



FLEMING-MASON ENERGY  
COOPERATIVE, INC.

P.O. BOX 328 • FLEMINGSBURG, KENTUCKY 41041 • (606) 845-2661 • FAX (606) 845-1008

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SEP 11 2007

PUBLIC SERVICE  
COMMISSION

September 11, 2007

Beth O'Donnell, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P O Box 615  
Frankfort, KY 40602

RE: Case No. 2007-00022

Dear Ms. O'Donnell:

Please find enclosed the original and six (6) copies of the responses to the Commission's Order "Third Data Request of Commission Staff to Fleming-Mason Energy Cooperative, Inc." dated August 28, 2007

Also enclosed is the response to the Attorney General's Supplemental Requests for Information dated August 28, 2007.

If you have any questions, please do not hesitate to call.

Sincerely,

Christopher Perry  
President & CEO

Copy to: Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Frankfort, KY 40601



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

1. Refer to Second Data Request of Commission Staff dated July 24, 2007 (“Staff’s Second Request”), Item 1.

a. Is the net salvage allowance factored into Fleming-Mason’s analysis of where it is on the depreciation guideline curves?

**Response:**

Yes.

b. Is Fleming-Mason proposing to continue utilizing the net salvage allowance approach approved in the previous rate case? Explain the response.

**Response:**

The net salvage is included in the current depreciation rates as filed with the Commission in Case No. 2001-00244. These rates will continue to be used until the next depreciation study is completed.

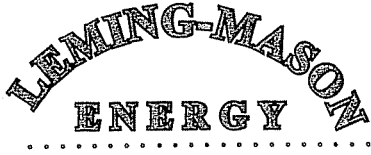


Fleming-Mason Energy  
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2. Did Fleming-Mason seek Rural Utilities Service (“RUS”) approval of the depreciation rates approved in the previous case?

**Response:**

Yes, Fleming-Mason Energy did seek approval of the depreciation rates. Attached is a letter dated October 30, 2001 to RUS requesting its approval. According to Mr. Bill Frost with RUS, they received the study, but it was never processed by RUS due to an oversight on their part. Fleming-Mason is currently conducting a new depreciation study and will forward to RUS upon completion.



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October 30, 2001

Mr. Alfred Rogers, Deputy Assistant Administrator  
Electric Program  
Rural Utilities Service  
1400 Independence Avenue SW, Stop 1566  
Washington DC 20250

Dear Mr. Rogers:

Please find enclosed the Service Life and Salvage Study and Recommended Depreciation Accrual Rates as of December 31, 2000, as prepared by Alan Zumstein, CPA.

Fleming-Mason Energy will implement the proposed rates at the time that RUS gives its approval of the rates.

Should you have any questions, please do not hesitate to call us.

Sincerely,

A handwritten signature in black ink, appearing to read "Anthony P. Overbey".

Anthony P. Overbey  
President & CEO

Enclosures



Fleming-Mason Energy  
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3. Refer to the Response to Staff's Second Request, Item 2. Provide copies of the equity management plan once approved by the board of directors ("Board").

**Response:**

Attached is the updated equity management policy approved by the Board on September 6, 2007.



Fleming-Mason Energy Cooperative, Inc.

POLICY NO. 52

SUBJECT: Capital Management

Policy Effective Date: March 7<sup>th</sup>, 2002

Updated: September 6, 2007

I. PURPOSE

Fleming-Mason Energy Cooperative, Inc. is a non-profit corporation organized under the laws of the State of Kentucky. In addition to these legal requirements, the Cooperative is guided in its operation by the various regulations and operational practices prescribed by the RUS and Kentucky Public Service Commission. Beyond these legal and official requirements, the Cooperative has an obligation to its members to insure the financial integrity of the Cooperative so that it can provide high quality electric service to its members at the lowest possible long-term cost.

II. POLICY

It will be the policy of Fleming-Mason Energy Cooperative, Inc. to maintain current modified cash equity between 32 – 40%, retirement to Estates of Deceased Members, and maintain a modified cash TIER equal to or greater than mortgage requirements while also maintaining adequate cash reserves. Once achieved, those levels will be maintained to insure that the Cooperative's members receive electric service at cost.

III. RESPONSIBILITY

The President/CEO.

IV. PROVISIONS

Particular areas of concern included under this policy for which specific goals and practices need to be established are:

- A. Develop long range financial plans and goals that will guide and insure the Cooperative of meeting all of its financial obligations through sound financial planning. The long range financial plan and goals will be updated every five (5) years, or in conjunction with the work plan and loan application process, whichever occurs first.

B. Maintain sound financial planning including the following:

1. Maintain necessary working capital and cash reserves.
2. Maintain necessary funds for the debt retirement.
3. Maintain access to timely loan funds balances and sources to meet needed plant additions.
4. Insure that funds are available for established capital credit retirement program.
5. Maintain DSC (Debt Service Coverage Ratio) minimum level of 1.25 to meet loan eligibility requirements as a borrower of RUS and CFC.
6. Capitalized purchases shall include property with an expected life in service of more than one year and an original cost of no less than \$1,000.

C. Develop a flexible capital credit rotation program on a minimum year cycle method of rotation in the event the Cooperative reaches modified TIER levels of greater than 2.0. Retirements are to be determined by the Board of Directors based on the financial condition of the Cooperative, with a goal of retiring capital credits on a least a 20 year rotation cycle.

Consider using different rotation cycles including percentage, LIFO, or hybrid to maximize the value to the membership. Rotating capital credits is an effective way to regulate cash and show the membership they own the Cooperative.

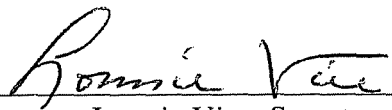
D. To reach and maintain the above goals by establishing a Capital Management Plan, which determines revenue requirements to meet margins, equity level, rotation of capital credits, debt service goals, and to forecast necessary retail rate increases.

E. The annual financial study and review of the equity and capital management performance will be performed on an annual basis using annual reports to, and from, regulatory agencies; capital and expense budgeting information; and other information as necessary.

In the implementation of this policy, it is recognized that the above goals need to be reviewed at least annually to adjust for certain variables (i.e. cost of debt capital, growth of electric plant, and margins) The long range financial plan and goals and the flexible capital credit rotation program shall be in place by December 31, 2007.

This policy supersedes any existing policy, which may be in conflict with provisions of this policy.

Approved:

  
\_\_\_\_\_  
Lonnie Vice, Secretary



Fleming-Mason Energy  
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4. Refer to the Response to Staff's Second Request, Item 3. Provide copies of the capital credit rotation program once approved by the Board.

**Response:**

Fleming-Mason Energy is currently in the process of developing a capital credit rotation program. This program will be implemented before December 31, 2007 and will be forwarded to the Commission upon Board approval.



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5. In the August 7, 2002 Order in Case No. 2001-00244, page 49, ordering paragraph number 16, the Commission ordered Fleming-Mason to report on the status and financial condition of Fleming-Mason Service Corporation (“Service Corp.”). On page 45 of the August 7, 2002 Order, the Commission stated:

Second, in subsequent annual reports to its membership, Fleming-Mason should be required to report on the status and financial condition of Service Corp. and Kentucky Wireless. This report should include:

- A discussion of Service Corp.’s and Kentucky Wireless’s activities since the previous report;
- The outstanding balance on any line of credit owed by Service Corp. and Kentucky Wireless that has been guaranteed by Fleming-Mason;
- The amounts owed by Service Corp. and Kentucky Wireless to Fleming-Mason; and
- The amount of any net income or net loss from Service Corp. and Kentucky Wireless recorded on Fleming-Mason’s books.

In its response to Staff’s Second Request, Item 5, Fleming-Mason states that, in its opinion, it has met the requirement of the previous Order. Provide specific references to indicate where Fleming-Mason has included the required information in its annual reports to its membership.

**Response:**

After reviewing the 2002 Order in Case 2001-00244, the Fleming-Mason Energy Board of Directors and I agree that the intent of the order was not met. The discussion portion of the Service Corporation was not published with the annual report. However, a detailed discussion of the Service Corp. was included in the October, 2002 issue of Kentucky Living magazine which did discuss the activities (please refer to PSC 2<sup>nd</sup> Data Request, Item 5). The financial condition of the Service Corporation and Fleming-Mason Energy are in all annual reports since the order was issued. The income statements and balance sheets for both companies were presented and the amount of outstanding debt was available in these reports. Kentucky Wireless, LLC does not have any assets or liabilities and there is no activity in this subsidiary, it is just a registered name.

This issue will no longer exist. At the September 6, 2007 Fleming-Mason Energy Board meeting, the Board of Directors unanimously agreed to sell the assets of the Service Corporation to another company. At the same meeting, it was also unanimously agreed to pay off the line of credit with NCSC with the proceeds of the sale of the Service Corporation.





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6. In Case No. 2002-00291, Fleming-Mason Energy provided a revolving line of credit agreement between Service Corp. and the National Cooperative Services Corporation (“NCSC”) dated July 1, 1999 that included a term of 60 months. In the August 7, 2002 Order in Case No. 2001-00244, page 48, ordering paragraph 13, the Commission ordered: “Fleming-Mason shall not extend or renew any existing debt service loans nor commit to any new debt service loans without prior approval by the Commission.” In its response to Staff’s Second Request, Item 6, Fleming-Mason states that it has not guaranteed any additional loans or advances since the Order was issued.

a. In the Application, Exhibit N, page 17 of 25, Fleming-Mason’s audited financial statements disclose the continuing guarantee of the line of credit. State whether Fleming-Mason extended its guarantee of the line of credit and if so, explain why Fleming-Mason extended the guarantee and the manner in which the guarantee was extended.

**Response:**

Fleming-Mason did extend the guarantee. NCSC amortized the line of credit over a ten year pay back period for the Service Corporation. It was management’s opinion that the subsidiary would be able to make the quarterly payments out of its cash flow and Fleming-Mason Energy would not have to purchase additional stock in the subsidiary to pay the debt service. The loan was extended by Fleming-Mason Service Corporation’s Board signing the Loan Agreement and Fleming-Mason Energy’s Board signing for the continued guarantee.

Fleming-Mason Energy  
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b. Provide copies of the current line of credit agreement between Service Corp. and NCSC.

**Response:**

The agreement is attached.

## LOAN AGREEMENT

**LOAN AGREEMENT** (this "Agreement"), dated as of APRIL 26, 2004, between FLEMING-MASON SERVICE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the State of Kentucky, and NATIONAL COOPERATIVE SERVICES CORPORATION ("NCSC"), a corporation organized and existing under the laws of the District of Columbia.

### RECITALS

**WHEREAS**, the Borrower has applied to NCSC for a loan for the purposes set forth in Schedule 1 hereto, and NCSC is willing to make such a loan to the Borrower on the terms and conditions stated herein; and

**WHEREAS**, the Borrower has agreed to execute two secured promissory notes to evidence an indebtedness in the aggregate principal amount of the NCSC Commitment (as hereinafter defined).

**NOW, THEREFORE**, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree and bind themselves as follows:

### ARTICLE I

#### DEFINITIONS

**Section 1.** For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and the plural form thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the Security Agreement.

