Big Rivers may place the new rate schedule in effect, subject to refund if the rates eventually approved by the KPSC are lower than rates in the rate schedule Big Rivers placed into effect. By law, the KPSC must issue a final decision not later than ten months after Big Rivers files a new rate schedule. Big Rivers is entitled to demand, collect and receive fair, just and reasonable rates for the services it renders, although Big Rivers and the KPSC may disagree about what constitutes fair, just and reasonable rates. If Big Rivers is dissatisfied with an order of the KPSC, Big Rivers may appeal that order through the Kentucky court system. Any denial by the KPSC or delay in recovery of any portion of Big Rivers' requested rates could have a material negative impact on its Members' or Big Rivers' future operating results, financial condition or liquidity.

Regulations governing climate change may adversely affect Big Rivers' operations and financial performance

Federal and state laws may be enacted that would limit or impose additional costs related to emissions of carbon dioxide and other greenhouse gases ("GHG"). Several bills have been introduced in Congress to reduce GHG emissions, including imposing federal GHG emission caps and a federal renewable energy portfolio standard. Furthermore, the EPA has taken action to regulate GHG emissions under existing federal law. Big Rivers cannot predict the outcome or potential impacts of pending climate change legislation or regulations, but it is generally expected that older conventional, fossil-fueled generation facilities, such as its facilities, would be more adversely affected by such laws or regulations than newer facilities or facilities generating electricity from nuclear or renewable fuels. In addition, some legislative proposals may provide substantial incentives to alternative energy development or limit the construction and operation of conventional power generation facilities in ways that could adversely affect Big Rivers' business plans, revenues or operating costs.

Regulations governing environmental issues may adversely affect Big Rivers' operations and future financial performance

Big Rivers is required to comply with numerous federal, state and local laws and regulations relating to environmental protection. These laws and regulations change regularly, and new laws and regulations could substantially increase its operating costs or require material capital expenditures. In response to regulatory changes, a substantial portion of its facilities have, in the past decade, been retrofitted with new pollution control equipment, including flue gas desulfurization and selective catalytic reduction equipment. Although Big Rivers believes that it has obtained all material environmental approvals currently required to own and operate its currently operating facilities, it may incur significant additional costs to comply with these requirements or with any new requirements that are added as laws change and new regulatory requirements are added. Failure to obtain and maintain all required permits or to comply with environmental laws, regulations and permits could have a material adverse effect on Big Rivers, including potential civil or criminal liability and the imposition of fines or expenditures of funds to bring its facilities into compliance. Delay in obtaining or failure to obtain and maintain any environmental permits or approvals, or delay or failure to satisfy any applicable environmental regulatory requirements, could hinder the operation of its existing facilities or hinder the sale of energy from these facilities, all of which could result in significant additional cost to Big Rivers. In addition, private parties may object to the issuance of environmental permits or challenge Big Rivers' operations under its permits.

National or state renewable energy standards may increase Big Rivers' costs of operation and adversely affect the utilization of current generation facilities

Although various bills have been introduced in the Kentucky legislature and in the U.S. Congress that would require Big Rivers to establish and obtain minimum amounts of electric energy from renewable resources, to date, no such, legislation has been enacted. If Big Rivers were required on the national or state level to establish and obtain minimum amounts of electric energy from renewable resources, it would have to purchase such energy and/or invest in renewable resources.

Big Rivers must make long-term decisions involving substantial capital expenditures based on its current projections of future conditions

Big Rivers' decisions to develop new generation or transmission facilities, enter into long-term power supply arrangements, or pursue other projects are based primarily on long-term forecasts of its obligations to supply all or a portion of the Members' power and energy requirements. Big Rivers relies on its forecasts to reliably predict factors affecting their requirements such as economic conditions, population trends and actions by others in the development of their generation or transmission facilities. Even though forecasts are less reliable the farther into the future they extend, Big Rivers must make decisions today based on forecasts often extending a decade or more into the future due to the long lead-time necessary to develop and construct new generation and transmission facilities and the expected useful life of such facilities.

Big Rivers' forecasts may vary significantly from actual events. As a result, it may fail to develop the appropriate number or type of generation facilities, rely on technology that becomes less competitive, or fail to install or upgrade transmission facilities in locations where they are needed. If Big Rivers overestimates the growth in its obligations to supply all or a portion of the Members' power or energy requirements, there is no assurance that the price of any surplus power or energy from the excess resources would be economical or could be sold in the market without a loss. If Big Rivers underestimate the growth in the Members' power or energy requirements, it may be required to purchase power or energy at a cost substantially above the cost Big Rivers would have incurred to obtain the power or generate the energy from its facilities. Projections regarding the continued growth of the Members' power and energy requirements and the extent of Big Rivers' obligations to serve them increases the potential risks to Big Rivers if actual events differ significantly from its forecasts.

Future availability and cost of credit may affect Big Rivers' financial results

Big Rivers will need to access the credit and capital markets in the near future. Although it expects to finance its capital expenditures with internally generated funds, it has a series of pollution control bonds outstanding in the principal amount of $58.8 million maturing in 2013 that it expects to refinance. In addition to the generally level debt service on the RUS Series A Note, it is obligated to make additional principal payments of $60.0 million by October 1, 2012, and $200.0 million by January 1, 2016 on its debt outstanding with the RUS. Big Rivers expects to raise funds in the credit and capital markets in order to refinance the RUS debt and the pollution control bonds.

Market volatility and uncertainty in the financial markets, such as what occurred in the fall of 2008, could potentially affect Big Rivers' cost of capital and access to the credit and capital markets. In addition, if Big Rivers' ratings were lowered, it could be required to pay higher interest rates in future financings, its potential pool of investors and funding sources could decrease and its access to the credit or capital markets could be interrupted for all practical purposes. In the future, Big Rivers' investor base may be limited if it encounters investors who are reluctant to purchase its debt based on climate change or other industry-specific concerns.

Big Rivers' financial performance depends on the successful operation of electric generating facilities by it and the ability of its facilities to deliver electricity to the Members

Operating electric generating facilities and delivery systems involves many risks, including:

- operator error and breakdown or failure of equipment or processes;
- operational limitations imposed by environmental or other regulatory requirements;
- inadequate or unreliable access to transmission and distribution assets;
- labor disputes;
- interruptions of fuel supply;

- compliance with mandatory reliability standards; and

- catastrophic events such as hurricanes, floods, earthquakes, fires, explosions, terrorist attacks, pandemic health events or other similar occurrences.

Big Rivers depends on transmission facilities, including those operated by other parties, to deliver the electricity that it supplies to the Members. If transmission is disrupted, or if capacity is inadequate, Big Rivers' ability to sell and deliver products and satisfy its contractual obligations may be hindered. Although the FERC has issued regulations designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems or transmission capacity will not be available to transmit Big Rivers' electric power. Big Rivers cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets.

The initial set of mandatory reliability standards was issued by the North American Electric Reliability Corporation ("NERC") in July 2007. Big Rivers believes it is in compliance with all of the current NERC standards. It expects that as greater emphasis is placed on securing electrical grid infrastructure, these standards will become stricter over time. The financial impact of mandatory compliance with such standards cannot currently be determined. If mandatory reliability standards are increased in the future, a substantial effect on Big Rivers' operations and financial cash flows could result. In addition, failure to comply with the reliability standards could result in the imposition of fines and penalties.

A decrease in operational performance from Big Rivers' generating facilities and delivery systems or an increase in the cost of operating the facilities could have an adverse effect on Big Rivers' business and results of operations.

The Members may fail to satisfy their obligations to Big Rivers

Big Rivers depends primarily on electric sales to the Members to satisfy its financial obligations. It does not control the operations or financial performance of the Members. Accordingly, it is exposed to the risk that one or more of the Members could default in the performance of their obligations to Big Rivers, in particular their obligations under long-term wholesale power contracts with Big Rivers extending through 2043. These defaults could result from financial difficulties at one or more Members or because of intentional actions by such Members. Big Rivers' operating results and financial condition could be adversely affected if one or more of the Members default on their obligations to Big Rivers or reject their contractual obligations to it in a bankruptcy proceeding or otherwise.

Continuing Disclosure

On June 1, 2010, Big Rivers entered into a Continuing Disclosure Agreement with U.S. Bank National Association, as trustee, in connection with the issuance of the County of Ohio, Kentucky Pollution Control Refunding Revenue Bonds, Series 2010A (Big Rivers Electric Corporation Project) (the "2010A Bonds") whereby Big Rivers agreed to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur. The Official Statement associated with the 2010A Bonds and the continuing disclosure filings made by Big Rivers arising from the issuance of the 2010A Bonds can be obtained from the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website.

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APPENDIX G

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011A

ANNUAL REPORT OF BIG RIVERS ELECTRIC CORPORATION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010, WITH ACCOMPANYING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009

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ANNUAL REPORT 2010

RETOOLING FOR THE FUTURE...

Big Rivers ELECTRIC CORPORATION

Big Rivers
ELECTRIC CORPORATION

Our Mission

Big Rivers will safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members.

Our Vision

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the members desire in meeting future challenges.

Our Values

- Safety
- Integrity
- Excellence
- Member and Community Service
- Respect for the Employee
- Teamwork
- Environmentally Conscious

Financial Highlights

For the years ended December 31, 2010, 2009, 2008, 2007, and 2006 | (Dollars in thousands)

	2010	2009	2008	2007	2006
Margins	6,991	531,330	27,816	47,177	34,542
Equity	386,575	379,392	(154,602)	(174,137)	(217,371)
Capital Expenditures*	42,683	58,388	22,760	18,682	13,189
Cash & Investment Balance	44,780	60,290	38,903	148,914	96,143
RUS Series A Note Voluntary Prepayment Status	23,859	–	–	–	34,995
Times Interest Earned Ratio	1.15	9.85	1.37	1.64	1.47
Debt Service Coverage Ratio	1.47	2.44	1.17	2.04	1.86
Cost of Debt	5.73%	6.33%	6.33%	5.76%	5.83%
Cost of Capital	7.93%	8.39%	8.33%	7.75%	7.82%

** Big Rivers' share only.*

RETOOLING FOR THE FUTURE...

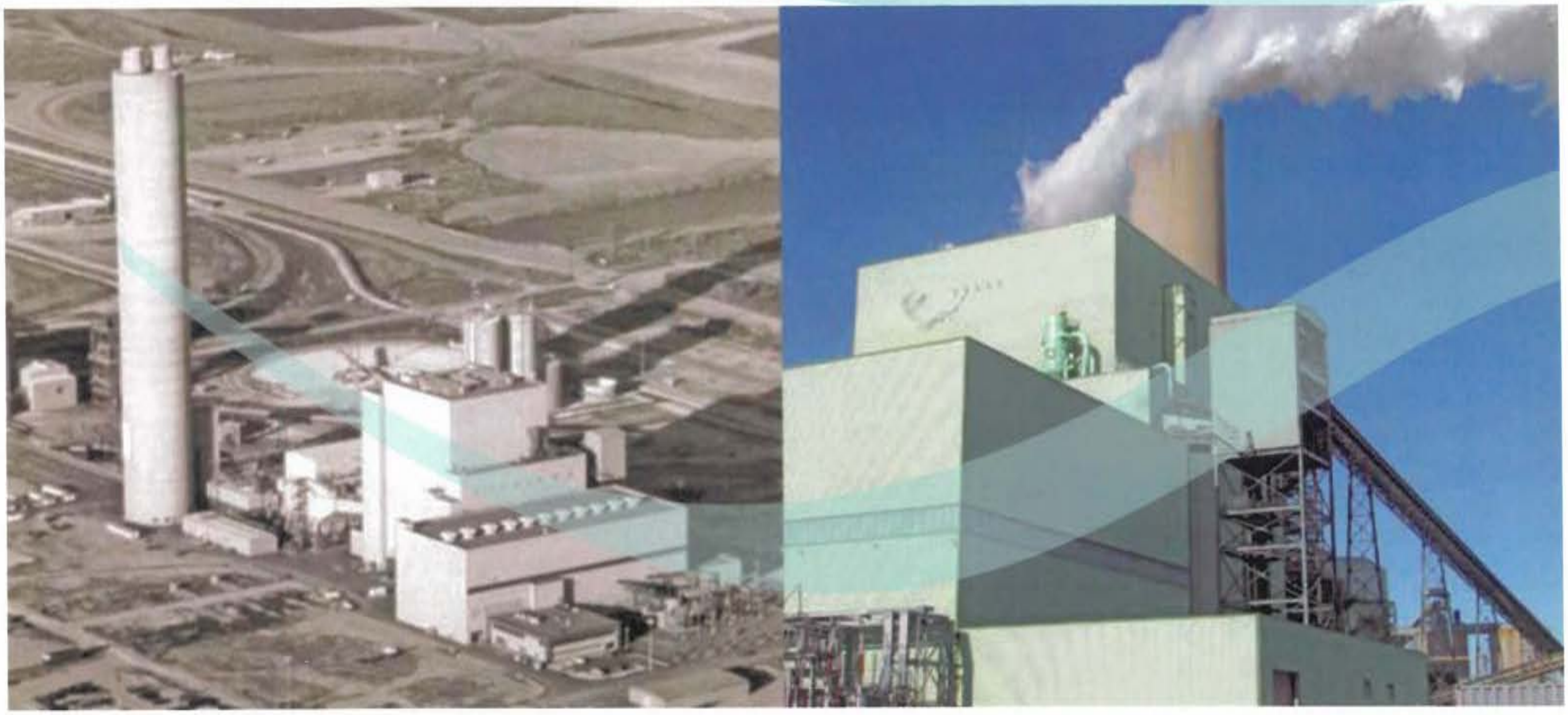


TABLE OF CONTENTS

ABOUT THE BIG RIVERS SYSTEM

Big Rivers Electric Corporation ("Big Rivers") is a member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative members across 22 counties in western Kentucky.

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, they distribute retail electric power and provide other services to more than 112,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee.

With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

Kenneth C. Coleman	443 MW	Hawesville, Ky.
Robert A. Reid	130 MW	Robards, Ky.
Robert D. Green	454 MW	Robards, Ky.
D. B. Wilson	417 MW	Centertown, Ky.
Owned Generation	1,444 MW	

Total generation available is 1,829 MW, including rights to Henderson Municipal Power and Light ("HMP&L") Station Two and contracted capacity from Southeastern Power Administration ("SEPA").

Owned Generation	1,444 MW
HMP&L Station Two	207 MW
SEPA	178 MW
Total Generation	1,829 MW

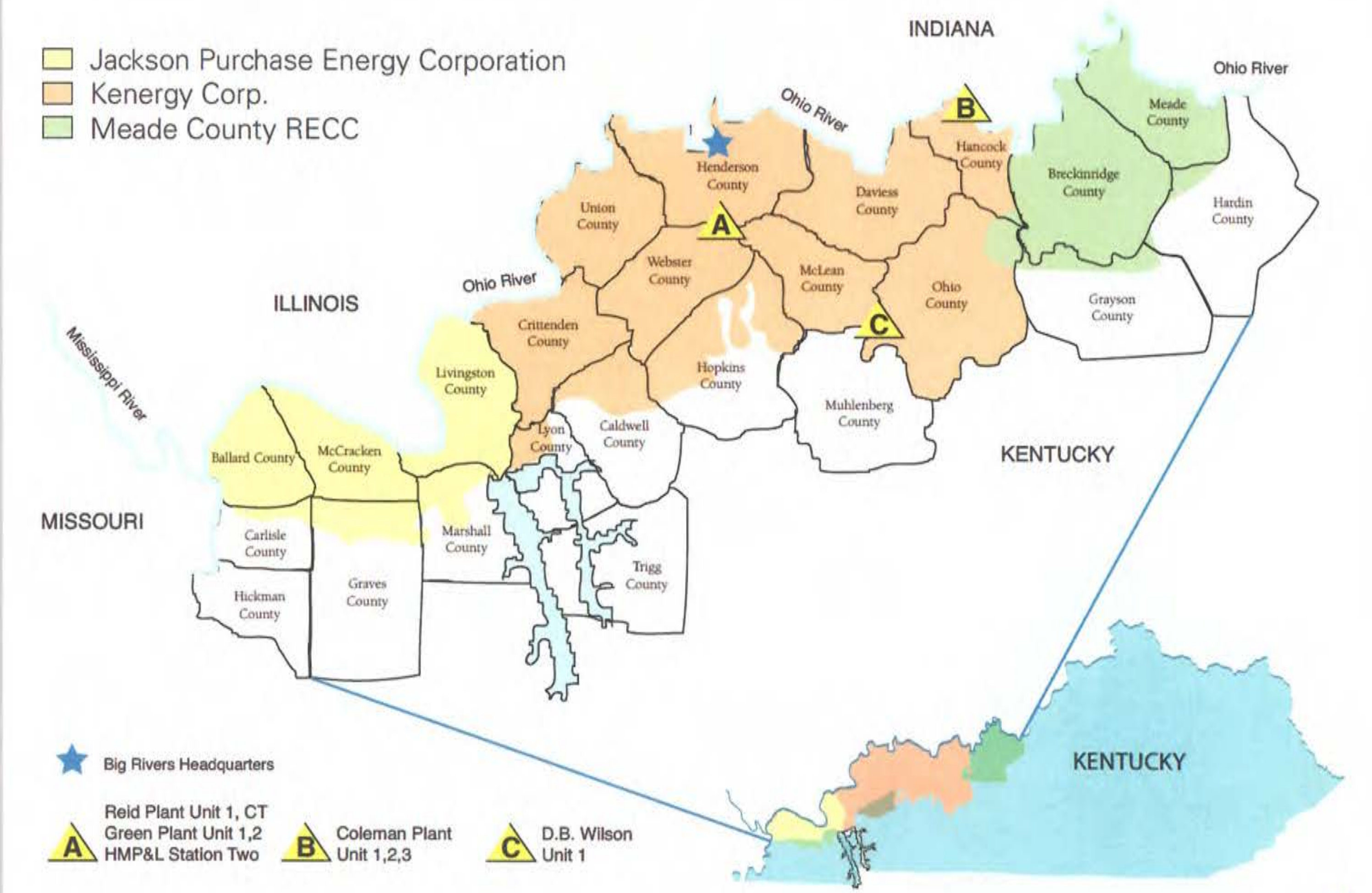
THE MISSION OF BIG RIVERS IS TO SAFELY DELIVER LOW COST, RELIABLE WHOLESALE POWER AND COST-EFFECTIVE SHARED SERVICES

High voltage electric power is delivered to the member cooperatives over a system of 1,266 miles of transmission lines and 22 substations owned by Big Rivers. Twenty-two interconnects link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each distribution cooperative. We employ over 600 people at seven locations in Kentucky, who actively contribute to the communities we serve.

Constantly focused on the needs and local priorities of the member cooperatives, Big Rivers provides assistance in areas such as information technology, mapping and planning, safety programs and training, economic development, education and customer support services.

As long-standing members of Touchstone Energy®, Big Rivers and the member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high has always been a priority.



MEMBER COOPERATIVES

Kelly Nuckols, *President & CEO*
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

Serves: Ballard, Carlisle, Graves, Livingston, Marshall and McCracken

Headquartered:	Paducah, KY
Number of accounts:	29,152
Miles of line:	2,909

Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

Serves: Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster

Headquartered:	Henderson, KY
Number of meters:	54,991
Miles of line:	7,023

Burns Mercer, *President & CEO*
Meade County RECC

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

(270) 422-2162
www.mcrecc.coop

Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered:	Brandenburg, KY
Number of meters:	28, 267
Miles of line:	2,977

BOARD OF DIRECTORS

Standing (left to right):

Dr. James Sills, Chair
Meade County RECC

Wayne Elliott, Vice-Chair
Jackson Purchase Energy Corporation

William Denton
Kenergy Corp.

Seated (left to right):

Lee Bearden
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder, Secretary-Treasurer
Kenergy Corp.

MANAGEMENT TEAM

Standing (left to right):

Marty Littrel, *Communications & Community Relations Manager*

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett,
V.P. System Operations

James Haner,
V.P. Administrative Services

James Miller, *Corporate Counsel*

Paula Mitchell, *Executive Assistant*

Seated (left to right):

Mark Hite, *V.P. Accounting*

C. William Blackburn, *Senior V.P. Financial & Energy Services & CFO*

Mark Bailey, *President & CEO*

Robert Berry, *V.P. Production*

MESSAGE FROM THE BOARD CHAIR AND CEO

The year 2010 marked transition and significant achievement for Big Rivers Electric Corporation. This was our first complete year operating as a full-fledged generation and transmission cooperative, since the Unwind closing in July 2009.

During 2010 many of the longer-term initiatives, planned to be finished following the Unwind closing, were successfully completed.

- Major renovation was completed in April at the central headquarters building to accommodate the additional employees returning to Big Rivers from the former Western Kentucky Energy central office following the Unwind consolidation.
- $83.3 million of pollution control bonds were refinanced in June.
- An energy efficiency study of the member systems was completed, with results to be implemented in 2011.
- An integrated resource plan was developed and filed with the Kentucky Public Service Commission.
- Implementation began on a workforce retirement transition plan in the power generation department.
- Information technology support was migrated from E.ON to Big Rivers' contracted HP/EDS and internal resources.
- The Oracle information systems business platform conversion was successfully completed in November.
- Kentucky Public Service Commission approval for Big Rivers to join the Midwest Independent Transmission System Operator (Midwest ISO) was sought and secured, and the company successfully integrated in December.
- Generation dispatch responsibility migrated

to ACES Power Marketing from E.ON upon our joining the Midwest ISO.

- System microwave expansion and internal communication ties with Big Rivers' generating stations were completed.

Undertaking these projects with a relatively small employee complement, while simultaneously embracing a newly integrated business, required strong organizational planning and a dedicated work force. That effort was most evident by our ability to complete these objectives while achieving several significant operational results within the same year.

- Employee safety targets were exceeded.
- Generating plants operated at new all-time record levels.
- Earning targets were achieved while keeping members' rates amongst the lowest in Kentucky and the rest of the nation.
- Transmission reliability was at a high level.
- Our strategic plan was updated.

In December the Big Rivers board of directors elected new officers. Dr. James Sills of Meade County Rural Electric Cooperative Corporation became the new board chair while Wayne Elliott of Jackson Purchase Energy Corporation was chosen vice-chair, and Larry Elder of Kenergy Corp. became the secretary-treasurer.

We at Big Rivers are grateful to the outgoing board chair, Bill Denton, for his 12 years of steadfast leadership that included six-plus years of tortuous deliberations that lead to the successful completion of the Unwind. His effort, support, and guidance helped lead Big Rivers to its best financial condition in its history following the termination of the lease agreement with E.ON U.S.

Looking ahead, we see a new set of challenges. There have been a number of significant rules proposed by the U.S. Environmental Protection Agency ("EPA") that could lead to a dramatic increase in the price of electricity and have a significant impact on how we run our business. A great deal of uncertainty exists around these proposed environmental regulations and their impacts on rates, reliability, our operations and the economy.

Both the board of directors and our staff are committed to examining the potential impacts of these regulations and to communicate what they mean to regulators, legislatures, and our members. Clearly, we must retool our approach to successfully meet these as well as other challenges ahead.

One constant that will remain as this effort progresses will be our dedicated and loyal workforce who will continue to help us successfully navigate the uncertain waters ahead.

We are certain that through good communications and teamwork, we will continue to achieve our mission of safely providing low cost and reliable electricity and attain our vision to be viewed as one of the top generation and transmission cooperatives in the country.

Dr. James Sills	Mark A. Bailey
Chair, Board of Directors	*President and CEO*

James Sills MD Mark A. Bailey

At Big Rivers Electric Corporation, our board of directors and senior leadership team believe corporate values are instrumental in our quest to continue to meet our mission and attain our vision of being viewed as one of the top generation and transmission cooperatives (G&Ts) in the country.

These values: teamwork, integrity, excellence, safety, member and community service, environmentally conscience and respect for the employee form the basis of the framework of the remainder of this report.

TEAMWORK

As a power supplier owned by the distribution cooperatives it serves, Big Rivers' mission is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by our members. In order to achieve this target, Big Rivers relies on a dedicated workforce composed of employees committed to the company's success. Teamwork is a core value for Big Rivers since it is one of the key factors necessary for the company to achieve its mission.

Big Rivers continued its partnership with HP Enterprise Services to install new Oracle business platform software, which went live in November 2010. Since then all locations and departments run on the integrated system. The new system was designed, built and tested during most of 2010. The entire staff worked diligently to get the new system up and running, while simultaneously continuing to perform regular business duties. This cutting-edge technology should improve the performance, quality and reliability of our computer applications.

Big Rivers became the thirty-fifth transmission-owning member of the Midwest Independent Transmission System Operator ("Midwest ISO") in December 2010 and the fifth new member since November 2009. The Midwest ISO is a non-profit and revenue-neutral transmission organization that provides electricity at the lowest price while managing one of the largest energy markets in the world, involving nearly $23 billion in energy transactions per year. Midwest ISO has a reliability footprint that covers all or parts of 13 states, plus the Canadian province of Manitoba. Big Rivers integration brings the Midwest ISO's total market generation to more than 145,000 megawatts. Membership provides Big Rivers market access to 57,453 miles of interconnected transmission lines and up to 347 market participants.

Big Rivers worked much of 2010 to file and secure approval from the Kentucky Public Service Commission ("KPSC") to join the Midwest ISO. After nearly a year of work, Big Rivers reached a settlement with the Kentucky Attorney General and the Kentucky Industrial Utilities Customers, which led to final KPSC approval for full integration into the Midwest energy markets.

Teaming with the Midwest ISO is important to Big Rivers because the relationship allows the company to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. Our membership into the Midwest ISO provides market services for energy, operating reserves, and transmission service as well as serving as Big Rivers' regional balancing authority. This arrangement ensures reliable operation of our generation and transmission system while increasing our access to wholesale power markets. Working with the Midwest ISO was the most cost-effective alternative for meeting these requirements, which helps Big Rivers fulfill its mission.

BIG RIVERS RELIES ON A
GREAT WORKFORCE
COMPOSED OF EMPLOYEES DEDICATED TO ITS
SUCCESS

INTEGRITY

Big Rivers makes every effort to operate transparently in all aspects of its operations including environmental compliance, regulatory matters, procurement and risk management.

Energy production and development, and its effect on the environment, will continue to be a hot topic in the halls of Congress for quite some time. Because of new and proposed environmental regulations, compliance has been and will continue to be at the forefront of Big Rivers' generation and transmission operations.

The company currently meets all standards promulgated by the EPA. However, the impact of proposed EPA air, waste and water regulations are of major concern. Clean air transport rule, hazardous air pollutants, coal combustion residuals and water related issues are the top concerns associated with these aggressive regulations.

Big Rivers' wholesale rates are estimated to increase 39 percent due to required pollution control equipment additions that are estimated to cost $785 million by 2015. We further estimate, should the EPA classify coal ash as hazardous waste, that this would necessitate Big Rivers to reduce its use of approximately 3.7 million tons of Kentucky-mined coal annually.

Big Rivers refinanced $83.3 million of pollution control bonds over the past year. To do this, it was necessary for the company to have its investment-grade credit rating reaffirmed by each of the three leading agencies—Moody's Investors Service, Fitch Ratings Ltd. and Standard & Poor's.

Over the past year, Big Rivers acquired coal to burn in its generating stations and satisfy the company's hedge policy, which is geared towards purchasing fuel over a rolling five-year portfolio. This fuel-hedge policy is designed to lower the risk of price unpredictability in the coal markets and to help assure Big Rivers has sufficient coal supply to meet our members' electricity requirements.

In order to make sure the company stays on track, Big Rivers formed an internal risk management committee to share strategic information among departments, identify potential risks of significance to the company and then manage those risks.

Excellence

Big Rivers continued its excellent performance in its generation, transmission, and engineering services.

On the generation side, in 2010 the power stations set new, all-time performance records in reliability and efficient use of materials and equipment.

One of these records involved the Equivalent Availability Factor (EAF), the percentage of time a generating unit is available for power production. The higher the percentage, the more efficiently and productive the generating system is running. EAF in 2010 reached 93.7 percent, which shattered 1982's single-year record high of 89.9 percent. This 2010 record for unit availability beat the past 20-year average by more than 7 percent.

Another generation record set over the past year occurred in the Equivalent Forced Outage Rate (EFOR), the percentage of time a generating unit is unexpectedly off-line. In 2010, Big Rivers' EFOR was only 3.6 percent, which not only set a new all-time record low, but also was 25 percent lower than the past 15-year average. Leading the way was Big Rivers' Green Station Unit 2, which at 230 days experienced the longest continuous run for any generating unit in the company's history.

Big Rivers also surpassed standards of excellence in several other areas of generation services. The net heat rate, which measures how efficiently the energy contained in the coal burned in our generating units is converted to electricity, greatly exceeded the company's 2010 targets, saving nearly $3.6 million in fuel costs. As noted elsewhere in this report, several significant safety milestones were also achieved while the generating stations were operating at record performance levels.

In 2010, Big Rivers also converted Sebree Station's combustion turbine from fuel oil to natural gas to improve its reliability and reduce its air emissions and production costs.

These strides in generation services would be meaningless if Big Rivers did not deliver electricity to the member cooperatives. That's where Big Rivers' excellence in transmission comes into play. The transmission system was highly reliable in 2010. Big Rivers' system average interruption duration index (SAIDI) was a 21 percent improvement over the past 20-year average.

In an effort to continue to strengthen the transmission system's performance, a number of improvements were made in 2010. A few of those included: installing new conductor on the Coleman Station extra high voltage line, completing a re-conductor project on the Paradise tap to the Paradise transmission line, constructing a 69-kilovolt transmission line from Falls of Rough to McDaniels, relocating transmission infrastructure

**Big Rivers is confident it will continue
SERVING MEMBER CO-OPS
with Excellence for years to come.**

at Havana Creek from Reid Station to Hopkins County to improve transmission reliability, modifying the National Aluminum substation to provide direct service to a Kenergy customer located in Hancock County, and completing repairs on a 50 megavolt-ampere transformer that was damaged in the 2009 ice storm.

Big Rivers also made excellent strides in engineering. Efforts included the development of a long-range engineering plan in cooperation with the member cooperatives' engineering staffs. In addition, communication technicians completed an expansion of the microwave digital network that connects Big Rivers' headquarters in Henderson to each of its generating stations. Efforts were also made over the past year to replace the Morganfield microwave radio network.

With strides made in generation, transmission and engineering, Big Rivers is confident it will continue serving our member cooperatives with reliable and low cost excellence for years to come.

SAFETY

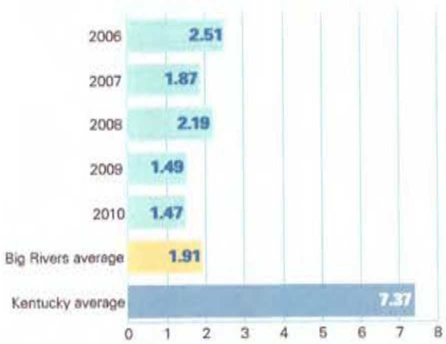
Big Rivers reached several substantial safety milestones in 2010 including:

- Achieving its lowest Occupational Safety and Health Administration (OSHA) recordable incident rate in five years;
- Experiencing only one lost-time incident, which matched the company's best performance in its history;
- Adding a safety component in 2010 within the Oracle R12 system that allows the company to monitor each employee's training history.

A number of individual locations also achieved safety milestones in 2010 including:

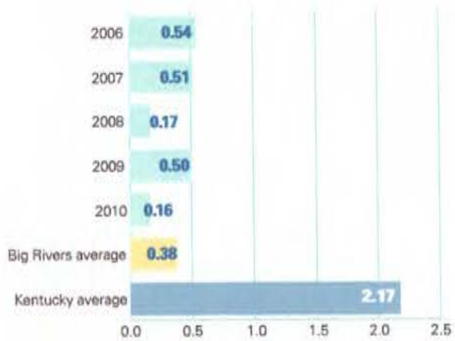
- Coleman Station employees reached four years with no lost-time incidents on January 6 and received the Governor's Safety Award

OSHA RECORDABLE INCIDENT RATE



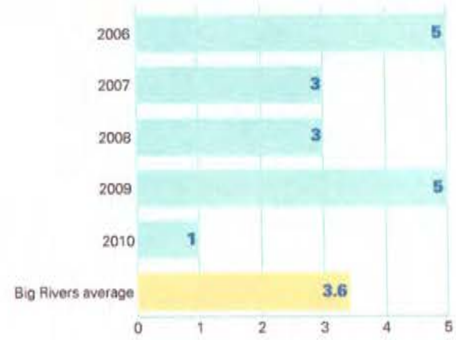
Incident Rate = # of incidents x 200,000 / # of hours worked

LOST-TIME INCIDENT RATE



Incident Rate = # of incidents x 200,000 / # of hours worked

NUMBER OF VEHICLE INCIDENTS



SAFETY IS THE FOUNDATION FOR ALL DECISIONS AND EXPECTATIONS OF BIG RIVERS' WORKFORCE.

for achieving over a million hours with no lost-time incidents.

- Coleman Station employees reached two years without a recordable incident on June 7.
- Sebree Station employees reached one year with no lost-time incidents on January 19.
- Sebree Station employees reached 500,000 man-hours worked without a lost-time incident in April.
- Wilson Station employees reached three years with no lost-time incidents on May 15.
- Headquarters employees reached one year with no lost-time incidents on September 29.

MEMBER AND COMMUNITY SERVICE

Promoting energy efficiency allows our member cooperatives' consumers to reduce their monthly power bills and to delay the need for additional expensive generating facilities. To help facilitate these energy-efficiency efforts, Big Rivers undertook a demand side management study in 2010 to identify efficiency opportunities for the members.

This study examined various cost-effective options to identify those projects with the most potential to succeed. A total of eight pilot projects were selected to be pursued:

- Manufactured home weatherization;
- Residential weatherization;
- HVAC and refrigeration tune up;
- Clothes washer replacement;
- Refrigerator replacement;
- LED and induction security lighting;
- Commercial high-efficiency lighting replacement; and
- Energy Star new home program.

These pilot projects include financial incentives, product evaluation, process development and marketing tests. Big Rivers and its members will develop the successful pilot projects into full fledged energy-efficiency programs that member cooperatives can offer to their consumers.

Big Rivers also continued working with its members to provide real-time outage monitoring equipment to their members. This allows the distribution cooperative consumers to report outages on the Web, which is extremely helpful in storm situations. It also allows customers to see outage locations on maps of the cooperative member system.

As a generation and transmission cooperative, Big Rivers' responsibility goes beyond simply generating and transmitting reliable electricity. The company also believes that energizing local charities is part of its mission. Big Rivers employees helped in several community fundraisers this past year, including United Way, Habitat for Humanity, March for Babies, Relay for Life and the WBKR Christmas Wish program. Additionally, Big Rivers employees served in advisory positions for chambers of commerce, regional economic development organizations, school boards, universities, Leadership Kentucky, and regional hospital boards.

Big Rivers encourages its employees to be involved in community and civic activities. Similar to previous years, United Way was the premier

PROMOTING ENERGY EFFICIENCY ALLOWS CONSUMERS TO REDUCE THEIR MONTHLY POWER BILLS.

non-profit organization supported by Big Rivers employees. Employees contributed $154,000 to United Way during the 2010 employee campaign, which was a 5 percent increase over 2009 record levels. Not only did employee contributions increase, but so did employee participation levels, with nearly 79 percent of our employees doing so. These significant efforts made Big Rivers one of the largest contributors in the region to United Way for the second straight year.

For over a decade, Big Rivers has continued to support the Philippine Project, which brings electric power and the accompanying economic benefits to remote regions of the Philippine Islands. Much as was done in the United States in the 1930s, this project brings electricity to individual localities to improve village development and further energize the region. In addition, low-interest loans are provided to develop house-wiring programs and to increase local business opportunities for the people of the Philippine Islands. Big Rivers is proud to be a part of this humanitarian project that has impacted the lives of several thousand people.

ENVIRONMENTALLY CONSCIOUS

Helping wildlife is important to Big Rivers. The company has teamed up with the Kentucky Department of Fish and Wildlife Resources ("KDFWR") to install a nesting box for falcons and to improve wildlife habitat.

After months of planning, the first peregrine falcon nesting box was installed at Coleman Station in Hawesville in August. Big Rivers offered KDFWR personnel the use of a crane to secure the nesting box, which rests on the eighth floor of one of the units. KDFWR and Big Rivers hope to entice a mated pair of falcons to use this new nesting box to raise their young during the upcoming spring mating season.

The Promoting Our Wildlife & Energy Resources (POWER) program continued its three-year test through 2010. The program works in partnership with KDFWR to improve wildlife habitat and also helps reduce right-of-way transmission line corridor maintenance costs. The POWER program offers free technical assistance and payments to landowners who complete pre-approved wildlife habitat projects in transmission line right-of-way areas. In turn, these practices reduce the need to manage vegetation.

In 2010, Big Rivers completed work to meet additional EPA spill prevention containment regulations. We embrace being good environmental stewards, which is evident by our effort to prevent pollutants from entering waterways.

RESPECT FOR THE EMPLOYEE

Employees are the backbone of any successful company. It is no different at Big Rivers. By keeping every employee safe, focused and motivated, we improve morale, instill employee confidence in their ability to achieve our mission and continue serving our member cooperatives with excellence.

After completing the transition to incorporate operation of its generating units into its current management structure, employees began to look more closely at preparing for the future, all while keeping Big Rivers' day-to-day operations running smoothly.

To help that occur, the company is continuing to refine its succession plan. Ensuring new employees carry the same level of passion, knowledge, and work ethic that retiring employees have is a top priority. By identifying and developing talent who will succeed retiring employees, Big Rivers will have skilled staff ready to face the challenges ahead. The company is very thankful for all the hard work its employees have done over the years.

Corporate-wide employee meetings are held on a regular basis to assist with two-way communication between front line staff and senior management. These meetings cover key topics like the company's strategic and safety plans. Keeping an open line of communication is key to making sure all employees are on the same page, while working to move Big Rivers towards a successful future.

Left: Big Rivers Environmental Scientist, Samantha Howard, discussed possible sites for the nesting box with Kate Heyden, an avian biologist with KDFWR. Several factors had to be considered when choosing a location, including how much foot traffic that particular area received. Careful selection was taken to find a spot where the birds would feel at ease.

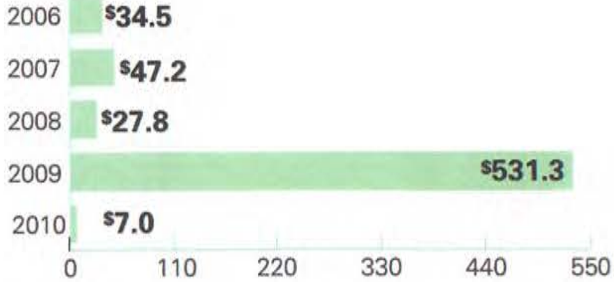
Financial Review: 2010

Big Rivers' mission is to provide low-cost, reliable wholesale electricity and cost-effective shared services to the member distribution cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. They, in turn, provide retail electric service to their members, totaling 112,735 at December 31, 2010.

The year 2010 marked the first complete calendar year of post-Unwind operations for Big Rivers (see Note 2 of the audited financial statements), as the E.ON lease agreements terminated July 16, 2009 at midnight, at which time Big Rivers resumed operational control of its 1,444 MW of owned generating facilities and 312 MW of Henderson Municipal Power & Light Station Two. The company also owns transmission assets, principally 1,266 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2010 was $1,091.6 million, and total assets were $1,472.2 million.

Net Margins

Dollars in millions



Equity (Deficit)

Dollars in millions

During 2010, Big Rivers continued its transformational return to a fully operating generation and transmission cooperative; its mode of operation prior to July 17, 1998, when the E.ON lease agreements became effective. Financially, 2010 was a successful year for Big Rivers, as the company completed the year with a favorable set of key financial metrics, discussed below.

Net Margins and Equities

The 2010 net margin was $7 million, resulting in a 1.15 times interest earned ratio (TIER) and margins for interest ratio (MFIR), and a 1.47 debt service coverage ratio (DSCR). Equities to total assets were 26.26 percent at December 31, 2010, and equities to total capitalization were 32.32 percent.

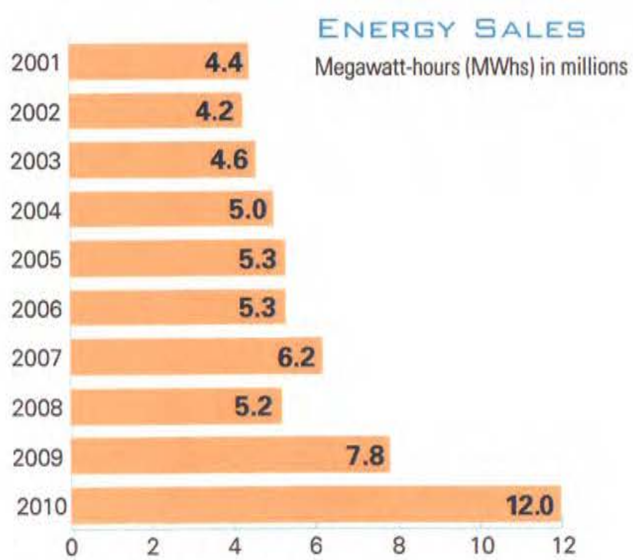
While the 2009 net margin was $531.3 million, when the one-time $538 million Unwind gain is excluded, 2009 reflected a loss of $6.6 million. There are three items that explain the majority of the $13.6 million net improvement in the 2010 net margin (2010 net margin of $7 million plus 2009 net loss, as adjusted, of $6.6 million). First, electric operating margin reflects a $4.4 million unfavorable variance for the first full year of post-Unwind operations, principally due to a depressed market price for off-system sales, resulting from the continued weak economy. Second, interest expense and other reflects a $16.2 million favorable variance, primarily due to a $222.1 million reduction in long-term debt since 2008. Third, following a thorough analysis during 2010, the balance of the reserve for obsolescence that was established for certain materials and supplies inventory upon the Unwind closing was written off, resulting in a non-operating margin of $1.9 million.

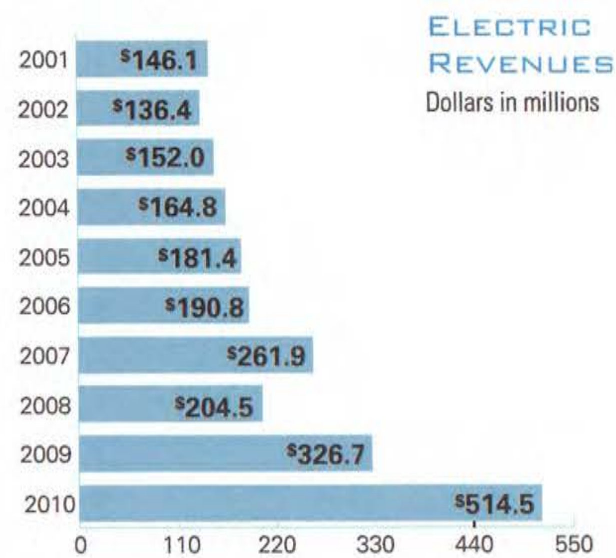
Energy Sales and Electric Revenues

Because a full year of Unwind operations is reflected, MWh sales increased to 11,969,420 MWh in 2010, up from 7,790,961 MWh in 2009, a 53.63 percent increase. The primary reason for the MWh sales increase is the additional 2,887,541 MWh sold to the aluminum smelters, an 83.43 percent increase over 2009, reflecting a full year of post-Unwind sales to the aluminum smelters.

Non-smelter member sales increased 233,963 MWh in 2010, or 7.28 percent, mostly due to hot summer weather. Sales of surplus energy to non-members (off-system sales) increased 1,056,955 MWh in 2010, or 94.61 percent, also reflective of full year of post-Unwind operations.

Electric energy revenue increased to $514.5 million in 2010, up from $326.7 million in 2009.



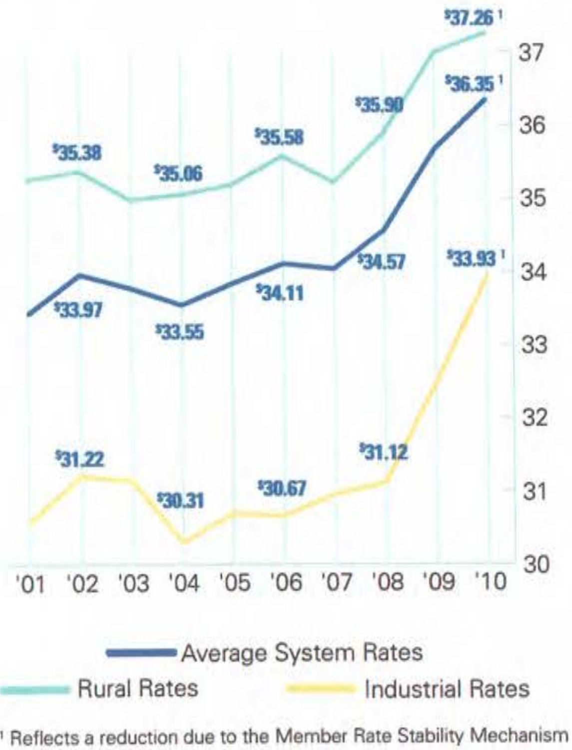


Wholesale Revenue

Big Rivers has all-requirements wholesale power contracts with its non-smelter members through December 31, 2043. Rural member wholesale revenue per MWh was $45.15 in 2010, versus $41.13 in 2009. Large industrial member wholesale revenue per MWh was $41.85 in 2010, versus $36.55 in 2009. The 11.29 percent non-smelter member revenue per MWh increase in 2010 is primarily due to higher fuel cost recovered through the fuel adjustment clause. The aluminum smelter wholesale contracts with Kenergy Corp. terminate December 31, 2023. Aluminum smelter wholesale revenue per MWh was $44.05 in 2010, versus $47.54 in 2009. Big Rivers' wholesale member tariff rates and the aluminum smelter contracts are regulated by the Kentucky Public Service Commission ("KPSC") and the Rural Utilities Service ("RUS").

WHOLESALE MEMBER RATES

Dollars per megawatt-hour (MWh)



[1] Reflects a reduction due to the Member Rate Stability Mechanism

Wholesale power market prices continue to be depressed, as has been the case since 2008. The revenue per MWh received by Big Rivers for its off-system sales was $37.90 in 2010, up from $30.91 received in 2009, but significantly below the off-system sales rate of $48.03 received in 2007.

Lines of Credit and Letters of Credit

Big Rivers has two $50 million lines of credit available to it, one with CoBank, ACB ("CoBank"), expiring July 16, 2012, and the other with National Rural Utilities Cooperative Finance Corporation ("CFC") that expires July 16, 2014. The CFC line of credit contains a $10 million embedded letter of credit facility. At December 31, 2010, $10 million is outstanding under the CoBank line of credit, and letters of credit totaling $5.9 million are outstanding with CFC.

