

Great River Energy

Consolidated Financial Statements as of
December 31, 2009 and 2008, and for the
Years Ended December 31, 2009, 2008, and 2007,
and Independent Auditors' Report

GREAT RIVER ENERGY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Great River Energy
Maple Grove, Minnesota

We have audited the accompanying consolidated balance sheets of Great River Energy (GRE) as of December 31, 2009 and 2008, and the related consolidated statements of revenues, expenses and members' patronage capital and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of GRE's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 GRE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of GRE as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 5, 2010

GREAT RIVER ENERGY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 3,264,758	\$ 2,844,739
Coal mine plant	285,105	260,834
Construction work in progress	433,147	475,518
Less accumulated depreciation and amortization	<u>(1,556,737)</u>	<u>(1,499,769)</u>
Utility plant — net	<u>2,426,273</u>	<u>2,081,322</u>
OTHER ASSETS AND INVESTMENTS:		
Funds reserved for debt service	15,087	15,085
Restricted investments — deferred compensation	8,743	7,518
Other investments — principally National Rural Utilities Cooperative Finance Corporation	26,067	20,197
Equity investment in Blue Flint Ethanol	13,603	7,357
Equity investment in Great American Energy	10,429	4,835
Deferred charges	114,120	163,648
Other long-term assets	18,890	16,849
Other long-term receivables:		
Members	8,530	10,343
Others — net of allowance for doubtful accounts of \$107 and \$107	<u>7,559</u>	<u>9,207</u>
Total other assets and investments	<u>223,028</u>	<u>255,039</u>
CURRENT ASSETS:		
Cash and cash equivalents	205,388	233,887
Accounts receivable from nonaffiliated parties — net of allowance for doubtful accounts of \$75 and \$0	10,076	20,330
Accounts receivable from members	122,431	127,040
Fuel inventory	18,976	17,468
Materials and supplies inventory	57,960	52,245
Prepays and other	17,173	1,933
Deferred income tax benefit	<u>13,229</u>	<u>12,335</u>
Total current assets	<u>445,233</u>	<u>465,238</u>
TOTAL	<u>\$ 3,094,534</u>	<u>\$ 2,801,599</u>

GREAT RIVER ENERGY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
LIABILITIES AND CAPITAL		
MEMBERS' PATRONAGE CAPITAL	\$ 339,784	\$ 309,222
OTHER NONCURRENT LIABILITIES	<u>81,804</u>	<u>83,889</u>
LONG-TERM OBLIGATIONS — Less current portion	<u>2,268,980</u>	<u>1,987,513</u>
DEFERRED COMPENSATION	<u>8,743</u>	<u>7,518</u>
DEFERRED INCOME TAXES	<u>11,992</u>	<u>12,312</u>
CONTINGENCIES (Notes 3, 4, and 8)		
CURRENT LIABILITIES:		
Current portion of long-term obligations	94,992	78,122
Notes payable to members	27,568	15,012
Obligations under lines of credit	60,709	60,709
Accounts payable	76,754	90,903
Property and other taxes	17,522	14,656
Other accrued expenses	24,638	19,042
Accrued interest payable	58,478	53,554
Derivative instruments	<u>22,570</u>	<u>69,147</u>
Total current liabilities	<u>383,231</u>	<u>401,145</u>
TOTAL	<u>\$ 3,094,534</u>	<u>\$ 2,801,599</u>

See notes to consolidated financial statements.

(Concluded)

GREAT RIVER ENERGY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND MEMBERS' PATRONAGE CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007 (In thousands)

	2009	2008	2007
ELECTRIC REVENUE	\$766,705	\$804,827	\$752,219
OTHER OPERATING REVENUE	<u>21,076</u>	<u>25,095</u>	<u>23,565</u>
Total operating revenue	<u>787,781</u>	<u>829,922</u>	<u>775,784</u>
OPERATING EXPENSES:			
Purchased power	175,721	240,428	198,640
Fuel	175,798	173,528	196,548
Generation operation and maintenance	89,188	93,015	87,464
Transmission operation and maintenance	53,353	49,936	46,588
Business support services	69,756	66,475	60,363
Depreciation and amortization	90,645	88,199	86,123
Property and other taxes	<u>22,681</u>	<u>19,804</u>	<u>18,887</u>
Total operating expenses	<u>677,142</u>	<u>731,385</u>	<u>694,613</u>
OPERATING MARGIN	110,639	98,537	81,171
OTHER INCOME (EXPENSE):			
Other income — net	2,874	13,799	23,858
Interest income	3,620	8,628	13,375
Interest expense — net of amounts capitalized	<u>(93,114)</u>	<u>(91,128)</u>	<u>(82,358)</u>
NET UTILITY MARGIN	24,019	29,836	36,046
NONUTILITY OPERATIONS — Income from equity method investments	<u>5,741</u>	<u>1,246</u>	<u>487</u>
NET MARGIN	29,760	31,082	36,533
OTHER COMPREHENSIVE INCOME:			
Additional minimum pension obligation			3,049
Interest rate swap valuation — joint venture	<u>802</u>	<u>(659)</u>	<u>(572)</u>
COMPREHENSIVE INCOME	30,562	30,423	39,010
MEMBERS' PATRONAGE CAPITAL — Beginning of year	309,222	278,799	234,803
CUMULATIVE EFFECT OF ADOPTING ASC 715 (FASB STATEMENT NO. 158)	<u> </u>	<u> </u>	<u>4,986</u>
MEMBERS' PATRONAGE CAPITAL — End of year	<u>\$339,784</u>	<u>\$309,222</u>	<u>\$278,799</u>

See notes to consolidated financial statements.

GREAT RIVER ENERGY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007 (In thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	\$ 29,760	\$ 31,082	\$ 36,533
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization:			
Charged to operating expenses	90,645	88,199	86,123
Charged to fuel expense and other accounts	13,929	9,641	10,291
Amortization of deferred credits		(510)	(6,543)
Gain from lease termination		(2,979)	
(Income) loss from equity method investments	(4,947)	1,123	(540)
Changes in working capital (excluding cash, investments, and borrowings):			
Accounts receivable	18,239	(46,116)	3,860
Inventory and other assets	(25,331)	(9,680)	(6,144)
Accounts payable, taxes, and other accrued expenses	(33,434)	(29,758)	(22,198)
Accrued interest	4,924	10,645	27,871
Noncurrent liabilities	35	5,514	2,006
Net cash provided by operating activities	<u>93,820</u>	<u>57,161</u>	<u>131,259</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Electric utility plant additions	(413,979)	(436,155)	(276,151)
Proceeds from sale of property	218	359	398
Investment in joint ventures	(7,190)	(4,300)	(1,563)
Purchases of investments	(11,018)	(727)	(25,623)
Proceeds from maturity of investments	<u>5,146</u>	<u>49,162</u>	<u>104,783</u>
Net cash used in investing activities	<u>(426,823)</u>	<u>(391,661)</u>	<u>(198,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term obligations	842,497	800,376	1,539,297
Costs of new debt issuance	(5,680)	(8,283)	(17,728)
Notes received from (paid to) members	12,556	(3,620)	8,025
Repayments of long-term obligations	(544,869)	(424,580)	(1,358,604)
Lease termination payment		(40,200)	
Net borrowings under lines of credit			<u>60,709</u>
Net cash provided by financing activities	<u>304,504</u>	<u>323,693</u>	<u>231,699</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,499)	(10,807)	164,802
CASH AND CASH EQUIVALENTS — Beginning of year	<u>233,887</u>	<u>244,694</u>	<u>79,892</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 205,388</u>	<u>\$ 233,887</u>	<u>\$ 244,694</u>

See notes to consolidated financial statements.