**"Accounting Requirements"** shall mean the requirements of generally accepted accounting principles applicable to businesses similar to that of the Borrower.

**"Advance" or "Advances"** shall mean advances by NCSC to Borrower pursuant to the terms and conditions of this Agreement.

**"Business Day"** shall mean any day that both NCSC and the depository institution NCSC utilizes for funds transfers hereunder are open for business.

**"Collateral"** shall have the meaning as defined in the Security Agreement.

**"Conversion Request"** shall mean a request from any duly authorized officer of the Borrower, in form and substance satisfactory to NCSC, that requests an interest rate conversion.

**"Debt Service Coverage Ratio" or "DSC"** for any year shall mean: (i) total net income plus depreciation and amortization expense, plus interest expense, plus any equity contributions

contributions for such year, divided by (ii) the sum of all payments of principal and interest required to be made during such calendar year on long-term debt.

**"Distributions"** shall have the meaning defined in Section 5.1.

**"Guaranty"** shall mean the guaranty entered into by the Guarantor for the benefit of NCSC pursuant to Section 4.01.C. hereof, as such guaranty may be amended or modified from time to time.

**"Guarantor"** shall have the meaning as described in Schedule 1 hereto.

**"Loan"** shall mean the loan by NCSC to Borrower, pursuant to this Agreement and the Note, in an aggregate principal amount not to exceed the NCSC Commitment.

**"Maturity Date"** shall have the meaning as defined in the Note.

**"NCSC Commitment"** shall have the meaning as defined in Schedule 1 hereto.

**"NCSC Fixed Rate"** shall mean such fixed rate as is then available for loans similarly classified pursuant to NCSC's policies and procedures then in effect.

**"NCSC Fixed Rate Term"** shall mean the specific period of time that a NCSC Fixed Rate is in effect.

**"NCSC Variable Rate"** shall mean the rate established by NCSC for similarly classified variable interest rate loan programs established by NCSC from time to time.

**"Note"** shall mean one or more secured promissory note or notes, executed by the Borrower, dated as of even date herewith, in the aggregate principal amount of the NCSC Commitment as further identified on Schedule 1.

**"Payment Date"** shall mean the last day of each of the months referred to in Schedule 1 hereto.

**"Payment Notice"** shall mean a notice furnished by NCSC to Borrower that indicates the amount of each payment of principal and interest and the total amount of each payment.

**"Security Agreement"** shall mean the Security Agreement dated as of even date herewith between Borrower and NCSC, as it may have been or shall be supplemented, amended, consolidated or restated from time to time, pursuant to which Borrower grants a lien on and security interest in all of its assets to NCSC to secure Borrower's repayment of the Note and performance of its obligations under this Agreement.

**"Termination Date"** shall mean a date four (4) years after the date hereof.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

**SECTION 2.** The Borrower represents and warrants to NCSC that as of the date of this Agreement:

**A. Good Standing.** The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the state of its incorporation, is duly qualified to do business and is in good standing in those states in which it is required to be qualified to conduct its business and has the requisite power to enter into and perform this Agreement, to borrow hereunder and to give security as provided for herein.

**B. Authority.** Borrower has the corporate power and authority to enter into this Agreement, the Note and the Security Agreement; to make the borrowing hereunder; to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, in the Note and in the Security Agreement, all of which have been duly authorized by all necessary and proper corporate and other action; and no consent or approval of any person, including, without limitation, stockholders and members of Borrower and any public authority or regulatory body, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

**C. No Conflicting Agreements.** The execution, delivery of and performance by Borrower of this Agreement, the Note and the Security Agreement, and the transactions contemplated hereby or thereby, will not: (i) violate any provision of law, any order, rule or regulation of any court or other agency of government, any award of any arbitrator, the articles of incorporation or by-laws of Borrower, or any indenture, contract, agreement, mortgage, deed of trust or other instrument to which Borrower is a party or by which it or any of its property is bound; or (ii) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such award, indenture, contract, agreement, mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien (other than contemplated hereby) upon any of the property or assets of Borrower.

**D. Taxes.** Borrower has paid or caused to be paid all federal, state and local taxes to the extent that such taxes have become due. Borrower has filed or caused to be filed all federal, state and local tax returns which are required to be filed by Borrower.

**E. Title to Properties.** Borrower has owns all of its properties and assets free and clear of any liens, except the lien of the Security Agreement and purchase money security interests.

**F. Licenses and Permits.** Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like necessary to own and operate its property and business that are required by federal, state and local laws of the jurisdictions in which Borrower conducts its business and each remains valid and in full force and effect.

**G. Litigation.** There are no outstanding judgments, suits, claims, actions or proceedings pending or to the knowledge of the Borrower threatened against or affecting the Borrower or its properties which, if adversely determined, would have a material adverse effect upon the financial condition or the business of the Borrower. The Borrower is not, to its

knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court, governmental agency or other instrumentality which would have a material adverse effect on the Borrower.

**H. Financial Statements.** The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, and the statement of operations of the Borrower for the period ending on said date, heretofore furnished to NCSC, are complete and correct. Said balance sheet fairly presents the financial condition of the Borrower as at said date and said statement of operations fairly reflects its operations for the period ending on said date. The Borrower has no contingent obligation or unusual forward or long-term commitments except as specifically stated in said balance sheet or herein. There has been no material adverse change in the financial condition or operations of the Borrower from that set forth in said financial statements except changes disclosed in writing to NCSC prior to the date hereof. The Borrower has heretofore furnished to NCSC true and complete copies of its financial and statistical reports for each of the three most recent calendar years and the facts stated therein are true as of the date hereof.

**I. Borrower's Legal Status.** Schedule 1 hereto accurately sets forth: (a) The Borrower's exact legal name, (b) the Borrower's organizational type and jurisdiction of organization, (c) the Borrower's organizational identification number or accurate statement that the Borrower has none and (d) the Borrower's place of business or, if more than one, its chief executive office as well as the Borrower's mailing address if different.

**J. Location of Properties.** All property owned by the Borrower is located in the counties identified in Schedule 1 hereto.

**K. No Other Liens.** As to property which is presently included in the description of Collateral, the Borrower has not, without the prior written approval of NCSC, signed any security agreement or mortgage or filed or permitted to be filed any financing statement with respect to assets owned by it, other than security agreements, mortgages, and financing statements running in favor of NCSC and purchase money security interests, except as disclosed in writing to NCSC prior to the date hereof.

**L. Required Approvals.** No license, consent or approval of any governmental agency or authority is required to enable the Borrower to enter into this Agreement or the Note, or to perform any of its obligations provided for in such documents, except as disclosed in Schedule 1 hereto, all of which Borrower has obtained prior to the date hereof.

### ARTICLE III

#### LOAN

**Section 3.01 Advances.** NCSC agrees to make, and the Borrower agrees to request on the terms and conditions of this Agreement, Advances from time to time at the office of NCSC in Herndon, Virginia or at such other place as may be designated by NCSC, in an aggregate principal amount not to exceed the NCSC Commitment.

On the Termination Date, NCSC may stop advancing funds and limit the NCSC Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances

shall be evidenced by the Note. The Borrower shall give NCSC written notice of the date on which each Advance is to be made.

**Section 3.02 Payment, Amortization and Interest Rate.** The Note shall be payable and bear interest as follows:

**A. Payments and Amortization.** The Borrower shall promptly pay on each Payment Date all amounts then owing. If not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees shall be due and payable on the Maturity Date. At least quarterly, NCSC will furnish to the Borrower a Payment Notice. Such Payment Notice shall be sent to the Borrower at least ten (10) days before the next ensuing Payment Date.

Principal will be amortized in accordance with the method stated in Schedule 1 hereto. No provision of this Agreement or the Note shall require the payment, or permit the collection, of interest in excess of the highest rate permitted by applicable law.

**B. Application of Payments.** Each payment shall be applied first to any charges other than interest or principal then due on the Note, second to interest accrued on the principal amount to the due date of such payment on the Note (or, at the election of the holder of the Note, to the date of such payment if the same is not paid on its due date); and the balance to the reduction of principal against the Note according to an amortization schedule provided to Borrower from NCSC.

**C. Election of Interest Rate.** Prior to each Advance on the Loan, the Borrower must select in writing one of the following interest rates: (i) a NCSC Fixed Rate; or (ii) the NCSC Variable Rate.

Interest shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the complete calendar quarter following the date upon which an Advance begins to amortize. Thereafter, if the Advance bears interest at a NCSC Fixed Rate, interest shall be computed on the basis of a 30-day month and 360-day year. If the Advance bears interest at the NCSC Variable Rate, interest shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

(i) Fixed Rate. If the Borrower elects a fixed rate for the Advance, such rate shall be in effect for a NCSC Fixed Rate Term. NCSC shall provide the Borrower with at least sixty (60) days prior written notice of the date on which a NCSC Fixed Rate is no longer in effect. Pursuant to NCSC's policies of general application for such repricing, the Borrower may choose any of the interest rate options then available for similarly classified borrowers repricing from a NCSC Fixed Rate. In the event the Borrower does not select an interest rate in writing when a NCSC Fixed Rate is subject to repricing, the Advances shall bear interest according to NCSC's then available interest rate repricing policies. NCSC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date, provided, however, that the Borrower may not select a NCSC Fixed Rate with a NCSC Fixed Rate Term that extends beyond the Maturity Date.

(ii) NCSC Variable Rate. If the Borrower elects a NCSC Variable Rate, such NCSC Variable Rate shall apply until the Maturity Date unless the Borrower elects to convert to a NCSC Fixed Rate pursuant to the terms hereof.

### **Section 3.03 Conversion of Interest Rates.**

**(A) NCSC Variable Rate to a NCSC Fixed Rate.** The Borrower may, at its option, at any time request to convert from the NCSC Variable Rate to a NCSC Fixed Rate by submitting to NCSC a Conversion Request. The rate shall be equal to the rate of interest offered by NCSC and accepted by the Borrower. The effective date of the new interest rate shall be a date determined by NCSC pursuant to its policies of general application following receipt of the Conversion Request.

**(B) NCSC Fixed Rate to NCSC Variable Rate.** The Borrower may, at its option, at any time convert any Advance from an NCSC Fixed Rate to the NCSC Variable Rate if the Borrower: (i) submits a Conversion Request requesting that the NCSC Variable Rate apply to any outstanding loan balance on the Advance pursuant thereto; and (ii) pays to NCSC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to NCSC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the NCSC Variable Rate shall be a date determined by NCSC pursuant to its policies of general application following receipt of the Conversion Request.

**(C) A NCSC Fixed Rate to Another NCSC Fixed Rate.** The Borrower may, at its option, at any time convert any Advance from a NCSC Fixed Rate to another NCSC Fixed Rate if the Borrower: (i) submits a Conversion Request requesting that a NCSC Fixed Rate apply to any outstanding loan balance on the Advance and (ii) pays to NCSC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to NCSC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the new interest rate shall be a date determined by NCSC pursuant to its policies of general application following receipt of the Conversion Request.