Long-Term Debt

At December 31, 2010, debt to total assets is 55.50 percent. Big Rivers significantly reduced its long-term debt by $222.1 million over the past two years to $817 million at December 31, 2010, down from $1,039.1 million at December 31, 2008. The effective interest rate thereon, at December 31, 2010, is 5.70 percent. The company must refinance $60 million of the 5.75 percent RUS Series A Note by October 1, 2012 and another $200 million thereof by January 1, 2016. The RUS Series A Note, having a December 31, 2010 fair value of $558.7 million and a stated value of $561 million, has a final maturity of July 1, 2021. The non-interest bearing RUS Series B Note, having a December 31, 2010 fair value of $116.2 million and a stated value of

$245.5 million, has no payment due until maturity on December 31, 2023.

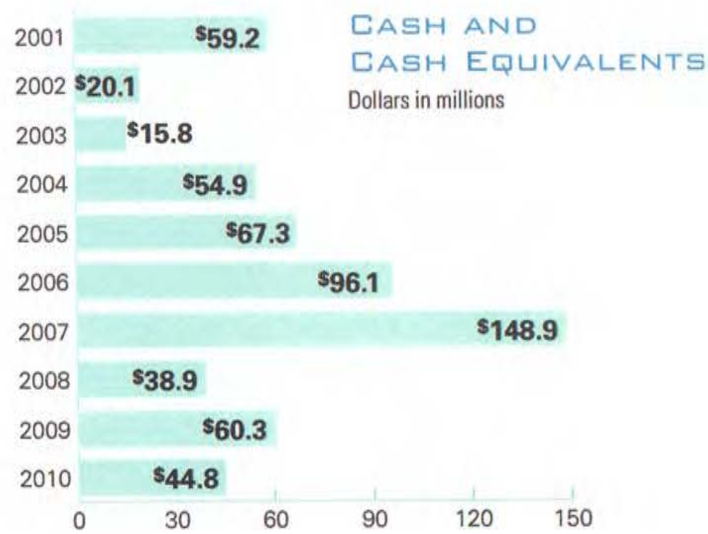
Big Rivers has two issues of tax-exempt pollution control bonds outstanding, totaling $142.1 million. The larger of the two issues was refinanced June 8, 2010—the $83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A. These Series 2010A Bonds now bear interest at a 6 percent fixed rate, with a maturity date of July 15, 2031. The second issue—the $58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983—are variable rate demand bonds currently being held by the liquidity provider, bearing an interest rate of 3.25 percent.

Liquidity

Liquidity is good, as cash and cash equivalents total $44.8 million at December 31, 2010. Additionally, the company has the two lines of credit totaling $100 million discussed earlier. Also of significance, at December 31, 2010, Big Rivers had voluntarily prepaid $23.9 million on its 5.75 percent RUS Series A Note, which the company may claw back by avoiding future quarterly debt service payments. Big Rivers funded all of its operating expenses and capital expenditures in 2010 without any new borrowing. Capital expenditures totaled $42.7 million in 2010, versus $58.4 million in 2009.

Depreciation Study and Cost-of-Service Study

The March 6, 2009 order of the Kentucky Public Service Commission in the Unwind case mandated that Big Rivers file for a general review of its financial operations and wholesale member tariff rates, including a depreciation study and a cost-of-service study, by July 16, 2012. Big Rivers has not had a wholesale tariff rate increase in twenty years, and the existing depreciation study has been in effect since July 1998. Accordingly, the company filed an application with the KPSC on March 1, 2011, seeking to increase its member wholesale tariff rates. Per the application, the member revenue increase is stated at $29.6 million, a 6.85 percent increase in total member revenue. Big Rivers anticipates the KPSC will order the rate increase request effective as of September 1, 2011.



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the Company) as of December 31, 2010 and the related statements of operations, equities, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Company as of December 31, 2009 and for the years ended December 31, 2009 and 2008 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 25, 2011

BALANCE SHEETS

As of December 31, 2010 and 2009 — (Dollars in thousands)

Assets

	2010	2009
UTILITY PLANT – Net	$ 1,091,566	$ 1,078,274
RESTRICTED INVESTMENTS – Member rate mitigation	217,562	243,225
OTHER DEPOSITS AND INVESTMENTS – At cost	5,473	5,342
CURRENT ASSETS:		
Cash and cash equivalents	44,780	60,290
Accounts receivable	45,905	47,493
Fuel inventory	37,328	37,830
Non-fuel inventory	23,218	20,412
Prepaid expenses	2,502	3,233
Total current assets	153,733	169,258
DEFERRED CHARGES AND OTHER	3,851	9,384
TOTAL	$ 1,472,185	$ 1,505,483

Equities and Liabilities

	2010	2009
CAPITALIZATION:		
Equities	$ 386,575	$ 379,392
Long-term debt	809,623	834,367
Total capitalization	1,196,198	1,213,759
CURRENT LIABILITIES:		
Current maturities of long-term obligations	7,373	14,185
Notes payable	10,000	–
Purchased power payable	1,516	3,362
Accounts payable	29,782	30,657
Accrued expenses	10,627	9,864
Accrued interest	11,134	9,097
Total current liabilities	70,432	67,165
DEFERRED CREDITS AND OTHER:		
Regulatory liabilities – Member rate mitigation	185,893	207,348
Other	19,662	17,211
Total deferred credits and other	205,555	224,559
COMMITMENTS AND CONTINGENCIES (see Note 14)		
TOTAL	$ 1,472,185	$ 1,505,483

See accompanying notes to financial statements.

Statements of Operations

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
OPERATING REVENUE	$ 527,324	$ 341,333	$ 214,758
LEASE REVENUE	–	32,027	58,423
Total operating revenue	527,324	373,360	273,181
OPERATING EXPENSES:			
Operations:			
Fuel for electric generation	207,749	80,655	–
Power purchased and interchanged	99,421	116,883	114,643
Production, excluding fuel	52,507	22,381	–
Transmission and other	35,273	35,444	28,600
Maintenance	46,880	29,820	4,258
Depreciation and amortization	34,242	32,485	31,041
Total operating expenses	476,072	317,668	178,542
ELECTRIC OPERATING MARGIN	51,252	55,692	94,639
INTEREST EXPENSE AND OTHER:			
Interest	46,570	59,898	65,719
Interest on obligations related to long-term lease	–	–	6,991
Amortization of loss from termination of long-term lease	–	2,172	811
Income tax expense	259	1,025	5,934
Other – net	166	112	123
Total interest expense and other	46,995	63,207	79,578
OPERATING MARGIN	4,257	(7,515)	15,061
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	–	–	8,742
Gain on Unwind transaction (see Note 2)	–	537,978	–
Interest income and other	2,734	867	4,013
Total non-operating margin	2,734	538,845	12,755
NET MARGIN	$ 6,991	$ 531,330	$ 27,816

See accompanying notes to financial statements.

Statements of Equities (Deficit)

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Margin (Deficit)	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE – December 31, 2007	$ (174,137)	$ (174,639)	$ 764	$ 3,681	$ (3,943)
Comprehensive income:					
Net margin	27,816	27,816	–	–	–
Defined benefit plans	(8,281)	–	–	–	(8,281)
Total comprehensive income	19,535	27,816	–	–	(8,281)
BALANCE – December 31, 2008	(154,602)	(146,823)	764	3,681	(12,224)
Comprehensive income:					
Net margin	531,330	531,330	–	–	–
Defined benefit plans	2,664	–	–	–	2,664
Total comprehensive income	533,994	531,330	–	–	2,664
BALANCE – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	–	–	–
Defined benefit plans	192	–	–	–	192
Total comprehensive income	7,183	6,991	–	–	192
BALANCE – December 31, 2010	$ 386,575	$ 391,498	$ 764	$ 3,681	$ (9,368)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 6,991	$ 531,330	$ 27,816
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,650	37,084	34,320
Increase in restricted investments under long-term lease	–	–	(2,502)
Decrease in deferred AMT Income Taxes	–	–	5,035
Amortization of deferred loss (gain) on sale-leaseback – net	–	2,172	(1,187)
Deferred lease revenue	–	(3,768)	(4,582)
Residual value payments obligation gain	–	(3,881)	(6,748)
Interest compounded - RUS Series B Note	6,499	6,136	5,841
Increase in obligations under long-term lease	–	–	2,749
Noncash gain on Unwind transaction	–	(269,441)	–
Cash received for member rate mitigation	–	217,856	–
Noncash member rate mitigation revenue	(23,953)	(12,033)	–
Changes in certain assets and liabilities:			
Accounts receivable	1,588	(26,049)	6,218
Inventories	(2,304)	(3,497)	12
Prepaid expenses	731	(2,783)	(319)
Deferred charges	1,251	(1,538)	1,871
Purchased power payable	(1,846)	(5,973)	(3,702)
Accounts payable	(875)	24,825	899
Accrued expenses	2,800	7,881	327
Other – net	555	6,852	(4,940)
Net cash provided by operating activities	29,087	505,173	61,108
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(42,683)	(58,388)	(22,760)
Proceeds from disposition of investments related to sale-leaseback	–	–	222,739
Proceeds from restricted investments	28,143	8,982	–
Purchases of restricted investments and other deposits & investments	–	(252,798)	(401)
Net cash provided by (used in) investing activities	(14,540)	(302,204)	199,578
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(121,355)	(168,956)	(40,838)
Proceeds from long-term obligations	83,300	–	–
Principal payments on short-term notes payable	–	(12,380)	–
Proceeds from short-term notes payable	10,000	–	–
Payments upon termination of sale-leaseback	–	–	(329,859)
Debt issuance cost on bond refunding	(2,002)	(246)	–
Net cash used in financing activities	(30,057)	(181,582)	(370,697)
Net increase (decrease) in cash and cash equivalents	(15,510)	21,387	(110,011)
CASH AND CASH EQUIVALENTS—Beginning of year	$ 60,290	$ 38,903	$ 148,914
CASH AND CASH EQUIVALENTS—End of year	$ 44,780	$ 60,290	$ 38,903
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 37,268	$ 51,078	$ 74,819
Cash paid for income taxes	260	626	1,220

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

As of December 31, 2010 and 2009 (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 (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC's principal assets were the restricted investments acquired in connection with the 2000 sale leaseback transaction discussed in Note 4. The sale leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 7, 2009, in conjunction with the Unwind Transaction (See Note 2).

Management evaluated subsequent events up to and including March 25, 2011, the date the financial statements were available to be issued.

(b) *Principles of Consolidation* — The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

(c) *Estimates* — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

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

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

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

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

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by LG&E and KU Energy LLC (formerly E.ON U.S. LLC) as utility plant to which the Company maintained title. A corresponding obligation to LG&E and KU Energy LLC (LG&E and KU) was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2010 and 2009, the Company recorded $0 and $5,557, respectively, for such additions in utility plant. The Company recorded $0, $3,881, and $6,748 in 2010, 2009, and 2008, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, LG&E and KU waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E and KU (see Note 2) that were recorded by the Company as utility plant and lease revenue, LG&E and KU also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of $19,679 for the Nonincremental Capital assets for which LG&E and KU had waived rights to.

LG&E and KU constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of $98,500 in 2009.

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. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	1.60%–2.47%
Transmission plant	1.76%–3.24%
General plant	1.11%–5.62%

For 2010, 2009, and 2008, the average composite depreciation rates were 1.86%, 1.85%, and 1.85%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

(g) ***Impairment Review of Long Lived Assets*** — Long lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with FASB ASC 360, *Property, Plant,* and *Equipment* as it relates to impairment of long lived assets. FASB ASC 360 establishes one accounting model for all impaired long lived assets and long lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, 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 operations or discontinued operations.

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

(i) ***Restricted Investments*** — Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).

(j) ***Cash and Cash Equivalents*** — Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

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

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

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

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

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

(n) ***Fair Value Measurements*** — The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic 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.

2. LG&E LEASE AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

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

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

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

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

3. UTILITY PLANT

At December 31, 2010 and 2009, utility plant is summarized as follows:

	2010	2009
Classified plant in service:		
Production plant	$1,689,024	$1,675,733
Transmission plant	237,689	236,639
General plant	18,937	18,201
Other	543	543
	1,946,193	1,931,116
Less accumulated depreciation	909,501	908,099
	1,036,692	1,023,017
Construction in progress	54,874	55,257
Utility plant — net	$1,091,566	$1,078,274

Interest capitalized for the years ended December 31, 2010, 2009, and 2008, was $684, $133, and $492, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement Obligations.* In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2010 and 2009, the Company had approximately $38,000 and $35,835, respectively, related to non-legal removal costs included in accumulated depreciation.

4. SALE-LEASEBACK

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provided Big Rivers a $1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction; with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, Big Rivers received $866,676 of proceeds and incurred $791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished $656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased investments with an initial value of $146,647 to fund the remaining $135,597 of the obligations. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 6.89% on its related investments. The Company made a $64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The $75,050 gain was deferred and was amortized up to the date of lease termination, with the Company recognizing $1,998 in 2008.

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the year ended December 31, 2008, were as follows:

	2008
Power contracts revenue (revenue discount adjustment — see Note 6)	$(2,453)
Interest on obligations related to long-term lease:	
Interest expense	$ 8,989
Amortize gain on sale-leaseback	(1,998)
Net interest on obligations related to long-term lease	$6,991
Interest income on restricted investments under long-term lease	$8,742
Interest income and other	$779

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2010 and 2009, is as follows:

	2010	2009
RUS Series A Promissory Note, stated amount of, $561,061, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$558,731	$596,786
RUS Series B Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	116,165	109,666
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	83,300	–
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.56% and 10.50% in 2010 and 2009, respectively), maturing in October 2022	–	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.27% and 3.22% in 2010 and 2009, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	816,996	848,552
Current maturities	7,373	14,185
Total long-term debt — net of current maturities	$809,623	$834,367

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

Year	Amount
2011	7,373
2012	76,078
2013	79,275
2014	21,676
2015	22,968
Thereafter	609,626
Total	$816,996

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

(b) ***Pollution Control Bonds*** — In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031. Proceeds from the Series 2010A Bonds were used to refund the $83,300, County of Ohio, Kentucky, Periodic Auction Rate Securities, Series 2001A.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

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

The Series 1983 are subject to a maximum interest rate of 13%. The December 31, 2010 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) ***LEM Settlement Note*** — On July 15, 1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately $1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of $15,440 was forgiven.

(d) ***Notes Payable*** — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. Big Rivers had $10,000 of borrowings outstanding, at an interest rate of 2.46%, on the CoBank line of credit at December 31, 2010. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,928. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. At December 31, 2010 the Company had available to it a $2,500 line of credit with CFC to finance storm emergency repairs and expenses related to electric utility operations with a February 25, 2011 maturity date.

(e) ***Covenants*** — Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' 2010 MFIR was 1.15 and its DSCR was 1.47.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). 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.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting authority to adjust its rates for wholesale electric service.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

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

7. INCOME TAXES

As a result of the sale-leaseback terminations in 2008 (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted of Net Operating Loss (NOL) Carryforwards, Alternative Minimum Tax (AMT) Credit Carryforwards, Fixed Asset Book to Tax Differences, Economic Reserve Book to Tax Differences, and RUS Series B Note Book to Tax Differences). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. AMT charges were recorded in the Statement of Operations for 2010 and 2009 in the amount of $259 and $1,025, respectively.

At December 31, 2010, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $42,354 expiring at various times between 2010 and 2030, and an Alternative Minimum Tax Credit Carryforward of approximately $6,038, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2010, 2009 and 2008, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,846, $19,619, and $20,363 in current regular tax expense for the years ended December 31, 2010, 2009 and 2008, respectively.

The components of the net deferred tax assets as of December 31, 2010 and 2009, were as follows:

	2010	2009
Deferred tax assets:		
Net operating loss carryforward	$16,730	$20,990
Alternative minimum tax credit carryforwards	6,038	7,052
Member rate mitigation	10,326	10,326
Fixed asset basis difference	10,752	11,420
RUS Series B Note	14,767	–
Total deferred tax assets	58,613	49,788
Deferred tax liabilities:		
RUS Series B Note	–	(23,793)
Bond refunding costs	(8)	–
Total deferred tax liabilities	(8)	(23,793)
Net deferred tax asset (prevaluation allowance)	58,605	25,995
Valuation allowance	(58,605)	(25,995)
Net deferred tax asset	$ –	$ –

A reconciliation of the Company's effective tax rate for 2010, 2009 and 2008, follows:

	2010	2009	2008
Federal rate	35.0%	35.0%	35.0%
State rate — net of federal benefit	4.5	4.5	4.5
Permanent differences	0.5	–	–
Patronage allocation to members	(38.8)	(35.4)	(31.3)
Tax benefit of operating loss carryforwards and other	(1.2)	(4.1)	(8.2)
Alternative minimum tax	3.0	0.2	18.0
Effective tax rate	3.0%	0.2%	18.0%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2006 through 2010 and 1995 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2003 through 2010 and years 2001 through 2002, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2010, 2009, or 2008.

8. POWER PURCHASED

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

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2009 and 2008, were $51,592 and $99,700, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

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

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

The Company has adopted FASB ASC 715, *Defined Benefit Plans*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2010 and 2009.

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

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$25,493	$24,253
Service cost — benefits earned during the period	1,289	1,241
Interest cost on projected benefit obligation	1,368	1,466
Participant contributions (lump sum repayment)	–	40
Plan settlements	–	262
Benefits paid	(806)	(3,945)
Actuarial loss	1,460	2,176
Benefit obligation — end of period	$28,804	$25,493

The accumulated benefit obligation for all defined benefit pension plans was $21,977 and $18,630 at December 31, 2010 and 2009, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$22,270	$20,295
Actual return on plan assets	2,707	4,820
Employer contributions	1,096	1,060
Participant contributions (lump sum repayment)	–	40
Benefits paid	(806)	(3,945)
Fair value of plan assets — end of period	$25,267	$22,270

The funded status of the Company's pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(28,804)	$(25,493)
Fair value of plan assets — end of period	25,267	22,270
Funded status	$ (3,537)	$ (3,223)

Components of net periodic pension costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,289	$1,241	$1,072
Interest cost	1,368	1,466	1,220
Expected return on plan assets	(1,533)	(1,332)	(1,516)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	584	834	247
Settlement loss	–	1,690	–
Net periodic benefit cost	$1,727	$3,918	$1,042

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ (40)	(59)
Unamortized actuarial (loss)	(9,354)	(9,651)
Accumulated other comprehensive income	$(9,394)	$(9,710)

In 2011, $19 of prior service cost and $560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 19	$ 19
Unamortized actuarial (loss)	297	3,575
Other comprehensive income	$ 316	$ 3,594

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Deferred credits and other	$(3,537)	$(3,223)

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

	2010	2009	2008
Discount rate — projected benefit obligation	4.95%	5.59%	6.38%
Discount rate — net periodic benefit cost	5.59	6.38	6.25
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

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

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

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2010 and 2009, the investment allocation was 58% and 55%, respectively, in U.S. Equities, 9% and 11%, respectively, in International Equities, and 33% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi annually.

At December 31, 2010 and 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category, as required by FASB ASC 320 (see Note 1), are as follows:

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ –	$ 1,517
Equity Securities:			
U.S. large-cap stocks	9,731	–	9,731
U.S. mid-cap stock mutual funds	2,926	–	2,926
U,S. small-cap stock mutual funds	1,448	–	1,448
International stock mutual funds	2,194	–	2,194
Preferred stock	490	–	490
Fixed:			
TIPS Bond Fund	161	–	161
U.S. Government Agency Bonds	–	1,843	1,843
Taxable U.S. Municipal Bonds	–	2,635	2,635
U.S. Corporate Bonds	–	2,322	2,322
	$18,467	$6,800	$25,267

	Level 1	Level 2	December 31, 2009
Cash and money market	$ 815	$ –	$ 815
Equity Securities:			
U.S. large-cap stocks	8,580	–	8,580
U.S. mid-cap stock mutual funds	2,064	–	2,064
U,S. small-cap stock mutual funds	1,282	–	1,282
International stock mutual funds	2,328	–	2,328
Preferred stock	404	–	404
Fixed:			
U.S. Government Agency Bonds	–	2,139	2,139
Taxable U.S. Municipal Bonds	–	2,282	2,282
U.S. Corporate Bonds	–	2,376	2,376
	$15,473	$ 6,797	$22,270

Expected retiree pension benefit payments projected to be required during the years following 2010 are as follows:

Years Ending December 31	Amount
2011	$ 1,788
2012	2,115
2013	3,939
2014	1,787
2015	3,139
2016–2020	12,017
Total	$24,785

In 2011, the Company expects to contribute $949 to its pension plan trusts.

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

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

The Company's expense under these plans was $4,389 and $355 for the years ended December 31, 2010 and 2009, respectively.

(c) *Deferred Compensation Plan* — Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2010 employer contribution was $61 and deferred compensation expense was $108. As of December 31, 2010, the trust asset was $205 and the deferred liability was $165.

10. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
Cash and money market	$ 12,812	$ 12,812	$ 25,186	$ 25,186
Debt Securities:				
U.S. Treasuries	60,941	62,582	67,895	67,474
U.S. Government Agency	143,809	143,922	150,144	150,181
Total	$217,562	$219,316	$243,225	$242,841

Gross unrealized gains and losses on restricted investments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Gains	Losses	Gains	Losses
Cash and money market	$ –	$ –	$ –	$ –
Debt Securities:				
U.S. Treasuries	1,641	–	12	434
U.S. Government Agency	331	217	79	41
Total	$ 1,972	$ 217	$ 91	$ 475

Debt securities at December 31, 2010 and 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
In one year or less	$ 71,111	$ 71,193	$ 46,102	$ 46,112
After one year through five years	146,451	148,123	197,123	196,729
Total	$217,562	$219,316	$243,225	$242,841

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, 2010 and 2009, were:

	2010 Less Than 12 Months		2009 Less Than 12 Months	
	Losses	Fair Values	Losses	Fair Values
Debt securities:				
U.S. Treasuries	$ –	$ –	$ 434	$ 59,872
U.S. Government Agency	217	15,783	41	45,026
Total	$ 217	$ 15,783	$ 475	$104,898

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2010 and 2009 was one and eight, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

11. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

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

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

	2010	2009
Institutional money market government portfolio	$44,774	$59,887

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, 2010 consists of RUS notes totaling $674,896, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2010, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $82,099.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. National Rural Electric Cooperative Association (NRECA), the provider of Big Rivers' health plan coverage through the NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

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

	2010	2009	2008
Discount rate — projected benefit obligation	4.96%	5.78%	6.32%
Discount rate — net periodic benefit cost	5.78	6.32	5.85

The health care cost trend rate assumptions as of December 31, 2010 and 2009, were as follows:

	2010	2009
Initial trend rate	7.60%	7.70%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

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

	2010	2009
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (201)	$ (138)
Effect on year end benefit obligation	(1,131)	(989)
One-percentage-point increase:		
Effect on total service and interest cost components	236	162
Effect on year end benefit obligation	1,306	1,134

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$ 13,864	$ 2,948
Service cost — benefits earned during the period	1,313	878
Interest cost on projected benefit obligation	743	464
Transaction benefit obligation assumed in the unwind	–	8,768
Participant contributions	85	48
Plan amendments	–	175
Benefits paid	(313)	(203)
Actuarial loss	172	786
Benefit obligation — end of period	$ 15,864	$13,864

A reconciliation of the Company's postretirement plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$ –	$ –
Employer contributions	228	155
Participant contributions	85	48
Benefits paid	(313)	(203)
Fair value of plan assets — end of period	$ –	$ –

The funded status of the Company's postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(15,864)	$(13,864)
Fair value of plan assets — end of period	–	–
Funded status	$(15,864)	$(13,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,313	$ 878	$ 129
Interest cost	743	464	167
Amortization of prior service cost	17	17	2
Amortization of actuarial (gain)	–	(17)	(60)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$2,104	$1,373	$ 269

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$(147)	$(165)
Unamortized actuarial gain	235	407
Transition obligation	(62)	(92)
Accumulated other comprehensive income	$ 26	$ 150

In 2011, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 18	$(157)
Unamortized actuarial gain	(172)	(803)
Transition obligation	30	30
Other comprehensive loss	$(124)	$(930)

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Accounts payable	$ (600)	$ (424)
Deferred credits and other	(15,264)	(13,440)
Net amount recognized	$(15,864)	$(13,864)

Expected retiree benefit payments projected to be required during the years following 2010 are as follows:

Year	Amount
2011	$ 600
2012	813
2013	995
2014	1,201
2015	1,355
2016–2020	8,685
Total	$13,649

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $391 and $375 at December 31, 2010 and 2009, respectively. The postretirement expense recorded was $21, $45, and $62 for 2010, 2009, and 2008, respectively, and the benefits paid were $5, $78, and $0 for 2010, 2009, and 2008, respectively.

13. RELATED PARTIES

For the years ended December 31, 2010, 2009, and 2008, Big Rivers had tariff sales to its members of $151,001, $125,826, and $114,514, respectively. In addition, for the years ended December 31, 2010, 2009, and 2008, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $281,473, $167,885, and $55,124, respectively.

At December 31, 2010 and 2009, Big Rivers had accounts receivable from its members of $36,636 and $35,524, respectively.

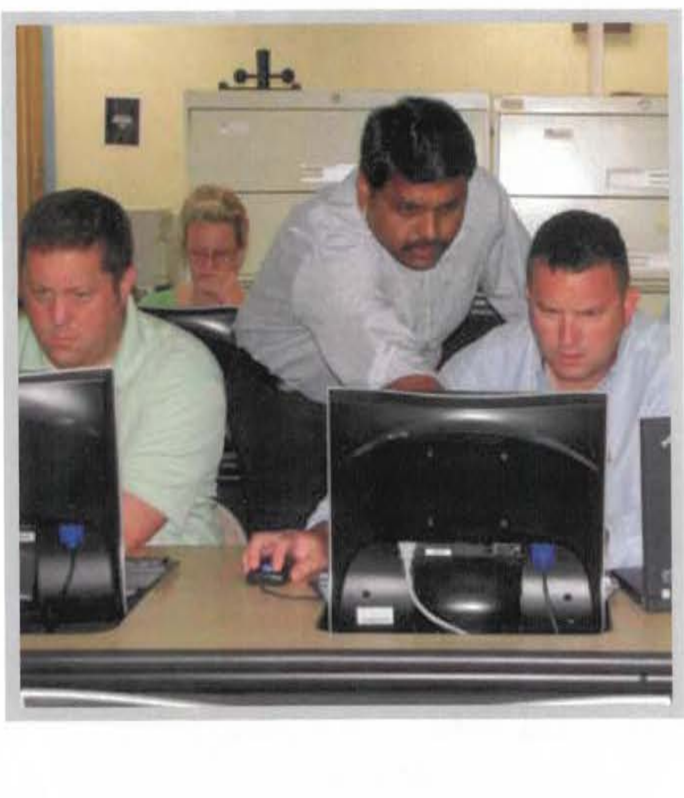
Revenue and offsetting expense amounts related to Big Rivers' energy services department reservation of the Company's transmission (in accordance with its Open Access Transmission Tariff) for third party sales in 2010 and 2009, were $12,129, and $10,099, respectively.

14. COMMITMENTS AND CONTINGENCIES

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

OUR MISSION:

**BIG RIVERS WILL SAFELY DELIVER
LOW COST,
RELIABLE WHOLESALE POWER
AND COST-EFFECTIVE
SHARED SERVICES
DESIRED BY THE MEMBERS.**



Our Vision:

Big Rivers will be viewed as one of the TOP G&Ts in the country and will PROVIDE SERVICES the MEMBERS DESIRE in meeting future challenges

Our Values:

Safety

Integrity

Excellence

Member and Community Service

Respect for the Employee

Teamwork

Environmentally Conscious

Big Rivers ELECTRIC CORPORATION

Five-Year Review

Years Ended December 31 — (Dollars in thousands)

SUMMARY OF OPERATIONS	2010	2009	2008	2007	2006
Operating Revenue:					
Power Contracts Revenue	$527,324	$341,333	$214,758	$271,605	$200,692
Lease Revenue	-	32,027	58,423	58,265	57,896
Total Operating Revenue	527,324	373,360	273,181	329,870	258,588
Operating Expenses:					
Fuel for Electric Generation	207,749	80,655	–	–	–
Power Purchased	99,421	116,883	114,643	169,768	114,516
Operations (Excluding Fuel), Maintenance, Other	134,660	87,645	32,858	31,436	25,336
Depreciation	34,242	32,485	31,041	30,632	30,408
Total Operating Expenses	476,072	317,668	178,542	231,836	170,260
Interest Expense and Other:					
Interest	46,570	59,898	72,710	70,851	70,259
Other – net	425	3,309	6,868	103	111
Total Interest Expense & Other	46,995	63,207	79,578	70,954	70,370
Operating Margin	4,257	(7,515)	15,061	27,080	17,958
Non-Operating Margin	2,734	538,845	12,755	20,097	16,584
NET MARGIN	$6,991	$531,330	$27,816	$47,177	$34,542
SUMMARY OF BALANCE SHEET					
Total Utility Plant	$2,001,067	$1,986,373	$1,791,772	$1,764,924	$1,744,315
Accumulted Depreciation	909,501	908,099	879,073	853,290	826,647
Net Utility Plant	1,091,566	1,078,274	912,699	911,634	917,668
Cash and Cash Equivalents	44,780	60,290	38,903	148,914	96,143
Reserve Account Investments[1]	218,955	244,641	–	–	–
Other Assets	116,884	122,278	122,834	253,610	240,578
TOTAL ASSETS	$1,472,185	$1,505,483	$1,074,436	$1,314,158	$1,254,389
Equities (deficit)	$386,575	$ 379,392	$ (154,602)	$ (174,137)	$ (217,371)
Long-term Debt[2]	816,996	848,552	987,349	1,022,345	1,041,075
Regulatory Liability – Member Rate Mitigation	185,893	207,348	–	–	–
Other Liabilities and Deferred Credits	82,721	70,191	241,689	465,950	430,685
TOTAL LIABILITIES AND EQUITY	$1,472,185	$1,505,483	$1,074,436	$1,314,158	$1,254,389
ENERGY SALES - MWhs					
Member Rural	2,481,390	2,239,445	2,386,916	2,406,446	2,231,554
Member Large Industrial	930,168	919,587	925,793	921,359	956,502
Smelter Contracts	6,348,431	2,885,491	–	–	–
Other	2,209,431	1,746,438	1,844,677	2,835,789	2,062,286
Total Energy Sales	11,969,420	7,790,961	5,157,386	6,163,594	5,250,342
SOURCES OF ENERGY - MWhs					
Generated	9,895,512	3,715,544	–	–	–
Purchased	2,220,994	4,166,916	5,211,789	6,213,682	5,294,138
Losses and Net Interchange	(147,086)	(91,499)	(54,403)	(50,088)	(43,796)
Total Energy Available	11,969,420	7,790,961	5,157,386	6,163,594	5,250,342
NET CAPACITY - MWs					
Net Generating Capacity Owned	1,444	1,444	1,459	1,459	1,459
Rights to HMP&L Station Two	207	212	217	217	217
Other Net Capacity Available	178	178	178	178	178

[1]Includes investment income receivable.

[2]Includes current maturities of long-term obligations.

BIG RIVERS ELECTRIC CORPORATION

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Henderson, KY

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APPENDIX H

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011A

FORM OF BOND COUNSEL OPINION

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Upon delivery of the Series 2011A Bonds, Stoll Keenon Ogden PLLC, Bond Counsel to the City, proposes to issue its approving opinion in substantially the following form, dated the date of such delivery.

STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

September __, 2011

Re: $11,350,000 City of Henderson, Kentucky, Electric System Revenue Bonds, Series 2011A

We have examined executed, certified or otherwise authenticated copies of the proceedings of the City of Henderson, Kentucky (the "City"), in respect of the authorization and issuance of $11,350,000 City of Henderson, Kentucky, Electric System Revenue Bonds, Series 2011A, dated the date of issuance (the "Bonds"), consisting of fully registered bonds in the denominations of $5,000 or integral multiples thereof, maturing on December 1 of the respective years and bearing interest to maturity payable on each June 1 and December 1, beginning December 1, 2011, as shown in the following schedule:

Maturity December 1	Principal Amount	Interest Rate	Maturity December 1	Principal Amount	Interest Rate
2012	$420,000	2.500%	2022	$ 555,000	3.500%
2013	435,000	2.500	2023	570,000	3.750
2014	445,000	2.500	2024	595,000	4.000
2015	455,000	2.500	2025	615,000	4.000
2016	465,000	2.500	2026	640,000	4.125
2017	475,000	2.500	2027	665,000	4.250
2018	490,000	3.000	2028	695,000	4.300
2019	505,000	3.000	2029	725,000	4.375
2020	520,000	3.250	2031*	1,545,000	4.500
2021	535,000	3.400			

* Term Bond subject to mandatory sinking fund redemption as set forth in the text of each Bond.

provided, however, that the Bonds maturing on and after December 1, 2021 are subject to redemption before stated maturity at the option of the City on September 1, 2021 and on any day thereafter, subject to notice as set forth in the text of each Bond. In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted ordinances and other official action of the City authorizing and providing for the sale and issuance of the Bonds (collectively the "Ordinances"), certifications and representations of officials of the City as to certain facts and expectations and the opinion of counsel for the City as to certain legal matters. We have been furnished a certificate of an authorized officer of the Trustee and Paying Agent (identified in the text of each Bond) acknowledging authentication by the Trustee and Paying Agent of the Bonds and have examined the form of Bond and find it to be in due form of law.

The described proceedings, including the Ordinances, show proper authority for the issuance of the Bonds under the laws of the Commonwealth of Kentucky, particular reference being made to Sections 96.520, 96.530 and 96.370 through 96.510 of the Kentucky Revised Statutes. The Bonds are being issued to finance certain improvements and additions to the City's retail electric transmission and distribution system and Station Two generating station on the Green River in Henderson County (collectively, the "System") and to fund related costs.

Re: $11,350,000 City of Henderson, Kentucky,
Electric System Revenue Bonds, Series 2011A

Based upon our examination of the proceedings described above, it is our opinion that the Bonds constitute valid special and limited obligations of the City according to their terms and applicable provisions of Kentucky law and that the Bonds, together with any additional bonds ranking on a parity therewith that may be subsequently issued and outstanding under the conditions and restrictions set out in the Ordinances, will be payable as to both principal and interest solely from, and secured by a pledge of, a fixed portion of the gross revenues of the System, which fixed portion is provided to be sufficient to pay when due the principal of and interest on the Bonds and any such parity bonds when due.

Further, based on existing laws as construed and applied at the date hereof, and assuming the accuracy of certain representations and warranties of the City made in connection with the issuance of the Bonds, it is our opinion that interest on the Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations under the United States Internal Revenue Code of 1986, as amended (the "Code"). The opinions set forth in the first sentence of this paragraph are subject to the conditions that the representations and warranties of the City described above are accurate and that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be excluded from gross income for federal income tax purposes. The City has covenanted to comply with such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Bonds.

It is also our opinion that the Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

With respect to the opinions expressed herein, (a) the rights and obligations under the Bonds and the Ordinances are subject to bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought, and (b) we are passing on only those matters set forth in such opinions and are not passing on the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

OFFICIAL STATEMENT

Dated September 1, 2011

New Issue **RATING: "A3" Moody's**
Bank Qualified **(see "Rating" herein)**

In the opinion of Bond Counsel, subject to the conditions set forth in "TAX MATTERS" herein, interest on the Series 2011B Bonds is excluded from gross income for federal and Kentucky income tax purposes and is not an item of tax preference for purposes of computing the federal alternative minimum tax. Bond Counsel is further of the opinion that the Series 2011B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.

$3,670,000
CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

Dated: Date of Delivery **Due: December 1, as described on the following page**

The above identified bonds (the "Series 2011B Bonds") of the City of Henderson, Kentucky (the "City"), are described as to principal maturities, interest rates and certain other information on the inside cover page of this Official Statement. The Series 2011B Bonds are special and limited obligations of the City payable solely from the revenues of the City's electric generating and distribution system and other funds specifically pledged for that purpose and do not constitute an indebtedness of the City within the meaning of the statutes or the Constitution of the Commonwealth of Kentucky or a pledge of the full faith and credit of the City.

The Series 2011B Bonds will be initially issued in book-entry form only and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2011B Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2011B Bonds. Accordingly, principal and interest on the Series 2011B Bonds will be paid by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal or interest to the Direct Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Series 2011B Bonds. The Series 2011B Bonds will be issuable in denominations of $5,000 or any integral multiples thereof, fully registered as to both principal and interest. The Series 2011B Bonds will mature on the respective dates shown on the following page.

The Series 2011B Bonds due December 1, 2021 and thereafter are callable in any order and on any date on or after September 1, 2021, at 100% of the principal amount thereof plus accrued interest to the redemption date as more fully described herein.

The Series 2011B Bonds are offered, subject to prior sale, when, as and if issued by the City, subject to prior approval of legality by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for the City by its City Attorney, Joseph E. Ternes, Jr., Henderson, Kentucky. Certain legal matters will be passed upon for the City's Utility Commission by its Counsel, King, Deep and Branaman, Henderson, Kentucky. Delivery of the Series 2011B Bonds at DTC in New York is expected on or about September 27, 2011.

J.J.B. HILLIARD, W.L. LYONS, LLC

$3,670,000
CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

(First interest payment due December 1, 2011)

The Series 2011B Bonds will mature on the following dates:

$1,585,000 Serial Bonds

December 1	Amount	Interest Rate	Price	Yield	CUSIP# 425097†
2012	$150,000	1.250%	100.584%	0.750%	AV4
2013	150,000	1.250	100.536	1.000	AW2
2014	150,000	1.250	100.310	1.150	AX0
2015	155,000	1.250	99.796	1.300	AY8
2016	155,000	1.500	99.504	1.600	AZ5
2017	155,000	2.000	99.422	2.100	BA9
2018	160,000	2.200	99.668	2.250	BB7
2019	165,000	2.400	99.629	2.450	BC5
2020	170,000	2.650	99.593	2.700	BD3
2021	175,000	2.875	99.778	2.900	BE1

$2,085,000 Term Bonds

December 1	Amount	Interest Rate	Price	Yield	CUSIP# 425097†
2023	$360,000	3.250%	99.498%	3.300%	BG6
2025	385,000	3.600	100.000	3.600	BJ0
2027	415,000	3.750	99.395	3.800	BL5
2029	445,000	4.000	100.000	4.000	BN1
2031	480,000	4.100	99.316	4.150	BQ4

(No accrued interest)

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. These data are not intended to create a database and do not serve in any way as a substitute for the CUSIP Services. None of the City, the Utility Commission or the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF HENDERSON, KENTUCKY

Board of Commissioners
Steve Austin, Mayor
Mike Farmer, Commissioner
Robert M. Mills, Commissioner
Robert N. Pruitt, Commissioner
Alan C. Taylor, Commissioner

Other Officials
Russell R. Sights, City Manager
Carolyn Williams, City Clerk
Robert J. Gunter, Finance Director
Joseph E. Ternes, Jr., City Attorney

CITY UTILITY COMMISSION
(HENDERSON MUNICIPAL POWER & LIGHT)

Members and Officers
Dr. William L. Smith, Chairman
Gregory A. Risch, Vice Chairman
Ronald Jenkins, Secretary
Joel Hopper, Commissioner
Michael J. Vickers, Commissioner

Management
Gary Quick, General Manager
Mark Powers, Comptroller
Wayne Thompson, Director of Power Production
Steve Smith, Manager Transmission & Distribution

INDEPENDENT AUDITOR
Neel, Crafton & Phillips, LLP

COUNSEL TO CITY UTILITY COMMISSION
King, Deep and Branaman
Henderson, Kentucky

BOND COUNSEL
Stoll Keenon Ogden PLLC
Louisville, Kentucky

FINANCIAL ADVISOR
J.J.B. Hilliard, W.L. Lyons, LLC
Louisville, Kentucky

This Official Statement does not constitute an offer to sell the Series 2011B Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Series 2011B Bonds, and if given or made, such information or representation must not be relied upon. Neither the delivery of this Official Statement nor the sale of any Series 2011B Bonds implies that there has been no change in the matters described herein since the date hereof.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The information in this Official Statement has been obtained from sources which are considered reliable and which are customarily relied upon in preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness.

The Series 2011B Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

TABLE OF CONTENTS

APPENDIX B –	DEMOGRAPHIC AND ECONOMIC DATA FOR THE CITY OF HENDERSON, KENTUCKY
APPENDIX C –	GENERAL OPERATING INFORMATION FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
APPENDIX D –	SUMMARIES OF UNAUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED MAY 31, 2011 AND AUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED MAY 31, 2006 THROUGH 2010 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
APPENDIX E –	REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
APPENDIX F –	GENERAL INFORMATION AND DATA - BIG RIVERS ELECTRIC CORPORATION
APPENDIX G –	ANNUAL REPORT OF BIG RIVERS ELECTRIC CORPORATION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010, WITH ACCOMPANYING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009
APPENDIX H –	FORM OF BOND COUNSEL OPINION

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$3,670,000
CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

INTRODUCTORY STATEMENT

This Official Statement of the City of Henderson, Kentucky (the "City"), sets forth certain information with respect to the City's Electric System Revenue Bonds, Series 2011B, dated the date of original issuance and delivery, to be issued in the aggregate principal amount of $3,670,000 (the "Series 2011B Bonds").

The proceeds from the sale of the Series 2011B Bonds, after paying costs of issuance, will be used to pay and discharge the City's Bond Anticipation Note, Series 2008A, currently outstanding in the principal amount of $3,500,000 (the "2008A Note"), and the City's Bond Anticipation Note, Series 2010A, currently outstanding in the principal amount of $170,000 (the "2010A Note"), all as described under the heading "PURPOSES." The 2008A Note and the 2010A Note financed the initial costs of the acquisition, construction and installation of certain capital improvements and additions to the City's retail electric transmission and distribution system (the "Retail System").

The City is a city and political subdivision of the Commonwealth of Kentucky situated in Henderson County, Kentucky. The Series 2011B Bonds will be issued under authority of Sections 96.520, 96.530 and 96.370 through 96.510 of the Kentucky Revised Statutes, as amended, and the Ordinances, as defined and described under the heading "THE ORDINANCES." The City operates the System (as defined below) through its Utility Commission (the "Utility Commission"), which the City created on June 1, 1949 pursuant to Section 96.530 of the Kentucky Revised Statutes to operate, manage, equip and maintain the System. The Utility Commission operates the System under the name Henderson Municipal Power & Light.

Big Rivers Electric Corporation ("Big Rivers") is a generation and transmission rural electric cooperative corporation. In addition to owning and operating four of its own generating stations, Big Rivers operates the City's Station Two generating station on the Green River in Henderson County ("Station Two" and, together with the Retail System, the "System") for the City and purchases all of the power and energy produced by Station Two that is not reserved by the Utility Commission. See the heading "BIG RIVERS ELECTRIC CORPORATION" and APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION" for additional information regarding Big Rivers and the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS" for information regarding Big Rivers' management and operation of Station Two.

The Series 2011B Bonds are not general obligations of the City but are special and limited obligations of the City payable solely from and secured by a pledge of a fixed portion of the gross income and revenues of the System. The Series 2011B Bonds are additionally secured by a debt service reserve and a nonforeclosable statutory mortgage lien on the System. The security for the Series 2011B Bonds is described in greater detail under the heading "AUTHORITY AND SECURITY."

Before the issuance of the Series 2011B Bonds, the Utility Commission, on behalf of the City, will execute a Continuing Disclosure Certificate regarding its obligation to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur, all as described under the heading "CONTINUING DISCLOSURE UNDERTAKINGS – The Utility Commission." On June 1, 2010, Big Rivers entered into a Continuing Disclosure Agreement with U.S. Bank National Association, as trustee, in connection with the issuance of the County of Ohio, Kentucky Pollution Control Refunding Revenue Bonds, Series 2010A (Big Rivers Electric Corporation Project) whereby Big Rivers agreed to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur, all as described under the heading "CONTINUING DISCLOSURE UNDERTAKINGS – Big Rivers" and APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION – Continuing Disclosure." The Utility Commission and Big Rivers' continuing disclosure obligations are collectively referred to herein as the "Continuing Disclosure Undertakings."

The Series 2011B Bonds will be initially issued only in book-entry form in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), as securities depository. No physical delivery of the Series 2011B Bonds will be made to purchasers. SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER, REFERENCES TO BONDHOLDERS OR REGISTERED HOLDERS OR OWNERS SHALL MEAN CEDE & CO., AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2011B BONDS. SEE "THE SERIES 2011B BONDS – Book-Entry-Only System."

The City sold its Electric System Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), in the principal amount of $11,350,000, on August 16, 2011, for the purpose of paying and discharging an additional bond anticipation note that was issued to finance capital improvements to Station Two and to finance capital improvements to Station Two and the Retail System. The Series 2011A Bonds will, when issued, rank on a parity with the Series 2011B Bonds, when issued.

Following are brief descriptions of the City, the Utility Commission, Big Rivers, the Series 2011B Bonds, the Ordinances, the Continuing Disclosure Undertakings, the contractual arrangements between the Utility Commission and Big Rivers, the purposes of the issuance of the Series 2011B Bonds and other information and data, together with the Appendices, containing among other things financial and other information with respect to the Utility Commission and Big Rivers. All descriptions contained herein of the Series 2011B Bonds, the Ordinances, the Continuing Disclosure Undertakings and the contractual arrangements between the Utility Commission and Big Rivers do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, all of which are available for inspection at the office of the Utility Commission.

THE SERIES 2011B BONDS

General

The Series 2011B Bonds will be dated the date of original issuance and delivery, will be issued in the principal amount of $3,670,000, in fully registered form and in denominations of

$5,000 or any integral multiple thereof and will mature as to principal on each December 1 and will bear interest as set forth on the inside cover page of this Official Statement, subject to mandatory sinking fund redemption and possible optional redemption as hereinafter provided. Interest will be computed on the basis of a year of 360 days consisting of twelve 30-day months.

Interest accruing on the Series 2011B Bonds will be payable semiannually on June 1 and December 1 of each year (commencing December 1, 2011) from the later of the date of original issuance and delivery or the most recent interest payment date (June 1 and December 1) to which interest has been paid or duly provided for. The interest installment on each Series 2011B Bond will be paid to the person who is the registered holder thereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date. Payment of interest shall be made by check mailed to the person who is the registered holder on the applicable Record Date at the address of such holder as it appears on the books of the Trustee and Paying Agent, U.S. Bank National Association, Louisville, Kentucky (the "Trustee" and the "Paying Agent," respectively, sometimes referred to jointly as the "Trustee and Paying Agent"). Principal shall be paid when due upon delivery of the Series 2011B Bond for payment at the designated office of the Trustee and Paying Agent. If the date for making any payment in respect of the Series 2011B Bonds is not a business day for the Trustee and Paying Agent, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the date stipulated in the Series 2011B Bonds and no interest shall accrue for the period after such stipulated date.