GREAT RIVER ENERGY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008, AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Great River Energy (GRE) is a Minnesota electric generation and transmission cooperative corporation providing wholesale electric service to member distribution cooperatives engaged in the retail sale of electricity to member consumers in Minnesota and a small section of Wisconsin. This service is provided in accordance with the terms of the power purchase and transmission service contracts between GRE and the members. These contracts have expiration dates of December 31, 2045, and December 31, 2050, respectively.

Basis of Accounting — The consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of GRE and its variable interest entity, The Falkirk Mining Company (“Falkirk”) for all years presented. All significant intercompany balances and transactions have been eliminated in consolidation.

The Falkirk Mining Company — GRE has an agreement with Falkirk for the development and operation of a lignite coal mine. Falkirk is the coal supplier for the Coal Creek Station (CCS), GRE’s steam-generating facility located near Underwood, ND. GRE is required to provide financing for all costs associated with the mine development and operation. Generally accepted accounting principles require GRE to consolidate its financial statements with Falkirk since Falkirk qualifies as a variable interest entity for which GRE is the primary beneficiary. The coal purchase price includes all costs incurred by Falkirk for development and operation of the mine, including Falkirk’s interest expense of \$3.0 million, \$2.8 million, and \$2.3 million in 2009, 2008, and 2007, respectively, income tax expense of \$2.9 million, \$2.6 million, and \$2.4 million in 2009, 2008, and 2007, respectively, and net income of \$11.1 million in 2009, and \$10.5 million in 2008, and 2007, which are part of the contract cost of coal purchased under the coal sales agreement. Accordingly, the net effect of consolidating the income statement of Falkirk had no impact on GRE’s margin for the years ended December 31, 2009, 2008, and 2007.

Falkirk is a wholly owned subsidiary of the North American Coal Corporation, which is a wholly owned subsidiary of NACCO Industries, Inc. Falkirk is principally engaged in lignite mining through the operation of a surface mine in North Dakota.

Regulatory Accounting — GRE operations follow regulatory accounting provisions as provided in generally accepted accounting principles, and the consolidated financial statements contain various items reported under these regulatory provisions.

GRE had regulatory assets of \$84.5 million and \$139.3 million as of December 31, 2009 and 2008, respectively, and regulatory liabilities of \$3.6 million as of December 31, 2009 and 2008. Regulatory assets and liabilities are recorded as deferred charges, other noncurrent liabilities, and deferred gain on refinancing in the consolidated balance sheets. As of December 31, 2009, GRE’s regulatory assets and liabilities are being reflected in rates charged to customers. If all or a separable portion of GRE’s operations no longer become subject to regulatory accounting provisions, a write-off of related regulatory assets and liabilities would be required, unless some form of transition recovery (refund)

continues through rates established and collected for GRE's remaining regulated operations. In addition, GRE would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets.

Cash and Cash Equivalents — Cash equivalents include all highly liquid investments with original maturities of three months or less (e.g., money market funds). Certain cash and cash equivalents are classified as investments when they relate to trust funds held for long-term purposes.

Inventories — Inventories are stated at lower of average cost or market. Emission allowances are also accounted for as inventory and recorded at lower of cost or market. The U.S. Environmental Protection Agency has requirements limiting the amount of sulfur dioxide which can be emitted from GRE-owned power plants. Under these requirements, GRE was allotted one emission allowance per ton of sulfur dioxide emissions based upon historic emission levels. As of December 31, 2009, GRE had approximately forty thousand allowances available for sale, which are recorded at a cost of \$0 (see Note 1 — Other Income — Net).

Utility Plant — Utility plant is stated at original cost, which includes materials, contract and direct labor, overhead, allowance for funds used for construction, and interest during construction. Interest charged to construction on borrowed funds and allowance for funds used for construction (other than borrowed funds) are included as a component of utility plant cost and credited to interest expense and interest income, respectively. The rates applied reflect the actual rates for borrowed funds and the prevailing short-term investment rates for other than borrowed funds. Included in accumulated depreciation are nonlegal or noncontractual costs of removal components in the amount of \$17.4 million and \$19.8 million for 2009 and 2008, respectively. At December 31, 2009, 2008, and 2007, there are accounts payable related to property additions of \$27.8 million, \$44.2 million, and \$26.1 million, respectively.

Depreciation and Amortization — Depreciation for financial reporting purposes is provided based upon the straight-line method at rates designed to amortize the original cost of properties over their estimated service lives. The effective depreciation rate was 2.8% for 2009, 3.0% for 2008 and 3.1% for 2007. The range of useful lives for utility plant is 3 to 50 years. Coal mine equipment is amortized on a straight-line method over the estimated useful lives. Amortization of coal lands and leaseholds is calculated on the units-of-production method based upon estimated recoverable tonnages and is included in fuel expense in the consolidated statements of revenues, expenses, and members' patronage capital.

Recoverability of Long-Lived Assets — GRE reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. GRE determines potential impairment by comparing the carrying value of the asset with the net cash flows expected to be provided by the operating activities of the business or related products. Should the sum of the expected cash flows be less than the carrying values, GRE would determine whether an impairment loss should be recognized. No impairment losses have been identified in the consolidated financial statements.

Derivative Instruments — As part of the risk management program, GRE may periodically use interest rate swaps to manage market exposures. Terms of the swap agreements are structured to match the terms of the risk being managed and are generally held to maturity. Gains and losses related to the interest rate swaps are deferred as regulatory assets or liabilities, under generally accepted accounting principles, and will remain deferred until the associated transaction is complete at which time the gains and losses will be amortized to the income statement over the life of the underlying debt. See additional information regarding fair value of these swaps in Note 5 and amounts recorded in deferred charges in Note 9.

GRE enters into contracts for the purchase and sale of commodities for use in their business operations. Generally accepted accounting principles require an evaluation of these contracts to determine whether the contracts are derivatives. Certain contracts that meet the definition of a derivative may be exempted from derivative accounting as normal purchases or normal sales. GRE evaluates all of its contracts at inception to determine if they are derivatives and if they meet the normal purchases and normal sales designation requirements. All of the contracts for the purchase and sale of commodities used in business operations qualify for a normal purchases and normal sales designation.