**Section 3.04 Prepayment.** The Borrower may at any time, on not less than thirty (30) days written notice to NCSC, prepay the Note, in whole or in part, together with the interest accrued to the date of prepayment and any prepayment premium that NCSC may from time to time prescribe, pursuant to its policies of general application.

## **ARTICLE IV**

### **CONDITIONS OF LENDING**

**Section 4.** The obligation of NCSC to make the Advance hereunder is subject to satisfaction of the following conditions:

**A. Legal Matters.** All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for NCSC.

**B. Borrower Documents.** NCSC shall have been furnished with executed originals satisfactory to NCSC of this Agreement, the Note and the Security Agreement and certified copies of all such corporate documents and proceedings of the Borrower authorizing the transactions hereby contemplated as NCSC shall require. NCSC shall have received an opinion of counsel for the Borrower addressing such legal matters as NCSC shall reasonably require and a certificate as to Resolutions of the Board of Directors and Incumbency.



**C. Guaranty Documents.** NCSC shall have been furnished with (i) the Guaranty executed by the Guarantor, (ii) certified copies of all such organizational documents and proceedings of the Guarantor authorizing the transactions contemplated by the Guaranty as NCSC shall require, and (iii) an opinion of counsel for the Guarantor addressing such legal matters as NCSC shall reasonably require.

**D. Government Approvals.** The Borrower shall have furnished to NCSC true and correct copies of all certificates, authorizations and consents, including without limitation the consents referred to in Section 2.L. hereof, necessary for the execution, delivery or performance by the Borrower of this Agreement, the Note and the Security Agreement.

**E. Representations and Warranties.** The representations and warranties contained in Article II shall be true on the date of the making of each Advance hereunder with the same effect as though such representations and warranties had been made on such date; no Event of Default specified in Article VII and no event which, with the lapse of time or the notice and lapse of time specified in Article VII would become such an Event of Default, shall have occurred and be continuing or will have occurred after giving effect to the Advance on the books of the Borrower; there shall have occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower; and nothing shall have occurred which in the opinion of NCSC materially and adversely affects the Borrower's ability to meet its obligations hereunder.

**F. UCC Filings.** Uniform Commercial Code financing statements (and any amendments thereto that NCSC shall require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that NCSC shall have reasonably requested) to provide NCSC a first priority, perfected security interest in the Collateral which may be perfected by the filing of a financing statement, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to NCSC.

**G. Requisitions.** Borrower will requisition its Advance by submitting its written requisition to NCSC in form and substance satisfactory to NCSC. Requisitions shall be made only for the purposes set forth in Schedule 1 hereto. The Borrower agrees to apply the proceeds of the Advance in accordance with its loan application with such modifications as may be mutually agreed in writing.

**H. Limit on Amount of Loan.** No advance will be made hereunder in excess of the aggregate amount authorized by the guaranty, unless approved in writing by NCSC.

**I. Special Conditions.** NCSC shall be fully satisfied that the Borrower has complied and will continue to comply with all special conditions identified in Schedule 1 hereto.

## ARTICLE V

### AFFIRMATIVE COVENANTS

**Section 5.** Borrower covenants and agrees with NCSC that until payment in full of the Note and performance of all obligations of the Borrower hereunder:

**A. Membership.** Borrower agrees that it will remain an eligible borrower of NCSC.

**B. Notice.** Borrower agrees that it will not, directly or indirectly, without giving written notice to NCSC thirty (30) days prior to the effective date of any change:

- (a) Change of Location of Place of Business or Chief Executive Office. Change the location of Borrower's place of business or, if more than one, its chief executive office.
- (b) Change of Name. Change the name of Borrower.
- (c) Change of Mailing Address. Change the mailing address of Borrower.
- (d) Change of Organizational Identification Number. Change its organizational identification number if it has one.

**C. Organizational Change.** Borrower agrees that it shall not, directly or indirectly, change its type of organization, jurisdiction of organization or other legal structure, except (a) with the prior written consent of CFC, or (b) as permitted by Article VI, Paragraph A. hereof, in which case Borrower shall provide written notice to CFC within 30 days of any such permitted change.

**D. Annual Certificate.** Within one hundred twenty (120) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, Borrower will deliver to NCSC a written statement signed by an officer of the Borrower, stating that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement and the Note, throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof.

**E. Financial Ratios.** Until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower agrees that it will so operate and manage its business as to achieve an annual DSC ratio of not less than that amount identified in Schedule 1 hereto as measured at the end of each of Borrower's fiscal years while this Agreement is in effect.

**F. Insurance.** Borrower agrees that it will maintain insurance on the Collateral with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by entities engaged in the same and similar business. Said insurance shall name NCSC as "loss payee" and a certificate evidencing said insurance shall be provided to NCSC. Borrower will promptly notify NCSC of any change in its insurance carrier or of any material changes in its insurance coverage.

**G. Management Fees.** Borrower agrees that it will not pay any management fees or, if currently paying a management fee, pay an increase in management fees without the prior written consent of NCSC.

**H. Financial Books; Financial Reports; Right of Inspection.** The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with the Accounting Requirements. The Borrower will prepare and furnish NCSC from time to

time, not later than the last day of each month, financial and statistical reports on its condition and operations for the previous month. All of such reports shall be in such form and include such information as may be specified by NCSC, including without limitation an income statement, balance sheet and cash flow statement. The Borrower will cause to be prepared and furnished to NCSC from time to time, at least once during each 12-month period during the term hereof, a full and complete report of its financial condition and of its operations as of the end of the calendar year in form and substance satisfactory to NCSC, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to NCSC and accompanied by a report of such audit in form and substance satisfactory to NCSC. Such report shall be furnished within one hundred twenty (120) days of the end of such calendar year. NCSC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business.

**I. Limitation on Dividends and Other Cash Distributions.** Without the prior written consent of NCSC, the Borrower will not, in any calendar year, declare or pay any dividends, or make any other cash distributions (collectively, "Distributions"), to its members, stockholders or consumers if there is unpaid when due any installment of principal of (premium, if any) or interest on its Notes, if the Borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's total current and accrued assets would be less than its total current and accrued liabilities. For the purpose of this section a "cash distribution" shall be deemed to include any general cancellation or abatement of charges for services furnished by the Borrower.

**J. Limitations on Loans, Investments and Other Obligations.**

(a) The Borrower shall not, without first obtaining the written approval of NCSC: (i) purchase or make any commitment to purchase any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interest in, (ii) make any other investment in, (iii) make any loan to, or (iv) guarantee, assume, or otherwise become liable for any obligation of, any corporation, association, partnership, joint venture, trust, government or any agency or department thereof, or any other entity of any kind if the aggregate amount of all such purchases, investments, loans and guarantees exceeds the greater of three percent (3%) of total assets as calculated in accordance with the Accounting Requirements.

(b) The following shall not be included in the limitations of purchases, investments, loans and guarantees in (a) above: (i) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States government or any agency or instrumentality thereof; (ii) bonds, notes, debentures, stock, commercial paper, subordinate capital certificates, or any other security or obligation of institution whose senior unsecured debt obligations are rated by at least two nationally recognized rating organizations in either of their two highest categories; (iii) investments incidental to loans made by NCSC; and (iv) any deposit that is fully insured by the Federal Government.

(c) In no event may the Borrower take any action pursuant to subsection (a) when there is: (i) unpaid any due installment of principal and/or interest on the Note; or (ii) Borrower has failed to meet the financial ratio tests in Section 5.E. herein.

**K. Special Affirmative Covenants.** Borrower agrees that it will comply with any special affirmative covenants identified in Schedule 1 hereto.

## ARTICLE VI

### NEGATIVE COVENANTS

**Section 6.** Borrower covenants and agrees with NCSC that Borrower will not, directly or indirectly, without NCSC's prior written consent:

**A. Merger, Sale of Assets, etc.** Enter into or be a party to any merger or consolidation, sell, assign, transfer, convey or lease all or any substantial part of its property or any interest therein except in the ordinary course of Borrower's business as now being conducted; purchase or otherwise acquire all or substantially all of the assets of any other person, or any shares of stock of, or similar interest in, any other person.

**B. Issuance of Voting Stock or Other Ownership Interests.** Consent to or facilitate the transfer or issuance of any shares of any voting stock or other ownership interests of Borrower without the prior written consent of NCSC.

## ARTICLE VII

### EVENTS OF DEFAULT

**Section 7.** The following shall be "Events of Default" under this Agreement:

**A. Representations and Warranties.** Any representation or warranty made by the Borrower herein, or in the Security Agreement, or in any certificate or financial statement furnished to NCSC hereunder or under the Security Agreement shall prove to be false or misleading in any material respect;

**B. Payment.** Borrower shall fail to make any payment of any installment of or on account of interest on or principal of (or premium, if any, associated with) the Note when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;

**C. Other Covenants.** Failure of the Borrower to observe or perform any other covenant or agreement contained in this Loan Agreement, in the Note or in the Security Agreement, which shall remain unremedied for thirty (30) calendar days after written notice thereof shall have been given to the Borrower by NCSC;

**D. Corporate Existence.** The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;

**E. Other Obligations.** Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;

**F. Bankruptcy.** The Borrower shall file a petition in bankruptcy or be adjudicated a bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization or proceedings instituted by others for its reorganization shall not be dismissed within sixty (60) days after the institution thereof;

**G. Dissolution or Liquidation.** Other than as provided in subsection F. above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions set forth in Section 6.A. permitting such actions; or

**H. Final Judgment.** A final judgment in excess of \$100,000 shall be entered against the Borrower and shall remain unsatisfied or without a stay for a period of sixty (60) days.

## ARTICLE VIII

### REMEDIES

**Section 8.** If any of the Events of Default listed in Section 7 hereof shall occur after the date of this Agreement and shall not have been remedied within the grace periods specified therein, then NCSC may pursue all rights and remedies available to NCSC that are contemplated by the Security Agreement in the manner, upon the conditions, and with the effect provided in the Security Agreement, including, but not limited to, terminating Borrower's ability to make additional Advances hereunder, a suit for specific performance, injunctive relief, damages or to declare all unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. Nothing herein shall limit the right of NCSC to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Section 7 hereof. Each right, power and remedy of NCSC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver or any other right, power or remedy.

## ARTICLE IX

### MISCELLANEOUS

**Section 9.01 Notices.** All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when personally delivered or, in the case of a telecopied or

mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are as follows:

National Cooperative Services  
Corporation  
2201 Cooperative Way  
Herndon, Virginia 20171-3025  
Attention: Vice President  
Fax # 709-709-6776

The Borrower:

The address set forth in  
Schedule 1 hereto

**Section 9.02 Expenses.** The Borrower will pay all costs and expenses of NCSC, including reasonable fees of counsel, incurred in connection with the enforcement of this Agreement, the Note, the Security Agreement and the other instruments provided for herein or with the preparation for such enforcement if NCSC has reasonable grounds to believe that such enforcement may be necessary. Such sums shall be secured by the Security Agreement and shall be payable forthwith, with interest thereon at the rate specified in the Security Agreement.