See "THE SERIES 2011B BONDS – Book-Entry-Only System" below regarding payment of principal and interest to the Beneficial Owners while the Series 2011B Bonds are in the Book-Entry-Only System. See APPENDIX A – "DEBT SERVICE REQUIREMENTS ON SERIES 2011A BONDS AND SERIES 2011B BONDS AND DEBT OUTSTANDING OF THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION," for the City's estimated annual debt service requirements for the Series 2011A Bonds and the Series 2011B Bonds.

Book-Entry-Only System

Only beneficial interests will be available to purchasers through a book-entry-only system maintained by DTC (the "Book-Entry-Only System"). The following discussion will not apply to the Series 2011B Bonds if they are issued in physical form after any discontinuance of the Book-Entry-Only System.

DTC will act as securities depository for the Series 2011B Bonds upon their initial issuance. The Series 2011B Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee). The Series 2011B Bonds will be originally issued as one fully-registered Series 2011B Bond for each maturity, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds bonds that its participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of bond transactions, such as transfers and pledges, in deposited bonds through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of bond certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "Participants." The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2011B Bonds under the Book-Entry-Only System must be made by or through Direct Participants, which will receive a credit for the Series 2011B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011B Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 2011B Bonds, except in the event that use of the Book-Entry-Only System for the Series 2011B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011B Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2011B Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011B Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2011B Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2011B Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2011B Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee and Paying Agent or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee and Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The foregoing information concerning DTC and DTC's book-entry system has been obtained from DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the City takes no responsibility for the accuracy of such statements.

THE CITY AND THE TRUSTEE AND PAYING AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AND PAYING AGENT AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2011B BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE ORDINANCES; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2011B BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The Securities Depository may discontinue providing its services with respect to the Series 2011B Bonds at any time by giving 30 days' notice to the City and the Trustee and Paying Agent and discharging its responsibilities with respect thereto under applicable law. If no successor Securities Depository is appointed in accordance with the Ordinances, or if the City decides to discontinue the Book-Entry-Only System, Series 2011B Bond certificates shall be printed and delivered to and registered in the name of the Beneficial Owners.

In the event that the Book-Entry-Only System is discontinued, a Bondholder may transfer or exchange Series 2011B Bonds in accordance with the Ordinances. The Trustee and Paying Agent may require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Ordinances. The Trustee and Paying Agent shall not be required to transfer or exchange any Series 2011B Bond (a) during any period beginning five (5) days before the selection by the Trustee and Paying Agent of Series 2011B Bonds to be redeemed before maturity and ending on the date of mailing of notice of any such redemption or (b) if such Series 2011B Bond has been selected or called for redemption in whole or in part.

Mandatory Sinking Fund Redemption

The Series 2011B Bonds maturing on December 1 of the year 2023 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Trustee by lot, as follows:

$360,000 Term Bonds Maturing December 1, 2023

Mandatory Sinking Fund Installment Due December 1	Amount of Installment
2022	$175,000
2023 (maturity)	185,000

The Series 2011B Bonds maturing on December 1 of the year 2025 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Trustee by lot, as follows:

$385,000 Term Bonds Maturing December 1, 2025

Mandatory Sinking Fund Installment Due December 1	Amount of Installment
2024	$190,000
2025 (maturity)	195,000

The Series 2011B Bonds maturing on December 1 of the year 2027 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Trustee by lot, as follows:

$415,000 Term Bonds Maturing December 1, 2027

Mandatory Sinking Fund Installment Due December 1	Amount of Installment
2026	$205,000
2027 (maturity)	210,000

The Series 2011B Bonds maturing on December 1 of the year 2029 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Trustee by lot, as follows:

$445,000 Term Bonds Maturing December 1, 2029

Mandatory Sinking Fund Installment Due December 1	Amount of Installment
2028	$220,000
2029 (maturity)	225,000

The Series 2011B Bonds maturing on December 1 of the year 2031 are Term Bonds subject to mandatory sinking fund redemption in part, at the selection of the Trustee by lot, as follows:

$480,000 Term Bonds Maturing December 1, 2031

Mandatory Sinking Fund Installment Due December 1	Amount of Installment
2030	$235,000
2031 (maturity)	245,000

Optional Redemption

The Series 2011B Bonds maturing on and after December 1, 2021, are subject to redemption by the City, at its option, before maturity on September 1, 2021, and on any date thereafter in whole or from time to time in part in any order of maturity (less than all of a single maturity to be selected by lot in such manner as the Trustee and Paying Agent may determine) at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

Other Redemption Provisions

The Trustee and Paying Agent will cause notice of the call for any redemption, identifying the Series 2011B Bonds or portions thereof ($5,000 or any integral multiple thereof) to be redeemed, to be sent by first-class mail not less than thirty (30) days nor more than sixty (60) days before the date fixed for redemption to the registered holder of each Series 2011B Bond to be redeemed at the address shown on the registration books. Failure to give such notice by mailing or any defect therein in respect of any Series 2011B Bond shall not affect the validity of any proceedings for the redemption of any other Series 2011B Bond. Any notice mailed as provided above shall be conclusively presumed to have been duly given, irrespective or whether the registered holder receives the notice.

Notice of redemption having been given as provided in the Ordinances, the Series 2011B Bonds or portions thereof designated for redemption shall become due and payable on the date fixed for redemption and, unless the City defaults in the payment of the principal thereof, such Series 2011B Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption whether or not such Series 2011B Bonds are presented and surrendered for payment on such date. If any Series 2011B Bond or portion thereof called for redemption is not so paid upon presentation and surrender thereof for redemption, such Series 2011B Bond or portion thereof shall continue to bear interest at the rate set forth thereon until paid or until due provision is made for the payment of same.

See "THE SERIES 2011B BONDS – Book-Entry-Only System" regarding redemption notices and related matters while the Series 2011B Bonds are in the Book-Entry-Only System.

PURPOSES

Proceeds of the Series 2011B Bonds will be used to pay and discharge the 2008A Note and the 2010A Note (principal only), the proceeds of which were used to pay a portion of the costs of the acquisition, construction and installation of additions and improvements to the Retail System, including without limitation, substation upgrades, new transformers, switchgear and related equipment, transmission line replacements and related electric distribution facilities, and including engineering, consulting and project management ("Project A").

The City sold its Series 2011A Bonds on August 16, 2011 and expects to deliver the Series 2011A Bonds on September 7, 2011. The proceeds of the Series 2011A Bonds will be used (i) to pay and discharge, along with other funds of the Utility Commission, the City's Bond Anticipation Note, Taxable Series 2008B, currently outstanding in the principal amount of $5,281,067 (the "2008B Note"), the proceeds of which were used to pay a portion of the costs of the City's contractual portion of capital improvements to Station Two, including without limitation, improvements to its boiler, ash system, cooling tower, electrical systems, mechanical systems, building and roof, heating and cooling system and environmental upgrades, replacements and facilities, and including engineering, consulting and project management, all as determined by the Utility Commission ("Project B")[*]; (ii) to pay a portion of the remaining costs of Project A and Project B; and (iii) to pay the costs of issuance of the Series 2011A Bonds.

The estimated sources and uses of funds for the Series 2011A Bonds and the Series 2011B Bonds are shown in the following schedule:

[*] Under a contractual arrangement with Big Rivers (see "THE SYSTEM – Station Two" herein), the costs of improvements to Station Two are incurred by Big Rivers, which bills the Utility Commission for a percentage of such costs (currently 35.26%) based on the City's reserved net capacity of Station Two. Proceeds of the Bonds are used to pay a portion of the City's share of the costs of the Station Two improvements.

Sources of Funds

	Series 2011A Bonds	Series 2011B Bonds
Par Amount	$11,350,000	$3,670,000
Utility Commission Funds	229,527	398,438
Total Sources of Funds	$11,579,527	$4,068,438

Uses of Funds

	Series 2011A Bonds	Series 2011B Bonds
Payment of 2008A Note and 2010A Note, including accrued interest (Project A)	$ 0	$3,689,051
Payment of 2008B Note, including accrued interest (Project B)	5,310,594	0
Deposit to Construction Fund	5,051,964	0
Fund Debt Service Reserve Fund	831,806	256,731
Underwriter's Discount	227,000	69,693
Bond Issuance and Miscellaneous Costs	158,163	52,963
Total Uses of Funds	$11,579,527	$4,068,438

The Utility Commission anticipates that bond proceeds used to fund Project A and Project B will be substantially expended by September 1, 2013.

AUTHORITY AND SECURITY

The Series 2011B Bonds are being issued under authority of the laws of the Commonwealth of Kentucky, particularly Sections 96.520, 96.530 and 96.370 through 96.510 of the Kentucky Revised Statutes (the "Act"), and pursuant to the Ordinances adopted by the City.

The Series 2011B Bonds are not general obligations of the City but are special and limited obligations of the City payable solely from and secured by a pledge of a fixed portion of the gross revenues of the System. Revenues will comprise all revenues, income, rents and receipts derived by the Utility Commission on behalf of the City from the ownership and operation of the System, including all net payments to be made to the Utility Commission on behalf of the City pursuant to a power sales contract (the "Power Sales Contract") between the City and Big Rivers for the sale by the City to Big Rivers of Station Two capacity and energy in excess of the capacity and energy reserved by the City. The Power Sales Contract is hereinafter described in greater detail under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Power Sales Contract."

The Series 2011B Bonds are also secured by a debt service reserve in an amount equal to the least of the maximum annual debt service on the Series 2011B Bonds, 125% of the average annual debt service on the Series 2011B Bonds or 10% of the proceeds of the Series 2011B Bonds. In addition, as provided in the Ordinances and the Act, the Series 2011B Bonds are secured by a nonforeclosable statutory mortgage lien on the System.

The City may issue Additional Bonds on a parity with the Series 2011A Bonds and the Series 2011B Bonds pursuant to the Ordinances for the purpose of paying the costs of Additional Projects. Before Additional Bonds may be issued, certain certificates described in the Ordinances must be delivered demonstrating that Net System Revenues calculated as provided in the Ordinances will not be less than 120% of the Maximum Annual Principal and Interest Requirement on all parity bonds to be outstanding immediately after the issuance of the proposed Additional Bonds. Refunding Bonds may also be issued. The definitions of and requirements regarding the issuance of Additional Bonds and Refunding Bonds and the definitions of Additional Projects, Net System Revenues and Maximum Annual Principal and Interest Requirement are discussed in greater detail under the headings "THE ORDINANCES – Additional Bonds" and "THE ORDINANCES – Refunding Bonds."

Reference is made to the Ordinances and to the Act for a description of the pledge and covenants securing the Series 2011B Bonds, the nature, extent, manner and enforcement of such pledge and the rights and remedies of the holders of the Series 2011B Bonds with respect thereto.

THE CITY

General

The City of Henderson, Kentucky, is the county seat of Henderson County, is situated on the Ohio River in western Kentucky and has a population (according to the year 2009 estimated census) of 27,952. Its administrative offices are located in the Municipal Center, 222 1st Street, Henderson, Kentucky 42420.

The City is organized under the city manager plan, one of the alternative forms of city government established under Kentucky laws. Under the city manager plan, the City is governed by a Mayor, who is elected by the voters of the City for a term of four years, and four legislative body members known as City Commissioners, who are elected at-large by the voters of the City for terms of two years each. The Mayor and the City Commissioners together comprise the Board of Commissioners of the City, in which is vested all legislative and executive authority of the City. The Mayor presides at and may vote at all meetings of the Board of Commissioners. The Mayor is recognized as the head of the City government but has no regular administrative duties. The Board of Commissioners designates one of the City Commissioners to serve as Mayor Pro-Tem in the absence or disability of the Mayor.

The Board of Commissioners establishes by ordinance all appointive offices within the City government and the duties and responsibility of those offices and establishes rules and regulations for the public health, safety and welfare. The Board of Commissioners by ordinance establishes an annual City budget and appropriates funds for the operation of the City government.

The Board of Commissioners appoints a City Manager by a majority vote of all its members. The City Manager is the chief administrative officer of the City and exercises all executive powers and duties delegated to him by ordinance and statute. The City Manager enforces City ordinances and all applicable state statutes. The Board of Commissioners appoints the director, or chief executive, of each City administrative department, upon recommendation of the City Manager.

The City operates the System through its Utility Commission. See the information provided under the headings "THE UTILITY COMMISSION" and "THE SYSTEM" for more information.

City Officials

The incumbent Mayor and City Commissioners are identified below:

Name	Title	Occupation
Steve Austin	Mayor	Retired
Mike Farmer	Commissioner	Small Business Owner
Robert M. Mills	Commissioner	Small Business Owner
Robert N. Pruitt	Commissioner	Self-Employed
Alan C. Taylor	Commissioner	Small Business Owner

Certain other City officials are: City Manager – Russell R. Sights; Finance Director – Robert J. Gunter; City Attorney – Joseph E. Ternes, Jr.; and City Clerk – Carolyn Williams.

See APPENDIX B – "DEMOGRAPHIC AND ECONOMIC DATA FOR THE CITY OF HENDERSON, KENTUCKY" for a general description of the Henderson area.

THE UTILITY COMMISSION

The City operates the System through its Utility Commission. The City created the Utility Commission in 1949 pursuant to Section 96.530 of the Kentucky Revised Statutes to operate, manage, equip and maintain the System. The Utility Commission was also vested with the same authority with respect to Station Two when it was constructed and placed into service during the early 1970s.

The Utility Commission, which operates the System under the name Henderson Municipal Power and Light, constitutes a public body politic and corporate pursuant to Kentucky law and is governed by five Commissioners. The City's Mayor appoints each Commissioner with the approval of the City's Board of Commissioners. The Commissioners serve three year terms with no more than two Commissioners and officers holding concurrent terms of office. The Utility Commission's current Commissioners and officers are:

Name	Title	Occupation
Dr. William L. Smith	Chairman	Dentist
Gregory A. Risch	Vice Chairman	Vice President and Chief Accounting Officer - Accuride Corporation
Ronald Jenkins	Secretary	Retired / Former Editor of *The Gleaner*
Joel Hopper	Commissioner	President, Brenntag Mid-South, Inc.
Michael J. Vickers	Commissioner	Project Engineer II, Bernardin, Lochmueller, and Associates

Certain other officials of the Utility Commission are General Manager – Gary Quick; Power Production Director – Wayne Thompson; Manager Transmission and Distribution – Steve Smith; Comptroller – Mark Powers; and General Counsel – H. Randall Redding.

Following are brief resumes of the management personnel of the Utility Commission:

Gary Quick, General Manager. Mr. Quick has been the General Manager of the Utility Commission since January 2006. Before accepting his current position, Mr. Quick was the Electric Utility Director for the City of Jacksonville Beach, Florida. He has also held the position of General Manager for Macon Municipal Utilities in Missouri and District Manager for Missouri Power & Light Company. Mr. Quick has a B.S. degree in Business Administration with a concentration in Management and a Master's Degree in Accounting. Mr. Quick has over 40 years of management experience in the electric utility industry.

Wayne Thompson, Power Production Director. Mr. Thompson has been employed with the Utility Commission since November 1999. He currently serves as Power Production Director, a position he has held since June 2005. Before this promotion, Mr. Thompson served as the Utility Commission's Station One Plant Superintendent. He held the position of Superintendent of Maintenance at Big Rivers Electric Corporation in Henderson from January 1984 to February 1999. Mr. Thompson was employed as a Mechanical Maintenance Supervisor at Sierra Pacific Power Company in Sierra, Nevada, from January 1981 to January 1984. He also held the position of Maintenance Foreman at Illinois Power Company in Decatur, Illinois, from September 1970 to January 1981. Mr. Thompson studied Automotive Technology at Bailey Technical Institute. He has over 41 years of maintenance and management experience in the electric utility industry.

Steve Smith, Manager Transmission and Distribution. Mr. Smith began his career with the Utility Commission in April 1977 as an apprentice line worker and later advanced to the position of journey line worker. Mr. Smith has over 34 years of experience with the Utility Commission and he was instrumental in the construction and conversion of its distribution system from 2,400kV to 13,800kV. Mr. Smith also worked on the transmission system which operates at 69,000kV and 161,000kV. He has been a Project Coordinator for distribution, transmission, and substation maintenance and construction projects for the Utility Commission and has also supervised the installation of new fiber optic facilities in various areas of Henderson County. In February 2008, Mr. Smith was promoted to Manager of the Transmission and Distribution Department. His intimate knowledge of the Utility Commission's electric generation, transmission, and distribution facilities provides exceptional service reliability for customers during normal operations and emergency events.

Mark Powers, Comptroller. Mark Powers has been the Comptroller of the Utility Commission since March 2006. Previous to that, Mr. Powers was Chief Control Officer for The Nexus Group, a long distance communications company, located in Evansville, Indiana. During his time with The Nexus Group he also held the positions of Chief Information Officer and Vice President of Management Information Systems. Mr. Powers is a Certified Public Accountant and has a B.S. in Accounting from the University of Southern Indiana.

In addition to operating, managing, equipping and maintaining the System, the Utility Commission determines the user charges and rates and financing needs of the System, subject to the approval and adoption of the City's Board of Commissioners. Pursuant to Kentucky law the Utility is not regulated by the Kentucky Public Service Commission (the "KPSC") and the KPSC has no rate setting authority with respect to the City or the Utility Commission. The Utility Commission has contracted with Big Rivers to manage and operate Station Two pursuant to the Operation Agreement described under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Operation Agreement."

The Utility Commission also provides internet and broadband services to local governmental, educational, and religious organizations at a discounted rate.

Summaries of the Utility Commission's unaudited financial statements for the fiscal year ended May 31, 2011 and audited financial statements for the fiscal years ended May 31, 2006 through 2010 and the Utility Commission's audited financial statements and management's discussion and analysis for the years ended May 31, 2010 and 2009 are attached hereto as APPENDIX D – "SUMMARIES OF UNAUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED MAY 31, 2011 AND AUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED MAY 31, 2006 THROUGH 2010 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" and APPENDIX E – "REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION," respectively. In the future, the Utility Commission will file annual information with EMMA, the Nationally Recognized Municipal Services Information Repository, as described under the heading "CONTINUING DISCLOSURE UNDERTAKINGS – The Utility Commission." Such information will also be available by contacting the Utility Commission at 100 Fifth Street, Henderson, Kentucky 42420 or by telephone at (270) 826-2726.

THE SYSTEM

General

The City has owned and operated its electric light and power system since 1897. In terms of annual kilowatt hours sold, the System is the fourth largest municipally-owned electric distribution system in Kentucky.

The Act empowers the City, through the Utility Commission, to erect, maintain and operate electric light, heat and power plants, with extensions and necessary appurtenances, within or without the City's corporate limits. If the City at any time has excess capacity and energy, the Act specifically permits the City to sell the excess capacity and energy to a utility in Kentucky regulated by the KPSC, to a city-owned utility established pursuant to KRS Chapter 96, or to a utility for consumption outside Kentucky.

As a City owned-utility, the Utility Commission is exempt from regulation by the KPSC.

The Retail System

General

The City owns and the Utility Commission operates an electric utility system, including generating, transmission and distribution facilities, which serves at retail the City and its inhabitants. The City's retail electric transmission and distribution system, together with all additions, expansions and improvements thereto and renewals and replacements thereof, other than Station Two, is referred to in this Official Statement as the "Retail System."

The Utility Commission's Retail System consists of approximately 11,922 total customers. Approximately 10,299 or 86%, are residential customers, approximately 1,623, or 14%, are small and large commercial customers, according to the Utility Commission's customer classification system.

The City has one subtransmission substation between its 69kv and the 161kv system of Big Rivers Electric Corporation. The City has six 13.8kv to 69kv substations with 3 of these having ties to the Big Rivers Electric 69kv system. The City's subtransmission substation has 100,000 kva of transformation and a total in excess of 162,000 kva of transformation at its six 13.8kv to 69kv substations. Based on an 85% power factor, the Utility Commission has the ability to provide in excess of 138,000 kw to its customers.

Electric Load History

The following table shows the actual non-coincident peak demand and energy requirements for the Retail System for the five fiscal year period of 2007 through 2011 as prepared by the Utility Commission, based on the actual sales data.

Calendar Year	Peak Demand Megawatts (MW)	System Electric Energy Requirements* Megawatt Hours
2007	125	644,000
2008	119	657,000
2009	111	602,000
2010	117	577,000
2011	Unavailable	615,000

* Total megawatt hours delivered by generators to the Retail System. Retail System sales are approximately 2% less than these amounts because of transmission and distribution losses.

Peak demand and energy requirements vary from year to year because of various factors, including weather and customer demand.

Because of its location on the Ohio River with its abundance of low cost barge and other water transportation, the substantial fuel reserves of the West Kentucky coal field in which the City is situated and the large areas of undeveloped land around the City, the City expects the System to experience average growth rates in the future.

Fiscal History

Total revenues and total expenses of the System for the Utility Commission's fiscal years ending May 31, 2006 through May 31, 2011 are summarized below. The summary was created using the Utility Commission's Unaudited Statements of Net Assets, Revenues, Expenses and Changes in Net Assets for the Fiscal Year Ended May 31, 2011 and the Utility Commission's Audited Statements of Net Assets, Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended May 31, 2006 through 2010. For additional information, see APPENDIX D – "SUMMARIES OF UNAUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED MAY 31, 2011 AND AUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED MAY 31, 2006 THROUGH 2010 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" and APPENDIX E – "REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION."

	Unaudited	Audited				
Fiscal Years Ending May 31	2011	2010	2009	2008	2007	2006
Electric Sales Revenues	$56,360,545	$51,866,924	$54,532,882	$55,219,380	$41,589,277	$47,226,418
Other Revenues	2,219,349	1,498,755	2,042,403	1,719,026	1,389,223	858,667
Total Revenues	58,579,894	53,365,679	56,575,285	56,938,406	42,978,500	48,085,085
Total Expenses including Depreciation	(58,145,460)	(56,935,597)	(58,024,244)	(59,937,958)	(44,001,527)	(43,135,083)
Extraordinary Items*	-	17,378,818	-	-	-	-
Excess Revenue over Expenses	$434,434	$13,808,900	$(1,448,959)	$(2,999,552)	$(1,023,027)	$4,950,002

*Represents funds received by the Utility Commission from Western Kentucky Energy Corp. pursuant to the "Unwind" described in APPENDIX F, "GENERAL INFORMATION AND DATA - BIG RIVERS ELECTRIC CORPORATION"

Projected Electric Load

On the basis of the City's historic load growth and the expectations for its population and area growth, the following projection of the City's electric load and retail revenue has been prepared by the Utility Commission. The projected load growth of the Retail System is illustrated in the following table.

Fiscal Year	Peak Demand, MW	Percent Growth	Energy Requirements (kwh)	Percent Growth
2012	119.00	-	644,904,439	-
2013	121.00	1.65%	655,564,017	1.63%
2014	122.00	0.82%	660,937,492	0.81%
2015	123.00	0.81%	666,310,968	0.81%
2016	124.00	0.81%	671,684,443	0.80%
2017	125.00	0.80%	677,057,919	0.79%
2018	127.00	1.57%	687,720,248	1.55%
2019	128.00	0.78%	693,093,063	0.78%
2020	129.00	0.78%	698,465,877	0.77%
2021	131.00	1.53%	709,129,478	1.50%

Note: Table does not reflect capacity and energy allocations to Big Rivers under the Power Sales Contract described herein.

The changes in the Retail System's demand and energy requirements from year to year reflect the net effects of population growth and economic growth experienced by the Utility Commission's customers, incremental and detrimental load impacts, and the relative effects of actual weather conditions that vary from typical or normal conditions.

The current economic recession has impacted the Utility Commission's kilowatt hour sales. The decline in the Utility Commission's sales began in December 2008 and leveled off in the summer of 2010. As the depressed economy continues, the Utility Commission anticipates static kilowatt hour sales. However, based upon monthly sales data after June 1, 2010, it appears the material decline in gross sales has stabilized and sales now appear to be increasing due to seasonal weather fluctuations.

In addition, APPENDIX B – "DEMOGRAPHIC AND ECONOMIC DATA FOR THE CITY OF HENDERSON, KENTUCKY" provides general demographic and economic data regarding the areas in which the City provides its services. The Utility Commission's audited financial statements and management's discussion and analysis for the years ended May 31, 2010 and 2009 and unaudited financial statements for the fiscal year ended May 31, 2011 are attached hereto as APPENDIX E – "REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" and APPENDIX D – "SUMMARIES OF UNAUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED MAY 31, 2011 AND AUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED MAY 31, 2006 THROUGH 2010 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION," respectively.

Station One

The Utility Commission previously owned and operated a coal fired generating station located on the Green River in downtown Henderson, Kentucky ("Station One"). Station One was an active generating station until December 31, 2008 when it was shut down by the Utility Commission due to the increased cost associated with Station One satisfying increasing federal and state regulations for air emissions. Increasing maintenance costs and increasing coal costs also led to the closure. Since its closure, Station One has remained vacant. To date, neither the Utility Commission nor the City has determined how or whether to dispose of Station One's operating assets.

Station Two

Description

The City owns Station Two, a coal-fired generating station located on the Green River in Henderson County. The City constructed Station Two in the early 1970s and the facility became operational in 1973. Station Two's net rated capacity is 312 MW.

Big Rivers currently operates Station Two on behalf of the City. In addition to operating Station Two, Big Rivers also owns and operates the adjacent Robert A. Reid generating station (the "Reid Station"). The two facilities share certain joint facilities and operating personnel. For a discussion of such joint facilities, see the subheading "Joint Facilities" below and "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Joint Facilities Agreement." In addition to operating Station Two, Big Rivers also purchases a portion of Station Two's generating capacity from the City.

The City and Big Rivers have entered into a collection of related agreements governing Big River's operation of Station Two, the allocation of Station Two's capacity between the City and Big Rivers, the purchase by Big Rivers of its allocated capacity, the allocation of the general and administrative expenses associated with Station Two and the parties' joint use of certain shared facilities (such agreements are hereinafter defined under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS" as the "Agreements").

The Agreements provide the City the right to reserve a stated amount of Station Two's capacity for use by the Utility Commission in the operation of the Retail System. Big Rivers is entitled to take the remaining unreserved capacity of Station Two for its own use. The City has currently reserved 35.26% of Station Two's net rated capacity for its own use. Big Rivers is allocated the remaining 64.74% of Station Two's capacity for its own use. The City and Big Rivers' allocation of Station Two's capacity from 2004 through 2010 is detailed in APPENDIX C – "GENERAL OPERATING INFORMATION FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION."

The price paid by Big Rivers for its allocated capacity from Station Two is based upon the allocated total cost of purchasing, acquiring, constructing, operating, maintaining, renewing and expanding Station Two. The Agreements are not designed to generate a profit for the City or Big Rivers, but rather for both parties to break even on a cash flow basis with respect to the operation of Station Two. The price paid for Station Two's "capacity costs" are fixed and do not vary with the energy generated by Station Two because the cost of fuel and reagent used by each party in the generation of Station Two's electric energy are paid separately by the Utility Commission and Big Rivers.

Under the Agreements, responsibility for financing improvements to Station Two is allocated between the City (through the Utility Commission) and Big Rivers on the basis of the respective parties' reservation and allocation of the net rated capacity of Station Two. The Series 2011A Bonds have been sold and are being issued by the City, in part, to finance the City's contractual share of the costs of improvements to Station Two.

Joint Facilities

The City and Big Rivers jointly use each other's common facilities such as barge unloading and coal handling systems. Their joint use is governed by a joint facilities agreement dated August 1, 1970 (the "Joint Facilities Agreement"). The City has retained title to its property that is subject to the Joint Facilities Agreement as has Big Rivers. The Joint Facilities Agreement provides that the City and Big Rivers each have the contractual right to use each other's facilities that are subject to the Agreement so long as either party operates or maintains a generating station in connection with the Agreement.

The City and Big Rivers share the costs of operating, maintaining, repairing, renewing, replacing and improving the joint use facilities in accordance with the Joint Facilities Agreement and the Operation Agreement, hereinafter described. The parties allocate such costs based on their share of each joint use facility's capacity as related to the sum of the total capacity of Station Two and the Reid Station.

Big Rivers' obligations under the Joint Facilities Agreement are Big Rivers' general obligations. The obligations of the City under the Joint Facilities Agreement are solely the System's obligations, including the Retail System, Station Two and such other additions, extensions or related facilities as the City may own or operate from time to time. No obligation of the City under the Joint Facilities Agreement constitutes or shall constitute a general obligation of the City.

Additional information regarding the Joint Facilities Agreement appears under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Joint Facilities Agreement."

Estimated Cost of Power

The City's average cost per net kilowatt-hour of generation from Station Two is based on the annual cost of operation and is presented in the following table. These costs of power are based upon operation of Station Two at a maximum of 85% availability factor which Station Two has successfully operated over a period of time, taking into account necessary shutdowns for maintenance of equipment. The cost of power has been broken down into fixed costs, which under the Power Sales Contract are divided by the City and Big Rivers in proportion to Station Two's capacity currently reserved to the City and allocated to Big Rivers, and fuel costs, which relate directly to the number of kilowatt hours taken by the City and Big Rivers.

City's Cost of Power

Fiscal Year	Fixed Cost	Fixed Costs Cents/kwh	Fuel Cost	Fuel Costs Cents/kwh	Total Cost	Total Costs Cents/kwh	KWH Sold
2010	$7,446,180	$0.0129	$12,864,549	$0.0223	$20,310,729	$0.0352	577,557,821
2009	$6,173,893	$0.0103	$12,994,353	$0.0216	$19,168,246	$0.0318	602,132,838
2008	$6,564,513	$0.0100	$15,599,009	$0.0237	$22,163,522	$0.0337	657,468,447
2007	$5,070,180	$0.0079	$14,123,757	$0.0219	$19,193,937	$0.0298	644,907,439
2006	$6,556,007	$0.0098	$14,509,197	$0.0217	$21,065,204	$0.0316	667,384,848

Fuel Source

Station Two is located in the West Kentucky-Southern Illinois coal field giving it easy access to an abundant sources of fossil fuel. The City purchases coal for Station Two under a multi-year supply agreement.

Pollution Control

Station Two is equipped with electrostatic precipitators on the boilers for the removal of fly ash dust and a 350-foot stack provides adequate dispersion of the remaining particulate matter and sulfur dioxide gas to meet the air pollution standards for Kentucky metropolitan areas. By use of cooling towers, Station Two does not contribute to thermal pollution of the Green River. Water wastes from demineralizing equipment are also neutralized before disposal. The Utility Commission has also added a selective catalytic reduction system for nitrous oxide and a flue gas desulfurization system to Station Two within the last 20 years.

Rate Increase

On January 29, 2009, the Board of Commissioners of the City approved an Ordinance increasing electric rates by 3.855% for all of the Utility Commission's customer rate classifications. The purpose of the rate increase was to provide additional revenue to make the principal and interest payments on the 2008A Note, the 2008B Note, the 2010A Note, the Series 2011A Bonds and the Series 2011B Bonds.

RISK FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY AND THE UTILITY COMMISSION

General

The electric utility industry has become increasingly competitive due to wholesale and retail market developments and regulatory changes. Electric utilities are subject to changing federal, state and local statutory and regulatory requirements regarding the licensing and location of facilities, safety and security, air and water quality, land use and environmental factors. Other factors also affect the operations and financial condition of electric utilities, including (i) compliance with changing environmental, safety, licensing, regulatory and statutory requirements; (ii) changes resulting from conservation and demand-side management programs; (iii) changes resulting from new national energy policies, including potential implementation of smart grid technologies and greater use of renewable energy resources; (iv) increased competition resulting from utility mergers and acquisitions; and (v) self-generation by large industrial and commercial customers.

Retail Energy Market Issues

The City's enabling statute, KRS 96.520, allows it to establish, erect, maintain and operate an electric power plant and necessary extensions within or without the corporate limits of the City for the purpose of supplying the City and its inhabitants with electric light, heat and power. Pursuant to KRS 278.018, the KPSC has established certified territories for retail electric suppliers and each such supplier has the exclusive right to furnish retail electric service to all electric consuming facilities located within its certified territory. The KPSC has no rate setting authority with respect to the City or the Utility Commission.

Wholesale Energy Market Issues

On August 8, 2005, the United States Congress passed the Energy Policy Act of 2005 (the "Energy Policy Act"). One of the Energy Policy Act's most significant provisions repealed the Public Utility Holding Company Act (the "PUHCA"), which had been in effect since 1935. The impact of the repeal of the PUHCA was partially offset by an enhancement of the Federal Energy Regulatory Commission's merger review authority for holding companies and generation-only mergers, as well as additional market transparency and manipulation rules.

Environmental, Safety and Health Issues

The Utility Commission's operations are subject to continuing environmental, health and safety regulations. Federal, state and local standards and procedures regulating the environmental impact of the Utility Commission's generation and transmission facilities can change through continuing legislative, regulatory and judicial action. Consequently, there is no assurance that the Utility Commission's electric generating units and transmission facilities will remain subject to the regulations currently in effect or will always be able to obtain required permits in the future. An electric utility that cannot comply with environmental, health or safety standards may be forced to reduce its operating levels or shutdown its noncompliant electric generating units and transmission facilities.

The Clean Air Interstate Rule ("CAIR") promulgated by the United States Environmental Protection Agency (the "EPA") in 2005 was appealed and remanded to the EPA in 2008. The original CAIR targeted the reduction of sulfur dioxide beginning in 2010. While the original CAIR remains in effect, EPA issued a proposed "Transport Rule" on July 6, 2010. The proposed Transport Rule requires that by 2014, power plant sulfur dioxide emissions would decline by 71% over 2005 levels and power plant nitric oxide and nitrogen dioxide emissions would drop by 52%. Public hearings were held on the Transport Rule during August and September 2010, and its final form remains unknown.

The EPA's Clean Air Mercury Rule (the "CAMR"), which would have required the reduction of mercury emissions in 2010 has been vacated by the United States Court of Appeals for the District of Columbia Circuit. On March 16, 2011, the EPA issued a proposed rule establishing air toxics emissions standards for power plants, consistent with the court's opinion regarding the CAMR. The new standards would limit the amount of mercury, acid gases and non-mercury toxic pollutants that are released by coal-fired power plants. The proposed rule would provide parties four years to comply with the new standards, if adopted. Public hearings regarding the proposed rule were held in three cities during May 2011. The period for submitting comments for the proposed rule ended on July 5, 2011. The EPA has publicly indicated that it intends to adopt a final rule by November 16, 2011.

In recent years, there has been growing concern in the scientific community and among the public about global warming. The United States Congress has introduced a number of legislative proposals to address the issue. The City expects the debate on this issue to continue, but cannot predict what, if any, proposals may become law, or when.

The EPA has taken steps to regulate greenhouse gas emissions under existing law. In 2009, the EPA issued a final "endangerment finding," in which it declared that the weight of scientific evidence requires a finding that six identified greenhouse gases – carbon dioxide, methane, nitrous oxide, hydroflourocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The final rule for the "endangerment finding" was published in the Federal Register on December 15, 2009. As a result of this finding, the EPA is authorized to issue regulations limiting carbon dioxide emissions from, among other things, stationary sources such as electric generating facilities, under the federal Clean Air Act. In May 2010, EPA finalized the greenhouse gas "Tailoring Rule," which states that greenhouse gas emissions will be regulated from large stationary sources including electric generating facilities based on specified threshold levels of the tons per year of greenhouse gases emitted, using a unit known as the carbon dioxide equivalent, or CO2e. Large sources with the potential to emit in excess of the applicability threshold will be subject to the major source permitting requirements under the Clean Air Act. Permits would be required in order to construct, modify and operate facilities exceeding the emissions threshold. Examples of such permitting requirements include, but are not limited to, the application of Best Available Control Technology (known as "BACT") for greenhouse gas emissions, and monitoring, reporting, and recordkeeping for greenhouse gases.

On September 22, 2009, the EPA issued the final rule for mandatory monitoring and annual reporting of greenhouse gas emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct greenhouse gas emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but required data collection beginning January 1, 2010, and the EPA has recently proposed that the first annual reports for calendar years 2010, 2011 and 2012 be due March 31, 2014. Such data collection and reporting lays the foundation for controlling and reducing greenhouse gas in the future, whether by way of the EPA regulations under existing Clean Air Act authority or under a new climate change federal law.

The Clean Air Act requires that the EPA establish National Ambient Air Quality Standards ("NAAQS") for certain air pollutants. When a NAAQS has been established, each state must identify areas within its boundaries that do not meet the standard (known as "non-attainment areas") and develop regulatory measures to reduce or control the emissions of that air pollutant in order to meet the standard and become an "attainment area." For example, on January 7, 2010, the EPA released a draft rule proposing stricter NAAQS for ground-level ozone, the main component of smog. The EPA plans to issue the final standards and then follow an aggressive implementation schedule that could require states to meet the new NAAQS as early as 2014. If this proposed rule becomes final, many air pollution sources including power plants, industrial facilities, and motor vehicles will likely face stricter emission standards.

Severe Weather

The Utility Commission's operations are subject to potential damage by severe weather. On September 14, 2008, the remnants of Hurricane Ike hit the Henderson area with 75 mph winds. Falling trees and tree limbs caused extensive damage to the Utility Commission's facilities and equipment throughout its service area. A large number of customers were without power initially and total service restoration was completed within a couple of days. As a result of the storm related damage, the Utility Commission requested and received $103,249 in assistance from the Federal Emergency Management Agency ("FEMA").

On January 27, 2009, a major ice storm struck Kentucky, including the Henderson area. The weight of the large amount of ice caused major damage to the Utility Commission's transmission and distribution facilities. Initially, more than 80% of all customers were without power. Outside contract line crews were hired to help repair damages and restore service. Service to all of the Utility Commission's customers was restored within seven days. As a result of the storm related damage, the Utility Commission requested $932,207 in storm related FEMA assistance. In July 2009, the Utility Commission received $856,354 from FEMA.

Purchases of Capacity from the Southeastern Power Administration

The Utility Commission has contracted with the Southeastern Power Administration (the "SEPA") for the SEPA to provide the Utility Commission up to 18,000 MwH of hydroelectric capacity annually. The 18,000 MwH represents approximately 3% of the Utility Commission's annual MwH requirements. The SEPA provides the capacity using its generating stations located on the Cumberland River, which are part of the SEPA's Cumberland System. One of the generating stations providing such capacity is the Wolf Creek Dam near Jamestown, Kentucky and located on the Cumberland River.

In the fall of 2006, the SEPA notified the Utility Commission that the U.S. Army Corp of Engineers had inspected the Wolf Creek Dam and identified serious seepage problems. Although seepage problems had existed with respect to the Dam since the late 1960s, the problem had become severe enough to impact the safety of the Dam and its surrounding communities. Consequently, the U.S. Army Corp of Engineers began making the needed repairs to the Dam and SEPA reduced the capacity available to the Utility Commission under the parties' contract beginning in 2007.

The Utility Commission has responded to the decreased capacity by budgeting for the purchase of more expensive capacity from other parties to offset the loss of capacity from the SEPA. This alternative arrangement will continue until 2013, when the repairs to Wolf Creek Dam are expected to be completed.

Pension Obligations

All full-time employees of the Utility Commission belong to the state operated cost-sharing multiple-employer pension plan, the County Employees Retirement System ("CERS"). All employees participate in the non-hazardous duty benefits offer under CERS.

CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching five years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issued a stand-alone financial report, which may be obtained from the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at (502) 564-4646.

Kentucky Revised Statutes provide statutory authority for employee and employer contributions. The Utility Commission and its employees have contributed 100% of the required contributions for the fiscal year ended May 31, 2011. Contribution rates for the fiscal year ended May 31, 2011 for individuals who became employees of the Utility Commission before September 1, 2008 were as follows:

	Employee	Employer
Nonhazardous	5.00%	16.16%

The employees' contribution rates for individuals who became employees of the Utility Commission on or after September 1, 2008 were 1.0% higher than the rates above.

The Utility Commission's contributions for the fiscal years ending May 31 were as follows:

Year	Total
2010	$420,197
2009	435,888
2008	477,299

The Utility Commission is obligated to make future contributions to CERS for the benefit of its employees. Future contribution rates may change given changes in benefits or the value of investments held by CERS. Please visit the following website http://kyret.ky.gov/ for further details regarding CERS.

CERS also provides post-retirement health care coverage and contributions towards the costs of such coverage to the Utility Commission's employees who satisfy certain eligibility requirements. A portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The Kentucky Revised Statutes provide statutory authority requiring public employees to fund post-retirement health care through their contributions to CERS.

Customer Concentration

Sale of Electricity to Big Rivers

As discussed under the heading "THE SYSTEM – Station Two," the City reserves a portion of Station Two's net rated capacity for the City's own use. Since 2006, the City's reserved portion has increased from 30.4% to 35.26%. The City's actual usage of electricity taken from Station Two during those same years has ranged from 27.2% to 32.2%. Big Rivers has purchased all of the remaining electricity generated by Station Two pursuant to the Agreements. Thus, a single customer has purchased 68% to 74% of the electricity generated by Station Two since 2006. See APPENDIX C – "GENERAL OPERATING INFORMATION FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" for more information regarding the City and Big River's allocation and use of Station Two's generating capacity.

The revenues generated by the City's sales of electricity to Big Rivers have comprised the following percentages of the Utility Commission's total revenues for the applicable fiscal years:

	Unaudited			Audited		
	2011	2010	2009	2008	2007	2006
Sale of Electricity from Station Two	$24,488,791	$22,271,304	$25,200,799	$23,343,688	$11,875,800	$17,897,689
All other revenues	34,091,103	31,094,375	31,374,486	33,594,718	31,102,700	30,187,396
Total	$58,579,894	$53,365,679	$56,575,285	$56,938,406	$42,978,500	$48,085,085

	2011	2010	2009	2008	2007	2006
Sale of Electricity from Station Two to Big Rivers	41.80%	41.73%	44.54%	41.00%	27.63%	37.22%
All other revenues	58.20%	58.27%	55.46%	59.00%	72.37%	62.78%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

The above table demonstrates that a substantial portion of the Utility Commission's revenues have resulted from the Utility Commission's sale of electric power to Big Rivers pursuant to the Agreements. The Agreements provide that Big Rivers will continue to purchase electricity generated by Station Two from the Utility Commission throughout the operating life of Station Two. Nevertheless, if Big Rivers were unable to continue to purchase the unreserved portion of electricity generated by Station Two, the Utility Commission's revenues and cash flow could be adversely affected until a new purchaser or purchasers were found.

Sale of Electricity to Customers of the Retail System

A small number of the Utility Commission's commercial customers account for a substantial portion of the Utility Commission's revenue generated by its sale of electricity through the Retail System. In 2010, sales to the Utility Commission's top ten customers accounted for approximately 41.96% of the revenue generated by sales through the Retail System. For more information, see APPENDIX C – "GENERAL OPERATING INFORMATION FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION." Accordingly, changes in demand and usage among a small number of the Utility Commission's retail customers could have a significant impact on its operating revenues.

BIG RIVERS ELECTRIC CORPORATION

General

Big Rivers is an electric generation and transmission rural electric cooperative corporation. It was organized as a not-for-profit rural electric cooperative under the laws of Kentucky in 1961 to enable its members to pool their resources and provide for the power and transmission needs of their combined service territories. Big Rivers currently operates as a taxable cooperative. It provides wholesale electric service to its three members under a number of wholesale power contracts which, in the aggregate, supply the total wholesale power requirements of the members except for the exceptions discussed in APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION."

Big Rivers owns 1,444 net MW of electric generating facilities and approximately 1,265 miles of transmission lines and 22 substations.

In addition to the electric generation and transmission facilities Big Rivers owns, it also operates Station Two in accordance with the Operation Agreement defined and described under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Operation Agreement." Big Rivers also purchases all the capacity and energy from Station Two not reserved by the Utility Commission in accordance with the Power Sales Contract between the

City and Big Rivers described under the heading "CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS – The Power Sales Contract."

For more information regarding Big Rivers, see APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION" and APPENDIX G – "ANNUAL REPORT OF BIG RIVERS ELECTRIC CORPORATION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010, WITH ACCOMPANYING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009."

CONTRACTUAL ARRANGEMENTS WITH BIG RIVERS

Overview

The City owns Station Two. Big Rivers operates Station Two for the benefit of the City. The relationship of the City, the Utility Commission and Big Rivers with respect to Station Two is governed by a collection of related agreements (each, an "Agreement" and together, the "Agreements"). The Agreements were originally executed in the early 1970s when Station Two was being constructed and have governed the parties' relationship since. The Agreements have been amended several times since the 1970s. The terms and effects of the amendments are discussed below. Although Big Rivers' obligations were assigned to a third party for a period of time as described under APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION," the Agreements were assigned back to Big Rivers in July 2009.

The Agreements between the City and Big Rivers are composed of a Power Plant Construction and Operation Agreement dated August 1, 1970 (the "Operation Agreement"), a Power Sales Contract dated August 1, 1970 (the "Power Sales Contract"), a Station Two G & A Allocation Agreement dated July 16, 2009 (the "G & A Agreement"), a Joint Facilities Agreement dated August 1, 1970 (the "Joint Facilities Agreement"), a System Reserves Agreement dated January 1, 1974 (the "System Reserves Agreement"), an Agreement for Transmission and Transformation Capacity dated as of April 11, 1975 (the "Agreement for Transmission and Transformation Capacity") and a Spare Transformer Agreement dated July 11, 1972 (the "Spare Transformer Agreement"). An overview of the key terms of each Agreement, as amended by the parties in 1993, 1998 and 2005, is presented below. The Agreements are not designed to generate a profit for the City or Big Rivers, but rather for both parties to break even on a cash flow basis with respect to the operation of Station Two.

The Operation Agreement

The Operation Agreement required Big Rivers to assist the City in the development and construction of Station Two. Upon completion of construction, the Operation Agreement required Big Rivers to assume responsibility for Station Two's operation and maintenance. While Big Rivers continues to operate Station Two, the Operation Agreement provides that the City, as the owner of Station Two, has retained ultimate control of the facility.

Big Rivers is responsible under the Operation Agreement for operating Station Two in an efficient and economical manner. Its duties include, but are not limited to, providing all of

Station Two's operating personnel, materials, supplies and technical services and repairing and replacing equipment.

The Operation Agreement has been amended several times since 1970. The amendments provided for the addition of a selective catalytic reduction system for nitrous oxide to Station Two as well as a flue gas desulfurization system. The amendments also provided that the Operation Agreement will terminate once both of Station Two's generating units have ceased operations.