Income Taxes — GRE accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for temporary differences between the tax and financial reporting bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant estimates in the consolidated financial statements relate to actuarially determined benefit costs, compensation and benefit accruals, asset retirement obligation liabilities, accrued property and other taxes, and contingencies and other reserves. Actual results could differ from those estimates.

Revenue Recognition — Electric revenue is recognized when energy is delivered to GRE's members or to other nonmember organizations. The GRE rate schedule includes a power cost adjustment that allows for increases or decreases in member power billings based upon actual power costs compared to plan. For 2009, 2008, and 2007, the power cost adjustments were charges to our members of \$1.9 million, \$48.9 million, and \$0.7 million, respectively. The charges are recorded as an increase in electric revenue in the consolidated statements of revenues, expenses, and members' patronage capital.

Other Operating Revenue — Other operating revenue includes revenue received from a joint venture with Resource Recovery Technologies, LLC related to the processing plant that transforms municipal solid waste into refuse-derived fuel and the burning of that fuel at the Elk River Station, and revenues received from other utilities related to providing transmission service under various integrated transmission agreements. Other operating revenue is recorded as services are provided.

Other Income — Net — Other income is reported net of expenses and includes income from the sale of emission allowances (see Note 1 — Inventories) and other nonoperating income. Through operational changes, GRE is emitting less sulfur dioxide than in the past, resulting in excess emission allowances which can be sold in the open market. GRE did not sell any allowances in 2009. GRE sold \$7.8 million and \$13.0 million of allowances in 2008, and 2007, respectively. In 2007 an additional \$6.0 million of allowance income was recognized as a result of amortization of a regulatory liability related to emission allowance sales made in 2005. The other nonoperating income consists of income from providing engineering services to members and others, patronage capital credits from associated organizations, amortization of gains from leasing transactions (see Note 3), and a gain from termination of a leasing transaction (see Note 3). The amount of income from these items was \$2.9 million, \$6.0 million, and \$4.9 million in 2009, 2008, and 2007, respectively.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (FASB) issued new guidance on accounting for uncertainty in income taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In December 2008, the FASB issued guidance regarding the effective date of the accounting for uncertainty in income taxes for certain nonpublic enterprises which deferred the effective date for entities that did not meet the definition of a public enterprise until fiscal year 2009. The implementation did not have a material impact on the consolidated financial statements. For further discussion and required disclosures, refer to Note 7.

In March 2008, the FASB issued new guidance on disclosures about derivative instruments and hedging activities, which requires enhanced disclosures about an entity's derivative and hedging activities, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The implementation did not have a material impact on the consolidated financial statements. For further discussion and required disclosures, refer to Note 1 — Derivatives Instruments.

In December 2008, the FASB issued new guidance on employers' disclosures about postretirement benefit plan assets. The guidance amends and expands previous disclosure requirements for plan assets of a defined benefit pension or other postretirement plan to include investment policies and strategies, major categories of plan assets, and information regarding fair value measurements. This new guidance was effective for disclosures for fiscal years ended after December 15, 2009. GRE implemented the guidance for the year ended 2009, and the implementation did not have a material impact on its consolidated financial statements. For further discussion and the required disclosures, refer to Note 10.

In June 2009, the FASB issued the Accounting Standards Codification (the "Codification"), which is to be the single source of authoritative generally accepted accounting principles. All other accounting literature not included in the Codification is to be considered non-authoritative. The Codification was effective for annual periods ending after September 15, 2009. GRE implemented the guidance, recognizing the Codification as the single source of authoritative generally accepted accounting principles, for the year ended 2009. The implementation did not have a material impact on GRE's consolidated financial statements.

In June 2009, the FASB issued new guidance on consolidation of variable interest entities. The guidance will significantly affect various elements of consolidation under existing accounting standards, including the determination of whether an entity is a variable interest entity and whether an enterprise is a variable interest entity's primary beneficiary. This new guidance is effective for annual periods beginning after November 15, 2009. GRE has not completed its evaluation of the impact the implementation of this guidance will have on its consolidated financial statements.

In July 2009, the FASB issued authoritative accounting guidance which incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. GRE has adopted this accounting pronouncement for the year ended 2009 and has considered subsequent events for recognition or disclosure through March 5, 2010, the date the consolidated financial statements were available for issuance.

3. LEASING TRANSACTIONS

1996 Sale/Leaseback — On December 30, 1996, GRE entered into a 60-year sale/leaseback transaction involving a portion of its interest in CCS. On December 10, 2008, a termination agreement was executed with all parties, ending the lease.

At the inception of the sale/leaseback transaction, a portion of the plant was sold for \$100 million, of which \$3 million was used to pay transaction costs, a \$12.7 million gain was realized by GRE and the proceeds were used to fund utility plant expenditures, \$55.3 million was invested in a finance obligation deposit, and \$6.1 million was invested as a debt deposit. The interest on these investments was used to pay rent under the lease. The remaining \$22.9 million funded an equity deposit used to purchase securities of which \$9.3 million was invested short term with maturities to match scheduled basic rent payments that have been made, and \$13.6 million was invested in high-grade investments with a 23-year maturity. This investment was to accrete in value to allow GRE to fully fund a fixed-price purchase option at the end of the lease term.

GRE's \$12.7 million gain was deferred and recognized ratably over the initial 23-year lease period, of which \$0.5 million was recognized in 2008 prior to the termination date and \$6.0 million was subsequently recognized at the termination date.

The initial finance obligation and corresponding investment of \$55.3 million were not presented in the consolidated balance sheets as the sale/leaseback agreements provided for the owner participant to pursue the obligor on the investment (which was pledged to the owner participant) before pursuing GRE, permitting the related investment and debt to be netted for financial reporting purposes.

The debt deposit investment was liquidated on December 10, 2008, to satisfy the related termination obligation, resulting in an immaterial effect on the recorded gain.

The equity deposit investment was liquidated following the lease termination at a market value of \$37.4 million and the proceeds substantially offset GRE's \$40.2 million termination obligation payment to the owner participant.

The termination resulted in a gain of \$3.0 million in 2008, which is recorded in other income — net in the consolidated statements of revenues, expenses, and members' patronage capital. The following is an analysis of the gain (in millions):

Lease termination obligation payment	\$ (40.2)
Proceeds from equity deposit investment liquidation	37.4
Recognition of unamortized deferred gain	6.0
Legal costs	<u>(0.2)</u>
Recognized gain at termination	<u>\$ 3.0</u>

The sale/leaseback transaction was accounted for as a financing, wherein the property remained in the consolidated books and continued to be depreciated as described in Note 1. Legal title and mortgage obligations were held by GRE over the lease term.