**Section 9.03 Late Payments.** If payment of any principal and/or interest due under the terms of the Note is not received at NCSC's office in Herndon, Virginia or such other place as NCSC may designate to the Borrower, within five (5) Business Days after the due date thereof or such other time periods as NCSC may prescribe from time to time in the policies of general application in connection with any late payment charges, (such unpaid amount of principal and/or interest being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower will pay to NCSC, in addition to all other amounts due under the terms of the Note, the Security Agreement and this Agreement, any late payment charge as may be fixed by NCSC from time to time, on the delinquent amount for the late-payment period.

**Section 9.04 Filing Fees.** To the extent permitted by law, the Borrower agrees to pay all expenses of NCSC (including the reasonable fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by NCSC in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify NCSC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by NCSC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder.

**Section 9.05 Rescission Fee.** The Borrower may elect not to borrow all or any portion of the NCSC Commitment in which event NCSC shall release the Borrower from its obligation hereunder, provided the Borrower complies with such terms and conditions as NCSC may impose for such release including, without limitation, payment of any rescission fee that NCSC may from time to time prescribe, pursuant to its policies of general application.

**Section 9.06 No Waiver.** No failure on the part of NCSC to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by NCSC of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

**Section 9.07 Right of Setoff.** Upon the occurrence and during the continuance of any Event of Default, NCSC is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereby held, by NCSC or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under the Note. NCSC agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof provided that the failure to give such notice shall not effect the validity of such setoff, recoupment or application. The rights of NCSC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which NCSC may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

**Section 9.08 Holiday Payments.** If any payment to be made by the Borrower hereunder shall become due on a Saturday, Sunday or business holiday of NCSC, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

**Section 9.09 Modifications.** No modification or waiver of any provision of this Agreement or the Note and no consent to any departure by Borrower therefrom shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent.

**Section 9.10 Merger and Integration.** This Agreement and matters incorporated by reference contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby.

**Section 9.11 Headings.** The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

**Section 9.12 Severability.** If any term, provision or condition, or any part thereof, of this Agreement, the Note or the Security Agreement shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note and the Security Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

**Section 9.13 Survival; Successors and Assigns.** All covenants, agreements, representations and warranties made herein shall survive the execution and delivery to NCSC of the Note, and shall continue in full force and effect until all of the obligations have been paid in full. All covenants, agreements, representations and warranties by or on behalf of Borrower which are contained in this Agreement shall inure to the benefit of the successors and assigns of NCSC. This Agreement may not be assigned by Borrower without the prior written consent of NCSC.

**Section 9.14 Use of Terms; Headings.** The use of any gender or the neuter herein shall also refer to the singular, and vice versa. The headings and subheadings shall also refer to the other gender or the neuter and the use of the plural contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

**SECTION 9.15. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.**

(A) THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

(B) BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(C) EACH OF THE BORROWER AND NCSC HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**Section 9.16 Schedule 1.** Schedule 1 attached hereto is an integral part of this Agreement.

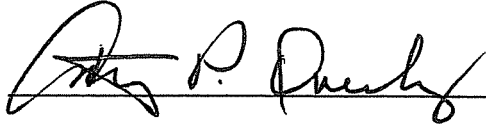
**[EXECUTIONS ON FOLLOWING PAGE]**



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

FLEMING-MASON SERVICE CORPORATION

(SEAL)

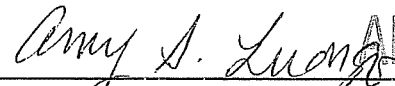
By: 

Title: PRESIDENT

Attest:   
Secretary

NATIONAL COOPERATIVE SERVICES CORPORATION

(SEAL)

By:  **AMY S. LUONG**  
Assistant Secretary-Treasurer

Attest:  **LESLIE EBERT**  
Assistant Secretary-Treasurer

**SCHEDULE 1**

1. The Borrower selects the following Loans and has executed the following Notes:

LOAN NUMBER	AMOUNT
KY404-A-9000	\$743,041.40
KY404-A-9001	\$300,000.00

2. The purpose of the Loans is as follows:

Loan KY404-A-9000: To repay all amounts currently outstanding on Borrower's currently existing line of credit with NCSC bearing NCSC Loan Number KY404-R-9902.

Loan KY404-A-9001: To provide financing for Borrower's 2004 capital expenditures.

3. The aggregate NCSC Commitment shall mean \$1,043,041.40.
4. Guarantor shall mean Fleming-Mason Energy Cooperative, Inc.
5. The Payment Date months are March, June, September and December.
6. The date of the Borrower's balance sheet referred to in Section 2.H. is December 31, 2002.
7. The Borrower's exact legal name is: Fleming-Mason Service Corporation
8. The Borrower's organizational type is: Corporation
9. The Borrower is organized under the laws of the state of: Kentucky
10. The Borrower's organizational identification number is: 0438942
11. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.I. is 1449 Elizaville Road, Flemingsburg, Kentucky 41041.
12. The property of the Borrower referred to in Section 2.J. is located in the county of Fleming in the State of Kentucky.
13. The governmental agency referred to in Section 2.L. is: N/A
14. The method of principal amortization referred to in Section 3.02.A. is as follows:  
  
Loan KY404-A-9000: level debt service  
  
Loan KY404-A-9001: level debt service, *provided, however,* that Advances shall amortize over a period not to exceed ten (10) years.
15. The special conditions referred to in Section 4.I. are as follows: N/A

16. The DSC ratio referred to in Section 5.E. is 1.15
17. The address for notices to the Borrower referred to in Section 9.01 is PO Box 328, Flemingsburg, KY 41041, Attention: President, Fax: 606-845-1008.
18. The special affirmative covenants referred to in Section 5.K. are as follows:
- a) Borrower hereby explicitly and irrevocably instructs NCSC, upon NCSC's execution of this Agreement, to make the initial Advance(s) under this Agreement and the Note designated by NCSC loan designation KY404-A-9000 to repay any principal, interest and other amounts outstanding under Borrower's Revolving Line of Credit with NCSC bearing NCSC Loan Number KY404-R-9902 and upon such payment to NCSC, Borrower agrees that such line of credit No. KY404-R-9902 with NCSC, and any agreement(s) relating thereto shall be terminated.
- b) Within ninety (90) days of the date of the initial Advance hereunder, Borrower shall submit an exit strategy approved by Borrower's governing body including, but not limited to, specific benchmarks triggering exit pursuant to such strategy.
- c) Borrower shall not create, incur, assume, become or be liable in any manner in respect of, any indebtedness except accounts payable to trade creditors for goods or services incurred in the ordinary course of business, as presently conducted, and paid within the specified time, unless contested in good faith and by appropriate proceedings.
- d) As of the dates set forth herein, Borrower shall achieve an equity as a percentage of total assets in the amounts set forth as follows

December 31, 2004 and 2005	Equity: 5%
December 31, 2006	Equity: 10%
December 31, 2007	Equity: 15%
December 31, 2008 and beyond:	Equity: 20%

## SECURITY AGREEMENT

**THIS SECURITY AGREEMENT**, (this "Agreement"), dated APRIL 26, 2004, is by and between FLEMING-MASON SERVICE CORPORATION, a corporation organized and existing under the laws of the State of Kentucky ("Borrower"), and NATIONAL COOPERATIVE SERVICES CORPORATION ("NCSC"), a cooperative association incorporated under the laws of the District of Columbia.

**WHEREAS**, Borrower and NCSC are parties to a Loan Agreement dated as of the date hereof designated by NCSC Loan Number KY404-A-9000 and 9001 (as modified and supplemented and in effect from time to time, the "Loan Agreement"), providing, subject to the terms and conditions thereof, for one or more loans to be made by NCSC to Borrower.

**WHEREAS**, Borrower and NCSC are parties to a Revolving Line of Credit Agreement designated by NCSC Loan Number KY404-R-9903 (as modified and supplemented and in effect from time to time, the "Line of Credit Agreement"), providing, subject to the terms and conditions thereof, for one or more loans to be made by NCSC to Borrower.

**WHEREAS**, the Loan Agreement and the Line of Credit Agreement are collectively referred to herein as the Loan Agreements.

**WHEREAS**, to induce NCSC to enter into the Loan Agreements and to lend money thereunder and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower has agreed to pledge and grant a security interest in the Collateral (as hereinafter defined) as security for the Secured Obligations (as so defined). Accordingly, the parties hereto agree as follows:

**Section 1. Definitions.** Any capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Loan Agreements or, if not defined therein, as defined in the Uniform Commercial Code as the same may from time to time be in effect in the Commonwealth of Virginia (the "UCC"). All terms defined in the UCC of the Commonwealth of Virginia and used herein shall have the same definitions herein as specified therein; provided, however, that the term "instrument" shall be such term as defined in Article 9 of the UCC of the Commonwealth of Virginia rather than Article 3:

"Accounts Receivable" means all accounts, fees or other revenues receivable, contract rights for the payment of money, royalties, instruments, chattel paper, other obligations and receivables, expense reimbursements and all other rights to payment; and all other types of any property of Borrower included within the term "Account" as defined in the UCC, in all cases whether now owned or existing or hereafter acquired or hereafter arising.

"Collateral" means all personal and fixture property of every kind and nature including, without limitation, all goods (including inventory, equipment and any other accessions thereto), instruments (including promissory notes), documents, accounts (including health-care-insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, and any other contract rights or rights to the

payment of money, insurance claims and proceeds, tort claims, and all general intangibles including, without limitation, all payment intangibles, patents, patent applications, trademarks, trademark applications, trade names, copyrights, copyright applications, software, engineering drawings, service marks, customer lists, goodwill, and all licenses, permits, agreements of any kind or nature pursuant to which the Borrower possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of the Borrower, and all recorded data of any kind or nature regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics and all proceeds, products, additions and accessions to and substitutions or replacements for any of the foregoing.

"Secured Obligations" means, collectively, principal, interest and all other sums due under the Loan Agreements, any note or notes executed and delivered by Borrower pursuant to the Loan Agreements, including any substitute note, modification or additional note or notes issued pursuant thereto, and all other obligations set forth in the Loan Agreements and in any such note or notes.

**Section 2. Security Interest.** Borrower, its successors and assigns, hereby gives and grants to NCSC, its successors and assigns, a security interest in all the Collateral and all of Borrower's right, title and interest therein, whether now owned or existing or hereafter acquired or arising, together with all proceeds therefrom, to secure the Secured Obligations, including, without limitation, the following:

- a) the payment of all principal under the Loan Agreements and all interest from time to time outstanding thereunder;
- b) the payment by Borrower of all costs and expenses (including attorneys' fees and expenses) incurred by NCSC in the collection of the amounts due under the Loan Agreements and in the enforcement of its rights thereunder;
- c) the payment of all amounts from time to time owing to NCSC under or in connection with the Loan Agreements and this Agreement, including all costs and expenses (including attorneys' fees and expenses) incurred by NCSC in the enforcement of its rights under the Loan Agreements and this Agreement; and
- d) performance by Borrower of all of its obligations under the Loan Agreements and this Agreement.