Each party separately pays the variable costs of its fuel and reagents used in Station Two. Big Rivers pays the remaining costs of operating and maintaining Station Two and is reimbursed by the City for its share of those costs. The parties allocate their shared costs based on the City's reserved portion of Station Two's net rated capacity; "net rated capacity" being the "total continuous net send out capability of all generating units" of Station Two. In essence, the net rated capacity is Station Two's name plate capacity less the amount of energy consumed in running Station Two. The energy consumed in running Station Two is referred to as "auxiliary power" and the costs of the auxiliary power are also divided between the City and Big Rivers in proportion to their respective shares of Station Two's net rated capacity.

Big Rivers' share is the net rated capacity remaining after subtracting the City's reserved capacity from Station Two's total net rated capacity. The Power Sales Agreement calls for Big Rivers to pay its share of the capacity charges in proportion to Station Two's "surplus capacity." Big Rivers pays capacity charges, consisting of its share of the total costs of ownership, operation and maintenance of, and renewals and replacements to, Station Two, except for fuels and reagents for which each party pays separately according to its use.

The Operation Agreement requires the City to notify Big Rivers annually of its projected reservation of Station Two's net rated capacity (the generating capacity remaining after subtracting the electricity used to operate Station Two). Currently, the City has reserved 35.26% of Station Two's net rated capacity and therefore pays 35.26% of Station Two's operating and maintenance costs. The remaining 64.74% of those costs are paid for by Big Rivers. Accordingly, the City's current obligation to pay Station Two's operation and maintenance costs under the Operation Agreement is reduced by the capacity charges paid by Big Rivers under the Power Sales Contract, resulting in each party paying operation, maintenance and replacement costs in proportion to its share of Station Two's net rated capacity.

The Operation Agreement requires Big Rivers to prepare an annual budget before the commencement of each contract year which, upon approval by the Utility Commission, governs billings and payments for that contract year. The parties then adjust the related payments from budgeted to actual amounts after the annual audit of accounts for each contract year. If at any time Big Rivers fails to provide, on a best efforts basis, continuous and economical operation of Station Two, the City has the right under the Operation Agreement to immediately take over the complete operation and maintenance of Station Two.

The Power Sales Contract

The Power Sales Contract provides that the City and the Utility Commission have the primary use of the total net rated capacity and energy produced by either or both generating units of Station Two for purposes of providing electricity to residential, commercial and industrial customers within and adjacent to the City's corporate boundaries.

The Power Sales Contract requires Big Rivers to purchase all of the capacity and energy produced by Station Two that is not reserved by the City and the Utility Commission. Each year the City provides Big Rivers with five years' advance written notice of the capacity it reserves under the Power Sales Contract and each year the City has the right to increase or decrease its reservation by 5 megawatts. Big Rivers must pay the City for its allocated capacity whether Station Two is inoperable or its operation is interrupted, suspended or interfered with in whole or in part for any cause whatsoever. The price Big Rivers pays for such allocated capacity is based upon the total cost of purchasing, acquiring, constructing, operating, maintaining, renewing and expanding Station Two. The price paid for the "capacity costs" are fixed and do not vary with the energy generated by Station Two because the cost of fuel and reagent used by each party in the generation of Station Two's electric energy are paid separately by the Utility Commission and Big Rivers. The Power Sales Contract permits Big Rivers to offset the cost of the allocated capacity assigned to Big Rivers against the monthly payments due to the City under the Operation Agreement.

The Power Sales Contract prohibits the City from (i) selling Station Two's generating capacity to a third party, except to dispose of any surplus capacity resulting from the City's good faith over-estimate of the City's needs or (ii) adding any individual commercial or industrial customers in excess of 30 MW to its Retail System, if such action would require the withdrawal of additional capacity from Station Two.

The Power Sales Contract has been amended several times since 1970. Many of the amendments address the same issues involved in the amendments to the Operation Agreement, namely, lengthening the term of the Power Sales Contract and addressing the addition of the selective catalytic reduction system and flue gas desulfurization system.

The Power Sales Contract provides that, to the extent the City does not schedule or take the full amount of energy associated with its reserved capacity from Station Two under certain conditions, Big Rivers may take and utilize all such energy for a price of $1.50 per MWh plus the cost of all fuel, reagent and sludge disposal costs associated with such energy. Whether Big Rivers has the contractual right to take the City's energy "not scheduled or taken" is currently the subject of litigation in the Henderson, Kentucky Circuit Court. See the heading "LITIGATION – The Utility Commission" for more information.

The G & A Agreement

Given that Big Rivers operates several generating facilities, it is necessary to allocate its expenses incurred with respect to Station Two and its own facilities between Big River's and the City. Provisions in the other Agreements provide that costs directly allocable to Station Two are allocated only to Station Two. In contrast, operating costs allocable to Station Two and another

Big Rivers' facility, such as the Reid Station, are allocated between the two facilities based on each generating station's total capacity as related to the sum of such total capacities. In comparison, the G & A Agreement requires Big Rivers to allocate specific categories of general and administrative overhead, such as labor costs, based on specific percentages set forth within the G & A Agreement and its exhibits. The City allocates its G & A expenses directly to Station Two on a percentage basis.

The Joint Facilities Agreement

Given that Station Two and the Reid Station are located adjacent to each other, it is economical for them to share certain auxiliary facilities that can be jointly operated to achieve cost savings for both parties. For example, Station Two and the Reid Station share a common control room, coal handling facilities and barge unloading facilities. Consequently, the City and Big Rivers entered into the Joint Facilities Agreement to identify these facilities and to govern their use. The Joint Facilities Agreement provides that both the City and Big Rivers can use such joint use facilities so long as they are needed by either the Reid Station or Station Two. Moreover, the term of the Agreement will continue so long as Station Two or the Reid Station is served by a joint use facility. The parties allocate such costs based on their share of each joint use facility's capacity as related to the sum of the total capacity of Station Two and the Reid Station.

The System Reserves Agreement

The City and Big Rivers entered into the System Reserves Agreement to ensure that each of them would reserve sufficient capacity within their own electric systems so as to not overburden each other by regularly requesting assistance when their own capacity is below current system load. To that end, the System Reserves Agreement originally required the City and Big Rivers to maintain reserve capacity on their respective electric systems in an amount equal to their peak system loads plus an additional 15%. In 1998, the parties amended the System Reserves Agreement to require the parties to maintain reserves in an amount required by any applicable regulatory or governmental agency, any regional transmission authority, reliability council or like organization. Absent such a requirement, the City and Big Rivers have no contractual obligation pursuant to the amended System Reserves Agreement to maintain system reserves.

The System Reserves Agreement obligates Big Rivers to provide standby capacity to the City and the Utility Commission on a best efforts basis, utilizing Big Rivers' surplus energy from its other generating units, or energy purchased by Big Rivers from third parties, for use by the Utility Commission to prevent an outage on the System.

The Systems Reserve Agreement, as amended, will terminate 90 days after Big Rivers' allocation of capacity from Station Two is reduced to zero.

Other Agreements

The Utility Commission and Big Rivers are also parties to the Agreement for Transmission and Transformation Capacity, which provides for the Utility Commission's participation in a transmission line constructed by Big Rivers to serve as a back-up transmission line from Station Two to the Retail System. The Utility Commission and Big Rivers are also parties to a Spare Transformer Agreement providing for the joint acquisition and operation of a moveable rail car power transformer.

THE ORDINANCES

The City has adopted an ordinance providing for the issuance of multiple series of revenue bonds for the benefit of the System (the "Basic Bond Ordinance") and a supplemental ordinance supplementing the Basic Bond Ordinance and authorizing the issuance of the Series 2011B Bonds (the "Series 2011B Ordinance" and, together with the Basic Bond Ordinance, the "Ordinances"). The following paragraphs under this general heading contain excerpts from and summaries and descriptions of certain provisions of the Ordinances, which are on file in the office of the City Clerk and reference to which is made for a complete description of their terms.

Certain Definitions

The following are definitions in summary form of certain terms contained in the Ordinances and used herein:

Accrued Aggregate Debt Service: As of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installment for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

Additional Project: One or more major renewals or replacements of the System, or major additions or improvements thereto, or any expansion of the System by the construction, acquisition or installation of additional generating, transmission, transformation or distribution facilities or facilities related thereto.

Aggregate Debt Service: For any fiscal year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Annual Budget: The Utility Commission's annual budget, as amended or supplemented, adopted or in effect for a particular fiscal year as provided for by the Basic Bond Ordinance.

Bond or *Bonds*: Any bond or bonds, as the case may be, authenticated and delivered under and pursuant to the Basic Bond Ordinance.

Cost of Construction: With respect to the System, the City's costs of physical construction, costs of acquisition of real or personal property or interests therein, and costs incidental to such construction or acquisition, including costs of acquisition and construction of access roads and rail facilities, the costs of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, cost of audits, fees and expenses of the fiduciaries and costs of training, testing, financing, administrative and general overhead and keeping accounts and making reports, amounts required or permitted by the Ordinances to be paid as interest during construction, cost of machinery, equipment and supplies, payments to Big Rivers for construction assistance and other services provided and costs incurred for Station Two, and any other costs properly attributable to such construction or acquisition, and shall include reimbursement to the City for any such items of Cost of Construction theretofore paid by or on behalf of the City and payment of any interim financing obligations incurred by the City for the foregoing purposes.

Debt Reserve Requirement: As of any date of calculation, an amount equal to the least of (i) the highest amount of Aggregate Debt Service, (ii) an amount equal to 125% of the average Aggregate Debt Service and (iii) an amount equal to 10% of the "proceeds" of the Bonds with respect to all Series within the meaning of Section 148(d) of the Code (as defined below).

Debt Service: For any period, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits (including investment income thereon) in the Debt Service Fund made from Bond proceeds, and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Investment Securities: Any of the following securities, if and to the extent the same are at the time legal for investment of City funds, which securities shall not be subject to redemption before their maturity:

(1) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian, which investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;

(2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to: (i) United States Treasury; (ii) Export-Import Bank of the United States; (iii) Government National Mortgage Corporation; and (iv) Merchant Marine;

(3) Obligations of any corporation of the United States government, including but not limited to: (i) Federal Home Loan Mortgage Corporation; (ii) Federal Farm Credit Banks; (iii) Bank for Cooperatives; (iv) Federal Intermediate Credit Banks; (v) Federal Land Banks; (vi) Federal Home Loan Banks; (vii) Federal National Mortgage Association; and (viii) Tennessee Valley Authority;

(4) Certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution, including the Trustee or any of its affiliates, which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by Section 41.240(4) of the Kentucky Revised Statutes;

(5) Uncollateralized certificates of deposit, time deposits, trust accounts, trust deposits and demand deposits, including interest bearing money market accounts, of any bank or savings and loan institution, including the Trustee or any of its affiliates, rated in one of the three highest categories by a Rating Agency;

(6) Bankers' acceptances for banks, including the Trustee or any of its affiliates, rated in one of the three highest categories by a Rating Agency;

(7) Commercial paper rated in the highest category by a Rating Agency, including commercial paper issued by the Trustee or any of its affiliates, if so rated;

(8) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(9) Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a Rating Agency; and

(10) Shares of mutual funds, each of which shall have the following characteristics:

   (A) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

   (B) The management company of the investment company shall have been in operation for at least five years;

   (C) All of the securities in the mutual fund shall be investments in any one or more of the investments described in (1) through (10) above; and

   (D) The mutual funds may include, without limitation, any mutual fund for which the Trustee or any of its affiliates serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Trustee or any of its affiliates receives fees from such funds for services rendered, (2) the Trustee or any of its affiliates charges and collects fees for services rendered pursuant to the Ordinance, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to this Ordinance may at times duplicate those provided to such funds by the Trustee or its affiliates;

(11) Investment agreements with any financial institution the long-term debt, claims and paying ability or financial program strength of which is rated no lower than the second highest category (without regard to gradations within such category) by at least one Rating Agency; provided that if the investment agreement is guaranteed by a third party, then the above rating requirement will apply to the guarantor only; and

(12) Such other investments as may be authorized by law, including without limitation those authorized KRS 66.480.

Maximum Annual Principal and Interest Requirement: As of any date of calculation, with respect to the Bonds of a Series, an amount equal to the greatest amount of Debt Service with respect to such Series for the current or any future fiscal year.

Net System Revenues: With respect to any period, the System Revenues for such period remaining after deducting the Operating Expenses for the System for such period.

Operating Expenses: With respect to the System, shall mean the City's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction, including payments for items of operating expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, administrative and engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums, any taxes or payments in lieu of taxes, and any other current expenses or obligations required to be paid by the City under the provisions of the Ordinances or by law, all to the extent properly allocable to the System, and the fees and expenses of the Fiduciaries. Operating Expenses shall not include any costs or expenses for new construction or any allowance for depreciation.

Principal Installment: As of any date of calculation and with respect to any Series, so long as any Bonds thereof are outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no sinking fund installments have been established, or (ii) the unsatisfied balance of any sinking fund installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such sinking fund installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of sinking fund installments due on such future date plus such applicable redemption premiums, if any.

Series: All of the Bonds authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds, regardless of variations in maturity, interest rate, sinking fund installments, or other provisions.

System Revenues: (i) all revenues, income, rents and receipts derived by the City from the ownership and operation of the System, including without limitation all payments received by the Utility Commission pursuant to the reconciliation of revenues and expenses between the

Utility Commission and Big Rivers pursuant to the Agreements, (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Ordinance and paid into the Revenues, Operation and Maintenance Fund, and (iii) the proceeds of any insurance covering business interruption loss relating to the System.

(*Basic Bond Ordinance, Section 1.01*)

Pledge of Revenues and Funds

The payment of principal and redemption price of and interest on all bonds issued pursuant to the Ordinances is secured by (i) System Revenues, and (ii) Funds and Accounts established by the Ordinances, including any investments thereof. All of the Bonds are additionally secured by a nonforeclosable statutory mortgage lien on the System as provided and authorized by Sections 96.400 and 96.520 of the Kentucky Revised Statutes.

(*Basic Bond Ordinance, Sections 5.01-1 and -3*)

Additional Bonds

One or more series of additional bonds ("Additional Bonds") may be issued for the purpose of (i) paying the Cost of Construction of the Project or the costs of any Additional Project.

The issuance of Additional Bonds is conditioned upon the satisfaction of either of the two following requirements:

(i) The Net System Revenues for the fiscal year preceding the year in which such Additional Bonds are to be issued were at least 120% of the Maximum Annual Principal and Interest Requirement with respect to all of the Bonds and any other bonds issued pursuant to the Basic Bond Ordinance which are then outstanding and the Additional Bonds then proposed to be issued. Such showing of Net System Revenues for such preceding fiscal year may be extracted from the report of the auditors and represented by a certificate of an authorized Officer of the Utility Commission filed with the Trustee.

(ii) A statement is filed with the Trustee by (i) an independent certified public accountant or firm of certified public accountants not in the regular employ of the City or the Utility Commission on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the City or the Utility Commission on a monthly salary basis and of recognized excellent expertise and reputation in the field of electrical engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the Net System Revenues for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of such Additional Bonds (with adjustments as hereinafter provided) were equal to at least 120% of the Maximum Annual Principal and Interest Requirement with respect to the Bonds and any other bonds issued pursuant to the Basic Bond Ordinance and then outstanding and the proposed Additional Bonds. The Net System Revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such Additional Bonds, and also to reflect any increase in such Net System Revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such Additional Bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into before the issuance of such Additional Bonds. All such adjustments to reflect any revision of rates and charges or an increase in Net System Revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the City or the Utility Commission on a monthly salary basis and of recognized excellent expertise and reputation in the field of electrical engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the City or the Utility Commission on a monthly salary basis.

Notwithstanding the foregoing, the Basic Bond Ordinance provides for the issuance by the City of its Series 2011B Bonds in a par amount not to exceed $3,670,000 as parity bonds entitled to the same security as the Series 2011A Bonds without the prior satisfaction of the preceding requirements. Nevertheless, the following additional requirements and conditions governing the issuance of Additional Bonds will also be satisfied with respect to the City's issuance of the Series 2011B Bonds:

(i) The interest payment dates for all such Additional Bonds shall be semiannually on June 1 and December 1 of each year, and the principal maturities thereof shall be on December 1 of the year in which any such principal is scheduled to become due;

(ii) The Additional Bonds shall be understood to mean bonds payable from the income and revenues of the System on a parity with the Bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the Debt Service Fund and the Debt Service Reserve Fund for account of the Bonds and any outstanding Additional Bonds; and

(iii) The proceeds, including accrued interest, if any, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Additional Bonds, as follows:

(a) There shall be deposited in the Debt Service Fund an amount equal to the accrued interest, if any, on the Additional Bonds to the date of such delivery, and such additional amount as may be provided in the supplemental ordinance authorizing the Additional Bonds;

(b) There shall be deposited in the Debt Service Reserve Fund the amount necessary to make the balance of such Fund equal the Debt Reserve Requirement;

(c) There shall be paid any credit enhancement charges and the costs of issuance of the Additional Bonds; and

(d) The remaining balance shall be deposited in the appropriate account in the Construction Fund.

(*Basic Bond Ordinance, Section 2.04*)

Refunding Bonds

One or more Series of Bonds ("Refunding Bonds") may be issued to refund all outstanding Bonds of one or more Series. Issuance of Refunding Bonds is conditioned upon the deposit of an amount in the Debt Service Reserve Fund so that the balance in such Fund shall equal the Debt Reserve Requirement.

(*Basic Bond Ordinance, Section 2.05*)

Rate Covenant

The City covenants in the Ordinances that it will at all times charge and collect fees and other charges for electric power and energy from the System so that System Revenues will be at least sufficient to provide funds in each year for the payment of obligations of the City under the Ordinances, including the payment of Debt Service on any Bonds authenticated and delivered under and pursuant to the Basic Bond Ordinance.

(*Basic Bond Ordinance, Section 7.09*)

Allocation of System Revenues

The Basic Bond Ordinance establishes the following Funds for the application of System Revenues:

Fund	Held By
Revenues, Operation and Maintenance Fund	Utility Commission
Debt Service Fund	Trustee
Debt Service Reserve Fund	Trustee
Renewals and Replacements Fund, consisting of a Retail System Account and a Station Two Account	Utility Commission
General Reserve Fund	Utility Commission

After authentication and delivery of the Bonds, certain funds held by the Utility Commission for the System are to be deposited promptly into the appropriate corresponding Funds under the Basic Bond Ordinance.

All System Revenues are to be deposited promptly in the Revenues, Operation and Maintenance Fund. The Utility Commission shall pay out amounts in the Revenues, Operation and Maintenance Fund from time to time for reasonable and necessary Operating Expenses with respect to the System; provided that no such payments of Operating Expenses shall be made which would cause the balance of the Revenues, Operation and Maintenance Fund to fall below the amount of the next required deposit to the Debt Service Fund under subsection 1 below. In addition, amounts in the Revenues, Operation and Maintenance Fund are to be deposited monthly in the following Funds:

1. To the Debt Service Fund, an amount required so that the balance in the Debt Service Fund shall equal the Accrued Aggregate Debt Service.

2. To the Debt Service Reserve Fund, an amount required so that the balance in the Debt Service Reserve Fund shall equal the Debt Reserve Requirement. So long as the amount in the Debt Service Reserve Fund shall be sufficient to pay in full all outstanding Bonds, no deposits shall be required to be made into the Debt Service Reserve Fund.

The Trustee and Paying Agent shall pay from the Debt Service Fund the amounts required for the (i) payment of interest of and Principal Installments on the Bonds when due, and (ii) payment of the redemption price and accrued interest on the redemption of Bonds, and the purchase price and accrued interest on the purchase of Bonds, through application of moneys accumulated in the Debt Service Fund with respect to any sinking fund installment or otherwise accumulated in the Debt Service Fund.

Amounts in the Debt Service Reserve Fund are to be applied to make up any deficiency in the Debt Service Fund. The Basic Bond Ordinance provides that as a condition to the issuance of the Series 2011A Bonds, the Series 2011B Bonds and each series of Additional Bonds or Refunding Bonds there shall be deposited in the Debt Service Reserve Account the amount, if any, necessary so that the amount in such account equals the Debt Reserve Requirement immediately after the issuance of such Series of Bonds. Whenever moneys on deposit in the Debt Service Reserve Fund shall exceed the Debt Reserve Requirement, the excess shall be paid to the Debt Service Fund and applied as a credit against any payments to the Debt Service Fund next due from the Revenue, Operation and Maintenance Fund.

Whenever the amount in the Debt Service Reserve Fund, together with the amount in the Debt Service Fund, is sufficient to pay in full all outstanding Bonds in accordance with their terms, the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and no further deposits shall be required to be made into the Debt Service Reserve Fund.

System Revenues remaining in the Revenues, Operation and Maintenance Fund after making the above required deposits are to be applied as follows:

1. To the Retail System Account in the Renewals and Replacements Fund a sum equal to one-twelfth (1/12) (or such greater fraction if the period is less than twelve months as may be appropriate) of the annual requirements of the Account as set forth in the Annual Budget for the then current fiscal year; provided that the amounts to be deposited in the Account may be increased upon the recommendation of the General Manager of the Utility Commission.

   The Retail System Account in the Renewals and Replacements Fund shall be applied to the cost of major renewals or replacements with respect to the Retail System to the extent necessary to keep the Retail System in good operating condition. Amounts in the Account may also be applied to extraordinary operation and maintenance costs and contingencies, including the prevention or correction of any unusual loss or damage with respect to the Retail System, all to the extent not provided for in the then current Annual Budget. No payments shall be made from the Account if and to the extent that the proceeds of insurance or other moneys recoverable as the result of damage, if any, to the Retail System are available to pay such costs;

2. To the Station Two Account in the Renewals and Replacements Fund a sum equal to the amount necessary, if any, to make the balance of the Account equal or exceed the amount of reserve required by the Power Sales Contract.

   The Station Two Account in the Renewals and Replacements Fund shall be applied to the cost of major renewals or replacements with respect to Station Two to the extent necessary to keep Station Two in good operating condition. No payments shall be made from the Account if and to the extent that the proceeds of insurance or other moneys recoverable as the result of damage, if any, to Station Two are available to pay such costs. With the concurrence of the General Manager of the Utility Commission, any balance of moneys and securities in the Station Two Account, in excess of the required minimum balance therefor, and not needed for any of the purposes of the Account, may be paid by the Utility Commission into the General Reserve Fund; and

3. System Revenues remaining in the Revenues, Operation and Maintenance Fund after making the above required deposits shall be deposited to the General Reserve Fund to the extent such System Revenues exceed the Utility Commission's budgeted Operating Expenses for the immediately succeeding two calendar months.

   Amounts deposited in the General Reserve Fund shall be held subject to the following restrictions and used for the following purposes:

   (a) If amounts held in the Revenues, Operations and Maintenance Fund are insufficient to pay the current Operating Expenses of the Utility Commission, the Utility Commission shall transfer amounts from the General Reserve Fund to the Revenues, Operations and Maintenance Fund from time to time in amounts necessary to pay such Operating Expenses.

For this purpose, the Utility Commission shall maintain a minimum balance in the General Reserve Fund of $500,000; and whenever the balance of the General Reserve Fund falls below $500,000, the Utility Commission shall restore the General Reserve Fund to such minimum balance from System Revenues available after (i) funding the next required deposit to the Debt Service Fund and (ii) providing for the accumulation in the Revenues, Operation and Maintenance Fund an amount equal to the Utility Commission's budgeted Operating Expenses for the immediately succeeding two calendar months.

(b) The Utility Commission may hold amounts in the General Reserve Fund that are required for the purpose of purchasing or redeeming Bonds. Amounts held for such purposes shall be applied as soon as practicable.

(c) Any additional amounts held in the General Reserve Fund shall be held, applied and administered by the Utility Commission for the purposes of meeting its needs or obligations, including without limitation, an additional reserve to pay Operating Expenses, and taking other actions in accordance with applicable law.

(*Basic Bond Ordinance, Sections 5.02 and 5.04-5.15; First Supplemental Ordinance, Section 7*)

Construction Fund

The Basic Bond Ordinance establishes a Construction Fund, to be held by the Utility Commission, and establishes within such Fund a separate account for the Project and for each Additional Project which is to be paid for from the Construction Fund. The proceeds of the Series 2011B Bonds remaining after a deposit into the Debt Service Reserve Fund of an amount necessary to meet the Debt Reserve Requirement shall be deposited in the 2011B Project Account in the Construction Fund.

The City shall pay into each separate account established for Additional Projects the proceeds of subsequent Series of Bonds, to the extent not required to make the required deposit, if any, in the Debt Service Reserve Fund. Amounts in each separate account established for each Additional Project shall be applied to the purposes specified in the supplemental ordinance creating such subsequent Series.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on the Bonds when due.

The Utility Commission is required to file a certificate signed by the General Manager of the Commission with respect to payment to be made from the Construction Fund for payment of the Cost of Construction of the Project or the cost of any Additional Project, and any payment for work, materials, equipment or supplies for such purpose shall be conditioned upon such a certificate stating that an obligation in a stated amount has been incurred and that it is a proper charge, is in a reasonable amount, has not been paid, and was incurred for work actually performed.

Amounts in the Construction Fund shall be invested in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction to which such moneys are applicable.

Upon completion of the Project or any Additional Project, any amount remaining in the separate account established therefor not required to complete payment of the Cost of Construction shall be deposited in the Debt Service Reserve Fund to the extent necessary to meet the Debt Reserve Requirement, and the balance in the case of the Project shall be deposited into the General Reserve Fund for the purchase or redemption of the Bonds issued for the Project and any balance in the case of an Additional Project shall be applied as provided in the supplemental ordinance authorizing Bonds for such Additional Project.

(*Basic Bond Ordinance, Sections 2.03 and 5.03-5.06*)

Investment of Certain Funds and Accounts

The Ordinances provide that certain Funds and Accounts held thereunder may, and in the case of the Construction Fund, the Debt Service Fund and the Debt Service Reserve Fund shall, be invested to the fullest extent practicable in Investment Securities. The Ordinances provide that such investments shall mature not later than such times as shall be necessary to provide moneys when needed for payments from such Funds and Accounts.

Net interest earned on any moneys or investments in the Debt Service Reserve Fund shall be paid into the Debt Service Fund. Net interest earned on any moneys or investments in the Construction Fund shall remain in the Construction Fund. Net interest earned on any moneys or investments in the remaining Funds and Accounts held under the Ordinances shall remain in such Funds or Accounts unless otherwise provided in the Ordinances or in a supplemental ordinance.

Amounts in the Revenues, Operation and Maintenance Fund may be invested at any time as directed by the Utility Commission.

(*Basic Bond Ordinance, Section 6.03*)

Encumbrances; Disposition of Properties

The City will not issue bonds or other evidences of indebtedness payable out of or secured by a pledge of the revenues or of the moneys, securities or funds held or set aside under the Ordinances, nor will it create any lien or charge thereon, except with respect to evidences of indebtedness (i) payable out of moneys in the Construction Fund as part of the cost of the Project or the cost of any Additional Project, or (ii) payable out of, or secured by a pledge of, revenues to be derived after the discharge of the pledge of the revenues in the Ordinances.

The City will not sell, mortgage, or otherwise dispose of or encumber any part of the System, except property or facilities which are no longer useful, provided that if the original cost of the subject property exceeded $500,000, the General Manager of the Utility Commission shall certify its eligibility for disposition.

The City will not lease or make contracts or grant licenses for the operation or use of, or grant easements with respect to any part of the System, which would (i) impede or restrict the operation by the City of such facilities or (ii) reduce the payments under the Power Sales Contract (except as permitted therein) or impair or adversely affect the rights of the City thereunder or the rights or security of the holders of the bonds or any Additional Bonds or Refunding Bonds. If the original cost of the subject property exceeded $500,000, the General Manager of the Utility Commission shall first certify that the action of the City with respect thereto does not result in a breach of the above mentioned conditions. Any payments to the City in connection with any such transaction shall constitute System Revenues.

(*Basic Bond Ordinance, Section 7.06*)

Annual Budget

Not less than 10 days before the beginning of each fiscal year thereafter, the City shall file with the Trustee an annual budget for the ensuing fiscal year (or the balance of the current year in the case of the first such budget) which shall set forth in reasonable detail the estimated revenues and expenditures attributable to Station Two and the Retail System for such year and which shall include appropriations for Debt Service on all Series of Bonds issued pursuant to the Basic Bond Ordinance and for the estimated Operating Expenses and requirements of the Renewals and Replacements Fund for the Retail System for such year. Expenditures attributable to Station Two for such year shall include capacity costs as defined in the Power Sales Contract and the Operating Expenses therefor shall be based on the operating budget presented by Big Rivers pursuant to the Operation Agreement. The City may at any time adopt an amended annual budget for the remainder of the then current fiscal year. Each such amended annual budget shall also be filed promptly with the Trustee.

(*Basic Bond Ordinance, Section 7.07*)

Power Sales Contract; Amendment

The City shall collect and forthwith deposit in the Revenues, Operation and Maintenance Fund all amounts payable pursuant to the Power Sales Contract and shall enforce the provisions thereof and duly perform its covenants and agreements thereunder. The City will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Power Sales Contract (except as provided therein) or which will in any manner impair or adversely affect the rights of the City thereunder or the rights or security of the bondholders under the Ordinances.

(*Basic Bond Ordinance, Section 7.10*)

Insurance

The City shall at all times maintain or cause to be maintained with respect to the System any insurance reasonably necessary or advisable to protect the interests of the City and the bondholders or which may be required by the Power Sales Contract. Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall provide coverage for the City and Big Rivers to the extent that risk of loss shall be imposed on each of them by virtue of ownership, operation, maintenance or control of Station Two. In addition, the City shall at all times keep the properties of the Retail System which are of an insurable nature and of the character usually insured by those operating properties similar to the properties of the City insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are usually insured against. The City shall also at all times maintain adequate insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the properties of the Retail System.

(*Basic Bond Ordinance, Sections 7.11 and 7.17*)

Reports

The City shall keep proper and separate books of record and account relating to Station Two and the Retail System, respectively, and the funds and accounts established by the Ordinances which, together with all power contracts and all other books and papers of the City relating thereto, shall be available to inspection of the Trustee and the holders of at least 5% in principal amount of the Bonds outstanding. The City shall file annually with the Trustee an annual report, accompanied by an accountant's certificate, relating to Station Two and the Retail System, respectively, and containing a statement of Net Assets at the end of the fiscal year, a statement of Revenues, Expenses and Changes in Net Assets relating to Station Two and the Retail System, respectively, for such fiscal year, and a statement of receipts and disbursements with respect to the funds and accounts established by the Ordinances, and a statement as to the existence of any default under the provisions of the Ordinances.

(*Basic Bond Ordinance, Section 7.13*)

Remedies

"Events of Default" specified in the Basic Bond Ordinance include (i) failure to pay principal or redemption price of any Bonds when due; (ii) failure for 30 days to pay an interest installment or the unsatisfied balance of any sinking fund installment thereon when due; (iii) failure for 60 days to make the required monthly payments from System Revenues into the Debt Service Fund or the Debt Service Reserve Fund; (iv) failure to perform or observe any of the covenants, agreements and conditions contained in the Ordinances with respect to payments under and amendment of the Power Sales Contract; and (v) failure for 60 days after written notice thereof in the performance or observance of any other covenants, agreements or conditions. Upon the happening of such Event of Default, the Trustee or the holders of not less than 25% in principal amount of the outstanding Bonds may declare the principal and accrued interest on such Bonds due and payable (subject to a rescission of such declaration upon the curing of such Event of Default).

Upon the occurrence of an Event of Default, which shall not have been remedied, the City shall, if demanded by the Trustee, (i) account as a trustee of an express trust, for all System Revenues, moneys, securities and funds pledged under the Ordinances, (ii) pay over to the Trustee on demand all assets held in any fund or account under the Ordinances and, as received, all System Revenues, which the Trustee shall apply, after the payment of certain expenses, first to payment of the interest and principal and redemption price then due on the Bonds, (iii) appoint a receiver of the properties of the System for the purpose of operating the System and collecting and applying all revenues arising therefrom, subject to the rights of Big Rivers under the Operation Agreement, the Joint Facilities Agreement and the Power Sales Contract and (iv) surrender possession of the business and property of the System to the Trustee for the purpose of operation of the System and collecting and applying the revenues received therefrom, subject to the rights of Big Rivers under the Operation Agreement, the Joint Facilities Agreement and the Power Sales Contract.

If an Event of Default shall have occurred and not be remedied the Trustee may or, on the request of holders of not less than 25% in principal amount of Outstanding Bonds, shall take such steps by a suit or suits in equity or at law, whether for the specific performance of any covenants of the Ordinances or in aid of the enforcement of any other legal or equitable right as the Trustee shall deem most effectual to enforce any of it rights or to perform any of its duties under the Ordinances.

The holders of not less than a majority in principal amount of Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercise any trust or power conferred upon the Trustee (subject to the Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to bondholders not parties to such direction).

In case an Event of Default shall occur (which shall not have been cured) the Trustee will be required to use the degree of case of a prudent man in the conduct of his affairs.

No bondholder shall have any right to institute any suit, action or proceeding for the enforcement of any provision of the Ordinances or the execution of any trust under the Ordinances or for any remedy under the Ordinances unless such bondholder shall have previously given the Trustee written notice of the Event of Default, and the holders of at least 25% in principal amount of the Bonds then outstanding shall have filed a written request with the Trustee and shall have afforded the Trustee a reasonable opportunity to exercise its powers or instituted such action, suit or proceeding, and unless there shall have been offered to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and the Trustee shall have refused to comply with such request within 60 days. Nothing in the Ordinances or the Bonds affects or impairs the City's obligations to pay the Bonds and interest thereon when due or the right of any bondholder to enforce such payment and to enforce the statutory mortgage lien securing the Bonds.

(*Basic Bond Ordinance, Sections 8.01-8.11 and 9.03*)

Supplemental Bond Ordinances

Any of the provisions of the Basic Bond Ordinance may be amended by the City, by a supplemental ordinance, upon the consent of the holders of at least two-thirds in principal amount in each case of (i) all outstanding Bonds, (ii) if less than all of the outstanding Bonds are affected, the Bonds of each such affected Series, and (iii) if the amendment changes the terms of any sinking fund installment, the Bonds of the Series and maturity for which such sinking fund installment was established; excluding, in each case, from such consent, and from the outstanding Bonds, (a) the Bonds of any specified Series and maturity, if such amendment by its terms will not take effect so long as any of such Bonds remain outstanding, and (b) any Bonds owned or held by or for the account of the City; provided that any such amendment shall not permit a change in the terms of redemption price or interest without the consent of the affected holder, or reduce the percentages of consents required for a further amendment.

The City may adopt (without the consent of any holders of the Bonds) supplemental ordinances (i) to authorize Additional Bonds; (ii) to add to the restrictions contained in the Ordinances; (iii) to add to the covenants of the City contained in, or surrender any rights reserved to or conferred upon it by the Ordinances; (iv) to confirm any pledge under such Ordinances of System Revenues or other moneys; (v) to change from a fiscal year accounting period to a different fiscal year accounting period; (vi) otherwise to modify any of the provisions of such Ordinances (but no such other modification may be effective while any of the Bonds of any Series theretofore issued are outstanding); or (vii) to cure any ambiguity or to correct any defect in such Ordinances (provided that the Trustee shall consent thereto).

(*Basic Bond Ordinance, Sections 10.01-10.04; First Supplemental Ordinance, Section 2*)

Defeasance

All outstanding Bonds of a Series shall before the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Ordinances if the following conditions are met: (i) in the case of Bonds to be redeemed, the City shall have given to the Trustee irrevocable instructions to mail the notice of redemption therefor, (ii) there shall have been deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or Investment Securities the principal of and interest on which, when due, will provide moneys which, together with any moneys also deposited, shall be sufficient to pay when due the principal or redemption price, if applicable, and interest due or to become due on such Bonds, and (iii) in the event such Bonds are not subject to redemption within the next succeeding 90 days, the City shall have given the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the holders of such Bonds that the above deposit has been made with the Trustee and that such Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or redemption price, if applicable, of such Bonds.

(Basic Bond Ordinance, Section 12.01-02)

Holidays

If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Ordinances, is not a business day for the Trustee and Paying Agent, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the nominal date provided in the Ordinances and no interest shall accrue for the period after such nominal date.

(*Basic Bond Ordinance, Section 12.9*)

TAX MATTERS

General

It is the opinion of Bond Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky, assuming the correctness and accuracy of certain representations and warranties of the City made in connection with the issuance of the Series 2011B Bonds, that under existing laws interest on the Series 2011B Bonds (i) is excluded from gross income for federal and Kentucky income tax purposes and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), interest on the Series 2011B Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the first sentence of this paragraph are subject to the conditions, among others (as set out in APPENDIX H – "FORM OF BOND COUNSEL OPINION," to which reference is made), that the representations and warranties of the City referred to above are accurate and that the City complies with all requirements of the United States Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied after the issuance of the Series 2011B Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the Series 2011B Bonds to be included in gross income retroactive to the date of issuance of the Series 2011B Bonds. Bond Counsel expresses no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Series 2011B Bonds. Reference is made to the forms of opinion of Bond Counsel contained in APPENDIX H – "FORM OF BOND COUNSEL OPINION" to this Official Statement.

Prospective purchasers of the Series 2011B Bonds should be aware that:

(i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2011B Bonds or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of a holder's interest expense allocated to interest on the Series 2011B Bonds, except to the extent described below. The City has determined the Series 2011B Bonds are treated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code; and, in the case of financial institutions (within the meaning of Section 265(b)(5) of the Code), including federal- or state-supervised commercial banks, a deduction is allowed for 80% of that portion of such a financial institution's interest expenses that is allocable to interest on the Series 2011B Bonds.

(ii) With respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2011B Bonds.

(iii) Interest on the Series 2011B Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.

(iv) Passive investment income, including interest on the Series 2011B Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

(v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2011B Bonds.

Bond Counsel is further of the opinion that the Series 2011B Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

Original Issue Discount

The Series 2011B Bonds that bear an interest rate that is lower than their yield, as shown on the inside cover page hereof (the "Discount Bonds"), have been offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (original principal amount) over the "issue price" of each Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than the bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of the Discount Bond over the period to maturity based on the constant interest rate method, compounded semiannually. With respect to a purchase of a Discount Bond at its issue price in the initial offering, the portion of OID that accrued during the period that the purchase owns the Discount Bond (i) is interest excludable from that purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Series 2011B Bonds, and (ii) is added to that purchaser's tax basis for the purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of any Discount Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to such Discount Bonds, other federal tax consequences of owning Discount Bonds and the treatment of OID for state and local tax purposes.

Original Issue Premium

The Series 2011B Bonds that bear an interest rate that is greater than the yield, as shown on the inside cover page hereof (the "Premium Bonds"), have an initial public offering price that is greater than the amount payable at maturity with respect to such Bonds. The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriter or wholesalers) at which a substantial amount of the Premium Bonds of such maturities are sold, will constitute "original issue premium" ("OIP"). Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of bond premium, the owner of a Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the amount of OIP properly accruable each year and the treatment of OIP for state and local tax purposes.

Private Letter Ruling Regarding Government Use of Station Two

The City has received a Private Letter Ruling from the Internal Revenue Service dated March 31, 2011, which provides in essence that (i) the City may treat the output from the net rated capacity of Station Two reserved for the City's use under the Power Sales Contract, reduced by Big Rivers' purchases of any of the City's output not scheduled or taken as provided in the Power Sales Contract from such reserved capacity and any other private business use of such output, as the government use portion of Station Two; and (ii) the Operation Agreement is an arrangement that is not treated as a management contract that results in private business use under applicable regulations.

LITIGATION

The City

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2011B Bonds, or in any way contesting or affecting the validity of the Series 2011B Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2011B Bonds or the due existence or powers of the City.

The Utility Commission

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2011B Bonds, or in any way contesting or affecting the validity of the Series 2011B Bonds or any proceedings of the Utility Commission taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2011B Bonds or the due existence or powers of the Utility Commission.

With reference to the Power Sales Contract, Big Rivers, the City and the Utility Commission are currently parties to a dispute concerning certain rights related to the City's Station Two reserved capacity and related energy. Specifically, the suit involves whether Big Rivers has the contractual right to take the City's energy "not scheduled or taken" under the Power Sales Contract. The dispute was placed in formal arbitration by the Circuit Court of Henderson County, Kentucky, and the hearing is scheduled for November 2011. In the event the

City and the Utility Commission do not prevail in the arbitration, there will not be a material adverse impact on the existing financial status of the Utility Commission and the City.

The Utility Commission is also a party to litigation in the Henderson County Circuit Court in which the Utility Commission has requested the Circuit Court to issue a declaratory judgment that the Utility Commission may separately consider repair and maintenance projects performed at Station Two with regard to the Commonwealth of Kentucky's prevailing wage law. It has been the past practice of the Commonwealth's Labor Cabinet to view all simultaneous repair and maintenance projects performed at Station Two as one project for purposes of meeting the thresholds of the prevailing wage law. The Utility Commission seeks to consider each such project separately. If the Utility Commission is successful it will incur cost savings associated with future repair and maintenance projects. If unsuccessful, there will be no negative financial impact on the Utility Commission.

LEGAL MATTERS

Certain legal matters incident to the authorization and validity of the Series 2011B Bonds will be the subject of approving opinions of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel, which will be available at the time of delivery of the Series 2011B Bonds. The proposed form of such opinion is contained in APPENDIX H – "FORM OF BOND COUNSEL OPINION" to this Official Statement. Certain legal matters relating to the legality of the proceedings of the City and the absence of any litigation which might affect the validity of the Series 2011B Bonds or the proceedings of the City with respect thereto will be passed upon for the City by its City Attorney, Joseph E. Ternes, Jr., Henderson, Kentucky. Certain legal matters relating to the legality of the proceedings of the Utility Commission and the absence of any litigation which might affect the validity of the Series 2011B Bonds or the proceedings of the Utility Commission with respect thereto will be passed upon for the Utility Commission by its Counsel, King, Deep and Branaman, Henderson, Kentucky.

The information contained in this Official Statement under the headings "INTRODUCTORY STATEMENT," "AUTHORITY AND SECURITY," "THE SERIES 2011B BONDS," "THE ORDINANCES," "TAX MATTERS" and "CONTINUING DISCLOSURE UNDERTAKINGS" has been reviewed by Bond Counsel to determine that such information conforms in substance to the proceedings and laws relating to the issuance of the Series 2011B Bonds that are summarized in such information (see "Reference to Documents" hereinafter); but Bond Counsel has not undertaken to review the accuracy or completeness of statements and data otherwise contained in this Official Statement, including APPENDICES A through G, and expresses no opinion thereon and assumes no responsibility in connection therewith.

CONTINUING DISCLOSURE UNDERTAKINGS

The Utility Commission

The Utility Commission, on behalf of the City, will agree in a Continuing Disclosure Certificate, dated as of the date of issuance of the Series 2011B Bonds (the "Continuing Disclosure Certificate"), to provide or to cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended, and official interpretations thereof (the "Rule") promulgated by the Securities and Exchange Commission, the following:

(a) (i) with the Municipal Securities Rulemaking Board (the "MSRB"), or any successor thereto for purposes of the Rule, through the continuing disclosure service portal provided by the MSRB's Electronic Municipal Market Access ("EMMA") system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission, and (b) with the appropriate state information depository ("SID"), if any, for the Commonwealth of Kentucky as designated by the Securities and Exchange Commission in accordance with the Rule, certain annual financial information and operating data, generally consistent with the financial information and operating data contained in APPENDIX C – "GENERAL OPERATING INFORMATION FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" hereof, together with audited financial statements. Such information is expected to be available on or before December 31 of each year for the fiscal year ending on the preceding May 31 and will be made available, in addition to EMMA and the SID, if any, to each holder of Series 2011B Bonds who makes written request for such information; provided that audited financial statements, if not available on December 31, will be filed when available.

The audited financial statements and other financial statements will be prepared in accordance with (a) generally accepted accounting principles (GAAP) as applied to governmental enterprise funds, as described in the notes to the Utility Commission's audited financial statements appearing in APPENDIX E – "REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION" hereof and (b) the standards of the Governmental Accounting Standards Board. Reference is made to the notes to the Utility Commission's audited financial statements for a detailed description of the accounting principles pursuant to which the Utility Commission's financial statements will be prepared.

(b) with the MSRB through EMMA and the SID, if any, notice of the occurrence of any of the following events with respect to the Series 2011B Bonds in a timely manner not in excess of ten business days after the occurrence of such event: (i) principal and interest payment delinquencies, (ii) non-payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011B Bonds, or other material events affecting the tax status of the Series 2011B Bonds, (vii) modifications to rights of holders of Series 2011B Bonds, if material, (viii) Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution or sale of property securing repayment of the

Series 2011B Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the Utility Commission, (xiii) the consummation of a merger, consolidation, or acquisition involving the Utility Commission or the sale of all or substantially all of the assets of the Utility Commission, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of a trustee, if material.

The Utility Commission may from time to time choose to file notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Utility Commission, any such other event is material with respect to the Series 2011B Bonds, but the Utility Commission does not undertake to commit to file any such notice of the occurrence of any event except those events listed above.

(c) in a timely manner, with the MSRB through EMMA and the SID, if any, notice of a failure by the Utility Commission to file the required financial information on or before the date specified in the Continuing Disclosure Certificate for such Series.

The Utility Commission reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Utility Commission; provided that the Utility Commission agrees that any such modification will be done in a manner consistent with the Rule. All documents provided to the MSRB in accordance with the Rule shall be accompanied by identifying information as prescribed by the MSRB. The Utility Commission reserves the right to terminate its obligation to provide annual financial information and notices of material events as set forth above, if and when the Utility Commission no longer remains an obligated person with respect to the Series 2011B Bonds within the meaning of the Rule. The Utility Commission acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders (including beneficial owners) of the Series 2011B Bonds and shall be enforceable by any holder of the Series 2011B Bonds; provided that a Bondholder’s right to enforce the provisions of this undertaking shall be limited to a right to obtain specific performance of the Utility Commission’s obligations pursuant to the provisions of this undertaking, and any failure by the Utility Commission to comply with the provisions of this undertaking shall not be an event of default with respect to the Series 2011B Bonds under the Ordinances.

The Utility Commission has not failed to comply in all material respects with its previous undertakings under the Rule to file annual reports.

Purchase of the Series 2011B Bonds shall be conditioned upon the receipt by the initial purchaser of the Series 2011B Bonds, at or before the delivery of the Series 2011B Bonds, of evidence that the Utility Commission has made the continuing disclosure undertaking described above, in the form of the Continuing Disclosure Certificate, for the benefit of the holders of the Series 2011B Bonds.

Big Rivers

On June 1, 2010, Big Rivers entered into a Continuing Disclosure Agreement with U.S. Bank National Association, as trustee, in connection with Big Rivers' County of Ohio, Kentucky Pollution Control Refunding Revenue Bonds, Series 2010A (Big Rivers Electric Corporation Project) whereby Big Rivers agreed to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur, all as described in APPENDIX F – "GENERAL INFORMATION AND DATA – BIG RIVERS ELECTRIC CORPORATION – Continuing Disclosure."