Operating Leases — GRE is the lessee on various operating leases for equipment used in its operations. These transactions are governed by the terms of various master lease agreements. The lease term of each leased item is determined at the time it is added to its respective master lease, and terms currently range

from 48 to 84 months. Rent expense was \$2.3 million in 2009, \$2.0 million in 2008, and \$2.1 million in 2007. As of December 31, 2009, the following is the schedule of future minimum lease payments (in thousands):

Years Ending December 31	
2010	\$ 1,789
2011	1,628
2012	1,559
2013	795
2014	235
Thereafter	<u>-</u>
	<u>\$ 6,006</u>

Capital Leases — GRE is the lessee of a dragline used in the Falkirk coal mining operations (see Note 1). The original lease agreement was due to expire in 2005. GRE amended this lease in 2001 to extend the term to 2015, at which time GRE will purchase the asset for \$1. The gross amount of this lease was \$48.3 million at December 31, 2009 and 2008. The accumulated amortization of this lease was \$42.4 million and \$41.3 million as of December 31, 2009 and 2008, respectively. GRE has the right of first refusal, should a disposition of property occur. The principal and interest payments were \$1.6 million for 2009 and 2008.

Falkirk has also leased certain equipment that is used in mining operations. The gross amount of these leases was \$93.3 million and \$73.7 million and the accumulated amortization was \$23.4 million and \$21.8 million, as of December 31, 2009 and 2008, respectively. These amounts are recorded in coal mine plant and accumulated depreciation and amortization in the consolidated balance sheets. The schedule of future minimum lease payments for both GRE and Falkirk leases as of December 31, 2009, is as follows (in thousands):

Years Ending December 31	Falkirk	GRE
2010	\$ 12,448	\$ 2,400
2011	13,262	1,600
2012	10,899	1,600
2013	11,149	1,600
2014	10,498	1,600
Thereafter	<u>29,198</u>	<u>800</u>
Total minimum lease payments	87,454	9,600
Amounts representing interest	<u>(14,288)</u>	<u>(1,716)</u>
Present value of minimum lease payments	73,166	7,884
Current maturities	<u>(8,875)</u>	<u>(1,704)</u>
Long-term capital lease obligations	<u>\$ 64,291</u>	<u>\$ 6,180</u>

4. LONG-TERM OBLIGATIONS

The consolidated long-term obligations as of December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
First Mortgage Bonds, Series 2007A, 5.829%, due 2008–2017	\$ 424,600	\$ 489,700
First Mortgage Bonds, Series 2007A, 6.254%, due 2018–2038	739,100	739,100
First Mortgage Bonds, Series 2008A, 7.233%, due 2009–2038	399,092	400,000
First Mortgage Bonds, Series 2008B, 3.0999%, due 2009–2023	23,333	25,000
First Mortgage Notes, Series 2009A, 5.0%–7.15%, due 2010–2024	167,600	
First Mortgage Bonds, Series 2009B, 5.81% to 6.94%, due 2012–2031	400,000	
Clean Renewable Energy Bonds, Series 2009C, 2.95%, due 2024	2,093	
Syndicated Credit Facility, National Rural Utilities Cooperative Finance Corp, 0.79% at December 31, 2009, due 2011	125,000	315,000
National Rural Utilities Cooperative Finance Corporation, 5.40% to 7.00%		34,847
Capitalized lease obligations, mining equipment, 1979 lease, 6.3% imputed interest	7,884	8,934
Department of Energy, 0.00% due 2010–2028, imputed interest at various rates	7,870	7,764
Capitalized lease obligations, Falkirk Mine, 6.00% to 7.50% imputed interest	73,166	54,315
Other — at various rates and maturities	9,652	7,100
Less unamortized bond discount	<u>(15,418)</u>	<u>(16,125)</u>
	2,363,972	2,065,635
Current maturities	<u>(94,992)</u>	<u>(78,122)</u>
Net long-term debt	<u>\$2,268,980</u>	<u>\$1,987,513</u>

GRE issues secured debt under an Indenture of Mortgage, Security Agreement, and Financing Statement (“Indenture”). The Indenture requires GRE to establish and collect rates reasonably expected to yield a specified margins-for-interest level. Substantially all of the tangible assets of GRE and the power purchase and transmission service contracts with the members (see Note 1) are pledged as security under the Indenture.

GRE has a \$600 million unsecured five-year revolving credit facility for which National Rural Utilities Cooperative Finance Corporation (“CFC”) is the administrative agent. This facility expires on December 1, 2011. At December 31, 2009 and 2008, the outstanding balance of this facility was \$125 million and \$315 million, respectively. These amounts are recorded in long-term obligations in the consolidated balance sheets. GRE also has an unsecured line of credit facility with CoBank ACB (“CoBank”) for \$100 million. This facility is renewable annually as to terms and conditions, and the principal balance must be paid in full within one business day of expiration unless unilaterally extended by CoBank. This facility expires on October 31, 2010, and we plan to renew. Borrowings from the facility were \$60.7 million as of December 31, 2009 and 2008, respectively, which are recorded in obligations under lines of credit in the consolidated balance sheets.

As of December 31, 2009, GRE has guaranteed \$1.9 million of rural development loans that various member distribution cooperatives have secured from Rural Utilities Services. The guaranteed loans are collateralized in the form of land, buildings, or equipment. No liability has been recorded in the consolidated financial statements related to these guarantees as of December 31, 2009 and 2008.

As of December 31, 2009, future maturities on long-term obligations are as follows (in thousands):

Years Ending December 31	
2010	\$ 94,992
2011	222,036
2012	107,247
2013	97,939
2014	101,270
Thereafter	<u>1,740,488</u>
	<u>\$2,363,972</u>

Cash payments for interest were \$120.2 million, \$101.4 million, and \$63.9 million in 2009, 2008, and 2007, respectively. Interest on borrowed funds in the amount of \$27.8 million, \$18.8 million, and \$9.1 million was capitalized in 2009, 2008, and 2007, respectively (see Note 1) and are included in the cash payments noted above.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provides for required disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

A description of the inputs used in the valuation of assets and liabilities are as follows:

Level 1 — Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 — Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities.

Level 3 — Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date.

As of December 31, 2009 and, 2008, GRE has money market accounts and commercial paper, included in cash and cash equivalents, valued at a fair value of \$204.6 million and \$233.8 million, respectively, using quoted prices in active markets for identical assets as the fair value measurement (Level 1).

As of December 31, 2009 and 2008, GRE has recorded derivative instruments at a fair value of \$22.6 million and \$69.1 million, respectively, using significant other observable inputs as the fair value measurement (Level 2). These derivatives relate to interest rate swap contracts. The fair value is

determined by comparing the difference between the net present value of the cash flows for the swaps at their initial fixed rate and the current market fixed rate. The initial fixed rate is quoted in the swap agreement and the current market fixed rate is corroborated by observable market data.