**Section 3. Accounts Receivable.** Borrower covenants and agrees as follows:

- a) NCSC shall have the right from time to time (at Borrower's expense) to arrange for verification of all Accounts Receivable directly with the account debtors or by other methods reasonably satisfactory to NCSC. Any such verification shall be conducted in such a manner as to minimize disruption to Borrower's business.
- b) In the event any Account Receivable of Borrower is evidenced by chattel paper or other negotiable instruments, Borrower shall, after the occurrence and during the continuance of a Default, deliver the same to NCSC (with all requisite endorsements,

in favor of NCSC, which NCSC may make as attorney-in-fact for Borrower, NCSC being hereby appointed as attorney-in-fact for Borrower for such purpose) as soon as possible and prior to such delivery shall hold the same in trust for the benefit of NCSC.

- c) Except as otherwise provided in this Section, Borrower shall use its best efforts to collect, at its own expense, all amounts due or to become due to Borrower on the Accounts Receivable. After a Default, NCSC shall have the sole right at any time, upon written notice to Borrower and at the expense of Borrower, to take such action in accordance with applicable law to collect the Accounts Receivable as NCSC deems proper, and to adjust, settle and compromise payment thereof (without notice to or the consent of Borrower), in the same manner and to the same extent as Borrower might have done. At such time as NCSC exercises its rights pursuant to the preceding sentence, Borrower shall not take any action to collect, adjust, settle or compromise any Account Receivable except with the written consent of NCSC and any collections of Accounts Receivable received or held by Borrower shall be property of NCSC, shall be held in trust for the benefit of NCSC and shall be delivered to NCSC immediately with all requisite endorsements in favor of NCSC which NCSC may make as attorney-in-fact for Borrower. NCSC does not have any obligation to Borrower to collect or attempt to collect any Accounts Receivable or to preserve any rights against any party in connection therewith.

If any of the Accounts Receivable includes a charge for any tax payable to any governmental authority, NCSC is hereby authorized (but in no event obligated) in its discretion, to pay the amount thereof to the proper taxing authority for Borrower's account and to charge Borrower's account therefor. NCSC shall have the right to retain the full proceeds of such Accounts Receivable and shall not be liable for any taxes that may be due from Borrower by reason of the sale and delivery creating such Accounts Receivable.

#### **Section 4. Records.**

Borrower will at all times keep accurate and complete records of the Collateral, and NCSC shall have the right, at all reasonable times upon one day's notice and at its own expense prior to the occurrence of any Default but at Borrower's expense thereafter, to examine and inspect the same and to make copies thereof.

#### **Section 5. Representations, Warranties and Covenants.**

Borrower hereby represents and warrants to NCSC as follows:

- a) It is and will be the sole owner of all of the Collateral now or hereafter appearing on its books, and that the same are and will be, during the term of this Agreement, free and clear from any and all assignments, liens, and security interests, except for purchase money security interests, those in favor of NCSC or as otherwise provided herein or in the Loan Agreements, and that all its books and records concerning the Collateral are kept at the Borrower's principal place of business;
- b) The Collateral and all records concerning the Collateral will be kept at the location(s) identified on Schedule 1 hereto;

- c) Borrower will not permit the sale or lease of any Collateral (except for dispositions occurring in the ordinary course of business) nor permit any Collateral to become subject to any lien or other security interest, whether prior or subordinate to the security interests of NCSC created hereunder, except for those in favor of NCSC or as otherwise provided herein or in the Loan Agreements;
- d) Borrower will obtain and maintain, or cause to be obtained and maintained, a policy or policies of insurance, insuring such of the Collateral as is ordinarily insured by entities engaged in the Borrower's business against loss or damage by hazard, liability and such other perils as may from time to time customarily be covered by extended coverage insurance, and insuring against such other risks as may be covered by entities engaged in a similar business, in an amount equal to the full insurable value of the Collateral. Each of said policy or policies shall name NCSC as an additional insured, as its interest may appear, and shall contain an endorsement making loss payable to NCSC. Each of such policies of insurance shall provide that they cannot be canceled without at least thirty days' prior written notice to NCSC. In the event of any destruction or damage to the Collateral, or any part thereof, any and all proceeds of such insurance received on account of any loss or damage shall be applied by NCSC, upon its receipt thereof, to interest on and principal on the Note, in accordance with the Loan Agreements; provided, however, if no Default then exists, Borrower may cause the proceeds to be applied to replace, repair or restore the damaged or destroyed Collateral;
- e) Borrower agrees to indemnify and hold harmless NCSC from any present or future claim for liability for any tax and any penalties or interest with respect thereto, which may be assessed, levied or collected by any jurisdiction in connection with this Agreement or the Collateral;
- f) Borrower will prepare and execute all necessary financing statements and supplements thereto, if any, and will attend to the filing of any and all continuation statements as required by NCSC or applicable law from time to time in order to continue the perfection and priority of the security interests of NCSC hereunder; and
- g) Borrower shall, from time to time as requested by NCSC, take such action and execute and deliver to NCSC all such instruments, supplements, further assurances, financing statements and security or other agreements as may be required or requested by NCSC in order to perfect and maintain NCSC's security interest in the Collateral.

## **Section 6. Particular Covenants of the Borrower**

**6.01. Borrower's Legal Status.** (a) The Borrower represents, warrants, covenants and agrees that: (i) the Borrower's exact legal name is that indicated on Schedule 1 hereto, (ii) the Borrower is an organization of the type and organized in the jurisdiction set forth Schedule 1 hereto, (iii) Schedule 1 hereto accurately sets forth the Borrower's organizational identification number or accurately states that the Borrower has none and (iv) Schedule 1 hereto accurately

sets forth the Borrower's place of business or, if more than one, its chief executive office as well as the Borrower's mailing address if different.

(b) (i) The Borrower will not change its name, its place of business or, if more than one, chief executive office, or its mailing address or organizational identification number if it has one, without providing prior written notice to NCSC at least thirty (30) days prior to the effective date of any change, (ii) if the Borrower does not have an organizational identification number and later obtains one, the Borrower will promptly notify NCSC of such organizational identification number and (iii) the Borrower will not change its type of organization, jurisdiction of organization or other legal structure without the prior written consent of NCSC.

**6.02. Authorization to File Financing Statements.** The Borrower hereby irrevocably authorizes NCSC at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of the Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the applicable Uniform Commercial Code, or (ii) as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the applicable Uniform Commercial Code for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Borrower is an organization, the type of organization and any organizational identification number issued to the Borrower and (ii) in the case of a financing statement filed as a fixture filing, a sufficient description of real property to which the Collateral relates. The Borrower agrees to furnish any such information to NCSC promptly upon request. The Borrower also ratifies its authorization for NCSC to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

**6.03. Other Actions Concerning Collateral.** The Borrower will take any other action reasonably requested by NCSC to insure the attachment, perfection and first priority of, and the ability of NCSC to enforce, NCSC's lien on and security interest in any and all of the Collateral including, without limitation (a) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of NCSC to enforce, NCSC's security interest in such Collateral, (b) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on the Collateral, (c) obtaining waivers from mortgagees and landlords in form and substance satisfactory to NCSC and (d) taking all actions required by any earlier versions of the Uniform Commercial Code or by other law, as applicable in any relevant Uniform Commercial Code jurisdiction, or by other law as applicable in any foreign jurisdiction.

## **Section 7. Default and Remedies.**

**7.01.** Borrower shall be in default under this Agreement upon the occurrence of any one or more of the following events (each, a "Default"):

- a) A Event of Default under the Loan Agreements.



- b) A breach of any agreement, representation, warranty or covenant under this Agreement which shall be continuing for a period of thirty (30) days after notice thereof to Borrower.

**7.02. Acceleration of Maturity; Rescission and Annulment.**

(a) Defaults. If a Default described in Section 7.01 shall have occurred and be continuing, NCSC may declare the principal of, and any other amounts due on account of, the Notes secured hereunder to be due and payable immediately by a notice in writing to the Borrower, and upon such declaration, all unpaid principal (premium, if any) and accrued interest so declared shall become due and payable immediately, anything contained herein or in any Note or Notes to the contrary notwithstanding.

(b) Rescission and Annulment. If at any time after the unpaid principal of (premium, if any) and accrued interest on any of the Notes shall have been so declared to be due and payable, all payments in respect of principal and interest which shall have become due and payable by the terms of such Note or Notes (other than amounts due as a result of the acceleration of the Notes) shall be paid to NCSC, and all other defaults hereunder and under the Notes shall have been made good and secured to the satisfaction of NCSC, then and in every such case, NCSC may, by written notice to the Borrower, annul such declaration and waive such default and the consequences thereof, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

**7.03** If a Default shall occur, NCSC shall have the following rights:

- a) to perform any defaulted covenant or agreement of this Agreement to such extent as NCSC shall determine and advance such moneys as it shall deem advisable for the aforesaid purpose and all monies so advanced shall be secured hereby and shall be repaid promptly without demand; provided, however, that nothing herein contained shall be construed to require NCSC to advance money for any of the aforesaid purposes;
- b) to notify all account debtors to make payments directly to NCSC or otherwise as NCSC may specify;
- c) to exercise its rights, options, and remedies under this Agreement and/or other rights, options, and remedies as provided under applicable law;
- d) where applicable, to take immediate possession of the Collateral and, with or without taking possession of the Collateral, to sell, lease or otherwise dispose of any or all of the Collateral, either at public or private sale, upon commercially reasonable terms, and NCSC may become the purchaser thereof at public sale. Any notice given at least ten (10) days prior to such sale shall be deemed to comply with law and constitute reasonable notice. Any sale may be adjourned at any time and from time to time to a reasonably specified time and place by announcement at the time and place of sale as previously fixed, without further notice by publication or otherwise of the time and place of such adjourned sale. The proceeds of any sale shall be applied (i) first to the

expenses of taking, holding and preparing for sale or disposition, and sale or disposition and the like (including reasonable attorneys' fees), (ii) next to the principal and interest due under the Loan Agreements and the other Secured Obligations, and (iii) any surplus to Borrower, and Borrower shall remain liable for any deficiency and any court costs relating to the sale or other disposition of Collateral. Any such sale, public or private, may be made on credit at the option of NCSC. NCSC shall have the right to conduct any such sale on Borrower's premises, and NCSC shall have such right of possession of said premises as shall be necessary or convenient for such purpose. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by NCSC until the selling price is paid by the purchaser thereof, but NCSC shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice. NCSC, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose on and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction;

- e) to take immediate possession of the Collateral and to use or operate the Collateral in order to preserve the same or its value, and collect, receive and use all of the net profits from such use or operation to pay the Secured Obligations;
- f) to require Borrower, to the extent practicable and at Borrower's expense, to assemble the Collateral and make it available to NCSC at such locations within the county wherein such Collateral is located as NCSC shall designate;
- g) to proceed to protect and enforce its rights under the Loan Agreements or this Agreement by a suit or suits in equity or at law, whether for specific performance or observance of any terms, provisions, covenants or conditions herein or therein contained, in aid of the execution of any power herein or therein granted, for any foreclosure hereunder or thereunder, or for the enforcement of any other proper legal or equitable remedy;
- h) to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any of the general intangibles, for such term or terms, on such conditions, and in such manner, as NCSC shall in its sole discretion determine;
- i) upon request by NCSC, Borrower will execute and deliver to NCSC a power of attorney, in form and substance satisfactory to NCSC, for the implementation of any lease, assignment, license, sublicense, grant of option, sale, or other disposition of general intangibles. Borrower hereby releases NCSC from any claims, causes of action and demands at any time arising out of or with respect to any actions taken or omitted to be taken by NCSC hereunder except for any such claims, causes of action and demands arising out of the gross negligence or willful misconduct of NCSC. Borrower agrees to pay when due all reasonable costs incurred in any such disposition, including any taxes, fees and reasonable attorneys fees;

- j) NCSC shall have any and all other rights and remedies provided by law or equity to a secured party. All of NCSC's rights and remedies will be cumulative, and no waiver of any default will affect any other subsequent default. The rights and remedies provided in this Agreement, including, without limitation, obtaining and selling the Collateral, are cumulative, may be exercised concurrently or separately, may be exercised from time to time and in such order, without any marshaling, as NCSC shall determine; and
- k) to exercise rights of set-off against the Collateral in order to pay the Secured Obligations.