RATING

The Series 2011B Bonds have been assigned a rating of "A3" by Moody's Investors Service, Inc. (the "Rating Agency"). An explanation of the significance of such rating may be obtained from the Rating Agency. The City and the Utility Commission have furnished the Rating Agency with certain information and materials relating to the Series 2011B Bonds, the City and the Utility Commission which have not been included in this Official Statement. Such rating reflects only the views of the Rating Agency at the time such rating is issued and is not a recommendation to buy, sell or hold the Series 2011B Bonds. The rating is subject to change or withdrawal by the Rating Agency at any time and any such change or withdrawal may affect the market price or marketability of the Series 2011B Bonds.

UNDERWRITING

The Series 2011B Bonds were purchased (pending delivery on or about September 27, 2011) at a competitive sale held on September 1, 2011, by J.J.B. Hilliard, W.L. Lyons, LLC, as underwriter, at a purchase price of $3,600,306.70, representing 98.10% of par value.

FINANCIAL ADVISOR

J.J.B. Hilliard, W.L. Lyons, LLC, Louisville, Kentucky is acting as Financial Advisor to the City in connection with the issuance of the Series 2011B Bonds and will receive a fee, payable from Bond proceeds, for its services as Financial Advisor.

REFERENCE TO DOCUMENTS

All foregoing summaries and descriptions of provisions set forth in the Ordinances, the Series 2011B Bonds, the Continuing Disclosure Undertakings and related documents, and all references to other documents and materials not purported to be quoted in full, are brief outlines of certain provisions of such documents, reference to which documents is hereby made and copies of which will be furnished by the City upon written request.

MISCELLANEOUS

Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the Series 2011B Bonds.

The City of Henderson, Kentucky, acting by and through its Commission, has approved and caused this Official Statement, including the Appendices, to be executed and delivered by its Mayor.

Dated September 1, 2011.

CITY OF HENDERSON, KENTUCKY

By /s/ Steve Austin
Mayor

APPENDICES

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APPENDIX A

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

DEBT SERVICE REQUIREMENTS ON SERIES 2011A BONDS AND SERIES 2011B BONDS AND DEBT OUTSTANDING OF THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION

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City of Henderson, Kentucky
Electric System Revenue Bonds
Series 2011A&B

DEBT SERVICE REQUIREMENTS ON SERIES 2011A BONDS AND SERIES 2011B BONDS

	Series 2011A			Series 2011B			Combined			
Date	Principal	Interest	Total P+I	Principal	Interest	Total P+I	Principal	Interest	Total P+I	Fiscal Total
12/01/2011	-	$95,038.13	$95,038.13	-	$19,307.78	$19,307.78	-	$114,345.91	$114,345.91	$114,345.91
6/01/2012	-	203,653.13	203,653.13	-	54,303.13	54,303.13	-	257,956.26	257,956.26	
12/01/2012	$420,000.00	203,653.13	623,653.13	$150,000.00	54,303.13	204,303.13	$570,000.00	257,956.26	827,956.26	1,085,912.52
6/01/2013	-	198,403.13	198,403.13	-	53,365.63	53,365.63	-	251,768.76	251,768.76	
12/01/2013	435,000.00	198,403.13	633,403.13	150,000.00	53,365.63	203,365.63	585,000.00	251,768.76	836,768.76	1,088,537.52
6/01/2014	-	192,965.63	192,965.63	-	52,428.13	52,428.13	-	245,393.76	245,393.76	
12/01/2014	445,000.00	192,965.63	637,965.63	150,000.00	52,428.13	202,428.13	595,000.00	245,393.76	840,393.76	1,085,787.52
6/01/2015	-	187,403.13	187,403.13	-	51,490.63	51,490.63	-	238,893.76	238,893.76	
12/01/2015	455,000.00	187,403.13	642,403.13	155,000.00	51,490.63	206,490.63	610,000.00	238,893.76	848,893.76	1,087,787.52
6/01/2016	-	181,715.63	181,715.63	-	50,521.88	50,521.88	-	232,237.51	232,237.51	
12/01/2016	465,000.00	181,715.63	646,715.63	155,000.00	50,521.88	205,521.88	620,000.00	232,237.51	852,237.51	1,084,475.02
6/01/2017	-	175,903.13	175,903.13	-	49,359.38	49,359.38	-	225,262.51	225,262.51	
12/01/2017	475,000.00	175,903.13	650,903.13	155,000.00	49,359.38	204,359.38	630,000.00	225,262.51	855,262.51	1,080,525.02
6/01/2018	-	169,965.63	169,965.63	-	47,809.38	47,809.38	-	217,775.01	217,775.01	
12/01/2018	490,000.00	169,965.63	659,965.63	160,000.00	47,809.38	207,809.38	650,000.00	217,775.01	867,775.01	1,085,550.02
6/01/2019	-	162,615.63	162,615.63	-	46,049.38	46,049.38	-	208,665.01	208,665.01	
12/01/2019	505,000.00	162,615.63	667,615.63	165,000.00	46,049.38	211,049.38	670,000.00	208,665.01	878,665.01	1,087,330.02
6/01/2020	-	155,040.63	155,040.63	-	44,069.38	44,069.38	-	199,110.01	199,110.01	
12/01/2020	520,000.00	155,040.63	675,040.63	170,000.00	44,069.38	214,069.38	690,000.00	199,110.01	889,110.01	1,088,220.02
6/01/2021	-	146,590.63	146,590.63	-	41,816.88	41,816.88	-	188,407.51	188,407.51	
12/01/2021	535,000.00	146,590.63	681,590.63	175,000.00	41,816.88	216,816.88	710,000.00	188,407.51	898,407.51	1,086,815.02
6/01/2022	-	137,495.63	137,495.63	-	39,301.25	39,301.25	-	176,796.88	176,796.88	
12/01/2022	555,000.00	137,495.63	692,495.63	175,000.00	39,301.25	214,301.25	730,000.00	176,796.88	906,796.88	1,083,593.76
6/01/2023	-	127,783.13	127,783.13	-	36,457.50	36,457.50	-	164,240.63	164,240.63	
12/01/2023	570,000.00	127,783.13	697,783.13	185,000.00	36,457.50	221,457.50	755,000.00	164,240.63	919,240.63	1,083,481.26
6/01/2024	-	117,095.63	117,095.63	-	33,451.25	33,451.25	-	150,546.88	150,546.88	
12/01/2024	595,000.00	117,095.63	712,095.63	190,000.00	33,451.25	223,451.25	785,000.00	150,546.88	935,546.88	1,086,093.76
6/01/2025	-	105,195.63	105,195.63	-	30,031.25	30,031.25	-	135,226.88	135,226.88	
12/01/2025	615,000.00	105,195.63	720,195.63	195,000.00	30,031.25	225,031.25	810,000.00	135,226.88	945,226.88	1,080,453.76
6/01/2026	-	92,895.63	92,895.63	-	26,521.25	26,521.25	-	119,416.88	119,416.88	
12/01/2026	640,000.00	92,895.63	732,895.63	205,000.00	26,521.25	231,521.25	845,000.00	119,416.88	964,416.88	1,083,833.76
6/01/2027	-	79,695.63	79,695.63	-	22,677.50	22,677.50	-	102,373.13	102,373.13	
12/01/2027	665,000.00	79,695.63	744,695.63	210,000.00	22,677.50	232,677.50	875,000.00	102,373.13	977,373.13	1,079,746.26
6/01/2028	-	65,564.38	65,564.38	-	18,740.00	18,740.00	-	84,304.38	84,304.38	
12/01/2028	695,000.00	65,564.38	760,564.38	220,000.00	18,740.00	238,740.00	915,000.00	84,304.38	999,304.38	1,083,608.76
6/01/2029	-	50,621.88	50,621.88	-	14,340.00	14,340.00	-	64,961.88	64,961.88	
12/01/2029	725,000.00	50,621.88	775,621.88	225,000.00	14,340.00	239,340.00	950,000.00	64,961.88	1,014,961.88	1,079,923.76
6/01/2030	-	34,762.50	34,762.50	-	9,840.00	9,840.00	-	44,602.50	44,602.50	
12/01/2030	755,000.00	34,762.50	789,762.50	235,000.00	9,840.00	244,840.00	990,000.00	44,602.50	1,034,602.50	1,079,205.00
6/01/2031	-	17,775.00	17,775.00	-	5,022.50	5,022.50	-	22,797.50	22,797.50	
12/01/2031	790,000.00	17,775.00	807,775.00	245,000.00	5,022.50	250,022.50	1,035,000.00	22,797.50	1,057,797.50	1,080,595.00
Total	$11,350,000.00	$5,301,320.81	$16,651,320.81	$3,670,000.00	$1,474,500.38	$5,144,500.38	$15,020,000.00	$6,775,821.19	$21,795,821.19	$21,795,821.19

J.J.B. Hilliard, W.L. Lyons, LLC
Public Finance

City of Henderson, Kentucky Utility Commission
Outstanding Debt

The Utility Commission has no long-term debt outstanding as of June 30, 2011.

The City has issued the following Bond Anticipation Notes (the "BANs") for which the Utility Commission has agreed to pay the City the related debt service:

BAN	Amount Authorized	Last Maturity Date	Balance as of June 30, 2011 [(1)(2)]
City of Henderson, Kentucky Bond Anticipation Note, Series 2008A [(1)]	$3,500,000	December 1, 2011	$3,395,021
City of Henderson, Kentucky Bond Anticipation Note, Taxable Series 2008B [(1)]	9,000,000	December 1, 2011	4,529,452
City of Henderson, Kentucky Bond Anticipation Note, Taxable Series 2010A [(1)]	1,500,000	March 25, 2012	51,062
	$14,000,000		$7,975,535

Source: City of Henderson, Kentucky Utility Commission

(1) The issuance of the Series 2011A Bonds and the Series 2011B Bonds will retire all of the BANs. The BANs were authorized in the amounts noted above. The BANs were issued on a drawdown basis: the balances shown above represent the respective principal amounts that were drawn down as of June 30, 2011.

(2) Upon the issuance of the Bonds, it is expected that the outstanding principal balance of the Series 2008A BAN, Series 2008B BAN, and Series 2010A BAN will be $3,500,000, $5,281,067, and $170,000 respectively.

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APPENDIX B

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

DEMOGRAPHIC AND ECONOMIC DATA
OF THE CITY OF HENDERSON, KENTUCKY

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HENDERSON, KENTUCKY

Henderson, originally known as "Red Banks" in reference to the soil along the banks of the Ohio River, was first settled in 1797. By the early 1800's the City had grown to 1,000 inhabitants. The City was incorporated as a town in 1810 and as a City in 1867. In 1922 a commission form of government was adopted, and in 1966 it was replaced by a city manager form of government.

The Henderson area has grown steadily and is known for its friendly people and southern hospitality. Henderson ranks as Kentucky's eighth largest city in terms of population. Henderson is also the home of four governors and two lieutenant governors.

Henderson County covers a land area of 440 square miles in the Western Coal Field Region of Kentucky. The Ohio River forms the northern boundary of the county. Henderson County had an estimated 2010 population of 45,648 persons.

Location

Henderson is the county seat of Henderson County, Kentucky, and lies on the southern banks of the Ohio River, one of the nation's major waterways, in the western Kentucky coal field region. Henderson is located 10 miles south of Evansville, Indiana, and is 120 miles north of Nashville, Tennessee, 120 miles southwest of Louisville, Kentucky and 150 miles southeast of St. Louis, Missouri. Henderson sits on a bluff; more than 70 feet above the Ohio River's low water mark, overlooking the river. For years the local slogan has been "On the Ohio, but never in it". Henderson covers 17.9 square miles and is 400 feet above sea level.

Industry

The Henderson area is home to several diverse industries, attracting major manufacturing and processors in aluminum, coal mining, steel, plastics, and agriculture. Locally produced commodities include aluminum ingot, automotive parts, truck axles and wheels, and poultry products.

Labor Supply

There is a current estimated labor supply of 23,045 persons available for industrial jobs in the labor market area. In addition, from 2010 to 2013, approximately 26,220 young persons in the labor market area will become 18 years of age and potentially available for industrial jobs.

Largest employers in the City are as follows (as of June 2011):

Firm	Product/Service	Average Employment
Gibbs Die Casting Corp.	Aluminum & magnesium die castings, headquarters	650
Dana Corporation	Truck axles & brake components	250
Brenntag Mid-South Inc.	Chemical blending, industrial chemical distribution	228
Audubon Metals LLC	Heavy-media separator and secondary specification aluminum alloy producer. Recycling process of automobile shredder residue into new aluminum castings	165
Accuride Corp.	Truck wheels & rims	141
Sitex Corporation	Headquarters and uniform supply service	124
Sonoco	Aluminum & steel can ends	112
Hugh E. Sandefur Training Center Inc.	Vocational rehabilitation, manufacturing plant producing corrugated products; boxes, partitions, die cuts. Assembly, re-work, pick/pack, bag sealing and woodworking products.	100
Service Tool & Plastics	Injection molded plastics	99
International Paper	Recycled linerboard	75

Source: Kentucky Cabinet for Economic Development

Churches and Schools

The Henderson area has over 63 churches representing many major religious denominations.

The county and parochial school systems provide elementary, middle, and secondary school students with a quality education. The school systems also have an excellent student-teacher ratio of 16:1. The school system has eight elementary schools, two junior high schools, one high school, and one special education center.

Henderson Community College, a part of the Kentucky Community and Technical College System, offers two year Associate of Arts and Science degrees. The College also offers many adult continuing educational programs as well as providing support to area businesses and industry through special educational workshops tailored to meet the respective businesses' needs.

Medical Facilities

The City of Henderson is fortunate to have an excellent, well staffed, 187 bed Methodist Hospital. The Hospital just recently opened two additions with total construction costs of $21 million. Four nursing homes are located in the City as well as a state maintained county health department. Serving the medical needs of Henderson citizens are approximately 75 physicians and 15 dentists.

Recreation and Culture

Available to area citizens are a wide range of recreational and cultural activities. The Henderson area is home to some of the finest duck and goose hunting in the United States, as well as many other outdoor activities.

Audubon State Park is home to the John James Audubon Museum. John James Audubon, the world-renowned wildlife artist lived in Henderson and operated a business. The museum holds an extensive collection of Audubon's works. The facility hosts visitors from all over the world who come to view Audubon's works and study his life. Lodging and camping accommodations can also be found at the park.

Municipal parks provide for picnicking, golfing, tennis, soccer, swimming, softball, and baseball. For fishermen, several lakes in the area are available, and other water sports may be enjoyed on the Ohio River.

Community activities include music, theatre, and art. Cultural activities play a major role in the lives of Hendersonians. The 1,000 seat Henderson Fine Arts Center located at the Henderson Community College provides quality entertainment with many of the top acts in the United States performing on a regular basis.

The summer is highlighted with the W.C. Handy Blues and Barbecue Festival. The Festival is held to honor the life of W.C. Handy who is known as the "Father of the Blues". Handy lived in Henderson and it is in Henderson where he honed his musical skills. Many of the top names in jazz and blues perform at the event. The celebration is traditionally ended with a dazzling display of fireworks.

Henderson County High School participates in all major team sports offered by the Kentucky High School Athletic Association. The school is continually in contention for state titles in several sports. The recently expanded Henderson Public Library is one of the finest libraries in the area with well in excess of 112,000 volumes. The library was built in the early 1900's by a grant provided by Andrew Carnegie.

The Economic Framework

The total number of Henderson County residents employed in 2010 averaged 21,471. Contract construction firms provided 877 jobs; agriculture, forestry, fishing and hunting, and mining firms in the county employed 376; manufacturing firms in the county reported 4,278 employees; trade, transportation and utilities provided 2,971 jobs; 6,283 were employed in the service industry; and informational, financial activities and public administration accounted for 1,554 jobs.

HENDERSON COUNTY, KENTUCKY
ECONOMIC STATISTICS
2007-2011

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Employment	Civilian Labor Force	Unemployment Rate
2011	(1)	$62,900 (2)	(1)	22,046 (2)	24,099 (2)	8.5% (2)
2010	(1)	61,400	(1)	21,471	23,906	10.2
2009	$32,070	60,900	$671.53	21,069	23,614	10.8
2008	31,265	59,800	666.76	21,391	22,804	6.2
2007	29,434	56,900	639.29	21,932	23,096	5.0

Source: Kentucky Cabinet for Economic Development
(1) Data not available
(2) As of April 2011.

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APPENDIX C

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

GENERAL OPERATING INFORMATION FOR
THE CITY OF HENDERSON, KENTUCKY
UTILITY COMMISSION

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City of Henderson, Kentucky Utility Commission
Electric Rates

The Utility Commission's current schedule of electric rates effective as of February 1, 2009 is shown below.

Customer Class	Retail Rates	Fuel Adj.	Effective Rate
Residential			
Customer Charge	$6.23	--	--
Summer KwH	$0.0549	$0.01800	$0.07290
Winter KwH	$0.0434	$0.01800	$0.06140
Church and School			
Customer Charge	$6.23	--	--
All KwH	$0.0439	$0.0180	$0.06190
General Service			
Customer Charge	$6.23	--	--
1st 2,000 KwH	$0.0603	$0.01800	$0.07830
next 13,000 KwH	$0.0522	$0.01800	$0.07020
all over 15,000 KwH	$0.0422	$0.01800	$0.06020
Demand Rate			
Customer Charge	$125.00	--	--
plus Variable Demand Charge			
1st 50,000 KwH	$0.0405	$0.01800	$0.05850
next 50,000 KwH	$0.0318	$0.01800	$0.04980
all over 100,000 KwH	$0.0288	$0.01800	$0.04680
Outdoor Lighting			
100 Watt Rate Month	$9.33	--	--
250 Watt Rate Month	$13.65	--	--

Source: City of Henderson, Kentucky Utility Commission

Set forth below is a list of the ten largest electric customers in terms of amount of revenue generated during the period of June 1, 2010 through May 31, 2011.

Customer	Electric Usage Amount	Fuel Adjustment	Total Electric Amount	Billed Consumption (KWH)	Revenue as a % of Total Revenue
International Paper	$3,951,274	$1,035,467	$4,986,741	121,871,232	16.02%
Gibbs Die Cas-Interface	2,121,778	506,466	2,628,244	60,634,744	8.44
Shamrock Technologies Inc.	910,148	216,960	1,127,108	26,146,200	3.62
HND Water Utility	659,047	134,444	793,491	16,023,579	2.55
Precision Micron Powders	633,223	155,374	788,597	18,139,840	2.53
Audubon Metals – LLC	611,060	153,896	764,956	17,869,168	2.46
Methodist Hospital	602,453	135,758	738,211	16,670,604	2.37
Sonoco Products Company	354,611	82,570	437,181	9,991,440	1.40
Taubensee Steel & Wire Co.	340,781	75,340	416,121	8,728,040	1.34
Dana Corp.	310,898	72,123	383,021	8,858,182	1.23
Total	$10,495,273	$2,568,398	$13,063,671	304,933,029	41.96%

Source: City of Henderson, Kentucky Utility Commission

Listed below are customer statistics of the System for the last five fiscal years.

	FY11	FY10	FY09	FY08	FY07
Number of Residential	10,299	10,269	10,249	10,231	10,229
Number of Commercial	1,623	1,635	1,626	1,625	1,624
Total	11,922	11,904	11,875	11,856	11,853
Dollars Sold	$31,297,629	$29,595,820	$29,332,083	$31,875,000	$29,713,000
KWH Sold	615,346,459	577,557,821	602,132,838	657,468,447	644,907,439

Source: City of Henderson, Kentucky Utility Commission

The following table shows a ten year projection of power and energy requirements for the City of Henderson, Kentucky Utility Commission.

Fiscal Year	Peak Demand (MW)	Percent Growth	Energy Requirements (KWh)	Percent Growth
2012	119.00	--	644,904,439	--
2013	121.00	1.65%	655,564,017	1.63%
2014	122.00	0.82	660,937,492	1.81
2015	123.00	0.81	666,310,968	0.81
2016	124.00	0.81	671,684,443	0.80
2017	125.00	0.80	677,057,919	0.79
2018	127.00	1.57	687,720,248	1.55
2019	128.00	0.78	693,093,063	0.78
2020	129.00	0.78	698,465,877	0.77
2021	131.00	1.53	709,129,478	1.50

Source: City of Henderson, Kentucky Utility Commission

RESERVED CAPACITY (MW) AND ENERGY (MWH) TAKEN FROM STATION TWO

CAPACITY				**ENERGY**							
Budget Period	Station Two's Total Net Rated Capacity (MW)	City's Reserved Net Rated Capacity (MW)	City's % of Total Net Rated Capacity	Station Two's Total Energy Generated (MWh)	City's Energy Taken From Station Two (MWh)	Big Rivers Energy Taken From Station Two (MWh)	Station Two's Hourly Average Energy Taken From Station Two (MW)	Issuer's Hourly Average Energy Taken From Station Two (MW)	Big River's Hourly Average Energy Taken From Station Two (MW)	City's Energy % Taken From Total Energy Generated
2004	312	95	30.4%	2,200,965	655,028	1,545,937	251	75	176	29.8%
2005	312	95	30.4%	2,094,706	674,125	1,420,581	239	77	162	32.2%
2006	312	95	30.4%	2,385,785	661,022	1,724,763	272	75	197	27.7%
2007	312	95	30.4%	2,154,799	633,547	1,521,252	245	72	173	29.4%
2008 (1)	312	95	30.4%	1,906,194	596,023	1,310,171	218	68	150	31.3%
2009	312	100	32.1%	2,283,258	590,864	1696665	261	67	194	26.0%
2010	312	105	33.7%	2,241,136	609,946	1635774	256	70	186	27.2%
2011	312	(2)	35.3%	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Total for past seven years				15,266,843	4,420,555	10,855,143				29.0%
Average over past five years							249	72	176	29.0%

NOTES:

(1) Reductions in City's energy taken from the Station Two's and reductions in the Station Two's energy generated during "Peak Consumption Period" in 2008 are related to downturn in the economy.

(2) Unavailable.

Source: City of Henderson, Kentucky Utility Commission

City of Henderson, Kentucky
Utility Commission
Projected Proforma Debt Service Coverage

	Fiscal Year				
	2012	2013	2014	2015	2016
Revenues:					
Electricity	$36,429,608	$37,051,686	$37,422,203	$37,796,425	$38,174,389
Other Income	2,676,921	$2,703,690	$2,730,727	$2,758,034	$2,785,615
Total Revenues	$39,106,529	$39,755,376	$40,152,930	$40,554,459	$40,960,004
Expenses:					
Operating Expenses	$38,387,927	$38,771,806	$39,159,524	$39,551,120	$39,946,631
Depreciation	1,064,400	$1,075,044	$1,085,794	$1,096,652	$1,107,619
Total Expenses	$39,452,327	$39,846,850	$40,245,319	$40,647,772	$41,054,250
Net Income:	($345,798)	($91,474)	($92,389)	($93,313)	($94,246)
Plus/(Less):					
Interest Income	$188,000	$189,880	$191,779	$193,697	$195,634
Interest Expense	115,818	523,243	517,798	511,908	503,763
Depreciation	1,064,400	1,075,044	1,085,794	1,096,652	1,107,619
Revenue Available for Debt Service	$1,022,420	$1,696,693	$1,702,982	$1,708,944	$1,712,770
Debt Service for Series 2011A and 2011B Bonds	$114,346	$1,085,913	$1,088,538	$1,085,758	$1,087,788
Total Debt Service Coverage	8.94	1.56	1.56	1.57	1.57

Notes:
Prepared by City of Henderson, Kentucky Utility Commission except the debt service projections prepared by its financial advisor.
Rates based on current rating structure. Management is planning for a rate increase in next five years.

APPENDIX D

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

SUMMARIES OF UNAUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED MAY 31, 2011 AND AUDITED STATEMENTS OF NET ASSETS, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED MAY 31, 2006 THROUGH 2010 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION

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Financial Information

The following is a five year presentation of the System's finances to include balance sheets, statement of revenues, expenses and changes in retained earnings. Please refer to Appendix E for the City of Henderson, Kentucky Utility Commission 2009-10 Audited Financial Statements.

CITY OF HENDERSON, KENTUCKY
UTILITY COMMISSION
(HENDERSON MUNICIPAL POWER & LIGHT SYSTEM)

BALANCE SHEETS

	As of May 31,					
	Unaudited	Audited				
	2011	2010	2009	2008	2007	2006
ASSETS						
Current Assets						
Cash and cash equivalents	$ 6,260	$ 243,156	$ 691,891	$ 1,455,817	$ 1,020,994	$ 982,608
Investment securities	20,289,003	23,092,056	6,323,934	7,607,036	7,166,760	9,490,970
Accounts receivable, net of allowance for uncollectible	1,909,230	2,472,377	2,797,758	1,393,050	1,786,648	404,397
Accounts receivable, Station Two Operator	1,590,547	1,590,547	298,452	-	1,262,523	-
Accrued interest receivable	30,901	39,828	100	21,989	56,855	11,636
Accrued revenue	2,174,100	2,174,099	2,015,178	2,217,708	2,378,307	1,466,813
Inventory and supplies	7,702,632	5,168,630	5,652,271	5,252,617	4,957,734	5,065,453
Prepaid expenses	63,558	63,602	96,701	83,506	110,583	128,328
Total Current Assets	$ 33,766,231	$ 34,844,295	$ 17,876,285	$ 18,031,723	$ 18,740,404	$ 17,550,205
Property, Plant and Equipment						
Utility plant, net of accumulated depreciation	69,515,885	68,501,994	67,787,039	67,708,807	69,454,860	72,615,024
TOTAL ASSETS	$103,282,116	$103,346,289	$ 85,663,324	$ 85,740,530	$ 88,195,264	$ 90,165,229
LIABILITIES						
Current Liabilities						
Accounts payable and accrued expenses	$ 4,673,371	$ 5,244,822	$ 5,916,868	$ 5,879,449	$ 4,163,870	$ 3,595,334
Accounts payable-construction in progress Station Two	-	1,758,217	-	-	-	-
Accounts payable-Station Two Operator	-	732,499	-	162,266	-	335,603
Asset retirement obligation	1,512,792	1,512,792	1,512,792	1,050,407	-	-
Short term debt-line of credit	-	-	1,200,000	2,400,000	4,800,000	6,000,000
Customer deposits	654,081	632,815	585,339	576,446	559,880	539,751
Total Current Liabilities	$ 6,840,244	$ 9,881,145	$ 9,214,999	$ 10,068,568	$ 9,523,750	$ 10,470,688
Other Liabilities						
Bond anticipation notes	7,975,535	5,433,241	2,225,322	-	-	-
Deferred income-sale of emission allowances	-	-	-	-	-	2,668,532
Total Other Liabilities	$ 7,975,535	$ 5,433,241	$ 2,225,322	$ -	$ -	$ 2,668,532
TOTAL LIABILITIES	$ 14,815,779	$ 15,314,386	$ 11,440,321	$ 10,068,568	$ 9,523,750	$ 13,139,220
NET ASSETS						
Unrestricted	26,925,987	24,963,150	6,435,964	7,963,155	8,224,221	2,708,825
Investment in plant assets, net of related debt	61,540,350	63,068,753	67,787,039	67,708,807	70,447,293	74,317,184
TOTAL NET ASSETS	$ 88,466,337	$ 88,031,903	$ 74,223,003	$ 75,671,962	$ 78,671,514	$ 77,026,009
TOTAL LIABILITIES AND NET ASSETS	$103,282,116	$103,346,289	$ 85,663,324	$ 85,740,530	$ 88,195,264	$ 90,165,229

Source: City of Henderson, Kentucky Utility Commission Audited Financial Statements 2006 through 2010 and Unaudited Financial Statement 2011

CITY OF HENDERSON, KENTUCKY
UTILITY COMMISSION
(HENDERSON MUNICIPAL POWER & LIGHT SYSTEM)

COMBINED STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

	Years Ending May 31,					
	Unaudited	Audited				
	2011	2010	2009	2008	2007	2006
OPERATING REVENUES						
Sale of electricity-Existing System	$ 31,871,754	$ 29,595,620	$ 29,332,083	$ 31,875,692	$ 29,713,477	$ 28,837,952
Sale of electricity-Station Two	24,488,791	22,271,304	25,200,799	23,343,688	11,875,800	17,897,689
Off-system sales	-	-	-	-	-	490,777
Communication Services	1,062,343	982,636	1,040,013	1,128,445	971,608	521,515
Other	1,157,006	516,119	1,002,390	590,581	417,615	337,152
Total Operating Revenues	$ 58,579,894	$ 53,365,679	$ 56,575,285	$ 56,938,406	$ 42,978,500	$ 48,085,085
EXPENSES						
Operating expenses:						
Production of electricity	42,956,400	40,863,973	44,375,641	52,500,410	38,097,237	39,343,161
Operating expenses	9,214,668	8,574,304	6,412,009	-	-	6,364,285
Depreciation	3,967,873	4,836,523	4,819,060	4,798,602	4,653,106	4,511,830
Total Operating Expenses	$ 56,138,941	$ 54,274,800	$ 55,606,710	$ 57,299,012	$ 42,750,343	$ 50,219,276
Income (Loss) from Operations	$ 2,440,953	$ (909,121)	$ 968,575	$ (360,606)	$ 228,157	$ (2,134,191)
Interest and debt expenses:						
Interest income	175,964	285,556	141,306	368,094	486,598	323,473
Interest expense	(141,055)	(105,458)	(112,214)	(203,113)	(310,452)	(288,532)
Total Interest and Debt Expenses	$ 34,909	$ 180,098	$ 29,092	$ 164,981	$ 176,146	$ 34,941
Income (Loss) before Transfers	$ 2,475,862	$ (729,023)	$ 997,667	$ (195,625)	$ 404,303	$ (2,099,250)
Non-Operating Expenses:						
Gain on sale of emission allowances	-	6,545	12,637	86,933	105,365	7,202,708
Capital contributions	-	(828,380)	-	64,195	422,668	1,013,554
Transfers to City of Henderson	(1,244,724)	(1,244,724)	(1,244,734)	(1,244,727)	(1,244,724)	(900,000)
Power furnished to City of Henderson	(376,704)	(354,336)	(354,345)	(270,372)	(296,425)	(267,010)
Communication services provided to the City of	-					
Henderson and other local government agencies	(420,000)	(420,000)	(420,000)	(420,000)	(414,214)	-
Total Non-Operating Expenses	$ (2,041,428)	$ (2,840,895)	$ (2,006,442)	$ (1,783,971)	$ (1,427,330)	$ 7,049,252
Change in Net Assets	$ 434,434	$ (3,569,918)	$ (1,008,775)	$ (1,979,596)	$ (1,023,027)	$ 4,950,002
Settlement from Previous Station Two Operator	-	17,378,818	-	-	-	-
Cumulative effective of adoption of SFAS No. 1433						
Asset Retirement Obligation	-	-	(440,184)	(1,019,956)	-	-
	$ -	$ 17,378,818	$ (440,184)	$ (1,019,956)	$ -	$ -
Increase/Decrease in Net Assets	$ 434,434	$ 13,808,900	$ (1,448,959)	$ (2,999,552)	$ (1,023,027)	$ 4,950,002
Net Assets, beginning of year, as previously reported	88,031,903	74,223,003	75,671,962	78,671,514	77,026,009	72,076,007
Prior period adjustment	-	-	-	-	2,668,532	-
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	$ 88,031,903	$ 74,223,003	$ 75,671,962	$ 78,671,514	$ 79,694,541	$ 72,076,007
NET ASSETS, END OF YEAR	$ 88,466,337	$ 88,031,903	$ 74,223,003	$ 75,671,962	$ 78,671,514	$ 77,026,009

Source: City of Henderson, Kentucky Audited Financial Statements 2006 through 2010 and Unaudited Financial Statement 2011

APPENDIX E

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

REPORT ON AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2010 AND 2009 FOR THE CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION

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City of Henderson, Kentucky Utility Commission - (Henderson Municipal Power & Light)

REPORT ON AUDITED FINANCIAL STATEMENTS

For the fiscal years ended May 31, 2010 and 2009

TABLE OF CONTENTS

The City of Henderson Utility Commission (HMP&L) is in the business of providing electricity and internet communication services for residential, commercial, and industrial customers within the incorporated territory of the City of Henderson, Kentucky. The Commission also provides electricity and internet communication services to customers in a few areas outside of the incorporated territory of Henderson. The following discussion and analysis of HMP&L's financial performance provides an overview of the Utility's financial activities for fiscal year ended May 31, 2010.

Overview of the Financial Statements:

This annual financial report consists of three parts: 1) Management's Discussion and Analysis, 2) Financial Statements, and 3) Supplemental Additional Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements. The statements are followed by a section of supplemental information that further explains and supports the information in the basic financial statements. The Supplemental schedules present the financial position and results of operations for the Existing System and Station Two. The Consolidated Financial Statements report information about HMP&L using accounting methods similar to those used by private sector companies, except for the reporting of contributions in aid of construction, equity capital, and retained earnings. (Refer to the Summary of Significant Accounting Policies in the footnotes to the Financial Statements relating to the adoption of Statement No. 34 of the Governmental Accounting Standard Board (GASB 34).

The Statement of Net Assets, successor to the Balance Sheet, includes all of the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to HMP&L's creditors (liabilities). It also provides the basis for evaluating the capital structure of HMP&L and assessing the liquidity and financial flexibility of HMP&L.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets, successor to the Income Statement. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all of its costs through the sale of electricity, communications, and other charges, and has earned a reasonable profit, as well as, maintained a sound financial position.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Utility's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides information on the sources and uses of cash and the changes in cash balances during the year.

<u>Financial Statements continued:</u>

- HMP&L's total assets increased from $85,663,324 at May 31, 2009 to $103,346,289 at May 31, 2010. This increase is primarily attributable to the increased balances in investment securities.

- Operating revenues for HMP&L Existing System decreased by approximately $281,000 or 1% from $31,332,000 to $31,051,000. The decrease in existing system sales was primarily due to decreased power demand over that of the previous year. Internet revenue also decreased by $58,000.

Existing System:	**2010**	**2009**	**Change**	**Percentage Change**
Sale of electricity	$ 29,595	$ 29,332	$ 263	1%
Internet service	982	1,040	(58)	-6%
Other	474	960	(486)	-51%
Total operating revenues	$ 31,051	$ 31,332	$ (281)	-1%

Note: All amounts presented in thousands-000's ommitted

- Operating expenses for HMP&L Existing System increased by approximately $386,000 or 1%. The following table represents the changes in the expenses for the Existing System:

Existing System:	**2010**	**2009**	**Increase Decrease**	**Percentage Change**
Production of electricity	$ 20,246	$ 19,101	$ 1,145	6%
Other Operating Expenses	5,766	6,410	(644)	-10%
Depreciation	828	943	(115)	-12%
Total operating expenses	$ 26,840	$ 26,454	$ 386	1%

Note: All amounts presented in thousands -000's omitted

Financial Statements continued:

- Operating revenues for Station Two decreased approximately $1.9 million over that of the previous year. The Station Two agreement is not designed to generate a profit for each of the participants in the venture, but rather to break-even on a cash flow basis. Operating expenses decreased for Station Two.

Station Two:	2010	2009	Change
Sales-LEM	$ 22,949	$ 25,201	(2,252)
Sales-HMPL	6,767	6,472	295
Sale of emission allowances and other	48	55	(7)
Total operating revenues	$29,764	$31,728	$ (1,964)
Expenses:			
Production of Electricity	$30,872	$31,747	-$875
Depreciation	4,008	3,875	133
Administrative	-	-	-
Total operating expenses	34,880	35,622	(742)
Income from operations	$ (5,121)	$ (3,907)	$ (1,222)
Interest income	2	19	(17)
Net income before transfers	$ (5,119)	$ (3,888)	$ (1,239)

Note: All amounts in thousands, 000's omitted

Upon the consolidation of the financial statements for each system, transactions between Henderson Municipal Power and Light and Station Two Operator are eliminated.

Statement of Net Assets:

Net assets of HMP&L increased by $13,808,900 for the fiscal year ended May 31, 2010, while net assets decreased by $1,448,959 in the fiscal year ended May 31, 2009.

Cash and cash equivalents decreased by $449,000 and Investment securities increased by $16,768,000 over 2009.

Statement of Net Assets continued:

Cash and cash equivalents decreased by $449,000 for the fiscal year ended May 31, 2010 versus a decrease of $764,000 over that of the previous fiscal year ended.

A summary of the assets of the Commission for the previous three years is as follows:

Assets:	2010	2009	2008
Cash and cash equivalents	$ 243	$ 692	$ 1,456
Investment securities	23,092	6,324	7,607
Accounts receivable and unbilled revenue	4,687	4,813	3,633
Accounts receivable Station Two Operator	1,591	298	-
Inventories	5,168	5,652	5,252
Prepaid expenses	63	97	83
Total current assets	34,844	17,876	18,031
Utility,plant, and equipment, net	68,502	67,787	67,709
Total assets	$ 103,346	$ 85,663	$ 85,740

Note: All amounts in thousands, 000's omitted

Current liabilities increased by $666,146. The Utility has repaid $1.2 million on the short term loan.

A summary of the liabilities section of the Statement of Net Assets is as follows:

Liabilities:	2010	2009	2008
Accounts payable and accrued expenses	$ 5,245	$ 5,917	$ 5,880
Accounts payable-construction	1,758	-	-
Asset retirement obligation	1,513	1,512	1,050
Accounts payable-Station Two Operator	732	-	162
Short-term debt-line of credit	-	1,200	2,400
Customer deposits	633	585	577
Total Current Liabilities	$ 9,881	$ 9,214	$ 10,069

All amounts in thousands,000's omitted

Statement of Revenues, Expenses, and Changes in Net Assets:

Operating Revenues for the entire entity decreased by $3,209,606 over that of the previous year, and as mentioned above, most of the decrease is related to Station Two System. Sales for HMP&L Station Two decreased by $1.9 million or 11.6% while Sales Existing System decreased by $281,000 or 1%.

Operating Expenses decreased by $1.3 million. This was due to decreased operating costs incurred with the operation of both Systems.

The Net Operating Income of the Existing System, after interest expense and interest income, was $4.3 million. Transfers were made to the City of Henderson in the amount of $1.2 million for the fiscal year ended, the value of power furnished to the City of Henderson at no charge was $354,336, and the value of communication services provided to the City of Henderson and other governmental agencies, at no charge, was $420,000.

Station Two had a net operating loss of $3.8 million, however, the net loss relates primarily to depreciation expense which is a non-cash item.

Summary of Changes in Net Assets:	Existing System	Station Two	Total
Income (loss) before transfers	$ 4,390,267	$ (5,119,290)	$ (729,023)
Non-operating items:			
Extraordinary item	$ 17,378,818		$ 17,378,818
Contributed capital-net of HMPL	-	1,677,293	1,677,293
Transfer To City		(400,000)	(400,000)
Gain on sale of emission allowances	-	6,545	6,545
Transfers to City of Henderson	(1,244,724)	-	(1,244,724)
Communication services provided to the City and other governmental agencies	(420,000)		(420,000)
Power furnished to City of Henderson	(354,336)	-	(354,336)
Increase (decrease) in net assets	$ 19,750,025	$ (3,835,452)	$ 15,914,573

Statement of Cash Flows:

Cash generated from operating activities increased by $36,643 over the level from 2009.

Cash Flows from non-capital financing activities include the funds transferred to the City of Henderson. For the fiscal year ended May 31, 2010, $1.2 million was transferred.

Cash used by capital and related financing activities was $4.3 million.

Cash and cash equivalents for the year, which consist primarily of checking and money market accounts of HMP&L, decreased by $449,000.

Cash Flow Summary	2010	2009	2008
Net cash generated by operations	$ 3,043	$ 3,007	$ 7,221
Cash transferred to City of Henderson	(1,244)	(1,244)	(1,244)
Distribution from former Station Two Operator.	17,379		
Net cash used by capital and related financing	(4,318)	(4,188)	(5,591)
Investing activities	(15,308)	1,662	49
Increase (decrease) in cash equivalents	(448)	(763)	435
Cash equivalents beginning of year	692	1,455	1,020
Cash equivalents, end of year	$ 244	$ 692	$ 1,455

Note: All amounts in thousands,000's omitted

The following is a summary of cash and investment balances as of May 31, 2008, to 2010:

	2010	2009	2008
Cash and cash equivalents	$ 243	$ 692	$ 1,455
Investments	23,092	6,324	7,607
	$ 23,335	$ 7,016	$ 9,062

Note: All amounts in thousands, 000's omitted

Capital Assets:

As noted in the footnotes to this report, HMP&L has 16,982 sulfur dioxide emission allowances from the Existing System and Station Two available as of May 31, 2010. The value of the allowances is not reflected in the financial statements due to the fact that the Commission has no cost basis in the allowances. The estimated current market value of these allowances at May 31, 2010, is approximately $407,568.

Debt Administration:

HMP&L entered into two Bond Anticipation Notes with Fifth Third Bank on December 22, 2008, a non-taxable series 2008A in the amount of $3,500,000 and a taxable series 2008B in the amount of $9,000,000. The series 2008A will be used for capital improvements to the City's retail electric system. The taxable series 2008B will be used to make capital improvements to the City's Station Two generating plant. As of May 31, 2010 amount drawn on the series 2008A note was $2.3 million and the amount drawn on the series 2008B was $3.1 million. Both notes must be replaced by new Bond Anticipation Notes or repaid within 36 months from the issuance date. HMP&L entered into an additional Bond Anticipation Note with Fifth Third Bank on March 25 , 2010, a non-taxable series 2010A in the amount of $1,500,000. This note must be replaced by a new Bond Anticipation Note or repaid at the same time as the series 2008A note. The amount which was drawn on the series 2010A note as of May 31, 2010 was $51,062.

On January 29, 2009, the City Commission approved an Ordinance increasing electric rates by 3.855 percent for all customer rate classifications. The purpose of the rate increase was to provide additional revenue to make the principal and interest payments on the short-term Bond Anticipation Notes and the long-term Bonds to be issued in the future to replace the Bond Anticipation Notes. HMP&L set up a separate Bond Payment Account and, as of May 31, 2010, HMP&L had accrued $1,117,989 for future principal and interest payments for the Bonds.

During the fiscal year ended May 31, 2006, the Commission borrowed an additional $5.1 million via a revolving line of credit for working capital purposes. As of May 31, 2010, the balance on the line of credit was zero.

System Improvements and Replacement of Capital Assets:

During the period of June 1, 2009, through May 31, 2010, HMP&L made a number of improvements to the electric and communication facilities and replaced certain assets. The improvements to the facilities and asset replacements increased service reliability and extended the useful-life of certain existing assets.

During the FY2009-2010, HMP&L made $3,220,312 in capital improvements and replacements in the Existing System and $2,316,879 in capital improvements and replacements of Station Two.

On September 14, 2008, the remnants of Hurricane Ike hit the Henderson area with 75 mph winds. Extensive damage to HMP&L facilities was caused by trees and tree limbs falling. A large number of customers were without power initially and total service restoration was completed within a couple of days. As a result of the storm related damage, HMP&L requested $118,677.88 in FEMA assistance. In July 2009, HMP&L received $66,478 from FEMA and the remaining balance is expected to be paid by FEMA.

On January 27, 2009, a major ice storm struck Kentucky, including the Henderson area. The weight of the large amount of ice caused major damage to HMP&L's entire transmission and distribution facilities. Initially, more than 80 percent of all customers were without power. Outside contract line crews were hired to help repair damages and restore service. Gradually, all service was restored within seven days. As a result of the storm related damage, HMP&L requested $932,206.37 in storm related FEMA assistance. In July 2009, HMP&L received $856,354 from FEMA and the remaining balance of $75,852 is expected to be paid by FEMA.

Economic Factors

The current economic recession has impacted HMP&L kilowatt hour sales. The decline in HMP&L sales began in December 2008 and has leveled off through the end of May 2010. As the depressed economy continues, HMP&L anticipates static kilowatt hour sales. However, based upon monthly sales data subsequent to June 1, 2010, it appears the material decline in gross sales has stabilized and sales now appear to be increasing due to seasonal weather fluctuations.

Station Two – Future Expenditures:

In 1998, HMP&L and Big Rivers Electric Corporation entered into contracts with Western Kentucky Energy Corporation for the operation of the HMP&L Station Two Power Plant and other Big Rivers Electric Corporation Generation Plants. As of June, 2009, Big Rivers Electric Corporation and Western Kentucky Energy Corporation were in discussions to unwind the original 1998 contracts and return operational control of the Station Two Power Plant and the other Plants to Big Rivers Electric Corporation. The Unwind Transaction closed on July 16, 2009, and Big Rivers, thereafter, resumed operation of the Station Two generating plant. Big Rivers Electric Corporation has identified a number of facility upgrades and maintenance projects for the Station Two Power Plant during the next five year period and developed Work Plans for the five years subsequent to FY2009-2010. These Work Plans indicate HMP&L will incur an additional $18 million to $21 million in maintenance expenses during the five year period at Station Two. Big Rivers and HMP&L are currently involved in litigation concerning the Excess Henderson Energy at Station Two. The litigation was heard in the Henderson County Circuit Court and the judge assigned the dispute to arbitration. As of August 1, 2010, both parties were attempting to select arbitrators. Depending upon the outcome of the arbitration, this legal dispute may continue for several years.

In the recent two year period, HMP&L has increased its reserved capacity at Station Two. The reserve capacity for FY 2010-2011 is 105 megawatts and HMP&L intends to continue increasing the reserved capacity by 5 megawatt increments each year until HMP&L's reserve capacity is equal to the historical system peak demand. Each 5 megawatt increase in the reserved capacity will cost HMP&L approximately $550,000/year. The actual cost of reserved capacity, however, is based upon the Station Two budget which varies each year.

Closing of Station One:

The Utility Commission considered Station One to no longer be a viable generating facility because of increasing federal and state restrictions for new air emissions and the increasing costs of maintenance and fuel for the facility. Therefore, Station One was closed effective December 31, 2008. Upon closing, Station One employed 13 full-time and 2 temporary personnel of which nine were placed internally, one was placed externally, one retired, three were laid off and one temporary employee was terminated. As of May 31, 2010 no decision has been made for the retirement of the Station One assets.

Southeastern Power Administration (SEPA):

The Southeastern Power Administration (SEPA) has contracted with HMP&L to provide HMP&L a total of 18,000 megawatt hours of hydroelectric power each year. The 18,000 megawatt hours represent approximately 3 percent of HMP&L's annual megawatt hour requirements. HMP&L is restricted to not more than 12 megawatt hours during any one-hour period. The hydroelectric power is provided from SEPA generation units on the Cumberland River System Project.