6. INVESTMENTS

GRE's investments are classified as held to maturity and reported at amortized cost using the specific identification method. As of December 31, 2009 and 2008, the amount of investments at amortized cost and fair market value were as follows (in thousands):

	Amortized Cost	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
2009				
Long-term investments — held-to-maturity securities:				
Federated treasury fund	\$ 15,087	\$ -	\$ -	\$ 15,087
CFC term certificates	26,067			26,067
Investments for deferred compensation	<u>8,743</u>	<u> </u>	<u> </u>	<u>8,743</u>
	<u>\$ 49,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,897</u>
2008				
Long-term investments — held-to-maturity securities:				
Federated treasury fund	\$ 15,085	\$ -	\$ -	\$ 15,085
CFC term certificates	20,197			20,197
Investments for deferred compensation	<u>7,518</u>	<u> </u>	<u> </u>	<u>7,518</u>
	<u>\$ 42,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,800</u>
Reported as:				
		2009	2008	
Funds reserved for debt service		\$ 15,087	\$ 15,085	
Restricted investments — deferred compensation		8,743	7,518	
Other investments — principally CFC		<u>26,067</u>	<u>20,197</u>	
		<u>\$ 49,897</u>	<u>\$ 42,800</u>	
As of December 31, 2009, investment maturities at amortized cost are as follows (in thousands):				
One to five years			\$ 15,087	
Greater than ten years			<u>34,810</u>	
			<u>\$ 49,897</u>	

Interest income received on all investments was \$3.6 million, \$8.6 million, and \$13.4 million in 2009, 2008, and 2007, respectively. This income is recorded in interest income in the consolidated statements of revenues, expenses, and members' patronage capital.

7. INCOME TAXES

GRE is a taxable cooperative and is allowed a deduction for margins allocated to members.

GRE had no regular federal income tax expense during 2009 and 2008 due to a net loss position. This net loss position was primarily the result of the allocation of margins to members, tax depreciation in excess of depreciation recorded for financial reporting purposes, and the deduction of certain costs for income tax reporting purposes, which were deferred for financial reporting purposes.

The consolidated deferred income taxes as of December 31, 2009 and 2008, were as follows (in thousands):

	2009	2008
GRE current deferred income tax assets — net	\$ 11,992	\$ 11,225
Falkirk current deferred income tax assets — net	<u>1,237</u>	<u>1,110</u>
Consolidated current deferred income tax assets — net	<u>\$ 13,229</u>	<u>\$ 12,335</u>
Falkirk noncurrent income tax asset — net:		
Long-term deferred tax asset	\$ 14,096	\$ 14,393
Long-term deferred tax liability	<u>(11,348)</u>	<u>(11,714)</u>
Total deferred tax asset	<u>\$ 2,748</u>	<u>\$ 2,679</u>
GRE noncurrent income tax liability — net:		
Long-term deferred tax liabilities	\$ 127,723	\$ 110,385
Long-term deferred tax assets	(116,355)	(98,073)
Valuation Allowance	<u>624</u>	<u> </u>
Total deferred income tax liability	<u>\$ 11,992</u>	<u>\$ 12,312</u>

The noncurrent income tax asset — net is recorded in deferred charges in the consolidated balance sheets.

These deferred taxes result from differences in the recognition of accounting transactions for tax and financial reporting purposes. The primary temporary differences relate to depreciation, the sale and leaseback transaction, deferred charges, retirement benefits, and certain financial reserves not deductible for tax purposes until paid.

As of December 31, 2009, GRE had a federal net operating loss (NOL) of \$230.8 million that can be used to offset taxable income in the carryforward period. These NOLs expire in varying amounts from 2022 through 2029. GRE has a tax credit carryforward of \$5.7 million and a prepaid alternative minimum tax (AMT) credit of \$0.6 million. The tax credits expire in varying amounts from 2014 through 2029, while the AMT credit has no expiration.

On January 1, 2009, GRE adopted the new provisions of generally accepted accounting principles related to accounting for uncertainty in income taxes. Upon adoption there were no uncertain tax positions that were material to GRE's results of operations or financial position, and we do not expect any change to these positions in the next twelve months.

In the ordinary course of business there is inherent uncertainty in quantifying GRE's income tax positions. GRE assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, GRE records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest and penalties will also be recognized.

GRE has determined that its taxable years ended December 31, 2006 through December 31, 2009 are still subject to examination under federal tax statutes; however, the taxable year ending December 31, 2006 was examined by the Internal Revenue Service in 2009. The examination was completed in 2009 resulting in a \$2.3 million reduction to the NOL. Furthermore, GRE tax years ended December 31, 2006 through December 31, 2009 are still subject to exam under state statutes.

8. PENDING LITIGATION, CONTINGENCIES, AND COMMITMENTS

Midwest Independent System Operator (MISO) — The MISO market began on April 1, 2005. Due to the nature of this market, various disputes and resettlements have taken place and some are still in process. It is the opinion of management that the resolution of the various open MISO disputes and resettlements will not have a material effect on the consolidated financial position, results of operations, or cash flows.

Litigation — GRE is involved in various legal actions arising in the normal course of business. It is the opinion of management that the resolution of such actions will not have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

Future Commitments — GRE is committed to the following estimated expenditures under the various purchased power and fuel contracts discussed below (in millions):

	2010	2011	2012	2013	2014	Thereafter	Total
Dairyland Power Cooperative	\$ 56.7	\$ 56.8	\$ 57.1	\$ 58.1	\$ 57.4	\$ 940.1	\$ 1,226.2
Minnesota Power	6.6						6.6
Wind Energy purchases	41.0	41.0	41.0	41.0	41.0	507.0	712.0
Fuel contracts	<u>18.4</u>	<u>19.8</u>	<u>15.0</u>	<u>15.4</u>	<u>7.7</u>		<u>76.3</u>
	<u>\$ 122.7</u>	<u>\$ 117.6</u>	<u>\$ 113.1</u>	<u>\$ 114.5</u>	<u>\$ 106.1</u>	<u>\$ 1,447.1</u>	<u>\$ 2,021.1</u>

Purchased Power Contracts — GRE has a power agreement with Dairyland Power Cooperative (DPC) to share costs and benefits of a 350-megawatt generating unit (Genoa 3) located near Genoa, WI. This agreement remains in effect until the retirement of the unit from service or until the payment in full of all obligations arising from the construction of the unit, whichever is later. Under the agreement, the capacity costs are shared equally by GRE and DPC, and GRE is required to pay additional amounts for actual energy purchased. GRE's expenses for capacity and energy charges under the agreement were \$41.2 million for 2009, \$47.6 million for 2008, and \$39.3 million for 2007. The estimated future

expenditures for this agreement in the table above include amounts through 2029. At December 31, 2009, GRE had provided \$14.9 million to DPC to fund its share of fuel inventory, which is allowed under the agreement. This amount is recorded in prepaids and other in the consolidated balance sheets.

GRE has a long-term power agreement with Minnesota Power for the purchase of 175 megawatts of capacity and associated energy. The contract has a five-year term which ends in 2010. The capacity charge is fixed for the term of the agreement, while energy charges are subject to escalation based upon coal and natural gas prices. GRE's expenses for capacity and energy under the agreement were \$42.2 million for 2009, \$45.5 million for 2008, and \$46.3 million for 2007.