Nothing herein contained shall be construed as preventing NCSC from taking all lawful actions to protect its interest in the event that liquidation, insolvency, bankruptcy, reorganization or foreclosure proceedings of any nature whatsoever affecting the property or assets of Borrower should be instituted.

### **Section 8. Miscellaneous.**

**8.01 No Waiver.** No failure on the part of NCSC or any of its agents to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by NCSC or any of its agents of any right, power or remedy hereunder preclude any other or further exercise thereof or exercise of any other rights, power or remedy. The remedies herein are cumulative and are not exclusive of any remedies provided by law.

### **8.02 Choice of Law; Jurisdiction; Waiver of Jury Trial.**

The performance and construction of this Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.

Borrower hereby submits to the nonexclusive jurisdiction of the United States courts located in Virginia and of any state court so located for purposes of all legal proceedings arising out of or relating to this agreement or the transactions contemplated hereby. Borrower irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the establishing of the venue of any such proceeding brought in such a court and any claim that any such proceeding has been brought in an inconvenient forum.

Each of the Borrower and NCSC hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this agreement or the transactions contemplated hereby.

**8.03 Notices.** All notices, requests, consents and demands hereunder shall be in writing and telexed, telecopied, telegraphed, cabled or delivered to the intended recipient at this address or telex number specified in of the Loan Agreements and shall be deemed to have been given at the times specified therein.

**SCHEDULE 1**

1. The Borrower's exact legal name is: Fleming-Mason Service Corporation
2. The Borrower's organizational type is: Corporation
3. The Borrower is organized under the laws of the state of: Kentucky
4. The Borrower's organizational identification number is: 0438942
5. The principal place of business or, if more than one, the chief executive office of the Borrower referred to in Section 6.01. is 1449 Elizaville Road, Flemingsburg, Kentucky 41041.
6. The Collateral referred to in Section 5(b) is located in the county of Fleming in the state of Kentucky.

**8.04 Waivers, etc.** The terms of this Agreement may be waived, altered or amended only by an instrument in writing duly executed by Borrower and NCSC. Any such amendment or waiver shall be binding upon NCSC, each holder of any Secured Obligation and Borrower.

**8.05 Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower, NCSC and each holder of the Secured Obligations (provided, however, that Borrower shall not assign or transfer its rights hereunder without the prior written consent of NCSC).

**8.06 Counterparts.** This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

**8.07 Agents.** NCSC may employ agents and attorneys-in-fact in connection herewith and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith.

**8.08 Severability.** If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of NCSC in order to carry out the intentions of the parties hereto as nearly as may be possible.


**IN WITNESS WHEREOF,** the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

FLEMING-MASON SERVICE CORPORATION

(SEAL)

By: 


Title: PRESIDENT

Attest:   
Secretary

NATIONAL COOPERATIVE SERVICES CORPORATION

(SEAL)

By:  AMY S. LUONGO  
Assistant Secretary-Treasurer

Attest:   
Assistant Secretary-Treasurer  
**LESLIE EBERT**

Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

6c. Provide copies of the Board meeting minutes that include any discussion of renewal of the existing line of credit.

**Response:**

Attached is a copy of the April 1, 2004 and the June 3, 2004 Fleming-Mason Energy Board minutes and a copy of the Guarantor's Certificate of Resolutions and Incumbency.

**APRIL BOARD MEETING**

April 1, 2004

The Regular Meeting of the Board of Directors of the Fleming-Mason Energy Cooperative Inc. was held April 1, 2004 at the office of the Cooperative in Flemingsburg, Kentucky at 9:30 am.

The meeting was called to order by J. E. Smith, Jr. Chairman, who presided over the meeting with Lonnie Vice as Secretary.

Upon calling the roll the Secretary reported that the following directors were present:

J. E. Smith, Jr.	Tom Saunders
William Cooper	Tim Eldridge
Elmer Foxworthy	John Roe
Lonnie Vice	

Said persons being all of the directors.

Minutes of the March Regular Meeting were then read by the secretary and approved as read.

The Annual Meeting will be held May 13th and the May Board Meeting will be changed from May 6th to the 13th immediately following the Annual Meeting.

Alan Zumstein presented the 2003 Audit Report to the Board. The Board will take final action on the report at the May meeting.

The Board heard reports from J.E. Smith, Tim Eldridge, Tom Saunders, and Marvin Suit on the panel discussion concerning the wholesale power contracts. They attended the meeting in Orlando.

**Safety Report:** There were two injury accidents reported. Employees Ashley Black and Joey Porter each had minor injuries in separate accidents. One was a back strain the other an injury from a fall.

**KAEC Report:** William Cooper discussed the plans for the Congressional Breakfast and the Cumberland Valley Territorial Dispute Settlement.

**EKP Report:** Lonnie Vice reported that EKP has given Warren the proposal for joining EKP and is awaiting their response. They discussed the request from Gallitin Steel to increase the amount of firm power EKP will supply to them and the impact that will have on wholesale power cost and fuel adjustment charges. Gilbert Plant is approximately 80% completed.

March Capital Credits were reported as \$33,486.79.

**Legal Report:** Attorney Marvin Suit reported that he has sent letters to 2 consumers regarding clearing right-of-way. Both consumers have refused access.

The Board was given a report on investments and short-term borrowing with CFC.

The Operating Report for the month ending March 31, 2004 was reviewed and accepted as filed on motion of William Cooper seconded by Tom Saunders. Margins thru March were reported as \$492,605.

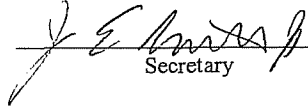
The Board approved applications for Membership or Service Connection for the month of February on motion of Tim Eldridge seconded by Elmer Foxworthy.

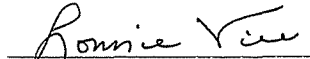
**Old Business:** None

**New Business:** The board heard a proposal to refinance some RUS debt with CFC. Further action will be taken at the next meeting if interest rates remain favorable.

**FM Services Report:** FM Services has refinanced the \$750,000 NCSC line-of-credit and converted it to a 10 year loan. The loan will require a loan guarantee from Fleming-Mason Energy. There are 550 wireless customers. The Owingsville site is operating and the Mayslick is being constructed now.

There being no further business to come before the Board, the meeting was adjourned.

  
Secretary

  
Chairman



## GUARANTOR'S CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, LONNIE C. VICE, do hereby certify that (i) I am the Secretary of FLEMING-MASON ENERGY COOPERATIVE, INC. (hereinafter called the "Guarantor"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Guarantor at a meeting held on April 1, 2004; (iii) the meeting was duly and regularly called and held in accordance with the articles and bylaws of the Guarantor; (iv) the Guarantor is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Guarantor; (v) the form of each Guaranty was submitted to the meeting and was authorized by the board of directors to be executed; (vi) none of the following resolutions has been rescinded or modified as of this date; and (vii) the persons authorized below have been duly elected or appointed to their respective positions and occupied such positions on the date of actual execution of each Guaranty:

RESOLVED, that the Guarantor guarantee advances under a loan agreement in the aggregate principal amount of \$1,043,041.40 obtained by FLEMING-MASON SERVICE CORPORATION ("Borrower") from the National Cooperative Services Corporation ("NCSC") upon terms and conditions set forth therein.

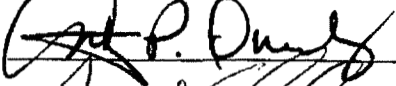

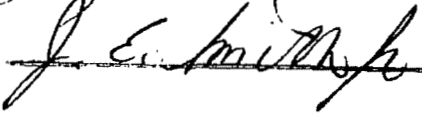
RESOLVED, that the Guarantor guarantee advances under a line of credit agreement in the aggregate principal amount of \$100,000.00 obtained by FLEMING-MASON SERVICE CORPORATION ("Borrower") from the National Cooperative Services Corporation ("NCSC") upon terms and conditions set forth therein.

RESOLVED, that the individuals listed below are hereby authorized to execute and to deliver to NCSC two Guaranties substantially in the form of the guaranties submitted to this meeting (under its corporate seal, which the Secretary or Assistant Secretary is directed to affix and attest<sup>1</sup>):

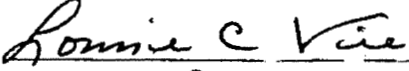
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<sup>1</sup>Corporate seal and attestation necessary only if required by the Guarantor's bylaws and/or the laws of the Guarantor's state of incorporation.

RESOLVED, that the following officers of the Guarantor be, and each of them is, authorized in the name and on behalf of the Guarantor, to execute and deliver all other such instruments, make all such payments and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions:

<u>Office</u>	<u>Name (typed)</u>	<u>Signature</u>
<u>PRESIDENT</u>	<u>ANTHONY P. OVERBEY</u>	
<u>VICE CHAIRMAN</u>	<u>TIMOTHY ELDRIDGE</u>	
<u>CHAIRMAN</u>	<u>J.E. SMITH, JR.</u>	

IN WITNESS WHEREOF, I have set my hand and affixed the seal of the Guarantor this 26 day of April, 2004

  
Secretary

(SEAL)

## JUNE BOARD MEETING

June 3, 2004

The Regular Meeting of the Board of Directors of the Fleming-Mason Energy Cooperative Inc. was held June 3, 2004 at the office of the Cooperative in Flemingsburg, Kentucky at 9:30 am.

The meeting was called to order by J. E. Smith, Jr. Chairman, who presided over the meeting with Lonnie Vice as Secretary.

Upon calling the roll the Secretary reported that the following directors were present:

J. E. Smith, Jr.	Tom Saunders
William Cooper	Tim Eldridge
Elmer Foxworthy	John Roe
Lonnie Vice	

Said persons being all of the directors.

Minutes of the April Regular Meeting and the May Special Meeting were read and approved as read.

The Board was updated on the SURE and ACRE programs.

**Safety Report:** Anthony Overbey reported that there had not been any lost time accidents.

**KAEC Report:** William Cooper reported that there had been no meeting since the last Fleming-Mason meeting. It was reported that KAEC margins were being impacted because higher steel costs were lowering profits from transformer manufacturing.