In the fall of 2006, SEPA informed all contract project participants that the Wolf Creek Dam near Jamestown, Kentucky, had been inspected and serious seepage problems existed in the earthen dam. The seepage problems at the dam date back to 1968 and the US Army Corp of Engineers implemented various repairs since that time; however, the seepage became critical to the safety of the Wolf Creek Dam and surrounding communities. In an effort to respond to these safety concerns and make the needed repairs to the dam, SEPA reduced and curtailed electric service to the contract project participants. This reduction and curtailment of SEPA electric service began in early 2007.

In response to SEPA's actions, during FY2010-2011, HMP&L budgeted additional expenses for additional purchases of power from the open market to offset the loss of the SEPA power. The SEPA Cumberland River Hydroelectric Power System may not return to normal operations for several years.

Regulatory Compliance:

The North American Electric Reliability Corporation (NERC) adopted new electric system reliability standards for all electric utilities in the United States. NERC adopted and began enforcement of the new standards beginning in June 2007. The new standards were approved by the Federal Energy Regulatory Commission (FERC). HMP&L is required to comply with the new reliability standards and HMP&L will incur administrative expenses related to NERC compliance. HMP&L has established an internal committee to address NERC Compliance Standards. Also, HMP&L has retained an external consulting firm to assist, support, and facilitate HMP&L's compliance with NERC Standards. In November 2008, SERC audited HMP&L for compliance with NERC Standards. Subsequent to the November audit, a number of formal and informal discussions took place between HMP&L and SERC. HMP&L and SERC reached an agreement concerning non-compliance issues identified during the audit; and a final settlement agreement was approved.

Federal air quality and emission standards continue to be increasingly more stringent. The current standards and proposed new standards will increase the cost of production at Station Two.

Transfer to City:

In FY2008-2009, HMP&L's cash transfer to the City was $1.24 million. HMP&L has budgeted this same level of cash transfer to the City for FY2010-2011 and subsequent budget periods. HMP&L also pays the City $509,717 for internal service fees and HMP&L provides the City free electric service valued at $354,372 and communication services valued at $420,000 annually. Excluding the annual fuel adjustment revenue and expense, the annual cash transfer payments, internal service fees, and value of the free electric and communication services represent 8.48 percent of estimated gross electric revenue in FY2009-2010.

Contact Information:

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Independent Auditor's Report

To the Board of Commissioners
City of Henderson, Kentucky
Utility Commission
Henderson, Kentucky

We have audited the accompanying statement of net assets of the City of Henderson, Kentucky Utility Commission (a component unit of the City of Henderson, Kentucky) as of May 31, 2010 and 2009 and the related statements of revenue, expenses and changes in net assets, and statement of cash flows for the fiscal years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Henderson, Kentucky Utility Commission as of May 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 to 11 is not a required part of the component unit financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2010, on our consideration of the City of Henderson, Kentucky Utility Commission's internal control over financial reporting and our tests of its compliance with laws, regulations and contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City of Henderson, Kentucky Utility Commission of the City of Henderson, Kentucky, taken as a whole. The accompanying supplemental information on pages 29 to 31, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statement.

Henderson, Kentucky
December 8, 2010

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
STATEMENT OF NET ASSETS
As of May 31, 2010 and 2009

ASSETS		2010		2009
Current assets				
Cash and cash equivalents	$	243,156	$	691,891
Investment securities		23,092,056		6,323,934
Accounts receivable, net of allowance for uncollectible		2,472,377		2,797,758
Accounts receivable, Station Two Operator		1,590,547		298,452
Accrued interest receivable		39,828		100
Accrued revenue		2,174,099		2,015,178
Inventory and supplies		5,168,630		5,652,271
Prepaid expenses		63,602		96,701
Total current assets		**34,844,295**		**17,876,285**
Property plant and equipment				
Utility plant, net of accumulated depreciation		68,501,994		67,787,039
Total property plant and equipment		**68,501,994**		**67,787,039**
TOTAL ASSETS	**$**	**103,346,289**	**$**	**85,663,324**
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$	5,244,822	$	5,916,868
Accounts payable-Construction in progress Station Two		1,758,217		-
Accounts payable-Station Two Operator		732,499		-
Asset retirement obligation		1,512,792		1,512,792
Short term debt-line of credit		-		1,200,000
Customer deposits		632,815		585,339
Total current liabilities		**9,881,145**		**9,214,999**
Long-Term Debt				
Bond anticipation notes		5,433,241		2,225,322
`				
Total liabilities		**15,314,386**		**11,440,321**
Net assets				
Unrestricted		24,963,150		8,661,286
Investment in plant assets, net of related debt		63,068,753		65,561,717
Total net assets		**88,031,903**		**74,223,003**
TOTAL LIABILITIES AND NET ASSETS	**$**	**103,346,289**	**$**	**85,663,324**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the fiscal years ended May 31, 2010 and 2009

	2010	2009
REVENUES		
Sale of electricity-Existing System	$ 29,595,620	$ 29,332,083
Sale of electricity-Station Two	22,271,304	25,200,799
Communication services	982,636	1,040,013
Other	516,119	1,002,390
TOTAL REVENUES	**53,365,679**	**56,575,285**
OPERATING EXPENSES		
Production of electricity	40,863,973	40,364,994
Operating expenses	8,574,304	10,422,656
Depreciation	4,836,523	4,819,060
TOTAL OPERATING EXPENSES	**54,274,800**	**55,606,710**
INCOME (LOSS) FROM OPERATIONS	**(909,121)**	**968,575**
INTEREST AND DEBT EXPENSE		
Interest income	285,556	141,306
Interest expense	(105,458)	(112,214)
TOTAL INTEREST AND DEBT EXPENSE	**180,098**	**29,092**
INCOME (LOSS) BEFORE TRANSFERS	**(729,023)**	**997,667**
NON-OPERATING		
Gain on sale of emission allowances	6,545	12,637
Capital contributions(distributions)-Station Two Operator	(828,380)	-
Transfers to City of Henderson	(1,244,724)	(1,244,734)
Power furnished to City of Henderson	(354,336)	(354,345)
Communication services provided to the City of Henderson and other local government agencies	(420,000)	(420,000)
TOTAL NON-OPERATING ITEMS	**(2,840,895)**	**(2,006,442)**
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE AND EXTRAORDINARY ITEM	(3,569,918)	(1,008,775)
Settlement from Previous Station Two Operator	17,378,818	-
Asset Retirement Obligation	-	(440,184)
INCREASE (DECREASE) IN NET ASSETS	**13,808,900**	**(1,448,959)**
Net assets, beginning of year	74,223,003	75,671,962
NET ASSETS, END OF YEAR	**$ 88,031,903**	**$ 74,223,003**

The accompanying notes are an integral part of these financial statements

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
STATEMENT OF CASH FLOWS
For the fiscal years ended May 31, 2010 and 2009

		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$	52,750,264	$	55,170,577
Payments to suppliers and employees		(49,706,347)		(52,163,303)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**3,043,917**		**3,007,274**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Distribution from Former Station Two Operator		17,378,818		-
Distributions to the City of Henderson		(1,244,724)		(1,244,734)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES		**16,134,094**		**(1,244,734)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets		(5,392,720)		(5,101,964)
Principal payments on line of credit		3,207,919		(1,200,000)
Distribution to Station Two Operator		(828,380)		-
Interest payments on line of credit		(1,200,000)		(112,214)
Proceeds from bond anticipation notes		(105,458)		2,225,322
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		**(4,318,639)**		**(4,188,856)**
CASH FLOWS PROVIDED BY INVESTING ACTVITIES				
Proceeds from sale of emission allowances		6,545		12,637
Proceeds from sale and maturities of investments		6,245,920		1,508,447
Investment income		325,284		141,306
Purchases of investments		(21,885,856)		-
NET CASH PROVIDED(USED) BY INVESTING ACTIVITIES		**(15,308,107)**		**1,662,390**
Decrease in cash and cash equivalents		(448,735)		(763,926)
Cash and cash equivalents, beginning of year	**$**	**691,891**		**1,455,817**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**243,156**	**$**	**691,891**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS
For the fiscal years ended December 31, 2010 and 2009

		2010		2009
OPERATING ACTIVITIES				
Operating income (loss)	$	(909,121)	$	968,575
Adjustments to reconcile operating income				
(loss) to net cash provided by operations				
Depreciation		4,836,523		4,819,060
Power furnished to the City of Henderson		(354,336)		(354,345)
Communication services provided at no charge		(420,000)		(420,000)
Other reconciling item		-		23,417
Changes in operating assets and liabilities:				
Accounts receivable		(325,381)		(1,404,708)
Due from Station Two Operator		(1,292,095)		(298,452)
Accrued revenue		158,921		202,530
Inventory and supplies		(483,641)		(399,654)
Prepaid expenses and other assets		(33,099)		(13,195)
Accounts payable-construction		1,758,217		-
Accounts payable and accrued expenses		(672,046)		37,419
Customer deposits		47,476		8,893
Due to Station Two Operator		732,499		(162,266)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**3,043,917**		**3,007,274**

1. ORGANIZATION AND CONTRACTS

The City of Henderson Utility Commission is organized under the provisions of Section 96.530 of the Kentucky Revised Statutes to operate, manage, and control the Henderson Municipal Power & Light System. The members of the Utility Commission are appointed by the Mayor and are approved by the City Commissioners of the City of Henderson, Kentucky (City). The Mayor and the City Commission authorize all rates and bond issues of the Utility Commission. As a municipal entity, the Utility Commission is exempt from all federal and state income taxes. Certain real estate utilized by the Utility Commission is owned by the City of Henderson.

The Utility Commission operates the “Existing System” and pursuant to certain contracts and agreements described as follows, reserves power from “Station Two” which is owned by the Commission, and operated by Big Rivers Electric Corporation (Big Rivers) through July 17, 1998, and subsequently an affiliate of LG&E Energy Corporation, pursuant to various lease, assignment, and other agreements between the parties.

The Commission provides retail electric service to the residents of the City of Henderson within its service territory. The Commission also provided wholesale electricity to Big Rivers through July 18, 1998 and subsequently to an affiliate of LG&E Energy Corporation. LG&E was purchased by Powergen in 2000 and thereafter acquired by E.ON. Effective July 9, 2009, Big Rivers resumed its role as operator of Station Two as part of the “Unwind Transaction”.

The Commission has entered into certain contracts with Big Rivers and LG&E, as assignee under such agreements relating to Station Two, as follows:

A. Power Plant Construction and Operation Agreement

Under this agreement, Big Rivers agreed to furnish certain construction and start-up services for which it was paid out-of pocket expenses plus overhead allowances and operate Station Two upon completion for which the Station Two Operator is paid reasonable expenditures allocable to the operation and maintenance of Station Two, as defined in the agreement. The original agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

B. Power Sales Contract

Under this agreement, The Station Two Operator purchases all of the Station Two capacity in excess of the City of Henderson’s requirements. Payments for capacity purchased by the Station Two Operator are made monthly based on the portion of Station Two capacity allocated to the Station Two Operator compared to the total monthly Station Two capacity costs as defined in the agreement. The original agreement was executed in 1970 and extended through 2023. During 1993, the agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998

Continued

1. Organization and Contracts

C. Joint Facilities Agreement

This agreement provides for the continuing joint use by the Commission and Station Two Operator of certain auxiliary facilities presently owned and used by the Station Two Operator at its generating station and of auxiliary facilities provided by the Commission in connection with the construction of Station Two, which is located adjacent to the generating station also operated by the Station Two Operator.

Power sales to the Station Two Operator under the agreement amounted to $22,271,304 and $25,200,799 for the fiscal years ended May 31, 2010 and 2009, respectively.

In connection with the negotiations related to the funding and construction of the Flue Gas Desulfurization System (FGD System) Station Two various aforementioned contracts were amended effective May 31, 1993. Significant provisions of the amendments include:

The total capacity of Station Two, a factor in determining various Station Two costs allocations, was reduced as a result of the power required to operate the FGD System.

Proceeds from the sale of sulfur dioxide emission allowances (Emission allowances) will be divided between the Commission and the Station Two Operator based on current capacity allocation.

FGD System costs, up to the amount of proceeds from the sale of Emission Allowances, will be borne in the same proportion as the Emission Allowances are allocated. Additional FGD System costs will be borne in proportion to the new capacity allocation as determined by the contract amendments.

The Commission will reimburse the Station Two Operator for certain allocated costs of an existing Big Rivers' FGD System to be jointly used by the Station Two Operator and Station Two based upon an allocation formula defined in the amendments.

Amounts charged by the Station Two Operator as reasonable expenditures allocable to the operation and maintenance of Station Two are subject to review and approval by the Commission. Differences, if any, between amounts originally charged as allocable by the Station Two Operator and amounts accepted by the Utility Commission are recorded when a final determination of such amounts is made. Operating revenues and expenses would be reduced by any amount subsequently determined not to be allocable to Station Two.

Station Two became commercially operable and construction was substantially completed during 1974. A certificate of completion from the consulting engineers has been filed with the Trustee.

Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commission is a component unit of the City of Henderson, Kentucky (the primary government), due to its financial accountability to the City Commission.

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission applies all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the Commission's accounting policies are described below:

A. Cash and Cash Equivalents

Cash and cash equivalents consist of certificates of deposit and repurchase agreements with an original maturity of three months or less from the date of purchase. The carrying amount of each of these instruments approximates fair value.

B. Investment Securities

Investments are recorded at fair value based on quoted market prices. Any gains or losses are reflected in the statement of revenues, expenses and changes in net assets in accordance with GASB No.31," Accounting and Reporting For Certain Investments and For Internal Investment Pools." Kentucky Revised Statute 66.480 limits the types of securities that a municipal entity may invest in to obligations of the United States Treasury and Agencies, certain Federal securities, repurchase agreements, commercial bank's certificates of deposit, and the Commonwealth of Kentucky Investment Pool.

C. Accounts Receivable and Unbilled Revenue

The Commission has entered into an agreement with the City of Henderson to perform its billing and collection services. All monies due to the Utility Commission are collected and deposited in the City of Henderson's Utility Clearing Fund and are remitted to the Utility Commission on a weekly basis. The amount included in accounts receivable due from the Utility Clearing Fund was $2,022,842 and $1,797,193 as of May 31, 2010 and 2009 respectively.

D. Inventories

Coal inventories of the Existing System and Station Two are stated at cost using the first-in-first-out method. Materials and supplies are stated at the weighted average cost.

Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Utility Plant and Equipment

The utility plant is carried at cost, which includes interest capitalized, aggregating $15,342,300, which was capitalized during the period of construction. No interest was capitalized during the fiscal years ended May 31, 2009 and 2008. The Commission's policy is to provide for depreciation over its utility plant and equipment as follows:

Production plant and structures	33 ½ years
Transmission and distribution	25 years
Automotive equipment	6 years
Wireless internet equipment	5 years
Other equipment	10 years

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at May 31, 2010 and 2009, as well as revenues and expenses for the years then ended. Actual results could differ from the estimates and assumptions used.

G. Compensated Absences

Employees of the Commission are entitled to paid vacations and sick-leave. The Commission's policy is to recognize these costs when earned under the accrual method of accounting in accordance with GASB No.16 "Accounting For Compensated Absences."

H. Emission Allowances

The Commission does not record the value of emission allowances granted by the Environmental Protection Agency for sulfur dioxide and nitrous oxide on its financial statements as there is no cost basis in these allowances.

3. CASH AND CASH EQUIVALENTS

As of May 31, 2010, the City of Henderson Utility Commission maintained deposits with several local financial institutions. Of the bank balance, all was insured by the Federal Depositor's Insurance Corporation and excess of FDIC was secured by pledged United States Government securities.

Continued

4. Investment Securities

Investments are included in the statement of net assets under the caption "Investments Securities." A summary of investments held by the City of Henderson Utility Commission along with the scheduled maturities is presented below:

Investment Type:	Fair Value	Less Than One Year	One to Five Years	Six to Ten Years
U.S. Government Short-term	$14,666,822	$ 4,950,340	$ 9,716,482	$ -
Certificate of Deposits and Money Markets	8,425,234	8,425,234	-	-
Totals	$23,092,056	$ 13,375,574	$ 9,716,482	$ -

A. Interest Rate Risk

The City of Henderson Utility Commission has a formal investment policy that limits investment maturities as a means to manage its exposure to fair value losses resulting from increasing interest rates.

B. Credit Risk

The City of Henderson Utility Commission limits its investments to those allowed by Kentucky Revised Statute 66.480. Kentucky Revised Statute 66.480 limits investments to U.S. Government Treasury and Agency securities, certificates of deposit, securities issued by a state or local government rated in one of the three highest categories by a nationally recognized credit agency.

C. Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, The City of Henderson Utility Commission will not be able to recover the value of its investments, or collateral securities that are in the possession of the outside party. All investments of the Commission, with the exception of certificates of deposit, consist of unregistered and uninsured securities held by the Commission's trustee in their trust department not in the name of the Commission.

Continued

5. Utility Plant and Equipment

Utility plant and equipment consisted of the following as of May 31, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Existing System:				
Vehicles	$ 1,819,408	$ 452,384	$ -	$ 2,271,792
Asset Retirement Obligation	295,331	-		295,331
Transmission Plant	9,046,726	32,615	-	9,079,341
Distribution Plant	18,823,481	2,660,425	-	21,483,906
Land and Land Rights	1,235,451	-	-	1,235,451
Telecommunications, internet and fiber optics	5,320,650	74,888	-	5,395,538
General Plant	11,065,585	-	-	11,065,585
	47,606,632	3,220,312	-	50,826,944
Accumulated depreciation- Asset Retirement Obligation	(283,757)	-	-	(283,757)
Accumulated depreciation	(40,162,780)	(828,125)	-	(40,990,905)
Total Station One	**$ 7,160,095**	**$ 2,392,187**	$ -	**$ 9,552,282**
Station Two:				
General Plant	$ 167,546,986	$ 2,316,879	$ -	$ 169,863,865
Accumulated depreciation	(106,920,042)	(3,994,111)	-	(110,914,153)
Total Station Two	**$ 60,626,944**	**$ (1,677,232)**	-	**$ 58,949,712**
Totals	**$ 67,787,039**	**$ -**		**$ 68,501,994**

Depreciation expense for the fiscal years ended May 31, 2010 and 2009 was $4,836,523 and $4,819,060 respectively

6. Retirement Plan

All Commission employees participate in the County Employees Retirement System (CERS), a multi-employer defined benefit retirement plan sponsored by the City of Henderson and administered by the Commonwealth of Kentucky. Under the plan, employees contribute 5% of their gross salary to the plan. The Commission also contributes a percentage of the employee's gross salary to the plan. The Commission's contribution rate into the plan is determined on an annual basis by the Kentucky General Assembly.

6. Retirement Plan

Contributions and the related percentages for the previous three fiscal years ended was as follows:

Fiscal year ended May 31	*Amount*	Matching *percentage*
2010	$ 420,197	16.16%
2009	435,888	13.50%
2008	477,299	16.17%

A copy of the annual report for the County Employees Retirement System can be obtained from the County Employees Retirement System 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling1.502.564.4646.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following as of May 31, 2010 and 2009:

	2010	2009
Accounts payable-and accrued expenses-existing system	$ 1,761,641	$ 1,858,905
Accounts payable and accrued liabilities-Station Two	2,823,049	2,210,870
Excess energy deferral	-	1,122,093
SCR Settlement liability	660,132	725,000
Total	$ 5,244,822	$ 5,916,868

8. Emission Allowances

Amendments to the Clean Air Act in 1990 established a system whereby emission allowances were created and allocated to generating units subject to Phase 1 of the emission restrictions. Station Two was allotted a total of 226,901 allowances through 1999 (one emission allowance represents the authorization to emit one ton of sulfur dioxide in a given year). The allowances are allocated between the Commission and the Station Two Operator based upon the Station Two capacity allocations. As of May 31, 2010, and 2009, there were remaining sulfur dioxide emission allowances of 16,982 and 14,820 respectively.

The remaining allowances had a market value as of May 31, 2010 and 2009 of approximately$407,568 and $1,059,630, respectively and are held by the Commission for future sale or to satisfy emission requirements of the Clean Air Act. Emission allowances attributable to Station Two are shared proportionally between HMP&L and the Station Two Operator based on megawatt hours as per the respective contract.

9. Risk Management

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party

The Commission incurred the following transactions with the City of Henderson, Kentucky for the fiscal years ended May 31, 2010 and 2009:

Paid the City $509,717 and $496,083 each year, respectively, for data processing and other services related to billings and collections.

Paid the City $1,244,724 and $1,244,734 May 31, 2010 and 2009 of the fiscal years ended, respectively.

Paid the City $523,039 and $527,967 for participation in the City of Henderson's self-insured employee health insurance plan for the fiscal years ended May 31, 2010 and 2009 respectively. Risk is minimized in this area by the purchase of re-insurance for amounts in excess of the $125,000 stop loss limit. Charges are based on estimated amounts determined by the City of Henderson's insurance coordinator as necessary to fund claims as they become due and payable.

Provided the City of Henderson with power for the fiscal years ended May 31, 2010 and 2009 in the amount of $354,336 and $354,345 respectively. The City of Henderson was also provided significantly reduced communication service fees totaling approximately $205,484 for the fiscal years ended.

11. Sales Significant Customers

All of the sales generated by Station Two are exclusively to the Station Two Operator as per the respective contracts in force. Three industrial customers from the Existing System accounted for sales in the amount of $9,445,000 (32% of sales) and $8,273,191 (28% of sales) for the fiscal years ended May 31, 2010 and 2009, respectively.

12. Bank Loan

On June 1, 2009, the Commission authorized a $1.2 million line of credit from an area financial institution for working capital purposes. The obligation bears an interest rate of 3.79% with interest payable quarterly. Principle was paid in full at maturity on May 31, 2010. The loan was secured by the revenues of the system.

Continued

13. Bond Anticipation Notes

During December, 2008, the Commission issued bond anticipation notes through an area financial institution. A summary of the obligations is as follows:

City of Henderson, Kentucky Bond Anticipation Note Series 2008A;maximum advance of $3,500,000; or the outstanding principal, whichever is less is due December 1, 2011. Interest shall accrue based on the 30-Day LIBOR,plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.	$	2,313,874
City of Henderson, Kentucky Bond Anticipation Note Taxable Series 2008B; maximum advance of $9,000,000; or the outstanding principal, whichever is less is due December 1, 2011. Interest shall accrue based on the 30-Day LIBOR,plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.	$	3,068,305
City of Henderson, Kentucky Bond Anticipation Note Taxable Series 2010A; maximum advance of $1,500,000; or the outstanding principal, whichever is less is due semiannually. Interest shall accrue based on the 30-Day LIBOR,plus 1.75%, with the rate adjustable on a monthly basis. Interest is due on June 1st, and December 1st.		51,062
Balance, May 31, 2010	$	5,433,241

Each of the above obligations is secured by a pledge of the revenues of the Commission. The Commission intends to issue bonds in the near future and proceeds from the bond issue will be used to retire the above notes.

14. Discounted Internet and Broadband Services

The Utility Commission provided internet and broadband services to local governmental, educational, and religious organizations at substantially discounted rates. Discounted services provided were as follows for the fiscal year ended May 31, 2010:

Customer		**Discounted Amount**
Henderson County GIS System	$	98,568
Henderson Water Utility		106,395
City of Henderson		205,484
Various other organizations		9,553
	$	420,000

Continued

15. Cumulative Effect of Change in Accounting Principle- Adoption of SFAS No. 143- Asset Retirement Obligations

The Commission adopted SFAS No. 143 on June 1, 2007. SFAS No. 143 addresses financial reporting for legal obligations associated with the retirement of tangible long-lived assets and the related retirement costs. The standard applies to the legal obligations associated with the retirement of long-lived assets that result from the construction, acquisition, or normal use of the asset. SFAS No. 143 requires that the fair value of the liability for an asset retirement obligation be recognized over the period in which it was incurred, if a reasonable estimate of the fair value can be made. Asset retirement obligations of the Commission relate to the asbestos and lead paint abatement at its Station One generation facility, which ceased operations on September 30, 2008. The estimated fair value of the Station One liability as of May 31, 2007 by management was $1,050,000. The initial recording of this liability resulted in an adjustment to net assets of $1,019,956 as of June 1, 2007. Management determined the asset retirement liability of the Station Two facility for lead paint and asbestos to be $440,184 as of June 1, 2008. This amount was reflected via a prior period adjustment to the financial statements as of May 31, 2009.

The following is a reconciliation of the aggregate asset retirement liability associated with the Commission's obligation to remove asbestos and lead paint from its facilities:

Balance May 31, 2009	$ 1,512,792
Additional obligation incurred- prior period adjustment to record the estimate of the Commission's portion of the liability at Station Two	-
Increase in revised estimate and costs to remove assets	-
Liabilities settled	-
Balance May 31, 2010	$ 1,512,792

16. COMMITMENT AND CONTINGENCIES

A. Southeastern Power Administration (SEPA)

The Southeastern Power Administration (SEPA) has contracted with the Commission to provide it a total of 18,000 megawatt hours of hydroelectric power each year. The 18,000 megawatt hours represent approximately 3 % of the Commission's annual megawatt hour requirements. Henderson Municipal Power & Light is restricted to not more than 12 megawatt hours during any hour, and not more than 2,640 megawatts during any month.

In the Fall of 2006, SEPA informed all participants that the Wolf Creek Dam near Jamestown, Kentucky, had been inspected and serious seepage problems existed. In an effort to respond to these safety concerns and make the needed repairs to the dam, SEPA reduced and curtailed electric service to the project participants. This reduction and curtailment of electric service began in early 2007 and is expected to continue for an extended period of time until repairs are completed.

In response to SEPA's actions, for the next fiscal year, the Commission has budgeted for additional purchases of power from the open market to offset the loss of the SEPA power. The SEPA Cumberland River Hydroelectric Power System may not return to normal operations for several years.

During the year ended May 31, 2010 and 2009, the Commission purchase power on the spot market to supply the needs of its customers. Purchased power for the fiscal year ended May 31, 2010 was $621,020 versus $1,398,952 during 2009.

B. Regulatory Compliance

The North American Electric Reliability Corporation (NERC) adopted new electric system reliability standards for all electric utilities in the United States. NERC has adopted and began enforcement of the new standards effective June of 2007. The new standards have been approved by the Federal Energy Regulatory Commission (FERC). The Commission must comply with the new standards and will incur administrative expenses related to NERC compliance.

Federal air quality and emission standards have become more stringent. The current standards and proposed standards resulted in the cost of compliance being excessive to operate Station One. As a result of the new regulations, the Commission approved the cessation of operations at Station One on August 25, 2008, and Station One was taken out of service in December of 2008.

Continued

16. COMMITMENT AND CONTINGENCIES	**A. Unwind Transaction – Station Two** In 1998, HMP&L, Big Rivers Electric Corporation, and Western Kentucky Energy Corporation entered into contracts (for the operation of the HMP&L Station Two Power Plant and other Big Rivers Electric Corporation Generation Plants. On July 16, 2009, Big Rivers Electric Corporation and Western Kentucky Energy Corporation (E.ON) signed an agreement under which the original 1998 contracts are rescinded and operational control of the Station Two Power Plant returned to Big Rivers Electric Corporation. As part of this agreement E.On paid the Commission approximately $17.4 million to settle claims concerning the condition of the Station Two power plant and related matters. HMP&L and Big Rivers Electric Corporation have identified a number of facility upgrades and maintenance projects for the Station Two Power Plant during the next five year period. Big Rivers Electric Corporation has developed Work Plans for the five years period 2009 to 2014. These preliminary Work Plans estimate that HMP&L will incur additional maintenance expenses at Station Two during the five year period. During the FY 2010-2011 Budget period the Utility Commission will review financing options and may present a formal recommendation to the City Commission concerning the issuance of general obligation bonds or revenue bonds to finance the upgrades and maintenance projects at Station Two and for the existing system. **B. Pending Litigation** The Commission is currently engaged in litigation with the Station Two Operator, Big Rivers Electric Corporation, related to which party has the rights to certain surplus generation capacity of the Commission's Station Two Facility. Big Rivers has filed a petition in Henderson County, Kentucky Circuit Court requesting binding arbitration over the matter. It is the assertion of the Commission that it has the right to all surplus power from the facility related to its reserved capacity. **C. Annual Operating Settlement-Station Two Operators** The Commission is also engaged in negotiations over the amount due to or from the Station Two Operator, Western Kentucky Energy Corporation (WKEC) for the fiscal year ended May 31, 2009. The amount due to WKEC from HMPL is estimated to be $732,499 per HMP&L's calculations. The amount due from Big Rivers Electric Corporation to HMPL as of May 31, 2010 is estimated to be $1,590,547
17. Subsequent Events	Subsequent events have been evaluated through December 8, 2010.

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
SUPPLEMENTAL SCHEDULE-COMBINING STATEMENT OF NET ASSETS - BY SYSTEM
As of May 31, 2010 and 2009

ASSETS	May 31, 2010				May 31, 2009			
CURRENT ASSETS	**Existing System**	**Station Two**	**Elimination**	**Total**	**Existing System**	**Station Two**	**Elimination**	**Total**
Cash and cash equivalents	$ 48,732	$ 194,424	$ -	$ 243,156	$ 190,540	$ 501,351	$ -	$ 691,891
Investment securities	22,592,056	500,000	-	23,092,056	5,823,934	500,000	-	6,323,934
Accounts receivable, net of	-							
allowance for uncollectible	2,151,007	321,370	-	2,472,377	2,797,758	-	-	2,797,758
Accounts receivable-Station Two Operator	1,590,547	-	-	1,590,547	298,452	-	-	298,452
Accrued interest receivable	39,828	-	-	39,828	-	100	-	100
Accrued revenue	2,174,099	-	-	2,174,099	2,015,178	-	-	2,015,178
Inventory and supplies	2,769,142	2,399,488	-	5,168,630	3,450,616	2,201,655	-	5,652,271
Prepaid expenses	63,602	-	-	63,602	96,701	-	-	96,701
TOTAL CURRENT ASSETS	**31,429,013**	**3,415,282**	**-**	**34,844,295**	**14,673,179**	**3,203,106**	**-**	**17,876,285**
Utility plant, net of accumulated depreciation	9,552,282	58,949,712	-	68,501,994	7,160,095	60,626,944	-	67,787,039
Investment in Station Two	28,906,102	-	(28,906,102)	-	26,800,429	-	(26,800,429)	-
TOTAL ASSETS	**$ 69,887,397**	**$ 62,364,994**	**$ (28,906,102)**	**$ 103,346,289**	**$ 48,633,703**	**$ 63,830,050**	**$ (26,800,429)**	**$ 85,663,324**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
SUPPLEMENTAL SCHEDULE- COMBINING STATEMENT OF NET ASSETS BY SYSTEM
As of May 31, 2010 and 2009

LIABILITIES AND NET ASSETS	May 31, 2010				May 31, 2009			
Current Liabilities	**Existing System**	**Station Two**	**Elimination**	**Total**	**Existing System**	**Station Two**	**Elimination**	**Total**
Accounts payable and accrued		-	-	-		-	-	-
expenses	$ 2,421,773	$ 2,823,049	$ -	$ 5,244,822	$ 3,705,998	$ 2,210,870	$ -	$ 5,916,868
Accounts payable-Construction in progress Station Two	-	1,758,217		1,758,217	-	-	-	-
Asset retirement obligation	1,512,792	-	-	1,512,792	1,512,792	-	-	1,512,792
Accounts payable-Station Two Operator	732,499	-	-	732,499	-	-	-	-
Short-term note payable	-	-	-	-	1,200,000	-	-	1,200,000
Customer deposits	632,815	-	-	632,815	585,339	-	-	585,339
Total current liabilities	**5,299,879**	**4,581,266**	**-**	**9,881,145**	**7,004,129**	**2,210,870**	**-**	**9,214,999**
Long-Term Debt								
Bond anticipation notes	**5,433,241**	**-**	**-**	**5,433,241**	**2,225,322**	**-**	**-**	**2,225,322**
Net Assets:								
Unrestricted	55,035,236	(1,165,984)	(28,906,102)	24,963,150	34,469,479	992,236	(26,800,429)	8,661,286
Investment in plant assets , net of related debt	4,119,041	58,949,712	-	63,068,753	4,934,773	60,626,944	-	65,561,717
Total net assets	**59,154,277**	**57,783,728**	**(28,906,102)**	**88,031,903**	**39,404,252**	**61,619,180**	**(26,800,429)**	**74,223,003**
TOTAL LIABILITIES AND NET ASSETS	**$ 69,887,397**	**$ 62,364,994**	**$ (28,906,102)**	**$ 103,346,289**	**$ 48,633,703**	**$ 63,830,050**	**$ (26,800,429)**	**$ 85,663,324**

CITY OF HENDERSON, KENTUCKY UTILITY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS-BY SYSTEM
For the fiscal years ended May 31, 2010 and 2009

	May 31, 2010				May 31, 2009			
REVENUES	**Existing System**	**Station Two**	**Elimination**	**Consolidated Total**	**Existing System**	**Station Two**	**Elimination**	**Consolidated Total**
Sale of electricity	$ 29,595,620	$ 29,717,486	$ (7,446,182)	$ 51,866,924	$ 29,332,083	$ 31,673,144	$ (6,472,345)	$ 54,532,882
Communication services	982,636	-	-	982,636	1,040,013	-	-	1,040,013
Other	474,119	42,000	-	516,119	960,390	42,000	-	1,002,390
TOTAL REVENUES	**31,052,375**	**29,759,486**	**(7,446,182)**	**53,365,679**	**31,332,486**	**31,715,144**	**(6,472,345)**	**56,575,285**
OPERATING EXPENSES								
Production of electricity	20,245,914	28,064,241	(7,446,182)	40,863,973	19,100,909	27,736,430	(6,472,345)	40,364,994
Operating, general and administrative	5,765,981	2,808,323	-	8,574,304	6,410,803	4,010,647	1,206	10,422,656
Depreciation	828,486	4,008,037	-	4,836,523	943,096	3,875,964	-	4,819,060
TOTAL OPERATING EXPENSES	**26,840,381**	**34,880,601**	**(7,446,182)**	**54,274,800**	**26,454,808**	**35,623,041**	**(6,471,139)**	**55,606,710**
INCOME (LOSS) FROM OPERATIONS	**4,211,994**	**(5,121,115)**	**-**	**(909,121)**	**4,877,678**	**(3,907,897)**	**(1,206)**	**968,575**
INTEREST AND DEBT EXPENSE								
Investment income	283,731	1,825	-	285,556	122,011	19,295	-	141,306
Interest expense	(105,458)	-	-	(105,458)	(112,214)	-	-	(112,214)
TOTAL INTEREST AND DEBT EXPENSE	**178,273**	**1,825**	**-**	**180,098**	**9,797**	**19,295**	**-**	**29,092**
INCOME (LOSS) BEFORE TRANSFERS	**4,390,267**	**(5,119,290)**	**-**	**(729,023)**	**4,887,475**	**(3,888,602)**	**(1,206)**	**997,667**
NON-OPERATING								
Gain on sale of emission allowances	-	6,545	-	6,545	-	12,637	-	12,637
Capital contributions-distributions	-	1,677,293	(2,505,673)	(828,380)	-	4,152,569	(4,152,569)	-
Transfers to City of Henderson	(1,244,724)	(400,000)	400,000	(1,244,724)	(1,244,734)	-	-	(1,244,734)
Power furnished to City of Henderson	(354,336)	-	-	(354,336)	(354,345)	-	-	(354,345)
Communication services provided to the City of Henderson and local governmental agencies	(420,000)	-	-	(420,000)	(420,000)	-	-	(420,000)
INCREASE (DECREASE) IN NET ASSETS BEFORE EXTRAORDINARY ITEM	2,371,207	(3,835,452)	(2,105,673)	(3,569,918)	2,868,396	276,604	(4,153,775)	(1,008,775)
EXTRAORDINARY ITEMS AND CHANGE IN ACCOUNTING PRINCIPLE								
Settlement from Previous Station Two Operator	17,378,818	-	-	17,378,818				
Cumulative effect of adoption of SFAS No. 143	-	-	-	-	(440,184)	-	-	(440,184)
INCREASE (DECREASE) IN NET ASSETS	19,750,025	(3,835,452)		13,808,900				
Net assets, beginning of year	39,404,252	61,619,180	(26,800,429)	74,223,003	36,976,040	61,342,576	(22,646,654)	75,671,962
NET ASSETS, END OF YEAR	**$ 59,154,277**	**$ 57,783,728**	**$ (28,906,102)**	**$ 88,031,903**	**$ 39,404,252**	**$ 61,619,180**	**$ (26,800,429)**	**$ 74,223,003**

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Independent Auditors' Report on Internal Control Over Financial Reporting, Compliance and Other Matters Based on an Audit of Component Unit Financial Statements Performed in Accordance with *Government Auditing Standards*

Dr. William Smith, Chairman
and the Board of Commissioners
City of Henderson, Kentucky Utility Commission
Henderson, Kentucky

We have audited the financial statements of the City of Henderson, Kentucky Utility Commission as of and for the year ended May 31, 2010, and have issued our report thereon dated December 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Henderson, Kentucky Utility Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Henderson, Kentucky Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Henderson, Kentucky Utility Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as a result of our audit procedures we did not note any items that constitute significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness in internal control is a deficiency, significant deficiency, or combination of control deficiencies, that adversely affects the City of Henderson, Kentucky Utility Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the City of Henderson, Kentucky Utility Commission's internal control. We consider the deficiency noted on the following page to be significant deficiencies in internal control over financial reporting.

- Improvement and Enhancement of Audit Trail in the Station Two Financial Reporting Process (2010-1)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Henderson, Kentucky Utility Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the City of Henderson, Kentucky Utility Commission in a separate letter dated December 8, 2010.

The City of Henderson, Kentucky's management response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the response of management and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the audit committee, Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Crafton & Phillips, LLP

December 8, 2010

APPENDIX F

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

GENERAL INFORMATION AND DATA - BIG RIVERS ELECTRIC CORPORATION

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General

Big Rivers Electric Corporation ("Big Rivers") is an electric generation and transmission ("G&T") rural electric cooperative corporation. It was organized as a not-for-profit rural electric cooperative under the laws of Kentucky in 1961 to enable its Members (as defined below) to pool their resources and provide for the power and transmission needs of their combined service territories. Big Rivers currently operates as a taxable cooperative. It provides wholesale electric service to its three Members under a number of wholesale power contracts which, in the aggregate, supply the total wholesale power requirements of the Members except for the exceptions discussed below. The wholesale power contracts are discussed under the heading, "Wholesale Power Contracts with Members" below.

Big Rivers owns 1,444 net MW of electric generating facilities and approximately 1,265 miles of transmission lines and 22 substations.

In addition to the electric generation and transmission facilities Big Rivers owns, it also operates the Station Two generating station located on the Green River in Henderson County, Kentucky and owned by the City of Henderson, Kentucky (the "City") through its Utility Commission (the "Utility Commission") in accordance with the Power Plant Construction and Operation Agreement dated August 1, 1970 between the City and Big Rivers (the "Operation Agreement"). Big Rivers also purchases all the capacity and energy from Station Two not reserved by the Utility Commission in accordance with the Power Sales Contract dated August 1, 1970 between the City and Big Rivers (the "Power Sales Contract").

In 2010, Big Rivers' average wholesale revenue per kWh to its Members, including amounts withdrawn from its own economic reserve, was $0.04426 or $0.04515 per kWh for rural loads and $0.04189 per kWh for large industrial loads (exclusive of the Smelter loads served by one of its Members, Kenergy Corp. ("Kenergy"). The Smelters are described below under the heading, "The Smelter Agreements." Big Rivers' average wholesale revenue per kWh from Kenergy to serve the two Smelter loads in 2010 was $0.04405 per kWh on sales of 6.3 million MWh. Excluding the Smelters, sales to its Members were 3.4 million MWh in 2010, composed of 2.5 million MWh for rural loads and 0.9 million MWh for large industrial loads. Member Non-Smelter MWh sales in 2010 increased by 8.0% from 2009; 10.8% for rural loads and 1.2% for large industrial loads. To the extent surplus capacity and energy are available, Big Rivers may sell electricity to non-Member utilities and power marketers ("Non-Members"). During 2010, Big Rivers sold approximately 2.2 million MWh to Non-Members.

Big Rivers serves directly and indirectly a diverse customer base that includes farms and residences, commercial and industrial facilities, mining, irrigation and other miscellaneous customers. Farm and residential customers constitute the largest class of customers in terms of numbers throughout the Member service areas.

Cooperative Structure

In general, a cooperative is a business organization owned by its members, which are also its customers. Cooperatives provide goods or services to their members on a not-for-profit basis, in part by eliminating the need to produce profits or a return on equity in excess of required margins. Generally, electric cooperatives design rates on an overall basis to recover cost-of-service and collect a reasonable amount of revenue in excess of expenses (i.e., margins). Margins are typically repaid to the members in subsequent years on the basis of their patronage during the years the margins were earned. Big Rivers was formed in 1961 as a tax-exempt cooperative under Section 501(c)(12) of the Internal Revenue Code. To retain exempt status, at least 85% of Big Rivers' receipts must be generated from transactions with its Members. Since 1983, Big Rivers' sales to Members did not meet the 85% requirement due to sales to Non-Members. Since 1983, the Internal Revenue Service has considered Big Rivers a taxable organization.

A G&T cooperative is a cooperative engaged primarily in providing wholesale electricity to its members, which may be either wholesale or retail power suppliers. Electricity sold by a G&T cooperative is provided from its own generating facilities or through power purchase agreements with its wholesale power suppliers. A distribution cooperative is a local membership cooperative whose members are the individual retail customers of an electric distribution system.

The Members

General

Big Rivers' members are Kenergy, Meade County Rural Electric Cooperative Corporation ("Meade") and Jackson Purchase Energy Corporation ("Jackson Purchase" and, together with Kenergy and Meade, the "Members"). The Members of Big Rivers are local consumer-owned distribution cooperatives providing retail electric service on a not-for-profit basis to their customers, who are their members. The customer base of the Members generally consists of residential, commercial, and industrial consumers within specific geographic areas. The Members provide electric power and energy to customers located in portions of 22 western Kentucky counties. As of December 31, 2010, the Members served approximately 112,000 member-customers (meters). Kenergy has approximately 55,000 retail members, Meade has approximately 28,000 retail members and Jackson Purchase has approximately 29,000 retail members.

Territorial Integrity

Distribution cooperatives generally exercise a monopoly in their service areas. Under a Kentucky statute adopted in 1972, the Members are "Retail Electric Suppliers" that are certified by the Kentucky Public Service Commission (the "KPSC") as the exclusive suppliers of energy to their respective certified service areas. Thus, the Members are the exclusive suppliers of energy to electricity consumers located in their respective certified service areas, as against other Retail Electric Suppliers. If a Retail Electric Supplier is providing adequate service within its certified territory, other Retail Electric Suppliers may not sell power to retail customers located within that certified territory. Municipal utilities are not Retail Electric Suppliers under the statute. If a new electric consuming facility locates in two or more adjacent certified territories, the KPSC determines which Retail Electric Supplier may provide retail electric service to that facility based on a number of factors, designed to avoid wasteful duplication of electric generation facilities.

Rate Regulation of Members

The KPSC regulates the rates and service of Big Rivers and its Members. Under Kentucky law, a utility may revise its rates on 30 days' notice to the KPSC of the proposed changes and the effective date of such changes. The KPSC has the statutory power to suspend such changes pending a hearing for a period not to exceed five or six months, as appropriate, from the proposed effective date of such changes. Rate changes may be placed in effect, in whole or in part, during any such suspension period on a finding by the KPSC that an emergency exists or that the utility's credit or operations will be materially impaired by the suspension. Rates placed into effect on an emergency basis are subject to refund to the extent that the final rates approved by the KPSC are lower than the emergency rates. The KPSC's decision on a new rate schedule filed by a utility must be issued not later than ten months after the filing of the rate schedule.

Financial Information

Big Rivers' Members operate their systems on a not-for-profit basis. Accumulated margins constitute patronage capital for the consumer members. Refunds of accumulated patronage capital to the individual consumer members are made from time to time on a patronage basis subject to limitations contained in Member mortgages to the United States Department of Agriculture Rural Utilities Service (the "RUS"), if applicable.

Big Rivers' Members are Big Rivers' owners and not its subsidiaries. Except with respect to the obligations of the Members under their respective wholesale power contracts and the Smelter Agreements (as defined below), Big Rivers has no legal interest in, or obligation in respect of, any of the assets, liabilities, equity, revenue or margins of its Members, other than its rights and obligations under those contracts. The revenues of Big Rivers' Members are not pledged to Big Rivers, but their revenues are the source from which they pay for power and energy and transmission services purchased from Big Rivers. Revenues of its Members are, however, often pledged under their respective mortgages.

Bankruptcy and Subsequent Operation

In September 1996, Big Rivers filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The filing was precipitated largely by Big Rivers' inability to sell its capacity in excess of that required to serve its Members at prices sufficient to cover all its costs, which shortfall was exacerbated by long-term coal contracts under which prices had escalated well above market prices. In July 1998, a bankruptcy court-approved Plan of Reorganization (the "Plan of Reorganization") became effective. The Plan of Reorganization fundamentally changed Big Rivers' operation and resulted in the restructuring of its long-term debt. Such long-term debt was owed primarily to the RUS and was primarily incurred to finance Big Rivers' generating assets.

In accordance with the Plan of Reorganization, Big Rivers leased all of its generating facilities to Western Kentucky Energy Corp. ("WKEC"), a wholly-owned subsidiary of LG&E Energy Corp., now LG&E & KU Energy, LLC ("LG&E & KU Energy"). Big Rivers also assigned to WKEC all of its intangible assets, including its rights under real property leases, equipment leases, permits, intellectual property and contracts used or held exclusively by it in connection with the operation of its generating facilities. WKEC assumed and agreed to perform and discharge substantially all of Big Rivers' obligations under these assets that first arose or accrued on or after the effective date of the Plan or Reorganization. In addition to assuming responsibility for operating Big Rivers' generating facilities, WKE Station Two Inc. ("WKE Station Two"), another wholly-owned subsidiary of LG&E & KU Energy, assumed responsibility for the operation of Station Two and Big Rivers' obligation to purchase power from Station Two under the Power Sales Contract. This assignment and assumption was effected in accordance with an Agreement and Amendments to Agreements by and among the Utility Commission, WKE Station Two, LG&E Energy Marketing Inc. ("LEM"), WKEC and Big Rivers dated as of July 15, 1998 (the "Station Two Agreement"). Pursuant to the Plan of Reorganization, WKEC and WKE Station Two (which was subsequently merged into WKEC) became responsible for Big Rivers' prior responsibilities to operate and maintain Big Rivers' generating facilities and Station Two.