GRE has long-term power agreements for the purchase of 317 megawatts of wind energy from various power suppliers. The agreements have terms that began in 2005 and extend to 2028, with various extension options. GRE is obligated to purchase the energy generated from these facilities at fixed prices for the term of the agreements. GRE's expenses for energy purchased under these agreements were \$37.0 million for 2009, \$28.3 million for 2008, and \$10.8 million for 2007.

Fuel Contracts — GRE has an agreement with Cloud Peak Energy to provide coal to the Stanton generating station in North Dakota. GRE also has an agreement with The Burlington Northern Santa Fe Railroad for the delivery of this coal. These agreements end in 2014. GRE's expenses under these agreements were \$14.8 million in 2009, \$18.5 million in 2008, and \$15.7 million in 2007.

9. DEFERRED CHARGES

The amount of deferred charges recorded by GRE as of December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
Regulatory assets:		
Premiums on refinanced long-term debt	\$ 15,756	\$ 16,898
Canceled power supply projects	6,055	8,074
Asset retirement obligation	1,856	2,785
Postretirement benefit plans	33,354	36,340
Interest rate swaps	27,140	73,877
Other	<u>349</u>	<u>1,356</u>
	84,510	139,330
Other deferred charges	<u>29,610</u>	<u>24,318</u>
Total deferred charges	<u>\$ 114,120</u>	<u>\$ 163,648</u>

The regulatory assets are recorded as per regulatory accounting requirements, and have all been approved by the board of directors.

Premiums on Refinanced Long-Term Debt — GRE has refinanced various issues of long-term debt, which resulted in the payment of premiums. This amount will be fully amortized by 2038, the maturity date of the 2007A bonds.

Canceled Power Supply Projects — GRE incurred \$14.7 million of charges related to a power supply project, which was canceled in 2003. This amount was amortized over a period of five years, which ended December 31, 2008. GRE also incurred \$10.1 million of costs related to a power supply project, which was canceled in 2007. This amount is being amortized over a period of five years beginning in 2008.

Asset Retirement Obligation — In 2006, GRE deferred \$4.6 million of costs related to an asset retirement obligation. This amount is being amortized over a period of five years beginning in 2007.

Postretirement Benefit Plans — GRE has defined benefit pension plans and a postretirement medical plan for certain employees. GRE records regulatory assets related to items that are normally reported as accumulated other comprehensive income for these plans. This amount will be adjusted each year as a result of the remeasurement of the obligations related to these plans.

Interest Rate Swaps — GRE purchased an interest rate swap related to the 2008A bonds (see Note 4). The settlement of the swap resulted in a payment to the swap counterparty in the amount of \$4.8 million. GRE also purchased interest rate swaps, which have not been settled as of December 31, 2009. These swaps have been recorded in the consolidated balance sheets as derivative instruments at a fair value liability of \$22.6 million and \$69.1 million for 2009 and 2008, respectively. These swaps are related to future debt issues. Settled swaps are amortized over the life of the related debt.

Other Deferred Charges — Other deferred charges primarily relate to unamortized debt issuance costs and deferred income taxes.

10. EMPLOYEE BENEFIT PLANS

Pension Plans — GRE has a defined benefit plan that covers certain employees who chose to remain in a defined benefit plan, a nonqualified supplemental defined benefit plan, and a defined contribution plan for the other employees. GRE's defined benefit plan recognized a curtailment during 2008 due to the freezing of benefits for certain highly compensated participants. Falkirk has a defined benefit plan that covers employees hired before December 31, 1999, and a defined contribution plan for the other employees. Changes in benefit obligations and plan assets for all defined benefit plans for the years ended December 31, 2009 and 2008, and the amounts recognized in the consolidated balance sheets as of December 31, 2009 and 2008, were as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation — beginning of year	\$ 46,214	\$ 51,158	\$ 42,395	\$ 50,628
Service cost	1,074	237	1,058	447
Interest cost	2,946	3,162	2,685	3,175
Actuarial losses	1,858	3,760	1,114	1,518
Curtailment				(1,043)
Benefits paid	<u>(1,160)</u>	<u>(3,677)</u>	<u>(1,038)</u>	<u>(3,567)</u>
Benefit obligation — end of year	<u>50,932</u>	<u>54,640</u>	<u>46,214</u>	<u>51,158</u>
Change in plan assets:				
Fair value of plan assets — beginning of year	27,092	32,359	37,171	42,874
Actual return on assets	6,440	5,373	(9,844)	(8,341)
Employer contributions	1,159	8,600	803	1,393
Benefits paid	<u>(1,160)</u>	<u>(3,677)</u>	<u>(1,038)</u>	<u>(3,567)</u>
Fair value of plan assets — end of year	<u>33,531</u>	<u>42,655</u>	<u>27,092</u>	<u>32,359</u>
Funded status — end of year	<u>\$ (17,401)</u>	<u>\$ (11,985)</u>	<u>\$ (19,122)</u>	<u>\$ (18,799)</u>

As of December 31, 2009 and 2008, amounts recognized as components of net periodic benefit cost are as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Other noncurrent liabilities	<u>\$ 17,401</u>	<u>\$ 11,985</u>	<u>\$ 19,122</u>	<u>\$ 18,799</u>

As of December 31, 2009 and 2008, amounts not yet recognized as components of net periodic benefit cost are as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Transition obligation	\$ -	\$ 518	\$ -	\$ 581
Prior service cost	1,971	196	2,300	277
Accumulated loss	<u>12,272</u>	<u>17,587</u>	<u>13,720</u>	<u>19,255</u>
	<u>\$ 14,243</u>	<u>\$ 18,301</u>	<u>\$ 16,020</u>	<u>\$ 20,113</u>

The accumulated benefit obligation for the GRE defined benefit pension plans reflected above were \$53.0 million and \$49.4 million as of December 31, 2009 and 2008, respectively. The accumulated benefit obligation for the Falkirk defined benefit pension plan was \$44.3 million and \$40.1 million as of December 31, 2009 and 2008, respectively.

Components of net periodic benefit cost for the GRE and Falkirk defined benefit pension plans as of December 31, 2009, 2008, and 2007, were as follows (in thousands):

	2009		2008		2007	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	\$ 1,074	\$ 237	\$ 1,058	\$ 447	\$ 1,074	\$ 515
Interest cost	2,946	3,162	2,685	3,175	2,461	2,985
Expected return on assets	(3,138)	(2,622)	(3,234)	(3,343)	(2,926)	(3,040)
Amortization of prior service cost	330	81	330	103	359	102
Recognized net actuarial loss	3	2,679	5	475	6	909
Curtailment loss				66		
Amortization of net transition obligation		<u>63</u>		<u>63</u>		<u>63</u>
Net periodic benefit cost	<u>\$ 1,215</u>	<u>\$ 3,600</u>	<u>\$ 844</u>	<u>\$ 986</u>	<u>\$ 974</u>	<u>\$ 1,534</u>

The estimated amounts to be amortized from deferred charges into net periodic benefit costs in 2010 are \$0.7 million for the Falkirk plans and \$2.5 million for the GRE plans.