**EKP Report:** Lonnie Vice reported that there had not been an EKP Meeting. He reported that Warren had signed the agreement to join the EKP system.

Mr. Overbey discussed EKP's administration of the fuel adjustment clause.

May Capital Credits were reported as \$8,413.13.

**Legal Report:** Attorney Marvin Suit reported that he had sent letters to 2 consumers in Rowan County who had refused permission to trim trees in the right-of-way.

The Board was given a report on investments and short-term borrowing with CFC. CFC has updated the cost of refinancing the RUS loans and since interest rates have increased it is no longer feasible to refinance the 5% loans.

The Operating Report for the month ending April 30, 2004 was reviewed and accepted as filed on motion of William Cooper seconded by Lonnie Vice. Margins thru April were reported as \$941,291.

The Board approved applications for Membership or Service Connection for the month of April on motion of Tom Saunders seconded by Tim Eldridge.

**Old Business:** None

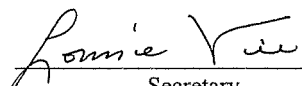
**New Business:** Anthony Overbey reported that Fleming-Mason will host an Economic Development Boot Camp on November 10<sup>th</sup> and 11<sup>th</sup>. Several counties will participate by supplying information and recruiting a company to their area.

**FM Services Report:** Tim Eldridge gave the board an update on the tower sites and new connections. He also reported that Robertson County would be applying for a \$15,000 grant to get internet service for Mt Olivet and parts of Robertson County.

The Board reviewed the exit strategies that had been prepared at the request of NCSC. The Fleming-Mason Energy approved the strategies on motion of Lonnie Vice seconded by John Roe.

It was reported that NCSC would require a guarantee from Fleming-Mason Energy before approval of the new loans to Fleming-Mason Services. The board approved guaranteeing the loan on motion of Tom Saunders seconded by William Cooper.

There being no further business to come before the Board, the meeting was adjourned.

  
Secretary

  
Chairman

Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

6d. Provide the outstanding balance on the line of credit.

**Response:**

To comply with PSC Case No. 2001-00244 dated August 7, 2002, the line of credit between Fleming-Mason Service Corp. and NCSC has been paid in full. The outstanding amount was \$670,060. Attached is a copy of the Board Resolution authorizing the transaction.



FLEMING-MASON ENERGY  
COOPERATIVE, INC.

P.O. BOX 328 • FLEMINGSBURG, KENTUCKY 41041 • (606) 845-2661 • FAX (606) 845-1008

**NCSC Pay-Off Board Resolution**

I, Lonnie C. Vice, do hereby certify that I am the Secretary of Fleming-Mason Energy Cooperative, Inc.. The following is a true and correct copy of a resolution passed at a meeting of the governing Board of Fleming-Mason Energy held on September 6, 2007, at which a quorum was present and acting throughout; said resolution was duly adopted thereat and is exactly as it appears in the minute book of Fleming-Mason Energy; the meeting was duly and regularly called in accordance with the articles of incorporation and bylaws of the organization; and said resolution has not been modified or rescinded and is in full force and effect:

**WHEREAS**, Fleming-Mason Energy desires to comply with the Kentucky PSC Order in Case No. 2001-00244 dated August 7, 2002;

**WHEREAS**, Fleming-Mason Energy is the guarantor of the NCSC line of credit issued to Fleming-Mason Service Corporation;

**NOW, THEREFORE**, the following resolution is hereby adopted:

**RESOLVED**, that Christopher S. Perry, President and CEO, is hereby authorized on behalf of Fleming-Mason Energy and Fleming-Mason Service Corporation, to pay off the NCSC line of credit in full immediately.

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed the seal of Fleming-Mason Energy this 6<sup>th</sup> day of September, 2007

SEAL

*Lonnie Vice*  
Secretary

Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

6e. Has Fleming-Mason made NCSC aware that it does not have the required regulatory approval to guarantee the line of credit for Service Corp.? Provide copies of any correspondence with NCSC concerning the guarantee.

**Response:**

NCSC receives a copy of Fleming-Mason Energy's consolidated audit report each year where this matter has been disclosed. The only correspondence on file is the letter dated August 10, 2007, a copy of which is attached.

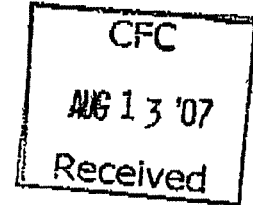
Item 6e  
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FLEMING-MASON ENERGY  
COOPERATIVE, INC.

P.O. BOX 328 • FLEMINGSBURG, KENTUCKY 41041 • (606) 845-2661 • FAX (606) 845-1008

August 10, 2007



Ms. Amy Luongo  
Associate Vice President  
Member Services Group  
NRUCFC  
2201 Cooperative Way  
Herndon, VA 20171

RE: NCSC Loan Designation: KY 404

Dear Ms. Luongo:

Fleming-Mason Energy is currently listed as the Guarantor on the above referenced loan to Fleming-Mason Service Corporation, a fully-owned subsidiary of Fleming-Mason Energy. We are requesting that Fleming-Mason Energy no longer be listed as the Guarantor on this loan. Please review the loan and financial statements of Fleming-Mason Service Corp. and submit to our office any viable options available to satisfy this request.

Please contact the office if further information is needed.

Sincerely,

Christopher S. Perry  
President & CEO



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

6f. Has NCSC responded to Fleming-Mason's letter dated August 10, 2007? If yes, provide copies of the response. If no, provide copies when it is received.

**Response:**

A copy of the response is attached.

National Rural Utilities  
Cooperative Finance Corporation

August 21, 2007

Mr. Christopher S. Perry  
President and CEO  
Fleming-Mason Energy Cooperative, Inc.  
P.O. Box 328  
Flemingsburg, KY 41041

RE: NCSC Long-Term Loans KY404-9000 & KY404-9001

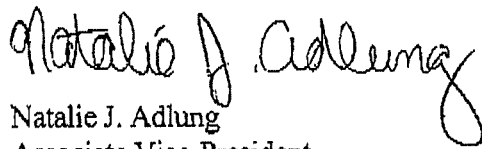
Dear Mr. Perry:

National Cooperative Services Corporation ("NCSC") received your letter dated August 10, 2007 requesting that Fleming-Mason Energy (KY052) be released as the Guarantor of the above referenced NCSC loans to Fleming-Mason Service Corp., a fully-owned subsidiary of Fleming-Mason Energy. Upon review of the financial performance of the subsidiary, Fleming-Mason Service Corp., NCSC cannot release Fleming-Mason Energy from the financial commitment represented by the Guarantee. NCSC can, however, remove the formal Guarantor designation of Fleming-Mason Energy if one of the following conditions is met:

- A pledge is put on Fleming-Mason Energy's CFC Line of Credit, KY052-5102, in an amount equal to the NCSC outstanding loans of which it is the Guarantor, and CFC may cause that amount pledged to be used to pay the NCSC debt if deemed necessary.
- Fleming-Mason Energy invests an amount equal to the NCSC outstanding loans of which it is the Guarantor in CFC commercial paper with a pledge against said investment, and CFC may cause that amount pledged to be used to pay the NCSC debt if deemed necessary.
- The NCSC outstanding loans of which Fleming-Mason Energy is the Guarantor are paid in full.

Please notify NCSC and CFC if Fleming-Mason Energy wishes to pursue one of the options listed above in order to have it released as the formal Guarantor of Fleming-Mason Service Corporation's NCSC debt.

Respectfully,

  
Natalie J. Adlung  
Associate Vice-President



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

7. Refer to the Response to Staff's Second Request, Item 11.

a. Provide copies of the records for the actual labor expense charged to Service Corp. during the test year.

**Response:**

Attached is a copy of labor hours and dollars allocated to the Service Corp. from 01/01/06 through 12/31/06.

SO TR	RACCT	ITEMID	DEPT	WH	BH	DATE	CHK/JOB/REC/TASK	PJ/VHR/VND/VEH	QTY	DEBIT	CREDIT	DESCRIPTION
PY 20	131.60	LABR	06		1	01/06/06			.00	.03	.00	PERSONAL DAY
PY 20	131.60	LABR	00	10	1	01/20/06			4.00	304.82	.00	LABOR REGULAR
PY 20	131.60	LABR	00	10	1	01/20/06			13.00	372.86	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1	01/28/06			2.00	152.40	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	1	01/28/06			18.00	489.68	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	1	01/31/06			6.00	161.00	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	10	1	02/17/06			2.00	152.40	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	1	02/17/06			39.00	877.46	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1	02/25/06			40.00	881.82	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	1	02/28/06			8.00	175.52	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	1	03/17/06			38.50	902.97	.00	LABOR REGULAR
PY 20	131.60	LABR	01	30	1	03/17/06			2.00	65.82	.00	LABOR OVERTIME
PY 20	131.60	LABR	00	30	1	03/31/06			48.00	1,068.24	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	1	03/31/06			40.00	885.16	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	1	04/14/06			35.00	800.60	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	1	04/28/06			46.00	1,031.48	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1	04/30/06			8.00	179.30	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	1	05/12/06			19.00	416.86	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	1	05/26/06			44.00	944.44	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1	05/31/06			14.00	336.52	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	1	06/09/06			4.00	87.76	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	626	06/23/06			16.00	358.60	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	716	06/30/06			17.00	387.66	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	726	07/21/06			23.00	501.28	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	816	07/29/06			20.00	482.40	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	826	07/31/06			6.00	131.64	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	826	08/18/06			7.00	153.58	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	926	08/31/06			16.00	407.02	.00	ACCRUED LABOR - REGULAR
PY 20	131.60	LABR	00	30	926	09/15/06			2.00	43.88	.00	LABOR REGULAR
PY 20	131.60	LABR	00	30	936	09/29/06			16.00	379.28	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1026	10/27/06			8.00	175.52	.00	LABOR REGULAR
PY 10	242.21	ACLB	01	30	1116	10/31/06			15.00	334.85	.00	ACCRUED LABOR - REGULAR
PY 10	242.21	ACLB	01	30	117	12/30/06			32.00	719.36	.00	ACCRUED LABOR - REGULAR

TOTAL QTY 608.50

TOTAL DEBIT 14,362.21

TOTAL CREDIT .00

NET BALANCE 14,362.21

NUMBER OF RECORDS FOUND - 33

Item 7a  
 Page 2 of 2

Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

7b. Provide copies of the actual monthly expenses charged to Service Corp. during the test year.

**Response:**

Attached are copies of each month's journal entries to record actual expenses transferred from Fleming-Mason Energy to the Service Corp.