The Plan of Reorganization (the "LG&E Arrangements") also included a power purchase agreement (the "LEM Power Purchase Agreement") between Big Rivers and LEM. The LEM Power Purchase Agreement established minimum hourly and annual power purchase amounts that Big Rivers was required to take and certain maximum hourly and annual power purchase amounts that LEM was required to make available to Big Rivers. Big Rivers paid specified fixed rates for power purchased under the LEM Power Purchase Agreement that were not dependent upon market prices for electric power and energy nor the costs associated with power and energy generated by its generating facilities and Station Two. In addition to power and energy purchased from LEM under the LEM Power Purchase Agreement, during the duration of the LG&E Arrangements Big Rivers continued to dispatch its Members' 178 MW Southeastern Power Administration (the "SEPA") allocations of hydroelectric power and associated energy in accordance with its contractual obligations with the SEPA (the "SEPA Contract").

Unwind of LG&E Arrangements

In March 2007, Big Rivers executed a Transaction Termination Agreement (the "Termination Agreement") among LEM, WKEC and Big Rivers setting forth the term and conditions upon which Big Rivers and LG&E and KU Energy agreed to terminate the LG&E Arrangements (the "Unwind"). Protracted negotiations with creditors, governmental agencies, the Smelters constituting the largest customers on the Big Rivers system and others followed the execution of the Termination Agreement. The closing of the Unwind took place on July 16, 2009.

Summary of Major Provisions of Unwind

In connection with the closing of the Unwind, LG&E & KU Energy compensated Big Rivers with approximately $864.6 million and it took certain other actions, several of which are described below:

- LG&E & KU Energy made a cash payment to Big Rivers of approximately $506.7 million. This amount represented (1) a termination payment by WKEC to Big Rivers to compensate it for the risks associated with assuming responsibility for the operation of its generating facilities and Station Two and (2) the netted amount of various payment obligations by both WKEC and Big Rivers contemplated by the Termination Agreement.

- WKEC waived the requirement in the LG&E Arrangements that Big Rivers make a payment at the expiration or early termination of the LG&E Arrangements in respect of the residual value of WKEC's capital contributions to Big Rivers' generating facilities and Station Two. Additionally, WKEC conveyed to Big Rivers certain utility plant assets used in connection with the operation of its generating plants previously leased to WKEC. The value of these items was approximately $188.0 million.

- Big Rivers established three reserves, (i) an economic reserve with an initial principal amount equal to $157 million (the "Economic Reserve"), (ii) a second economic reserve with an initial principal amount equal to $60.9 million (the "Rural Economic Reserve"), and (iii) a transition reserve with an initial principal amount equal to $35 million (the "Transition Reserve"). The Economic Reserve and Rural Economic Reserve accounts were established to help Big Rivers cushion the effect of any potential future rate increases for fuel and environmental expenses on its rates to its Members for service to their non-Smelter members. The Transition Reserve was established as a financial reserve that would help Big Rivers mitigate financial costs, if any, associated with the termination of the Smelter Agreements by a Smelter.

- WKEC conveyed to Big Rivers a flue gas desulphurization system which had recently been constructed at Big Rivers' Kenneth Coleman Plant. The value ascribed to the flue gas desulphurization facility was approximately $98.5 million.

- WKEC conveyed to Big Rivers personal property and inventories of coal, petroleum coke, fuel oil, lime, limestone and spare parts, and materials and supplies. The value of those items was approximately $55.0 million.

- WKEC forgave a promissory note of approximately $15.4 million that Big Rivers owed to LEM.

- WKEC conveyed to Big Rivers 14,000 sulfur dioxide allowances allotted by the Environmental Protection Agency (the "EPA") with a fair market value of approximately $1.0 million on July 16, 2009.

- The lease of the generating facilities to WKEC and all the other property interests of WKEC and LEM in the generating facilities previously leased to WKEC were terminated.

- The Station Two Agreement was terminated and Big Rivers resumed its responsibility to operate Station Two and to purchase the capacity of Station Two in excess of the City's reserved capacity and related energy in accordance with the Power Sales Contract.

Change in Big Rivers' Capital Structure Resulting from Unwind

On July 16, 2009, Big Rivers prepaid $140.2 million of the indebtedness it owed to the RUS and the schedule of maximum permitted outstanding balances on the amortizing debt it owes to the RUS was adjusted. A non-interest bearing RUS Series B Note was also restructured in concert with the Unwind into a single "bullet" payment due December 31, 2023. Big Rivers' debt to the RUS was incurred primarily to finance its generating assets. In connection with the Unwind Big Rivers obligated itself to reduce the maximum permitted outstanding balances of its RUS debt by $60.0 million by October 1, 2012 and $200.0 million by January 1, 2016. Currently, Big Rivers intends to refinance that debt in the capital markets.

Big Rivers also terminated a secured credit facility with National Rural Utilities Cooperative Finance Corporation ("CFC") providing for a maximum outstanding balance of $15 million and entered into two unsecured revolving credit facilities with a maximum of $50 million each with CFC and CoBank ACB.

As a result of the Unwind, Big Rivers went from an equity to total capitalization ratio of (19)% as of December 31, 2008, to 31% as of December 31, 2009.

Resumption of Operational Responsibilities in Connection with Generating Facilities

In connection with the Unwind, the lease of Big Rivers' generating facilities to WKEC was terminated and Big Rivers resumed responsibility for the operation of its generating facilities. Thus, Big Rivers assumed responsibility for the risks associated with such operation (e.g. fuel, capital costs associated with change in law). Big Rivers intends to use the output of its generating facilities to supply the needs of its Members, including approximately 850 MW of power that is necessary for Kenergy to supply a portion of its contractual obligations to the Smelters, which were primarily serviced by LEM before the Unwind. Power and energy generated above the requirements of the Members is sold into the wholesale power market.

Wholesale Power Contracts with Members

Each of Meade, Jackson Purchase and Kenergy is party to a wholesale power contract with Big Rivers (the "All Requirements Contracts") providing that it sell and deliver to the Members, and the Members purchase and receive from Big Rivers, all the electric power and energy which the Members require for the operation of the Member's system (except Kenergy's requirements for the Smelters) to the extent that Big Rivers has power and energy and facilities available. The term of each All Requirements Contract extends through December 31, 2043 and neither of the parties may unilaterally terminate the contract, without cause, before such date. Each All Requirements Contract may be terminated by either party thereto after December 31, 2043, upon six months notice.

The All Requirements Contracts require each Member to pay Big Rivers monthly for capacity and energy furnished. The All Requirements Contracts provide that if a Member fails to pay any bill by the first business day following the twenty-fourth day of the month, Big Rivers may, upon five (5) business days' written notice, discontinue delivery of electric power and energy to that Member. The All Requirements Contracts also provide that, so long as any notes and note guarantees are outstanding from Big Rivers to the RUS, no Member may reorganize, dissolve, consolidate, merge, or sell, lease or transfer all or a substantial portion of its assets unless it has either (i) obtained Big Rivers' written consent and the written consent of the RUS, or (ii) paid a portion of the outstanding indebtedness on the notes and Big Rivers' other commitments and obligations then outstanding, such portion to be determined by Big Rivers with RUS approval. The All Requirements Contracts may only be amended with the approval of the RUS and upon compliance with such other reasonable terms and conditions as Big Rivers and the RUS may agree.

Each Member is required to pay Big Rivers for capacity and energy furnished under its All Requirements Contract in accordance with Big Rivers' established rates as approved by the KPSC. All Requirements Contracts with Members provide that Big Rivers' Board of Directors establish rates to produce revenue sufficient, but only sufficient, together with all of its other revenue, to pay the cost of operation and maintenance of all its generating, transmission and related facilities, to pay the cost of capacity and energy purchased by it for resale, to pay the cost of transmission service, to pay the principal of and interest on all its indebtedness and to provide for the establishment and maintenance of reasonable financial reserves.

The All Requirements Contracts require Big Rivers' Board of Directors to review the rates at least annually and to revise such rates as necessary to produce revenue as described above. Big Rivers must give Members no less than thirty (30) days' or more than forty-five (45) days' written notice of every rate revision. Its electric rate revisions are subject to the approval of the RUS and the KPSC, after which its Members are permitted to incorporate such rate changes into their own rate structures.

Existing Generation and Transmission Resources

Big Rivers supplies capacity and energy to its Members principally from a combination of owned generating plants and also from power purchased under long-term contracts with other power suppliers and short-term and spot market purchases. Big Rivers owns seven base load coal-fired generating units and one oil- or natural gas-fired combustion turbine generating unit, all of which are in commercial operation. These units provide Big Rivers with approximately 1,444 MW of capacity. Big Rivers also has a variety of purchase arrangements, including the Power Sales Contract with the City and the SEPA Contract, which supplies it with up to 380 MW of power. Big Rivers currently purchases 202 MW from the Utility Commission pursuant to the Power Sales Contract and up to 178 MW under the SEPA Contract. Big Rivers also owns 1,265 miles of transmission lines and 22 substations and has additional access to approximately 100 MW of transmission service through agreements with another utility.

Big Rivers operates and maintains its transmission facilities and provides transmission services to its Members and Non-Members. As of December 31, 2010, Big Rivers had in service 833 miles of 69 kV transmission lines, 14 miles of 138 kV transmission lines, 350 miles of 161 kV transmission lines, 68 miles of 345 kV transmission lines, and related station land and equipment. It also owns 22 substations. The current firm transmission capability is sufficient to allow Big Rivers to export all available excess generation capacity plus an amount equal to the peak demand of the larger Smelter on its system. With the completion of several projects in 2015, its export capability will be increased to approximately 1380 MW, which will provide the capability to export all of the peak demand for both Smelters.

In December 2010, Big Rivers integrated into the Midwest Independent Transmission Operator (the "Midwest ISO") as a transmission-owning member. Its membership in the Midwest ISO allows Big Rivers to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. In addition, its Midwest ISO membership provides market services for energy, operating reserves, and transmission service as well as serving as its regional balancing authority.

Big Rivers has several interconnections between its transmission system and those of other power suppliers. These interconnections permit mutual support in emergencies, decrease overall transmission losses, facilitate the arrangement of electric power and energy sales and minimize the duplication of transmission lines. Big Rivers currently has interconnection agreements with these power suppliers: (i) the Utility Commission; (ii) the Midwest ISO; (iii) Southern Illinois Power Cooperative; (iv) Hoosier Energy Rural Electric Cooperative and Southern Indiana Gas and Electric Company – Vectren; (v) E.ON U.S.; (vi) Kentucky Utilities Company and Louisville Gas and Electric Company ("LG&E"); and (vii) the Tennessee Valley Authority (the "TVA"). However, Big Rivers cannot purchase power from the TVA due to restrictions on the TVA's authority to sell power outside of its service area fixed by statute. An agreement with the TVA provides transmission service by the TVA to enable Big Rivers to interchange power and energy with four utilities located in the southern United States.

In addition to improvements with neighboring transmission systems, Big Rivers also has received several requests from independent power producers that may determine to locate within Big Rivers' balancing area and Big Rivers has developed certain interconnection procedures and guidelines which Big Rivers uses when generators request interconnection service without a concurrent request for transmission service. once Big Rivers joined the Midwest ISO, independent power producers may apply through the Midwest ISO to connect to Big Rivers' transmission facilities. Upon receiving an application, the Midwest ISO will work with Big Rivers to study the impacts of such interconnection and to identify the cost of accommodating the interconnection. The allocation of costs will be determined under the MISO Tariff. Interconnections will be effectuated through a standard-form, three-way interconnection agreement among Big Rivers, the Midwest ISO and the independent power producer seeking use of its transmission service.

Big Rivers voluntarily agreed to comply with Order No. 888 of the Federal Energy Regulatory Commission (the "FERC") by filing the Open Access Transmission Tariff (the "OATT") with the FERC in 1988. The OATT was filed with the KPSC and the KPSC determined to assert jurisdiction over it to extent the FERC does not exert such jurisdiction. FERC Order No. 888 requires utilities regulated by FERC to offer third parties access to, and terms for the use of, their transmission systems on a basis comparable to the access and terms under which such transmission system owners provide transmission service to themselves. FERC Order No. 888 permits such utilities to deny transmission service to a utility which does not have a comparable open access transmission tariff. Although it is not subject to FERC Order No. 888, Big Rivers could require reciprocal access to other utilities' transmission systems in order to meet future obligations to the Members or sell power off-system.

Pursuant to the OATT, Big Rivers provided firm and non-firm transmission service and network services on its transmission system to parties desiring to purchase available transmission capacity on its transmission system. Big Rivers maintained the Open Access Same-Time Information System (the "OASIS") on which it posted transmission capacity available between certain points of time, with requests for longer periods of time taking precedence over those for shorter periods, and with firm service taking precedence over non-firm service. In operating the OASIS, Big Rivers was subject to certain standards of conduct that prevented its employees in the transmission function from communicating with employees engaging in wholesale sales function. As a part of Big Rivers' OATT, it had implemented certain guidelines for interconnection by generators that seek to interconnect to its transmission system without a concurrent request for transmission services. These generator interconnection procedures were posted on Big Rivers' OASIS.

When Big Rivers joined the Midwest ISO, it withdrew its OATT and the use of its transmission facilities became governed by the MISO Tariff. Big Rivers provides the Midwest ISO with its revenue requirement for use in establishing the rate for transmission services under the MISO Tariff, but Big Rivers' revenue requirement will not be directly reviewed by FERC. As a Midwest ISO transmission owner, Big Rivers also participates in the Midwest ISO transmission planning process, and is responsible for investments in transmission projects assigned to it in accordance with that process. Big Rivers participates in regional transmission planning with the Midwest ISO. Participation in the Midwest ISO planning process increases the scope of Big Rivers' regional planning process and subjects Big Rivers to decisions by the Midwest ISO and, ultimately, FERC, concerning allocations of costs for meeting regional transmission needs. Finally, Big Rivers is subject to the Midwest ISO reserve requirements established pursuant to Module E of the MISO Tariff.

The Smelter Agreements

Big Rivers and Kenergy have entered into wholesale electric service arrangements with the two large aluminum smelters located within Kenergy's service area (each a "Smelter" and collectively the "Smelters"). Under the agreements, Big Rivers provides a fixed amount of power and energy of approximately 850 MW of power that is necessary for Kenergy to supply a portion of its contractual obligations to the Smelters through December 31,

2023. These agreements are exceptions to the "all requirements" obligations in the All Requirements Contracts with Kenergy. The Smelters have largely identical obligations under the agreements described below, so the following discussion does not distinguish between obligations to a particular Smelter, even though, from a legal perspective, their rights and obligations are separate and not joint.

The principal terms and conditions relating to Big Rivers' sale of electric services to Kenergy for resale to the Smelters are set forth in six agreements, three with respect to service to each Smelter. The basic structure of the sale of electric services is that Big Rivers sells the electric services to Kenergy and then Kenergy in turn sells those electric services to each Smelter. Because the Smelters are customers of Kenergy, Big Rivers has entered into two, separate wholesale service agreements (each a "Smelter Wholesale Agreement" and together the "Smelter Wholesale Agreements") with Kenergy. Under each Smelter Wholesale Agreement, Big Rivers supplies Kenergy with electric service for resale to a particular Smelter. Kenergy has entered into a separate retail electric service agreement (each a "Smelter Retail Agreement" and together the "Smelter Retail Agreements") with each Smelter. Big Rivers and each Smelter have also entered into a Smelter Coordination Agreement (a "Smelter Coordination Agreement" and, together with the Smelter Wholesale Agreements and the Smelter Retail Agreements, the "Smelter Agreements") that sets forth certain direct obligations between Big Rivers and a Smelter. Due to the pass-through nature of the principal obligations between Big Rivers and each Smelter, the Smelter Wholesale Agreement and the Smelter Retail Agreement relating to each Smelter are substantially the same.

The obligation of Kenergy to supply electric service to the Smelters pursuant to the Smelter Retail Agreements will terminate on December 31, 2023, unless terminated earlier pursuant to the terms thereof. A Smelter may terminate its Smelter Retail Agreement upon not less than one year's prior written notice of such termination to Kenergy and Big Rivers if such Smelter ceases all smelting operations in Kenergy's service territory.

Pricing under the Smelter Agreements is designed so that the Base Rate for the Smelters will always be 25 cents per MWh over the rate charged to large direct-served industrial customers having an equivalent load factor. The contracts provide that the Smelters are obligated to pay various surcharges, including fuel adjustment surcharges and environmental surcharges. In addition, the Smelter Agreements provide for annual adjustments to rates designed to assist Big Rivers in achieving positive margins in each year.

Risk Factors Impacting Big Rivers' Ability to Fulfill its Obligations Under the Operation Agreement and/or the Power Sales Contract:

A significant portion of Big Rivers' anticipated gross revenues and retail load of one of its Members, Kenergy, is related to serving the Smelters

Approximately 57% of Big Rivers' total load demand and 75% of the energy of one of its Members, Kenergy, is represented by two aluminum smelters: Alcan Primary Products Corporation ("Alcan"), an indirect subsidiary of Rio Tinto Alcan, and Century Aluminum of Kentucky General Partnership ("Century"), a wholly-owned subsidiary of Century Aluminum Company. Kenergy supplies Alcan and Century under retail electric service agreements and passes through the payments made thereunder to Big Rivers, except for a retail fee that Kenergy retains. Such pass-through payments by Kenergy are expected to comprise 65% of Big Rivers' Member revenue in 2011. Both retail electric service agreements provide that if Alcan or Century plans to discontinue its smelting operations, it may terminate the retail electric service agreement with one year notice. Alcan and Century typically use nearly 368 MW and 482 MW per hour, respectively, and operate 24 hours per day and seven days a week. While Big Rivers is unaware of any plan of Alcan or Century to discontinue its operations, if one or both were to do so, Big Rivers would have a large amount of surplus energy that may be difficult to sell economically. This possibility is especially a concern until Big Rivers completes its planned upgrade to its transmission lines in 2011 as discussed herein to allow it access to a broader number of third-party purchasers.

Big Rivers' rates and service and those of its Members are subject to state regulation

Big Rivers rates and service and those of the Members are subject to regulation by the KPSC. Among other powers, Kentucky law authorizes the KPSC to (i) approve Big Rivers' rates and those of the Members as "fair, just and reasonable," (ii) regulate construction of new generation and transmission facilities by issuing certificates of public convenience and necessity, (iii) approve changes in ownership or control of Big Rivers through sales of assets or otherwise, (iv) approve the issuance or assumption of any securities or evidence of indebtedness, other than to the United States of America acting through the RUS, and (v) administer the state laws assigning each jurisdictional electric distribution utility the exclusive right to provide retail electric service within specified geographic boundaries.

Big Rivers and its Members may only charge rates that are approved by the KPSC. When Big Rivers files a schedule stating new rates with the KPSC, the KPSC may suspend the effective date of that new rate schedule for five or six months, depending upon the methodology Big Rivers employs to support the new rate schedule. If the proceeding to review the new rate schedule has not been concluded and an order made at the expiration of the suspension period, Big Rivers may place the new rate schedule in effect, subject to refund if the rates eventually approved by the KPSC are lower than rates in the rate schedule Big Rivers placed into effect. By law, the KPSC must issue a final decision not later than ten months after Big Rivers files a new rate schedule. Big Rivers is entitled to demand, collect and receive fair, just and reasonable rates for the services it renders, although Big Rivers and the KPSC may disagree about what constitutes fair, just and reasonable rates. If Big Rivers is dissatisfied with an order of the KPSC, Big Rivers may appeal that order through the Kentucky court system. Any denial by the KPSC or delay in recovery of any portion of Big Rivers' requested rates could have a material negative impact on its Members' or Big Rivers' future operating results, financial condition or liquidity.

Regulations governing climate change may adversely affect Big Rivers' operations and financial performance

Federal and state laws may be enacted that would limit or impose additional costs related to emissions of carbon dioxide and other greenhouse gases ("GHG"). Several bills have been introduced in Congress to reduce GHG emissions, including imposing federal GHG emission caps and a federal renewable energy portfolio standard. Furthermore, the EPA has taken action to regulate GHG emissions under existing federal law. Big Rivers cannot predict the outcome or potential impacts of pending climate change legislation or regulations, but it is generally expected that older conventional, fossil-fueled generation facilities, such as its facilities, would be more adversely affected by such laws or regulations than newer facilities or facilities generating electricity from nuclear or renewable fuels. In addition, some legislative proposals may provide substantial incentives to alternative energy development or limit the construction and operation of conventional power generation facilities in ways that could adversely affect Big Rivers' business plans, revenues or operating costs.

Regulations governing environmental issues may adversely affect Big Rivers' operations and future financial performance

Big Rivers is required to comply with numerous federal, state and local laws and regulations relating to environmental protection. These laws and regulations change regularly, and new laws and regulations could substantially increase its operating costs or require material capital expenditures. In response to regulatory changes, a substantial portion of its facilities have, in the past decade, been retrofitted with new pollution control equipment, including flue gas desulfurization and selective catalytic reduction equipment. Although Big Rivers believes that it has obtained all material environmental approvals currently required to own and operate its currently operating facilities, it may incur significant additional costs to comply with these requirements or with any new requirements that are added as laws change and new regulatory requirements are added. Failure to obtain and maintain all required permits or to comply with environmental laws, regulations and permits could have a material adverse effect on Big Rivers, including potential civil or criminal liability and the imposition of fines or expenditures of funds to bring its facilities into compliance. Delay in obtaining or failure to obtain and maintain any environmental permits or approvals, or delay or failure to satisfy any applicable environmental regulatory requirements, could hinder the operation of its existing facilities or hinder the sale of energy from these facilities, all of which could result in significant additional cost to Big Rivers. In addition, private parties may object to the issuance of environmental permits or challenge Big Rivers' operations under its permits.

National or state renewable energy standards may increase Big Rivers' costs of operation and adversely affect the utilization of current generation facilities

Although various bills have been introduced in the Kentucky legislature and in the U.S. Congress that would require Big Rivers to establish and obtain minimum amounts of electric energy from renewable resources, to date, no such, legislation has been enacted. If Big Rivers were required on the national or state level to establish and obtain minimum amounts of electric energy from renewable resources, it would have to purchase such energy and/or invest in renewable resources.

Big Rivers must make long-term decisions involving substantial capital expenditures based on its current projections of future conditions

Big Rivers' decisions to develop new generation or transmission facilities, enter into long-term power supply arrangements, or pursue other projects are based primarily on long-term forecasts of its obligations to supply all or a portion of the Members' power and energy requirements. Big Rivers relies on its forecasts to reliably predict factors affecting their requirements such as economic conditions, population trends and actions by others in the development of their generation or transmission facilities. Even though forecasts are less reliable the farther into the future they extend, Big Rivers must make decisions today based on forecasts often extending a decade or more into the future due to the long lead-time necessary to develop and construct new generation and transmission facilities and the expected useful life of such facilities.

Big Rivers' forecasts may vary significantly from actual events. As a result, it may fail to develop the appropriate number or type of generation facilities, rely on technology that becomes less competitive, or fail to install or upgrade transmission facilities in locations where they are needed. If Big Rivers overestimates the growth in its obligations to supply all or a portion of the Members' power or energy requirements, there is no assurance that the price of any surplus power or energy from the excess resources would be economical or could be sold in the market without a loss. If Big Rivers underestimate the growth in the Members' power or energy requirements, it may be required to purchase power or energy at a cost substantially above the cost Big Rivers would have incurred to obtain the power or generate the energy from its facilities. Projections regarding the continued growth of the Members' power and energy requirements and the extent of Big Rivers' obligations to serve them increases the potential risks to Big Rivers if actual events differ significantly from its forecasts.

Future availability and cost of credit may affect Big Rivers' financial results

Big Rivers will need to access the credit and capital markets in the near future. Although it expects to finance its capital expenditures with internally generated funds, it has a series of pollution control bonds outstanding in the principal amount of $58.8 million maturing in 2013 that it expects to refinance. In addition to the generally level debt service on the RUS Series A Note, it is obligated to make additional principal payments of $60.0 million by October 1, 2012, and $200.0 million by January 1, 2016 on its debt outstanding with the RUS. Big Rivers expects to raise funds in the credit and capital markets in order to refinance the RUS debt and the pollution control bonds.

Market volatility and uncertainty in the financial markets, such as what occurred in the fall of 2008, could potentially affect Big Rivers' cost of capital and access to the credit and capital markets. In addition, if Big Rivers' ratings were lowered, it could be required to pay higher interest rates in future financings, its potential pool of investors and funding sources could decrease and its access to the credit or capital markets could be interrupted for all practical purposes. In the future, Big Rivers' investor base may be limited if it encounters investors who are reluctant to purchase its debt based on climate change or other industry-specific concerns.

Big Rivers' financial performance depends on the successful operation of electric generating facilities by it and the ability of its facilities to deliver electricity to the Members

Operating electric generating facilities and delivery systems involves many risks, including:

- operator error and breakdown or failure of equipment or processes;
- operational limitations imposed by environmental or other regulatory requirements;
- inadequate or unreliable access to transmission and distribution assets;
- labor disputes;
- interruptions of fuel supply;
- compliance with mandatory reliability standards; and
- catastrophic events such as hurricanes, floods, earthquakes, fires, explosions, terrorist attacks, pandemic health events or other similar occurrences.

Big Rivers depends on transmission facilities, including those operated by other parties, to deliver the electricity that it supplies to the Members. If transmission is disrupted, or if capacity is inadequate, Big Rivers' ability to sell and deliver products and satisfy its contractual obligations may be hindered. Although the FERC has issued regulations designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems or transmission capacity will not be available to transmit

Big Rivers' electric power. Big Rivers cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets.

The initial set of mandatory reliability standards was issued by the North American Electric Reliability Corporation ("NERC") in July 2007. Big Rivers believes it is in compliance with all of the current NERC standards. It expects that as greater emphasis is placed on securing electrical grid infrastructure, these standards will become stricter over time. The financial impact of mandatory compliance with such standards cannot currently be determined. If mandatory reliability standards are increased in the future, a substantial effect on Big Rivers' operations and financial cash flows could result. In addition, failure to comply with the reliability standards could result in the imposition of fines and penalties.

A decrease in operational performance from Big Rivers' generating facilities and delivery systems or an increase in the cost of operating the facilities could have an adverse effect on Big Rivers' business and results of operations.

The Members may fail to satisfy their obligations to Big Rivers

Big Rivers depends primarily on electric sales to the Members to satisfy its financial obligations. It does not control the operations or financial performance of the Members. Accordingly, it is exposed to the risk that one or more of the Members could default in the performance of their obligations to Big Rivers, in particular their obligations under long-term wholesale power contracts with Big Rivers extending through 2043. These defaults could result from financial difficulties at one or more Members or because of intentional actions by such Members. Big Rivers' operating results and financial condition could be adversely affected if one or more of the Members default on their obligations to Big Rivers or reject their contractual obligations to it in a bankruptcy proceeding or otherwise.

Continuing Disclosure

On June 1, 2010, Big Rivers entered into a Continuing Disclosure Agreement with U.S. Bank National Association, as trustee, in connection with the issuance of the County of Ohio, Kentucky Pollution Control Refunding Revenue Bonds, Series 2010A (Big Rivers Electric Corporation Project) (the "2010A Bonds") whereby Big Rivers agreed to make continuing annual disclosure of certain financial and operating information and disclosure of certain events which might occur. The Official Statement associated with the 2010A Bonds and the continuing disclosure filings made by Big Rivers arising from the issuance of the 2010A Bonds can be obtained from the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website.

Rate Case Proceeding

Big Rivers filed an application with the KPSC on March 1, 2011, in P.S.C. Case No. 2011-00036 proposing, among other things, changes in Big Rivers' rates and tariffs that would result in a net increase in base rate revenues of approximately $39.953 million per year. The KPSC suspended the effective date of the proposed tariff changes, and on July 26, 2011, began a hearing on Big Rivers' application. When the KPSC failed to issue a decision on the application no later than August 31, 2011, Big Rivers exercised its statutory right to place the proposed tariff changes in effect on September 1, 2011, subject to refund if the order eventually entered by the KPSC approves rates that are lower than those contained in the tariff changes proposed by Big Rivers. Big Rivers expresses no views on the final outcome of this proceeding.

SERC Investigation

Big Rivers is currently the subject of a preliminary inquiry and non-public investigation initiated by the SERC Reliability Corporation (SERC) in February 2009. The staffs from the North American Electric Reliability Corporation and Federal Energy Regulatory Commission are also participating in the investigation. Big Rivers believes that it is now in compliance with all reliability standards and requirements. However, penalties for violations of reliability standards can be substantial. At this time the investigation is ongoing and Big Rivers cannot estimate the amount or range of potential liability, if any.

APPENDIX G

CITY OF HENDERSON, KENTUCKY
ELECTRIC SYSTEM REVENUE BONDS, SERIES 2011B

ANNUAL REPORT OF BIG RIVERS ELECTRIC CORPORATION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010, WITH ACCOMPANYING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010 AND 2009

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Annual Report 2010

Retooling for the Future...

Big Rivers Electric Corporation

Big Rivers
ELECTRIC CORPORATION

Our Mission

Big Rivers will safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members.

Our Vision

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the members desire in meeting future challenges.

Our Values

- Safety
- Integrity
- Excellence
- Member and Community Service
- Respect for the Employee
- Teamwork
- Environmentally Conscious

Financial Highlights

For the years ended December 31, 2010, 2009, 2008, 2007, and 2006 | (Dollars in thousands)

	2010	2009	2008	2007	2006
Margins	6,991	531,330	27,816	47,177	34,542
Equity	386,575	379,392	(154,602)	(174,137)	(217,371)
Capital Expenditures*	42,683	58,388	22,760	18,682	13,189
Cash & Investment Balance	44,780	60,290	38,903	148,914	96,143
RUS Series A Note Voluntary Prepayment Status	23,859	–	–	–	34,995
Times Interest Earned Ratio	1.15	9.85	1.37	1.64	1.47
Debt Service Coverage Ratio	1.47	2.44	1.17	2.04	1.86
Cost of Debt	5.73%	6.33%	6.33%	5.76%	5.83%
Cost of Capital	7.93%	8.39%	8.33%	7.75%	7.82%

** Big Rivers' share only.*

RETOOLING FOR THE FUTURE...

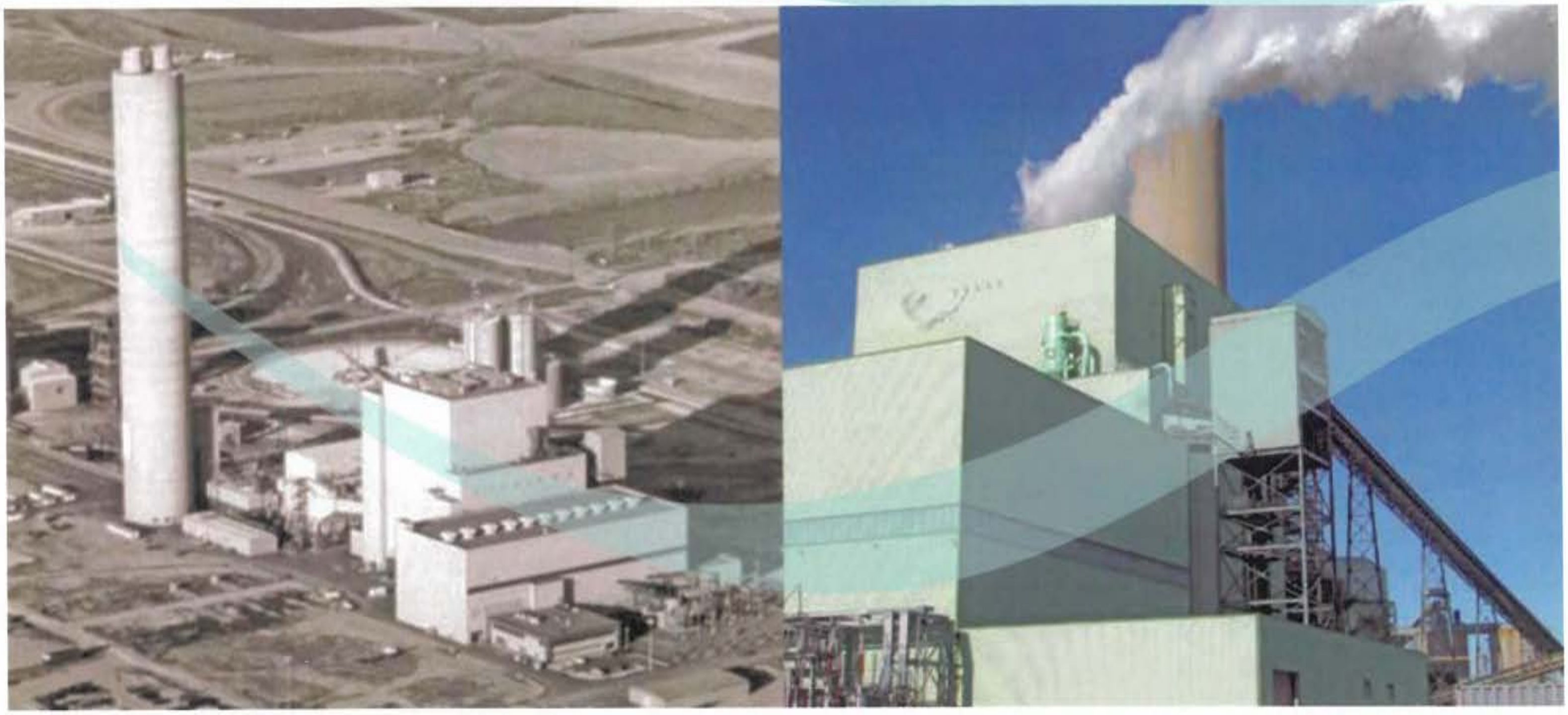


TABLE OF CONTENTS

About the Big Rivers System

Big Rivers Electric Corporation ("Big Rivers") is a member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative members across 22 counties in western Kentucky.

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, they distribute retail electric power and provide other services to more than 112,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee.

With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

Kenneth C. Coleman	443 MW	Hawesville, Ky.
Robert A. Reid	130 MW	Robards, Ky.
Robert D. Green	454 MW	Robards, Ky.
D. B. Wilson	417 MW	Centertown, Ky.
Owned Generation	1,444 MW	

Total generation available is 1,829 MW, including rights to Henderson Municipal Power and Light ("HMP&L") Station Two and contracted capacity from Southeastern Power Administration ("SEPA").

Owned Generation	1,444 MW
HMP&L Station Two	207 MW
SEPA	178 MW
Total Generation	1,829 MW

THE MISSION OF BIG RIVERS IS TO SAFELY DELIVER LOW COST, RELIABLE WHOLESALE POWER AND COST-EFFECTIVE SHARED SERVICES

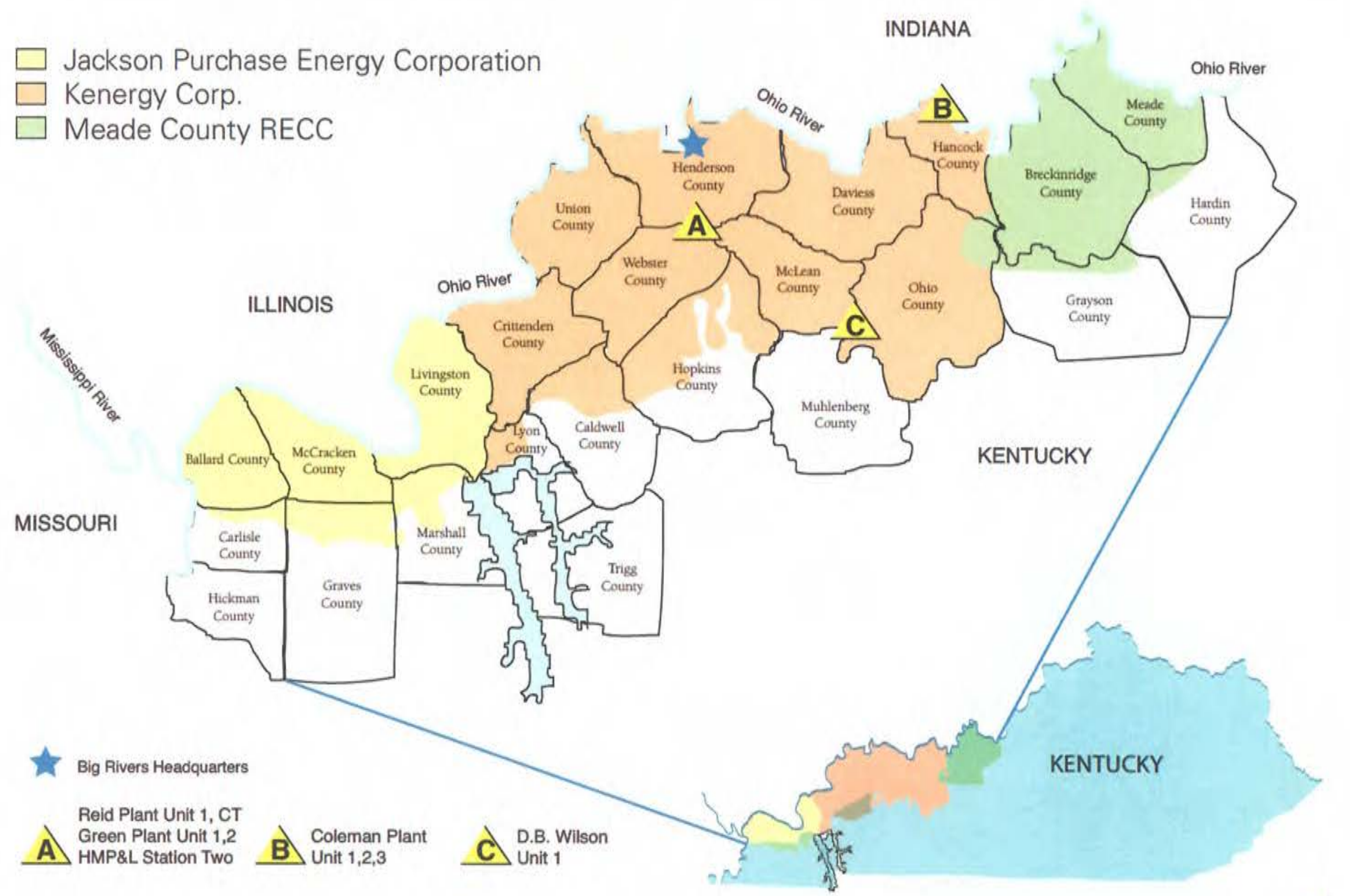
RETOOLING FOR THE FUTURE...

High voltage electric power is delivered to the member cooperatives over a system of 1,266 miles of transmission lines and 22 substations owned by Big Rivers. Twenty-two interconnects link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each distribution cooperative. We employ over 600 people at seven locations in Kentucky, who actively contribute to the communities we serve.

Constantly focused on the needs and local priorities of the member cooperatives, Big Rivers provides assistance in areas such as information technology, mapping and planning, safety programs and training, economic development, education and customer support services.

As long-standing members of Touchstone Energy®, Big Rivers and the member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high has always been a priority.



MEMBER COOPERATIVES

Kelly Nuckols, *President & CEO*
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

Serves: Ballard, Carlisle, Graves, Livingston, Marshall and McCracken

Headquartered:	Paducah, KY
Number of accounts:	29,152
Miles of line:	2,909

Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

Serves: Breckinridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster

Headquartered:	Henderson, KY
Number of meters:	54,991
Miles of line:	7,023

Burns Mercer, *President & CEO*
Meade County RECC

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

(270) 422-2162
www.mcrecc.coop

Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered:	Brandenburg, KY
Number of meters:	28, 267
Miles of line:	2,977

BOARD OF DIRECTORS

Standing (left to right):

Dr. James Sills, Chair
Meade County RECC

Wayne Elliott, Vice-Chair
Jackson Purchase Energy Corporation

William Denton
Kenergy Corp.

Seated (left to right):

Lee Bearden
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder, Secretary-Treasurer
Kenergy Corp.

MANAGEMENT TEAM

Standing (left to right):

Marty Littrel, *Communications & Community Relations Manager*

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett, *V.P. System Operations*

James Haner, *V.P. Administrative Services*

James Miller, *Corporate Counsel*

Paula Mitchell, *Executive Assistant*

Seated (left to right):

Mark Hite, *V.P. Accounting*

C. William Blackburn, *Senior V.P. Financial & Energy Services & CFO*

Mark Bailey, *President & CEO*

Robert Berry, *V.P. Production*

Message from the Board Chair and CEO

The year 2010 marked transition and significant achievement for Big Rivers Electric Corporation. This was our first complete year operating as a full-fledged generation and transmission cooperative, since the Unwind closing in July 2009.

During 2010 many of the longer-term initiatives, planned to be finished following the Unwind closing, were successfully completed.

- Major renovation was completed in April at the central headquarters building to accommodate the additional employees returning to Big Rivers from the former Western Kentucky Energy central office following the Unwind consolidation.
- $83.3 million of pollution control bonds were refinanced in June.
- An energy efficiency study of the member systems was completed, with results to be implemented in 2011.
- An integrated resource plan was developed and filed with the Kentucky Public Service Commission.
- Implementation began on a workforce retirement transition plan in the power generation department.
- Information technology support was migrated from E.ON to Big Rivers' contracted HP/EDS and internal resources.
- The Oracle information systems business platform conversion was successfully completed in November.
- Kentucky Public Service Commission approval for Big Rivers to join the Midwest Independent Transmission System Operator (Midwest ISO) was sought and secured, and the company successfully integrated in December.
- Generation dispatch responsibility migrated

to ACES Power Marketing from E.ON upon our joining the Midwest ISO.

- System microwave expansion and internal communication ties with Big Rivers' generating stations were completed.

Undertaking these projects with a relatively small employee complement, while simultaneously embracing a newly integrated business, required strong organizational planning and a dedicated work force. That effort was most evident by our ability to complete these objectives while achieving several significant operational results within the same year.

- Employee safety targets were exceeded.
- Generating plants operated at new all-time record levels.
- Earning targets were achieved while keeping members' rates amongst the lowest in Kentucky and the rest of the nation.
- Transmission reliability was at a high level.
- Our strategic plan was updated.

In December the Big Rivers board of directors elected new officers. Dr. James Sills of Meade County Rural Electric Cooperative Corporation became the new board chair while Wayne Elliott of Jackson Purchase Energy Corporation was chosen vice-chair, and Larry Elder of Kenergy Corp. became the secretary-treasurer.

We at Big Rivers are grateful to the outgoing board chair, Bill Denton, for his 12 years of steadfast leadership that included six-plus years of tortuous deliberations that lead to the successful completion of the Unwind. His effort, support, and guidance helped lead Big Rivers to its best financial condition in its history following the termination of the lease agreement with E.ON U.S.

Looking ahead, we see a new set of challenges. There have been a number of significant rules proposed by the U.S. Environmental Protection Agency ("EPA") that could lead to a dramatic increase in the price of electricity and have a significant impact on how we run our business. A great deal of uncertainty exists around these proposed environmental regulations and their impacts on rates, reliability, our operations and the economy.

Both the board of directors and our staff are committed to examining the potential impacts of these regulations and to communicate what they mean to regulators, legislatures, and our members. Clearly, we must retool our approach to successfully meet these as well as other challenges ahead.

One constant that will remain as this effort progresses will be our dedicated and loyal workforce who will continue to help us successfully navigate the uncertain waters ahead.

We are certain that through good communications and teamwork, we will continue to achieve our mission of safely providing low cost and reliable electricity and attain our vision to be viewed as one of the top generation and transmission cooperatives in the country.

Dr. James Sills *Chair, Board of Directors*	Mark A. Bailey *President and CEO*
James Sills MD	Mark A. Bailey

At Big Rivers Electric Corporation, our board of directors and senior leadership team believe corporate values are instrumental in our quest to continue to meet our mission and attain our vision of being viewed as one of the top generation and transmission cooperatives (G&Ts) in the country.

These values: teamwork, integrity, excellence, safety, member and community service, environmentally conscience and respect for the employee form the basis of the framework of the remainder of this report.

TEAMWORK

As a power supplier owned by the distribution cooperatives it serves, Big Rivers' mission is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by our members. In order to achieve this target, Big Rivers relies on a dedicated workforce composed of employees committed to the company's success. Teamwork is a core value for Big Rivers since it is one of the key factors necessary for the company to achieve its mission.

Big Rivers continued its partnership with HP Enterprise Services to install new Oracle business platform software, which went live in November 2010. Since then all locations and departments run on the integrated system. The new system was designed, built and tested during most of 2010. The entire staff worked diligently to get the new system up and running, while simultaneously continuing to perform regular business duties. This cutting-edge technology should improve the performance, quality and reliability of our computer applications.

Big Rivers became the thirty-fifth transmission-owning member of the Midwest Independent Transmission System Operator ("Midwest ISO") in December 2010 and the fifth new member since November 2009. The Midwest ISO is a non-profit and revenue-neutral transmission organization that provides electricity at the lowest price while managing one of the largest energy markets in the world, involving nearly $23 billion in energy transactions per year. Midwest ISO has a reliability footprint that covers all or parts of 13 states, plus the Canadian province of Manitoba. Big Rivers integration brings the Midwest ISO's total market generation to more than 145,000 megawatts. Membership provides Big Rivers market access to 57,453 miles of interconnected transmission lines and up to 347 market participants.

Big Rivers worked much of 2010 to file and secure approval from the Kentucky Public Service Commission ("KPSC") to join the Midwest ISO. After nearly a year of work, Big Rivers reached a settlement with the Kentucky Attorney General and the Kentucky Industrial Utilities Customers, which led to final KPSC approval for full integration into the Midwest energy markets.

Teaming with the Midwest ISO is important to Big Rivers because the relationship allows the company to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. Our membership into the Midwest ISO provides market services for energy, operating reserves, and transmission service as well as serving as Big Rivers' regional balancing authority. This arrangement ensures reliable operation of our generation and transmission system while increasing our access to wholesale power markets. Working with the Midwest ISO was the most cost-effective alternative for meeting these requirements, which helps Big Rivers fulfill its mission.

BIG RIVERS RELIES ON A
GREAT WORKFORCE
COMPOSED OF EMPLOYEES DEDICATED TO ITS
SUCCESS

INTEGRITY

Big Rivers makes every effort to operate transparently in all aspects of its operations including environmental compliance, regulatory matters, procurement and risk management.

Energy production and development, and its effect on the environment, will continue to be a hot topic in the halls of Congress for quite some time. Because of new and proposed environmental regulations, compliance has been and will continue to be at the forefront of Big Rivers' generation and transmission operations.

The company currently meets all standards promulgated by the EPA. However, the impact of proposed EPA air, waste and water regulations are of major concern. Clean air transport rule, hazardous air pollutants, coal combustion residuals and water related issues are the top concerns associated with these aggressive regulations.

Big Rivers' wholesale rates are estimated to increase 39 percent due to required pollution control equipment additions that are estimated to cost $785 million by 2015. We further estimate, should the EPA classify coal ash as hazardous waste, that this would necessitate Big Rivers to reduce its use of approximately 3.7 million tons of Kentucky-mined coal annually.

Big Rivers refinanced $83.3 million of pollution control bonds over the past year. To do this, it was necessary for the company to have its investment-grade credit rating reaffirmed by each of the three leading agencies—Moody's Investors Service, Fitch Ratings Ltd. and Standard & Poor's.