Weighted-average assumptions used to determine benefit obligations for GRE and Falkirk defined benefit pension plans as of December 31, 2009, 2008, and 2007, were as follows:

	2009		2008		2007	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Discount rate	5.90 %	5.70 %	6.30 %	6.30 %	6.25 %	6.30 %
Rate of compensation increase	3.75	3.75	3.75	3.75	3.75	3.75

Weighted-average assumptions used to determine periodic benefit cost for GRE and Falkirk defined benefit pension plans as of December 31, 2009, 2008, and 2007, were as follows:

	2009		2008		2007	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Discount rate	6.30 %	6.30 %	6.25 %	6.30 %	5.90 %	5.80 %
Rate of compensation increase	3.75	3.75	3.75	3.75	3.75	3.75
Expected return on assets	8.50	8.00	9.00	8.00	9.00	8.00

GRE's overall investment strategy is to achieve a mix of approximately 60% of investments for long-term growth and 40% for near-term and longer term benefit payments. The investment strategy has wide diversification of asset types, fund strategies, and fund managers. The target allocations for the plan assets are 60% equity securities and 40% fixed income securities. Equity securities primarily include investments in large-cap, mid-cap and small-cap companies primarily located in the United States. In addition, the plan invests in international equities which are predominately, but not exclusively, located in developed countries and large-cap in focus. Fixed income securities are primarily U.S. Government or Agency securities. At December 31, 2009 there were \$27.5 million of assets invested in mutual funds, \$15.0 million invested in U.S. Government securities and \$0.2 million in cash. The invested funds are stated at fair value using quoted prices in active markets for identical assets as the fair value measurement (Level 1). See Note 5 for a description of the inputs used in the valuation of assets and liabilities as required by generally accepted accounting principles.

The Falkirk plan maintains an investment policy that, among other things, establishes a portfolio asset allocation methodology with percentage allocation bands for individual asset classes. This investment policy states that the plan assets will be invested from 60% to 70% in equity securities and from 30% to 40% in fixed income securities. The investment policy further divides investments in equity securities among U.S. and non-U.S. companies. The investment policy provides that investments be reallocated between classes as balances exceed or fall below the appropriate allocation bands. At December 31, 2009 there were \$22.0 million invested in equity securities, \$11.3 million in fixed income securities and \$0.3 million invested in money market funds. The invested funds are stated at fair value using quoted market prices in active markets for identical assets as the fair value measurement (Level 1). See Note 5 for a description of the inputs used in the valuation of assets and liabilities as required by generally accepted accounting principles.

To develop the expected long-term rate of return on asset assumptions, GRE and Falkirk considered the historical returns and the future expectations for returns on each asset class, as well as target allocation of the pension portfolio. This resulted in 2009 and 2008 long-term rate of return assumptions of 8.0% for GRE, and 8.5% for Falkirk.

As of December 31, 2009, the following are the expected future benefits to be paid (in thousands):

Years Ending December 31	Falkirk	GRE
2010	\$ 1,391	\$ 3,483
2011	1,713	3,662
2012	2,034	3,930
2013	2,334	4,202
2014	2,644	4,445
2015–2019	18,641	23,527

GRE and Falkirk expect to make contributions of approximately \$0.4 million and \$1.5 million, respectively, to the defined benefit pension plans during 2010.

GRE has a defined contribution plan that covers all employees not covered in the GRE defined benefit plan. The total cost to GRE for this plan was \$4.5 million, \$4.0 million, and \$3.5 million in 2009, 2008, and 2007, respectively. GRE also made matching contributions to a defined contribution savings plan of \$3.1 million, \$3.0 million, and \$2.6 million in 2009, 2008, and 2007, respectively. Falkirk's contributions to the defined contribution pension plan were \$0.7 million, \$0.5 million, and \$0.4 million for 2009, 2008, and 2007, respectively. Falkirk's contributions to a defined contribution savings plan were \$1.4 million, \$1.3 million and \$1.2 million for 2009, 2008, and 2007, respectively.

Postretirement Medical Benefits — Employees retiring from GRE who elected to remain in the defined benefit pension plan, have attained age 55, and have at least 10 years of service are entitled to participate in the GRE medical insurance plan. Benefits to the former employees are in the form of monthly payments to cover a portion of the premium charged for participation in the program. Employees retiring from Falkirk also are eligible to participate in Falkirk's medical insurance plan with the benefit in the form of a supplement to the premium.

Costs for the unfunded postretirement medical plan are recognized in the year the employees render service.

Changes in benefit obligations for the years ended December 31, 2009 and 2008, and amounts recognized in the consolidated balance sheets as of December 31, 2009 and 2008, were as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Change in benefit obligation:				
Benefit obligation — beginning of year	\$ 7,182	\$ 2,679	\$ 7,291	\$ 2,926
Service cost	196	7	200	9
Interest cost	441	152	461	168
Plan amendment			(402)	
Actuarial gains (losses)	132	94	(134)	(121)
Benefits paid	(576)	(451)	(234)	(303)
Benefit obligations — end of year	<u>\$ 7,375</u>	<u>\$ 2,481</u>	<u>\$ 7,182</u>	<u>\$ 2,679</u>

As of December 31, 2009 and 2008, amounts recognized in the consolidated balance sheets are as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Current liabilities	\$ 515	\$ 331	\$ 536	\$ 363
Other noncurrent liabilities	6,860	2,150	6,646	2,316

As of December 31, 2009 and 2008, amounts not yet recognized as components of net periodic benefit costs are as follows (in thousands):

	2009		2008	
	Falkirk	GRE	Falkirk	GRE
Prior service credit	\$ (2,374)	\$ (200)	\$ (2,933)	\$ (250)
Accumulated loss	<u>1,799</u>	<u>1,271</u>	<u>1,806</u>	<u>1,268</u>
	<u>\$ (575)</u>	<u>\$ 1,071</u>	<u>\$ (1,127)</u>	<u>\$ 1,018</u>

Components of net periodic postretirement benefits cost (credit) for December 31, 2009, 2008, and 2007, were as follows (in thousands):

	2009		2008		2007	
	Falkirk	GRE	Falkirk	GRE	Falkirk	GRE
Service cost	\$ 196	\$ 7	\$ 200	\$ 9	\$ 139	\$ 13
Interest cost	441	152	461	168	301	178
Amortization of prior service credit	(560)	(49)	(493)	(49)	(562)	(49)
Recognized net actuarial losses	<u>139</u>	<u>90</u>	<u>178</u>	<u>107</u>	<u>19</u>	<u>135</u>
Net periodic benefit cost (credit)	<u>\$ 216</u>	<u>\$ 200</u>	<u>\$ 346</u>	<u>\$ 235</u>	<u>\$ (103)</u>	<u>\$ 277</u>

The estimated amounts to be amortized from deferred charges into net periodic benefit costs in 2010 are a net credit of \$0.4 million for the Falkirk plan and \$0.1 million for the GRE plan.