Over the past year, Big Rivers acquired coal to burn in its generating stations and satisfy the company's hedge policy, which is geared towards purchasing fuel over a rolling five-year portfolio. This fuel-hedge policy is designed to lower the risk of price unpredictability in the coal markets and to help assure Big Rivers has sufficient coal supply to meet our members' electricity requirements.

In order to make sure the company stays on track, Big Rivers formed an internal risk management committee to share strategic information among departments, identify potential risks of significance to the company and then manage those risks.

Excellence

Big Rivers continued its excellent performance in its generation, transmission, and engineering services.

On the generation side, in 2010 the power stations set new, all-time performance records in reliability and efficient use of materials and equipment.

One of these records involved the Equivalent Availability Factor (EAF), the percentage of time a generating unit is available for power production. The higher the percentage, the more efficiently and productive the generating system is running. EAF in 2010 reached 93.7 percent, which shattered 1982's single-year record high of 89.9 percent. This 2010 record for unit availability beat the past 20-year average by more than 7 percent.

Another generation record set over the past year occurred in the Equivalent Forced Outage Rate (EFOR), the percentage of time a generating unit is unexpectedly off-line. In 2010, Big Rivers' EFOR was only 3.6 percent, which not only set a new all-time record low, but also was 25 percent lower than the past 15-year average. Leading the way was Big Rivers' Green Station Unit 2, which at 230 days experienced the longest continuous run for any generating unit in the company's history.

Big Rivers also surpassed standards of excellence in several other areas of generation services. The net heat rate, which measures how efficiently the energy contained in the coal burned in our generating units is converted to electricity, greatly exceeded the company's 2010 targets, saving nearly $3.6 million in fuel costs. As noted elsewhere in this report, several significant safety milestones were also achieved while the generating stations were operating at record performance levels.

In 2010, Big Rivers also converted Sebree Station's combustion turbine from fuel oil to natural gas to improve its reliability and reduce its air emissions and production costs.

These strides in generation services would be meaningless if Big Rivers did not deliver electricity to the member cooperatives. That's where Big Rivers' excellence in transmission comes into play. The transmission system was highly reliable in 2010. Big Rivers' system average interruption duration index (SAIDI) was a 21 percent improvement over the past 20-year average.

In an effort to continue to strengthen the transmission system's performance, a number of improvements were made in 2010. A few of those included: installing new conductor on the Coleman Station extra high voltage line, completing a re-conductor project on the Paradise tap to the Paradise transmission line, constructing a 69-kilovolt transmission line from Falls of Rough to McDaniels, relocating transmission infrastructure

Big Rivers is confident it will continue SERVING MEMBER CO-OPS with Excellence for years to come.

at Havana Creek from Reid Station to Hopkins County to improve transmission reliability, modifying the National Aluminum substation to provide direct service to a Kenergy customer located in Hancock County, and completing repairs on a 50 megavolt-ampere transformer that was damaged in the 2009 ice storm.

Big Rivers also made excellent strides in engineering. Efforts included the development of a long-range engineering plan in cooperation with the member cooperatives' engineering staffs. In addition, communication technicians completed an expansion of the microwave digital network that connects Big Rivers' headquarters in Henderson to each of its generating stations. Efforts were also made over the past year to replace the Morganfield microwave radio network.

With strides made in generation, transmission and engineering, Big Rivers is confident it will continue serving our member cooperatives with reliable and low cost excellence for years to come.

SAFETY

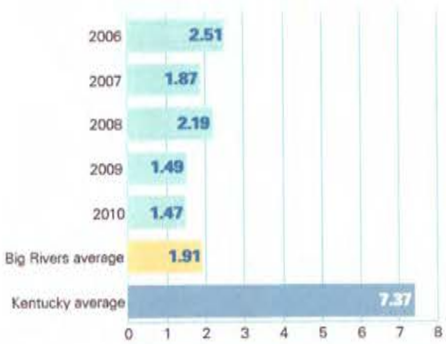
Big Rivers reached several substantial safety milestones in 2010 including:

- Achieving its lowest Occupational Safety and Health Administration (OSHA) recordable incident rate in five years;
- Experiencing only one lost-time incident, which matched the company's best performance in its history;
- Adding a safety component in 2010 within the Oracle R12 system that allows the company to monitor each employee's training history.

A number of individual locations also achieved safety milestones in 2010 including:

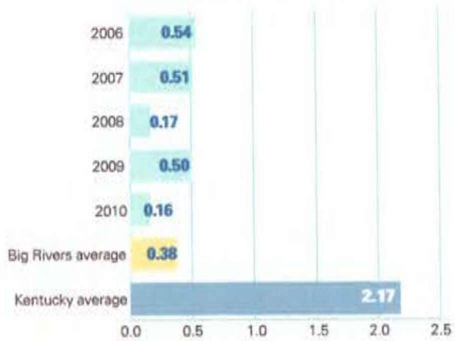
- Coleman Station employees reached four years with no lost-time incidents on January 6 and received the Governor's Safety Award

OSHA RECORDABLE INCIDENT RATE



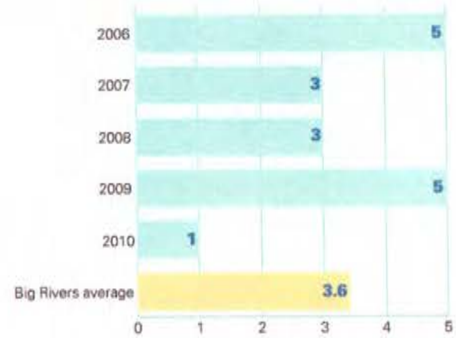
Incident Rate = # of incidents x 200,000 / # of hours worked

LOST-TIME INCIDENT RATE



Incident Rate = # of incidents x 200,000 / # of hours worked

NUMBER OF VEHICLE INCIDENTS



SAFETY IS THE FOUNDATION FOR ALL DECISIONS AND EXPECTATIONS OF BIG RIVERS' WORKFORCE.

for achieving over a million hours with no lost-time incidents.

- Coleman Station employees reached two years without a recordable incident on June 7.
- Sebree Station employees reached one year with no lost-time incidents on January 19.
- Sebree Station employees reached 500,000 man-hours worked without a lost-time incident in April.
- Wilson Station employees reached three years with no lost-time incidents on May 15.
- Headquarters employees reached one year with no lost-time incidents on September 29.

MEMBER AND COMMUNITY SERVICE

Promoting energy efficiency allows our member cooperatives' consumers to reduce their monthly power bills and to delay the need for additional expensive generating facilities. To help facilitate these energy-efficiency efforts, Big Rivers undertook a demand side management study in 2010 to identify efficiency opportunities for the members.

This study examined various cost-effective options to identify those projects with the most potential to succeed. A total of eight pilot projects were selected to be pursued:

- Manufactured home weatherization;
- Residential weatherization;
- HVAC and refrigeration tune up;
- Clothes washer replacement;
- Refrigerator replacement;
- LED and induction security lighting;
- Commercial high-efficiency lighting replacement; and
- Energy Star new home program.

These pilot projects include financial incentives, product evaluation, process development and marketing tests. Big Rivers and its members will develop the successful pilot projects into full fledged energy-efficiency programs that member cooperatives can offer to their consumers.

Big Rivers also continued working with its members to provide real-time outage monitoring equipment to their members. This allows the distribution cooperative consumers to report outages on the Web, which is extremely helpful in storm situations. It also allows customers to see outage locations on maps of the cooperative member system.

As a generation and transmission cooperative, Big Rivers' responsibility goes beyond simply generating and transmitting reliable electricity. The company also believes that energizing local charities is part of its mission. Big Rivers employees helped in several community fundraisers this past year, including United Way, Habitat for Humanity, March for Babies, Relay for Life and the WBKR Christmas Wish program. Additionally, Big Rivers employees served in advisory positions for chambers of commerce, regional economic development organizations, school boards, universities, Leadership Kentucky, and regional hospital boards.

Big Rivers encourages its employees to be involved in community and civic activities. Similar to previous years, United Way was the premier

PROMOTING ENERGY EFFICIENCY ALLOWS CONSUMERS TO REDUCE THEIR MONTHLY POWER BILLS.

non-profit organization supported by Big Rivers employees. Employees contributed $154,000 to United Way during the 2010 employee campaign, which was a 5 percent increase over 2009 record levels. Not only did employee contributions increase, but so did employee participation levels, with nearly 79 percent of our employees doing so. These significant efforts made Big Rivers one of the largest contributors in the region to United Way for the second straight year.

For over a decade, Big Rivers has continued to support the Philippine Project, which brings electric power and the accompanying economic benefits to remote regions of the Philippine Islands. Much as was done in the United States in the 1930s, this project brings electricity to individual localities to improve village development and further energize the region. In addition, low-interest loans are provided to develop house-wiring programs and to increase local business opportunities for the people of the Philippine Islands. Big Rivers is proud to be a part of this humanitarian project that has impacted the lives of several thousand people.

ENVIRONMENTALLY CONSCIOUS

Helping wildlife is important to Big Rivers. The company has teamed up with the Kentucky Department of Fish and Wildlife Resources ("KDFWR") to install a nesting box for falcons and to improve wildlife habitat.

After months of planning, the first peregrine falcon nesting box was installed at Coleman Station in Hawesville in August. Big Rivers offered KDFWR personnel the use of a crane to secure the nesting box, which rests on the eighth floor of one of the units. KDFWR and Big Rivers hope to entice a mated pair of falcons to use this new nesting box to raise their young during the upcoming spring mating season.

The Promoting Our Wildlife & Energy Resources (POWER) program continued its three-year test through 2010. The program works in partnership with KDFWR to improve wildlife habitat and also helps reduce right-of-way transmission line corridor maintenance costs. The POWER program offers free technical assistance and payments to landowners who complete pre-approved wildlife habitat projects in transmission line right-of-way areas. In turn, these practices reduce the need to manage vegetation.

In 2010, Big Rivers completed work to meet additional EPA spill prevention containment regulations. We embrace being good environmental stewards, which is evident by our effort to prevent pollutants from entering waterways.

RESPECT FOR THE EMPLOYEE

Employees are the backbone of any successful company. It is no different at Big Rivers. By keeping every employee safe, focused and motivated, we improve morale, instill employee confidence in their ability to achieve our mission and continue serving our member cooperatives with excellence.

After completing the transition to incorporate operation of its generating units into its current management structure, employees began to look more closely at preparing for the future, all while keeping Big Rivers' day-to-day operations running smoothly.

To help that occur, the company is continuing to refine its succession plan. Ensuring new employees carry the same level of passion, knowledge, and work ethic that retiring employees have is a top priority. By identifying and developing talent who will succeed retiring employees, Big Rivers will have skilled staff ready to face the challenges ahead. The company is very thankful for all the hard work its employees have done over the years.

Corporate-wide employee meetings are held on a regular basis to assist with two-way communication between front line staff and senior management. These meetings cover key topics like the company's strategic and safety plans. Keeping an open line of communication is key to making sure all employees are on the same page, while working to move Big Rivers towards a successful future.

Left: Big Rivers Environmental Scientist, Samantha Howard, discussed possible sites for the nesting box with Kate Heyden, an avian biologist with KDFWR. Several factors had to be considered when choosing a location, including how much foot traffic that particular area received. Careful selection was taken to find a spot where the birds would feel at ease.

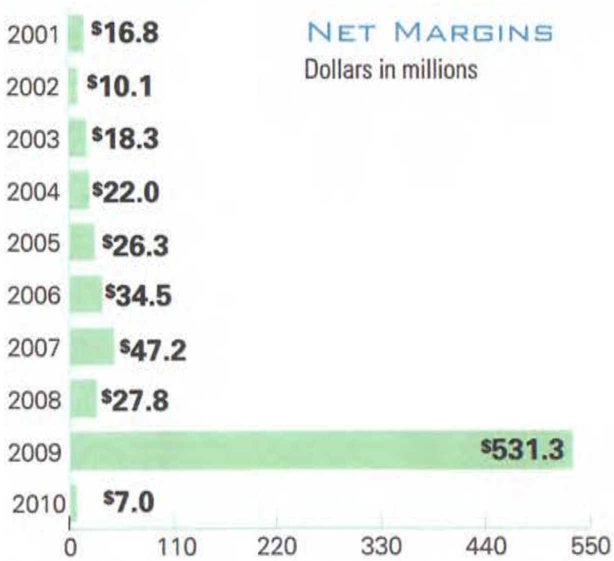
Big Rivers
ELECTRIC CORPORATION

FINANCIAL REVIEW: 2010

Big Rivers' mission is to provide low-cost, reliable wholesale electricity and cost-effective shared services to the member distribution cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. They, in turn, provide retail electric service to their members, totaling 112,735 at December 31, 2010.

The year 2010 marked the first complete calendar year of post-Unwind operations for Big Rivers (see Note 2 of the audited financial statements), as the E.ON lease agreements terminated July 16, 2009 at midnight, at which time Big Rivers resumed operational control of its 1,444 MW of owned generating facilities and 312 MW of Henderson Municipal Power & Light Station Two. The company also owns transmission assets, principally 1,266 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2010 was $1,091.6 million, and total assets were $1,472.2 million.

NET MARGINS
Dollars in millions



EQUITY (DEFICIT)
Dollars in millions

During 2010, Big Rivers continued its transformational return to a fully operating generation and transmission cooperative; its mode of operation prior to July 17, 1998, when the E.ON lease agreements became effective. Financially, 2010 was a successful year for Big Rivers, as the company completed the year with a favorable set of key financial metrics, discussed below.

Net Margins and Equities

The 2010 net margin was $7 million, resulting in a 1.15 times interest earned ratio (TIER) and margins for interest ratio (MFIR), and a 1.47 debt service coverage ratio (DSCR). Equities to total assets were 26.26 percent at December 31, 2010, and equities to total capitalization were 32.32 percent.

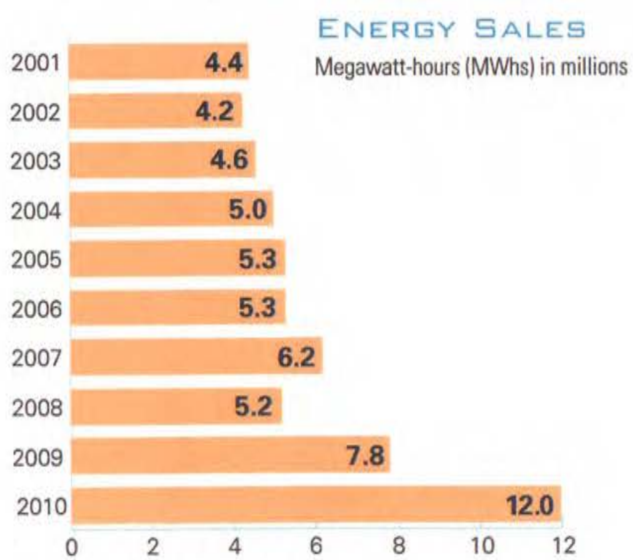
While the 2009 net margin was $531.3 million, when the one-time $538 million Unwind gain is excluded, 2009 reflected a loss of $6.6 million. There are three items that explain the majority of the $13.6 million net improvement in the 2010 net margin (2010 net margin of $7 million plus 2009 net loss, as adjusted, of $6.6 million). First, electric operating margin reflects a $4.4 million unfavorable variance for the first full year of post-Unwind operations, principally due to a depressed market price for off-system sales, resulting from the continued weak economy. Second, interest expense and other reflects a $16.2 million favorable variance, primarily due to a $222.1 million reduction in long-term debt since 2008. Third, following a thorough analysis during 2010, the balance of the reserve for obsolescence that was established for certain materials and supplies inventory upon the Unwind closing was written off, resulting in a non-operating margin of $1.9 million.

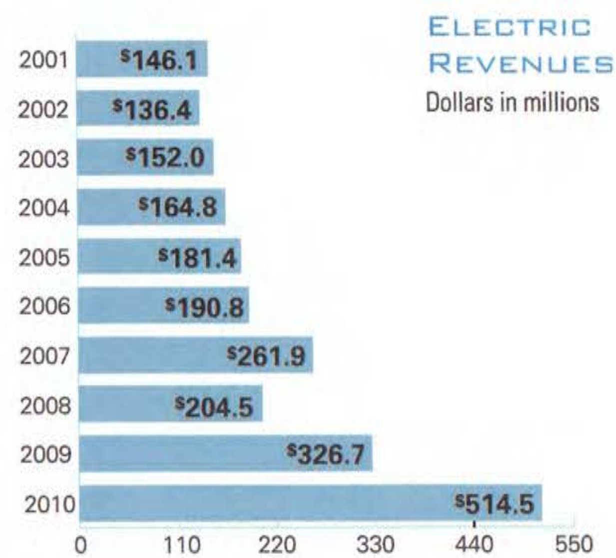
Energy Sales and Electric Revenues

Because a full year of Unwind operations is reflected, MWh sales increased to 11,969,420 MWh in 2010, up from 7,790,961 MWh in 2009, a 53.63 percent increase. The primary reason for the MWh sales increase is the additional 2,887,541 MWh sold to the aluminum smelters, an 83.43 percent increase over 2009, reflecting a full year of post-Unwind sales to the aluminum smelters.

Non-smelter member sales increased 233,963 MWh in 2010, or 7.28 percent, mostly due to hot summer weather. Sales of surplus energy to non-members (off-system sales) increased 1,056,955 MWh in 2010, or 94.61 percent, also reflective of full year of post-Unwind operations.

Electric energy revenue increased to $514.5 million in 2010, up from $326.7 million in 2009.





Wholesale Revenue

Big Rivers has all-requirements wholesale power contracts with its non-smelter members through December 31, 2043. Rural member wholesale revenue per MWh was $45.15 in 2010, versus $41.13 in 2009. Large industrial member wholesale revenue per MWh was $41.85 in 2010, versus $36.55 in 2009. The 11.29 percent non-smelter member revenue per MWh increase in 2010 is primarily due to higher fuel cost recovered through the fuel adjustment clause. The aluminum smelter wholesale contracts with Kenergy Corp. terminate December 31, 2023. Aluminum smelter wholesale revenue per MWh was $44.05 in 2010, versus $47.54 in 2009. Big Rivers' wholesale member tariff rates and the aluminum smelter contracts are regulated by the Kentucky Public Service Commission ("KPSC") and the Rural Utilities Service ("RUS").

WHOLESALE MEMBER RATES

Dollars per megawatt-hour (MWh)

[1] Reflects a reduction due to the Member Rate Stability Mechanism

Wholesale power market prices continue to be depressed, as has been the case since 2008. The revenue per MWh received by Big Rivers for its off-system sales was $37.90 in 2010, up from $30.91 received in 2009, but significantly below the off-system sales rate of $48.03 received in 2007.

Lines of Credit and Letters of Credit

Big Rivers has two $50 million lines of credit available to it, one with CoBank, ACB ("CoBank"), expiring July 16, 2012, and the other with National Rural Utilities Cooperative Finance Corporation ("CFC") that expires July 16, 2014. The CFC line of credit contains a $10 million embedded letter of credit facility. At December 31, 2010, $10 million is outstanding under the CoBank line of credit, and letters of credit totaling $5.9 million are outstanding with CFC.

Long-Term Debt

At December 31, 2010, debt to total assets is 55.50 percent. Big Rivers significantly reduced its long-term debt by $222.1 million over the past two years to $817 million at December 31, 2010, down from $1,039.1 million at December 31, 2008. The effective interest rate thereon, at December 31, 2010, is 5.70 percent. The company must refinance $60 million of the 5.75 percent RUS Series A Note by October 1, 2012 and another $200 million thereof by January 1, 2016. The RUS Series A Note, having a December 31, 2010 fair value of $558.7 million and a stated value of $561 million, has a final maturity of July 1, 2021. The non-interest bearing RUS Series B Note, having a December 31, 2010 fair value of $116.2 million and a stated value of

$245.5 million, has no payment due until maturity on December 31, 2023.

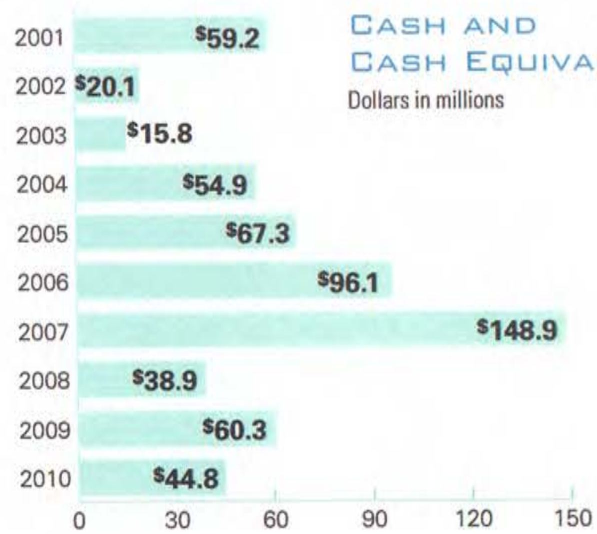
Big Rivers has two issues of tax-exempt pollution control bonds outstanding, totaling $142.1 million. The larger of the two issues was refinanced June 8, 2010—the $83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A. These Series 2010A Bonds now bear interest at a 6 percent fixed rate, with a maturity date of July 15, 2031. The second issue—the $58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983—are variable rate demand bonds currently being held by the liquidity provider, bearing an interest rate of 3.25 percent.

Liquidity

Liquidity is good, as cash and cash equivalents total $44.8 million at December 31, 2010. Additionally, the company has the two lines of credit totaling $100 million discussed earlier. Also of significance, at December 31, 2010, Big Rivers had voluntarily prepaid $23.9 million on its 5.75 percent RUS Series A Note, which the company may claw back by avoiding future quarterly debt service payments. Big Rivers funded all of its operating expenses and capital expenditures in 2010 without any new borrowing. Capital expenditures totaled $42.7 million in 2010, versus $58.4 million in 2009.

Depreciation Study and Cost-of-Service Study

The March 6, 2009 order of the Kentucky Public Service Commission in the Unwind case mandated that Big Rivers file for a general review of its financial operations and wholesale member tariff rates, including a depreciation study and a cost-of-service study, by July 16, 2012. Big Rivers has not had a wholesale tariff rate increase in twenty years, and the existing depreciation study has been in effect since July 1998. Accordingly, the company filed an application with the KPSC on March 1, 2011, seeking to increase its member wholesale tariff rates. Per the application, the member revenue increase is stated at $29.6 million, a 6.85 percent increase in total member revenue. Big Rivers anticipates the KPSC will order the rate increase request effective as of September 1, 2011.



CASH AND CASH EQUIVALENTS
Dollars in millions

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the Company) as of December 31, 2010 and the related statements of operations, equities, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Company as of December 31, 2009 and for the years ended December 31, 2009 and 2008 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers Electric Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 25, 2011

BALANCE SHEETS

As of December 31, 2010 and 2009 — (Dollars in thousands)

Assets

	2010	2009
UTILITY PLANT – Net	$ 1,091,566	$ 1,078,274
RESTRICTED INVESTMENTS – Member rate mitigation	217,562	243,225
OTHER DEPOSITS AND INVESTMENTS – At cost	5,473	5,342
CURRENT ASSETS:		
Cash and cash equivalents	44,780	60,290
Accounts receivable	45,905	47,493
Fuel inventory	37,328	37,830
Non-fuel inventory	23,218	20,412
Prepaid expenses	2,502	3,233
Total current assets	153,733	169,258
DEFERRED CHARGES AND OTHER	3,851	9,384
TOTAL	$ 1,472,185	$ 1,505,483

Equities and Liabilities

	2010	2009
CAPITALIZATION:		
Equities	$ 386,575	$ 379,392
Long-term debt	809,623	834,367
Total capitalization	1,196,198	1,213,759
CURRENT LIABILITIES:		
Current maturities of long-term obligations	7,373	14,185
Notes payable	10,000	–
Purchased power payable	1,516	3,362
Accounts payable	29,782	30,657
Accrued expenses	10,627	9,864
Accrued interest	11,134	9,097
Total current liabilities	70,432	67,165
DEFERRED CREDITS AND OTHER:		
Regulatory liabilities – Member rate mitigation	185,893	207,348
Other	19,662	17,211
Total deferred credits and other	205,555	224,559
COMMITMENTS AND CONTINGENCIES (see Note 14)		
TOTAL	$ 1,472,185	$ 1,505,483

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
OPERATING REVENUE	$ 527,324	$ 341,333	$ 214,758
LEASE REVENUE	–	32,027	58,423
Total operating revenue	527,324	373,360	273,181
OPERATING EXPENSES:			
Operations:			
Fuel for electric generation	207,749	80,655	–
Power purchased and interchanged	99,421	116,883	114,643
Production, excluding fuel	52,507	22,381	–
Transmission and other	35,273	35,444	28,600
Maintenance	46,880	29,820	4,258
Depreciation and amortization	34,242	32,485	31,041
Total operating expenses	476,072	317,668	178,542
ELECTRIC OPERATING MARGIN	51,252	55,692	94,639
INTEREST EXPENSE AND OTHER:			
Interest	46,570	59,898	65,719
Interest on obligations related to long-term lease	–	–	6,991
Amortization of loss from termination of long-term lease	–	2,172	811
Income tax expense	259	1,025	5,934
Other – net	166	112	123
Total interest expense and other	46,995	63,207	79,578
OPERATING MARGIN	4,257	(7,515)	15,061
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	–	–	8,742
Gain on Unwind transaction (see Note 2)	–	537,978	–
Interest income and other	2,734	867	4,013
Total non-operating margin	2,734	538,845	12,755
NET MARGIN	$ 6,991	$ 531,330	$ 27,816

See accompanying notes to financial statements.

Statements of Equities (Deficit)

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Margin (Deficit)	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE – December 31, 2007	$ (174,137)	$ (174,639)	$ 764	$ 3,681	$ (3,943)
Comprehensive income:					
Net margin	27,816	27,816	–	–	–
Defined benefit plans	(8,281)	–	–	–	(8,281)
Total comprehensive income	19,535	27,816	–	–	(8,281)
BALANCE – December 31, 2008	(154,602)	(146,823)	764	3,681	(12,224)
Comprehensive income:					
Net margin	531,330	531,330	–	–	–
Defined benefit plans	2,664	–	–	–	2,664
Total comprehensive income	533,994	531,330	–	–	2,664
BALANCE – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	–	–	–
Defined benefit plans	192	–	–	–	192
Total comprehensive income	7,183	6,991	–	–	192
BALANCE – December 31, 2010	$ 386,575	$ 391,498	$ 764	$ 3,681	$ (9,368)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 6,991	$ 531,330	$ 27,816
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,650	37,084	34,320
Increase in restricted investments under long-term lease	–	–	(2,502)
Decrease in deferred AMT Income Taxes	–	–	5,035
Amortization of deferred loss (gain) on sale-leaseback – net	–	2,172	(1,187)
Deferred lease revenue	–	(3,768)	(4,582)
Residual value payments obligation gain	–	(3,881)	(6,748)
Interest compounded - RUS Series B Note	6,499	6,136	5,841
Increase in obligations under long-term lease	–	–	2,749
Noncash gain on Unwind transaction	–	(269,441)	–
Cash received for member rate mitigation	–	217,856	–
Noncash member rate mitigation revenue	(23,953)	(12,033)	–
Changes in certain assets and liabilities:			
Accounts receivable	1,588	(26,049)	6,218
Inventories	(2,304)	(3,497)	12
Prepaid expenses	731	(2,783)	(319)
Deferred charges	1,251	(1,538)	1,871
Purchased power payable	(1,846)	(5,973)	(3,702)
Accounts payable	(875)	24,825	899
Accrued expenses	2,800	7,881	327
Other – net	555	6,852	(4,940)
Net cash provided by operating activities	29,087	505,173	61,108
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(42,683)	(58,388)	(22,760)
Proceeds from disposition of investments related to sale-leaseback	–	–	222,739
Proceeds from restricted investments	28,143	8,982	–
Purchases of restricted investments and other deposits & investments	–	(252,798)	(401)
Net cash provided by (used in) investing activities	(14,540)	(302,204)	199,578
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(121,355)	(168,956)	(40,838)
Proceeds from long-term obligations	83,300	–	–
Principal payments on short-term notes payable	–	(12,380)	–
Proceeds from short-term notes payable	10,000	–	–
Payments upon termination of sale-leaseback	–	–	(329,859)
Debt issuance cost on bond refunding	(2,002)	(246)	–
Net cash used in financing activities	(30,057)	(181,582)	(370,697)
Net increase (decrease) in cash and cash equivalents	(15,510)	21,387	(110,011)
CASH AND CASH EQUIVALENTS—Beginning of year	$ 60,290	$ 38,903	$ 148,914
CASH AND CASH EQUIVALENTS—End of year	$ 44,780	$ 60,290	$ 38,903
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 37,268	$ 51,078	$ 74,819
Cash paid for income taxes	260	626	1,220

See accompanying notes to financial statements.

As of December 31, 2010 and 2009 (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 (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for the Aluminum Smelters load and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members remain in effect until December 31, 2043. Rates to Big Rivers' members are established by the Kentucky Public Service Commission (KPSC) and are subject to approval by the Rural Utilities Service (RUS). The financial statements of Big Rivers include the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC's principal assets were the restricted investments acquired in connection with the 2000 sale leaseback transaction discussed in Note 4. The sale leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 7, 2009, in conjunction with the Unwind Transaction (See Note 2).

Management evaluated subsequent events up to and including March 25, 2011, the date the financial statements were available to be issued.

(b) ***Principles of Consolidation*** — The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

(c) ***Estimates*** — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

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

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

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

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

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by LG&E and KU Energy LLC (formerly E.ON U.S. LLC) as utility plant to which the Company maintained title. A corresponding obligation to LG&E and KU Energy LLC (LG&E and KU) was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2010 and 2009, the Company recorded $0 and $5,557, respectively, for such additions in utility plant. The Company recorded $0, $3,881, and $6,748 in 2010, 2009, and 2008, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, LG&E and KU waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E and KU (see Note 2) that were recorded by the Company as utility plant and lease revenue, LG&E and KU also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of $19,679 for the Nonincremental Capital assets for which LG&E and KU had waived rights to.

LG&E and KU constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of $98,500 in 2009.

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. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant	1.60%–2.47%
Transmission plant	1.76%–3.24%
General plant	1.11%–5.62%

For 2010, 2009, and 2008, the average composite depreciation rates were 1.86%, 1.85%, and 1.85%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

(g) ***Impairment Review of Long Lived Assets*** — Long lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with FASB ASC 360, *Property, Plant,* and *Equipment* as it relates to impairment of long lived assets. FASB ASC 360 establishes one accounting model for all impaired long lived assets and long lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, 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 operations or discontinued operations.

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

(i) ***Restricted Investments*** — Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).

(j) ***Cash and Cash Equivalents*** — Big Rivers considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

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

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

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

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

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

(n) *Fair Value Measurements* — The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic 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.

2. LG&E LEASE AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was partially responsible for ordinary capital expenditures (Nonincremental Capital Costs) for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

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

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

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

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

3. UTILITY PLANT

At December 31, 2010 and 2009, utility plant is summarized as follows:

	2010	2009
Classified plant in service:		
Production plant	$1,689,024	$1,675,733
Transmission plant	237,689	236,639
General plant	18,937	18,201
Other	543	543
	1,946,193	1,931,116
Less accumulated depreciation	909,501	908,099
	1,036,692	1,023,017
Construction in progress	54,874	55,257
Utility plant — net	$1,091,566	$1,078,274

Interest capitalized for the years ended December 31, 2010, 2009, and 2008, was $684, $133, and $492, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement Obligations.* In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2010 and 2009, the Company had approximately $38,000 and $35,835, respectively, related to non-legal removal costs included in accumulated depreciation.

4. SALE-LEASEBACK

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provided Big Rivers a $1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction; with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, Big Rivers received $866,676 of proceeds and incurred $791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished $656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased investments with an initial value of $146,647 to fund the remaining $135,597 of the obligations. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 6.89% on its related investments. The Company made a $64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The $75,050 gain was deferred and was amortized up to the date of lease termination, with the Company recognizing $1,998 in 2008.

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the year ended December 31, 2008, were as follows:

	2008
Power contracts revenue (revenue discount adjustment — see Note 6)	$(2,453)
Interest on obligations related to long-term lease:	
Interest expense	$ 8,989
Amortize gain on sale-leaseback	(1,998)
Net interest on obligations related to long-term lease	$6,991
Interest income on restricted investments under long-term lease	$8,742
Interest income and other	$779

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2010 and 2009, is as follows:

	2010	2009
RUS Series A Promissory Note, stated amount of, $561,061, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$558,731	$596,786
RUS Series B Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	116,165	109,666
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	83,300	–
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.56% and 10.50% in 2010 and 2009, respectively), maturing in October 2022	–	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.27% and 3.22% in 2010 and 2009, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	816,996	848,552
Current maturities	7,373	14,185
Total long-term debt — net of current maturities	$809,623	$834,367

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

Year	Amount
2011	7,373
2012	76,078
2013	79,275
2014	21,676
2015	22,968
Thereafter	609,626
Total	$816,996

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

(b) ***Pollution Control Bonds*** — In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a fixed rate of 6.00% and mature in July 2031. Proceeds from the Series 2010A Bonds were used to refund the $83,300, County of Ohio, Kentucky, Periodic Auction Rate Securities, Series 2001A.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

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

The Series 1983 are subject to a maximum interest rate of 13%. The December 31, 2010 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) ***LEM Settlement Note*** — On July 15, 1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately $1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of $15,440 was forgiven.

(d) ***Notes Payable*** — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. Big Rivers had $10,000 of borrowings outstanding, at an interest rate of 2.46%, on the CoBank line of credit at December 31, 2010. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,928. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. At December 31, 2010 the Company had available to it a $2,500 line of credit with CFC to finance storm emergency repairs and expenses related to electric utility operations with a February 25, 2011 maturity date.

(e) ***Covenants*** — Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' 2010 MFIR was 1.15 and its DSCR was 1.47.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific demand and energy charges for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). 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.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting authority to adjust its rates for wholesale electric service.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

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

7. INCOME TAXES

As a result of the sale-leaseback terminations in 2008 (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted of Net Operating Loss (NOL) Carryforwards, Alternative Minimum Tax (AMT) Credit Carryforwards, Fixed Asset Book to Tax Differences, Economic Reserve Book to Tax Differences, and RUS Series B Note Book to Tax Differences). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. AMT charges were recorded in the Statement of Operations for 2010 and 2009 in the amount of $259 and $1,025, respectively.

At December 31, 2010, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $42,354 expiring at various times between 2010 and 2030, and an Alternative Minimum Tax Credit Carryforward of approximately $6,038, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2010, 2009 and 2008, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,846, $19,619, and $20,363 in current regular tax expense for the years ended December 31, 2010, 2009 and 2008, respectively.

The components of the net deferred tax assets as of December 31, 2010 and 2009, were as follows:

	2010	2009
Deferred tax assets:		
Net operating loss carryforward	$16,730	$20,990
Alternative minimum tax credit carryforwards	6,038	7,052
Member rate mitigation	10,326	10,326
Fixed asset basis difference	10,752	11,420
RUS Series B Note	14,767	–
Total deferred tax assets	58,613	49,788
Deferred tax liabilities:		
RUS Series B Note	–	(23,793)
Bond refunding costs	(8)	–
Total deferred tax liabilities	(8)	(23,793)
Net deferred tax asset (prevaluation allowance)	58,605	25,995
Valuation allowance	(58,605)	(25,995)
Net deferred tax asset	$ –	$ –

A reconciliation of the Company's effective tax rate for 2010, 2009 and 2008, follows:

	2010	2009	2008
Federal rate	35.0%	35.0%	35.0%
State rate — net of federal benefit	4.5	4.5	4.5
Permanent differences	0.5	–	–
Patronage allocation to members	(38.8)	(35.4)	(31.3)
Tax benefit of operating loss carryforwards and other	(1.2)	(4.1)	(8.2)
Alternative minimum tax	3.0	0.2	18.0
Effective tax rate	3.0%	0.2%	18.0%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2006 through 2010 and 1995 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2003 through 2010 and years 2001 through 2002, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2010, 2009, or 2008.

8. POWER PURCHASED

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

Although Big Rivers was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2009 and 2008, were $51,592 and $99,700, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

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

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

The Company has adopted FASB ASC 715, *Defined Benefit Plans*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2010 and 2009.

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

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$25,493	$24,253
Service cost — benefits earned during the period	1,289	1,241
Interest cost on projected benefit obligation	1,368	1,466
Participant contributions (lump sum repayment)	–	40
Plan settlements	–	262
Benefits paid	(806)	(3,945)
Actuarial loss	1,460	2,176
Benefit obligation — end of period	$28,804	$25,493

The accumulated benefit obligation for all defined benefit pension plans was $21,977 and $18,630 at December 31, 2010 and 2009, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$22,270	$20,295
Actual return on plan assets	2,707	4,820
Employer contributions	1,096	1,060
Participant contributions (lump sum repayment)	–	40
Benefits paid	(806)	(3,945)
Fair value of plan assets — end of period	$25,267	$22,270

The funded status of the Company's pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(28,804)	$(25,493)
Fair value of plan assets — end of period	25,267	22,270
Funded status	$ (3,537)	$ (3,223)

Components of net periodic pension costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,289	$1,241	$1,072
Interest cost	1,368	1,466	1,220
Expected return on plan assets	(1,533)	(1,332)	(1,516)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	584	834	247
Settlement loss	–	1,690	–
Net periodic benefit cost	$1,727	$3,918	$1,042

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ (40)	(59)
Unamortized actuarial (loss)	(9,354)	(9,651)
Accumulated other comprehensive income	$(9,394)	$(9,710)

In 2011, $19 of prior service cost and $560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 19	$ 19
Unamortized actuarial (loss)	297	3,575
Other comprehensive income	$ 316	$ 3,594

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Deferred credits and other	$(3,537)	$(3,223)

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

	2010	2009	2008
Discount rate — projected benefit obligation	4.95%	5.59%	6.38%
Discount rate — net periodic benefit cost	5.59	6.38	6.25
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

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

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

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2010 and 2009, the investment allocation was 58% and 55%, respectively, in U.S. Equities, 9% and 11%, respectively, in International Equities, and 33% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi annually.

At December 31, 2010 and 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category, as required by FASB ASC 320 (see Note 1), are as follows:

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ –	$ 1,517
Equity Securities:			
U.S. large-cap stocks	9,731	–	9,731
U.S. mid-cap stock mutual funds	2,926	–	2,926
U,S. small-cap stock mutual funds	1,448	–	1,448
International stock mutual funds	2,194	–	2,194
Preferred stock	490	–	490
Fixed:			
TIPS Bond Fund	161	–	161
U.S. Government Agency Bonds	–	1,843	1,843
Taxable U.S. Municipal Bonds	–	2,635	2,635
U.S. Corporate Bonds	–	2,322	2,322
	$18,467	$6,800	$25,267

	Level 1	Level 2	December 31, 2009
Cash and money market	$ 815	$ –	$ 815
Equity Securities:			
U.S. large-cap stocks	8,580	–	8,580
U.S. mid-cap stock mutual funds	2,064	–	2,064
U,S. small-cap stock mutual funds	1,282	–	1,282
International stock mutual funds	2,328	–	2,328
Preferred stock	404	–	404
Fixed:			
U.S. Government Agency Bonds	–	2,139	2,139
Taxable U.S. Municipal Bonds	–	2,282	2,282
U.S. Corporate Bonds	–	2,376	2,376
	$15,473	$ 6,797	$22,270

Expected retiree pension benefit payments projected to be required during the years following 2010 are as follows:

Years Ending December 31	Amount
2011	$ 1,788
2012	2,115
2013	3,939
2014	1,787
2015	3,139
2016–2020	12,017
Total	$24,785

In 2011, the Company expects to contribute $949 to its pension plan trusts.

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

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

The Company's expense under these plans was $4,389 and $355 for the years ended December 31, 2010 and 2009, respectively.

(c) Deferred Compensation Plan — Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2010 employer contribution was $61 and deferred compensation expense was $108. As of December 31, 2010, the trust asset was $205 and the deferred liability was $165.

10. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
Cash and money market	$ 12,812	$ 12,812	$ 25,186	$ 25,186
Debt Securities:				
U.S. Treasuries	60,941	62,582	67,895	67,474
U.S. Government Agency	143,809	143,922	150,144	150,181
Total	$217,562	$219,316	$243,225	$242,841

Gross unrealized gains and losses on restricted investments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Gains	Losses	Gains	Losses
Cash and money market	$ –	$ –	$ –	$ –
Debt Securities:				
U.S. Treasuries	1,641	–	12	434
U.S. Government Agency	331	217	79	41
Total	$ 1,972	$ 217	$ 91	$ 475

Debt securities at December 31, 2010 and 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
In one year or less	$ 71,111	$ 71,193	$ 46,102	$ 46,112
After one year through five years	146,451	148,123	197,123	196,729
Total	$217,562	$219,316	$243,225	$242,841

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, 2010 and 2009, were:

	2010 Less Than 12 Months		2009 Less Than 12 Months	
	Losses	Fair Values	Losses	Fair Values
Debt securities:				
U.S. Treasuries	$ –	$ –	$ 434	$ 59,872
U.S. Government Agency	217	15,783	41	45,026
Total	$ 217	$ 15,783	$ 475	$104,898

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2010 and 2009 was one and eight, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

11. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

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

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

	2010	2009
Institutional money market government portfolio	$44,774	$59,887

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, 2010 consists of RUS notes totaling $674,896, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2010, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $82,099.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. National Rural Electric Cooperative Association (NRECA), the provider of Big Rivers' health plan coverage through the NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

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

	2010	2009	2008
Discount rate — projected benefit obligation	4.96%	5.78%	6.32%
Discount rate — net periodic benefit cost	5.78	6.32	5.85

The health care cost trend rate assumptions as of December 31, 2010 and 2009, were as follows:

	2010	2009
Initial trend rate	7.60%	7.70%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

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

	2010	2009
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (201)	$ (138)
Effect on year end benefit obligation	(1,131)	(989)
One-percentage-point increase:		
Effect on total service and interest cost components	236	162
Effect on year end benefit obligation	1,306	1,134

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$ 13,864	$ 2,948
Service cost — benefits earned during the period	1,313	878
Interest cost on projected benefit obligation	743	464
Transaction benefit obligation assumed in the unwind	–	8,768
Participant contributions	85	48
Plan amendments	–	175
Benefits paid	(313)	(203)
Actuarial loss	172	786
Benefit obligation — end of period	$ 15,864	$13,864

A reconciliation of the Company's postretirement plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$ –	$ –
Employer contributions	228	155
Participant contributions	85	48
Benefits paid	(313)	(203)
Fair value of plan assets — end of period	$ –	$ –

The funded status of the Company's postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(15,864)	$(13,864)
Fair value of plan assets — end of period	–	–
Funded status	$(15,864)	$(13,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,313	$ 878	$ 129
Interest cost	743	464	167
Amortization of prior service cost	17	17	2
Amortization of actuarial (gain)	–	(17)	(60)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$2,104	$1,373	$ 269

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$(147)	$(165)
Unamortized actuarial gain	235	407
Transition obligation	(62)	(92)
Accumulated other comprehensive income	$ 26	$ 150

In 2011, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 18	$(157)
Unamortized actuarial gain	(172)	(803)
Transition obligation	30	30
Other comprehensive loss	$(124)	$(930)

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Accounts payable	$ (600)	$ (424)
Deferred credits and other	(15,264)	(13,440)
Net amount recognized	$(15,864)	$(13,864)

Expected retiree benefit payments projected to be required during the years following 2010 are as follows:

Year	Amount
2011	$ 600
2012	813
2013	995
2014	1,201
2015	1,355
2016–2020	8,685
Total	$13,649

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $391 and $375 at December 31, 2010 and 2009, respectively. The postretirement expense recorded was $21, $45, and $62 for 2010, 2009, and 2008, respectively, and the benefits paid were $5, $78, and $0 for 2010, 2009, and 2008, respectively.

13. RELATED PARTIES

For the years ended December 31, 2010, 2009, and 2008, Big Rivers had tariff sales to its members of $151,001, $125,826, and $114,514, respectively. In addition, for the years ended December 31, 2010, 2009, and 2008, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $281,473, $167,885, and $55,124, respectively.

At December 31, 2010 and 2009, Big Rivers had accounts receivable from its members of $36,636 and $35,524, respectively.

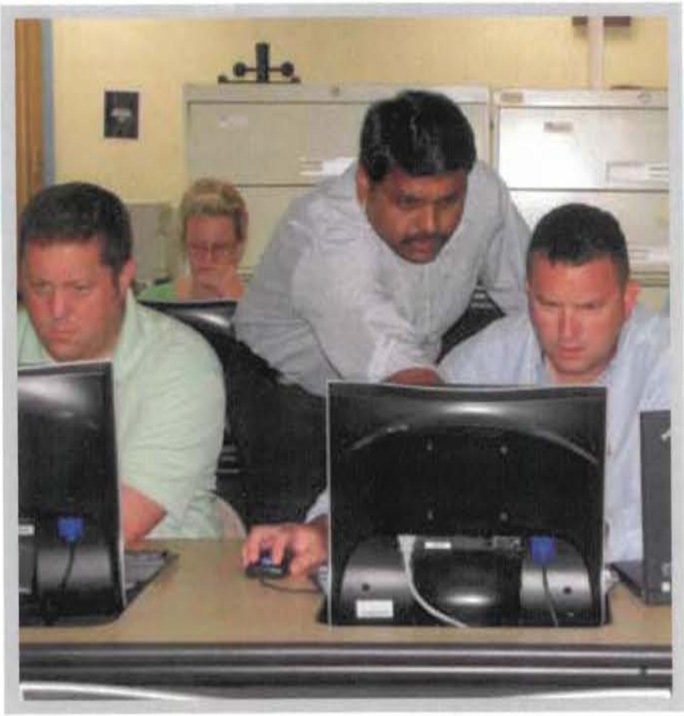
Revenue and offsetting expense amounts related to Big Rivers' energy services department reservation of the Company's transmission (in accordance with its Open Access Transmission Tariff) for third party sales in 2010 and 2009, were $12,129, and $10,099, respectively.

14. COMMITMENTS AND CONTINGENCIES

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

Our Mission:

Big Rivers will safely deliver
LOW COST,
RELIABLE WHOLESALE POWER
and COST-EFFECTIVE
SHARED SERVICES
desired by the MEMBERS.



Our Vision:

Big Rivers will be viewed as one of the
TOP G&Ts in the country
and will PROVIDE SERVICES
the MEMBERS DESIRE
in meeting future challenges

Our Values:

Safety

Integrity

Excellence

Member and Community Service

Respect for the Employee

Teamwork

Environmentally Conscious

Big Rivers
ELECTRIC CORPORATION