The weighted-average assumptions used to determine postretirement obligations and net periodic postretirement benefit costs for the years 2009, 2008, and 2007 are the same applicable assumptions used for the defined benefit pension plans.

As of December 31, 2009, the following are the expected future benefit payments to be paid (in thousands):

Years Ending December 31	Falkirk	GRE
2010	\$ 515	\$ 331
2011	561	314
2012	623	274
2013	657	277
2014	708	256
2015–2019	4,292	962

The effect of a one percentage point change in health care cost trend rates on service and interest costs is not material in relation to the consolidated financial statements taken as a whole.

11. VALUE OF FINANCIAL INSTRUMENTS

Various methods and assumptions were used to estimate the fair value of each class of the GRE financial instruments for which it is feasible to estimate that value. The carrying amount of restricted investments and cash and cash equivalents approximates the fair value due to the short maturities of the instruments. For funds reserved for debt service and other investments, principally capital term certificates, the carrying amount is assumed to approximate fair value, as these instruments generally must be held as a condition of financing. The fair value of the long-term obligations is based upon present value models using current rates available. The carrying values of the long-term obligations, other than capital leases, as of December 31, 2009 and 2008, were \$2.28 billion and \$1.99 billion, respectively, and the estimated fair values were \$2.71 billion and \$2.02 billion, respectively.

12. MEMBER RELATED-PARTY TRANSACTIONS

GRE provides electric and other services to the members. GRE received revenue of \$706.2 million, \$686.1 million, and \$586.1 million in 2009, 2008, and 2007, respectively, for these services. GRE also receives various services from the members and paid \$8.6 million, \$8.4 million, and \$6.5 million for these services in 2009, 2008, and 2007, respectively. GRE has accounts receivable from the members of \$122.4 million and \$127.0 million at December 31, 2009 and 2008, respectively. GRE has notes receivable from the members of \$8.5 million and \$10.3 million as of December 31, 2009 and 2008, respectively. These notes were issued at face value and have an effective average interest rate of 5% at December 31, 2009 and 2008.

GRE has notes payable to the members of \$27.6 million and \$15.0 million at December 31, 2009 and 2008, respectively. These notes relate to funds invested with GRE by the members under a member investment program. These funds are used by GRE to reduce short-term borrowings. The members receive investment earnings based on a CFC investment rate adjusted for administrative costs.

13. ASSET RETIREMENT OBLIGATIONS

Generally accepted accounting principles require the recording of liabilities related to asset retirement obligations. An asset retirement obligation is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and/or the normal operation of a long-lived asset. GRE allocates the amortization for the offsetting capitalized asset retirement cost to expense using the straight-line method over the remaining useful life of the related long-lived asset being retired.

GRE has recorded obligations related to capping and reclamation of ash disposal sites at its coal-fired power plants, obligations related to future removal and disposal of asbestos, and obligations related to the disposal of equipment containing polychlorinated biphenyls. Falkirk has recorded an obligation related to the costs to close its surface mines and reclaim the land disturbed as a result of normal mining operations. There are no assets legally restricted for purpose of settling these obligations.

GRE also has an obligation to retire its direct current transmission line upon abandonment. This line transmits the energy from the CCS in North Dakota to the GRE service territory in Minnesota. GRE has not recorded a liability related to this obligation because the fair value cannot be reasonably estimated due to the retirement date being indefinite at this time.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2009 and 2008, is as follows (in thousands):

	2009	2008
Balance — beginning of year	\$ 25,859	\$ 23,230
Obligations recorded as a result of change in estimated cash flows		1,340
Accretion expense	1,655	1,456
Obligations settled	<u>(479)</u>	<u>(167)</u>
Balance — end of year	<u>\$ 27,035</u>	<u>\$ 25,859</u>

These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. The obligations settled are the only transactions recognized in the consolidated statements of cash flows.

14. BLUE FLINT ETHANOL LLC

Blue Flint Ethanol LLC (“Blue Flint”) was formed in June 2005 by GRE and HES Ethanol Holdings, LLC (“HES”), with each having respective ownership percentages of 49% and 51%. Blue Flint was formed for the purpose of building and operating a corn ethanol plant located near Falkirk, ND, with an annual production capacity of approximately 50 million gallons. Blue Flint began ethanol production in February 2007. GRE and HES collectively contributed equity of 20% of the estimated \$95.5 million construction costs, with the balance debt financed. The investment is recorded using the equity method of accounting. The following is the investment activity through December 31, 2009 (in thousands):

	2009	2008	2007
Beginning equity investment balance	\$ 7,357	\$ 9,127	\$ 8,198
Cash invested	490		961
GRE’s share of Blue Flint’s income (loss)	4,953	(1,111)	540
GRE’s share of Blue Flint’s other comprehensive income (loss)	<u>803</u>	<u>(659)</u>	<u>(572)</u>
Ending equity investment balance	<u>\$ 13,603</u>	<u>\$ 7,357</u>	<u>\$ 9,127</u>

In 2009 and 2008, GRE recorded income from the state of North Dakota ethanol producer’s fund of \$0.8 million and \$2.4 million, respectively. These amounts, along with GRE’s share of Blue Flint’s net income or loss, are recorded in nonutility operations in the consolidated statements of revenues, expenses, and members’ patronage capital. GRE’s share of Blue Flint’s accumulated other comprehensive income or loss relate to an interest rate swap agreement designated as a cash flow hedge, which Blue Flint recorded at fair value. GRE had accounts receivable from Blue Flint of \$4.5 million and \$5.3 million as of December 31, 2009 and 2008, respectively. For the years 2009, 2008, 2007, there was \$1.2 million included in other operating revenue related to Blue Flint’s use of CCS infrastructure.

15. GREAT AMERICAN ENERGY

GRENAC, LLC d/b/a Great American Energy (GAE) was formed in February 2007 by GRE and The North American Coal Corporation (NACC), with each having an equal ownership share. GAE will develop, construct, and own a coal load out facility, which will be used to provide refined coal to GRE's Spiritwood Generating Station, currently being constructed near Jamestown, North Dakota, and to other third parties. The investment is recorded using the equity method of accounting. The following is the investment activity through December 31, 2009 (in thousands):

	2009	2008
Beginning equity investment balance	\$ 4,835	\$ 547
Cash invested	5,600	4,300
GRE's share of GAE's loss	<u>(6)</u>	<u>(12)</u>
Ending equity investment balance	<u>\$ 10,429</u>	<u>\$ 4,835</u>

GRE's share of GAE's net loss is recorded in nonutility operations in the consolidated statements of revenues, expenses and members' patronage capital. GRE had accounts receivable from GAE of \$0.7 million as of December 31, 2009.

16. SUBSEQUENT EVENT

During 2009 two member cooperatives commenced arbitration against GRE for allegedly breaching the power purchase contract with the claimants during 2008. On February 20, 2010 a settlement was reached requiring GRE to pay a total of \$1.2 million, for which GRE has recorded a liability as of December 31, 2009.

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