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

1/31/2006

GJ# 45

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	481.90		
Account Payable - FME	20100		481.90	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,050.58		
Account Payable - FME	20100		2,050.58	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	547.75		
Account Payable - FME	20100		547.75	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	1,480.79		
Employee Benefit Expense	65000	942.24		
Accounts Payable - FME	20100		2,423.03	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

2/28/2006

GJ# 46

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	498.42		
Account Payable - FME	20100		498.42	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	650.91		
Account Payable - FME	20100		650.91	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	429.08		
Account Payable - FME	20100		429.08	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	2,087.20		
Employee Benefit Expense	65000	1,454.78		
Accounts Payable - FME	20100		3,541.98	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				



## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

3/31/2006

GJ# 47

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	507.69		
Account Payable - FME	20100		507.69	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	598.98		
Account Payable - FME	20100		598.98	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	361.39		
Account Payable - FME	20100		361.39	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	2,922.19		
Employee Benefit Expense	65000	1,855.52		
Accounts Payable - FME	20100		4,777.71	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

4/30/2006

GJ# 48

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	497.94		
Account Payable - FME	20100		497.94	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	1,195.38		
Account Payable - FME	20100		1,195.38	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	817.70		
Account Payable - FME	20100		817.70	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	2,011.38		
Employee Benefit Expense	65000	1,391.27		
Accounts Payable - FME	20100		3,402.65	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

5/31/2006

GJ# 49

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	481.74		
Account Payable - FME	20100		481.74	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	1,195.38		
Account Payable - FME	20100		1,195.38	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	871.20		
Account Payable - FME	20100		871.20	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	1,697.82		
Employee Benefit Expense	65000	1,006.30		
Accounts Payable - FME	20100		2,704.12	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

**FLEMING-MASON SERVICE CORP.  
JOURNAL ENTRIES**

6/30/2006

GJ# 50

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	472.92		
Account Payable - FME	20100		472.92	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,531.32		
Account Payable - FME	20100		2,531.32	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	917.06		
Account Payable - FME	20100		917.06	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	834.02		
Employee Benefit Expense	65000	548.45		
Accounts Payable - FME	20100		1,382.47	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

7/31/2006

GJ# 51

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	479.38		
Account Payable - FME	20100		479.38	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,531.32		
Account Payable - FME	20100		2,531.32	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	1,012.76		
Account Payable - FME	20100		1,012.76	
Gasoline purchased thru BP for FMSC vehicles.				
Travel Expense	76500	1,381.71		
Account Payable - FME	20100		1,381.71	
APO & C Perry - traveled to Maryland for LMDS equipment overview.				
Wages - General & Administrative	77500	1,115.32		
Employee Benefit Expense	65000	777.04		
Accounts Payable - FME	20100		1,892.36	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

**FLEMING-MASON SERVICE CORP.  
JOURNAL ENTRIES**

8/31/2006

GJ# 52

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	475.72		
Account Payable - FME	20100		475.72	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,531.32		
Account Payable - FME	20100		2,531.32	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	523.00		
Account Payable - FME	20100		523.00	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	560.60		
Employee Benefit Expense	65000	346.06		
Accounts Payable - FME	20100		906.66	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

**FLEMING-MASON SERVICE CORP.  
JOURNAL ENTRIES**

9/30/2006

GJ# 53

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	489.40		
Account Payable - FME	20100		489.40	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,531.32		
Account Payable - FME	20100		2,531.32	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	726.86		
Account Payable - FME	20100		726.86	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	423.16		
Employee Benefit Expense	65000	317.02		
Accounts Payable - FME	20100		740.18	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				
Supplies Expense	75500	42.39		
A/P- FME	20100		42.39	
Supplies purchased and paid for by FME - Radio Shack				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

10/31/2006

GJ# 54

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	480.89		
Account Payable - FME	20100		480.89	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,531.32		
Account Payable - FME	20100		2,531.32	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	666.67		
Account Payable - FME	20100		666.67	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	510.37		
Employee Benefit Expense	65000	333.58		
Accounts Payable - FME	20100		843.95	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				



## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

11/30/2006

GJ# 56

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	479.48		
Account Payable - FME	20100		479.48	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	2,532.18		
Account Payable - FME	20100		2,532.18	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	587.59		
Account Payable - FME	20100		587.59	
Gasoline purchased thru BP for FMSC vehicles.				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

## FLEMING-MASON SERVICE CORP. JOURNAL ENTRIES

12/31/2006

GJ# 56

DESCRIPTION	ACCT. NO.	\$ DEBIT	\$ CREDIT	POSTED
Billing Expenses	68000	478.34		
Account Payable - FME	20100		478.34	
Paid to SEDC for billing/postage.				
Employee Benefits	65000	1,296.04		
Account Payable - FME	20100		1,296.04	
Paid to NRECA for employee insurance.				
Rent Expense	74000	50.00		
Account Payable - FME	20100		50.00	
Office Space Rental for month				
Auto Expense	61000	648.47		
Account Payable - FME	20100		648.47	
Gasoline purchased thru BP for FMSC vehicles.				
Wages - General & Administrative	77500	719.36		
Employee Benefit Expense	65000	501.52		
Accounts Payable - FME	20100		1,220.88	
To record labor and overhead for month for FME employees				
Accounts Payable - F/M Energy	20100	992.00		
Telephone Expense	76000		992.00	
Fleming-Mason Energy's share of T1 line furnished by Blue One: \$1489 X 66.67%				
Accounts Payable - F/M Energy	20100	29.95		
Sales - Web Hosting	40203		9.95	
Sales - Dial-Up	40201		20.00	
Fleming-Mason Energy's expense of E-Mail & Web Hosting paid by FMSC to BlueOne.				

Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

7c. Explain what Fleming-Mason provided to Service Corp. for the \$50 per month rental charge.

**Response:**

Fleming-Mason Energy provided a small office within its headquarter facilities for the technicians to operate out of. Based upon the overall building value, \$50 per month rental for the office space was considered adequate. Fleming-Mason Service Corp. has rented storage facilities of its own outside of Fleming-Mason Energy's headquarters to store its excess equipment.



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

8. Refer to the Response to Staff's Second Request, Item 21.
  - a. Explain why Fleming-Mason does not have a policy regarding its Board's expenses.

**Response:**

Fleming-Mason Energy is in the process of reviewing all policies including board policies relating to expenses. This comprehensive review and update will continue into the future.

- b. Given Fleming-Mason's deteriorating financial condition, explain why Fleming-Mason has increased the monthly per diem per director by 6.9 percent to 10.5 percent from 2002 – 2006.

**Response:**

The Board recognizes that their own time has value and wishes to be compensated accordingly. The Board considers cost-of-living increases in determining their per diem. Based on the financial condition in 2006, no increase was granted for 2007.



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

9. Provide copies of any Board meeting minutes that include discussions of the Commission's August 7, 2002 final Order in Case No. 2001-00244.

**Response:**

Attached is a copy of the minutes taken from the Board meeting held September 5, 2002.

## SEPTEMBER BOARD MEETING

September 5, 2002

The Regular Meeting of the Board of Directors of the Fleming-Mason Energy Cooperative Inc. was held September 5, 2002 at the office of the Cooperative in Flemingsburg, Kentucky at 9:30 am.

The meeting was called to order by J. E. Smith, Jr. Chairman, who presided over the meeting with Lonnie Vice as Secretary.

Upon calling the roll the Secretary reported that the following directors were present:

J. E. Smith, Jr.	Lonnie Vice
Henry Ginn	Tom Saunders
William Cooper	Tim Eldridge
Elmer Foxworthy	

Said persons being all of the directors.

Minutes of the August Regular Meeting were then read by the secretary and approved as read.

The Board was given a copy of the PSC Order on the Rate Case.

**Safety Report:** There were no accidents to report. The Board discussed the PSC and its stance on contractor safety.

**EKP Report:** Lonnie Vice reported that they had approved the creation of an audit committee. They also approved a \$250,000 line of credit loan from CFC. They had further discussion of the proposal to allow Warren and Pennyryle to become members of EKP. The FM Energy Board was briefed on meetings held between EKP and Inland Container concerning corrosion on the Inland Substation and talks with Tennessee Gas concerning use of the transmission line constructed to serve them. EKP is going to use part of the line for other purposes and they want consideration for their contribution to the construction cost.

**KAEC Report:** William Cooper reported that KAEC has margins of \$1,122,000 for the year. KAEC discussed the Big Sandy/PSC agreement to be responsible for the safety training of contractor employees. Most Co-ops will not go along with that agreement because they are not employees of the cooperative, they are contractors. KAEC is changing the safety program and will be joining with TVPPA to provide employee training.

It was reported that Clark Energy has hired Walt Stevens as a field safety and training employee. Fleming-Mason and Clark have agreed to share the cost and use of his services.

August "Patronage Refunds" to estates of deceased members were reported as \$10,403.49.

**Legal Report:** Attorney Marvin Suit reported on his filing with the PSC to get approval for the funding of the service corporation.

The Board was given a report on investments and short-term borrowing with CFC.



The Operating Report for the month ending July 31, 2002 was reviewed and accepted as filed on motion of William Cooper seconded by Lonnie Vice. Margins thru July were reported as \$297,211 with a TIER 1.55.

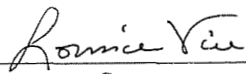
The Board approved applications for Membership or Service Connection for the month of July on motion of Henry Ginn seconded by Tim Eldridge.

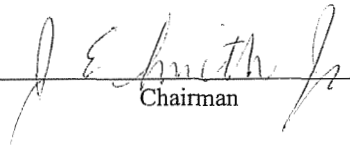
**Old Business:** The Board heard reports on the search for a new engineer.

**New Business:** Touchstone Energy will be involved in the Battle of Perryville Reenactment and they will be sponsoring the All A Classic.

The Board approved a loan in the amount of \$50,000 to Fleming-Mason Services on motion of Tom Saunders seconded by Elmer Foxworthy.

There being no further business to come before the Board, the meeting was adjourned.

  
Secretary

  
Chairman



Fleming-Mason Energy  
Case No. 2007-00022  
Third Data Request of Commission Staff

10. Provide copies of any Board meeting minutes that include discussions of the Commission's January 1, 2004 final Order in Case No. 2002-00291.

**Response:**

Attached is a copy of the minutes taken from the Board meeting held February 5, 2004

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## FEBRUARY BOARD MEETING

February 5, 2004

The Regular Meeting of the Board of Directors of the Fleming-Mason Energy Cooperative Inc. was held February 5, 2004 at the office of the Cooperative in Flemingsburg, Kentucky at 9:30 am.

The meeting was called to order by J. E. Smith, Jr. Chairman, who presided over the meeting with Lonnie Vice as Secretary.

Upon calling the roll the Secretary reported that the following directors were present:

J. E. Smith, Jr.	Lonnie Vice
William Cooper	Tom Saunders
Elmer Foxworthy	Tim Eldridge

Said persons being all of the directors.

Minutes of the January Regular Meeting were then read by the secretary and approved as read.

RUS Area Rep. Mike Norman discussed the Long Term Loan Application with the Board.

The Board approved the Financial Forecast on motion of William Cooper seconded by Tom Saunders.

The Board approved a resolution requesting a loan in the amount of \$16,535,000 from the US Treasury Loan program on motion of Tim Eldridge seconded by Lonnie Vice.

The Board also approved a resolution raising the debt limit to \$100,000,000 on motion of Tom Saunders seconded by William Cooper.

**Safety Report:** There were no accidents to report. It was reported that there were 10,133 hours worked in January with no injuries.

**EKP Report:** Lonnie Vice reported that the EKP Board had not met since the last FM Energy meeting. He discussed the law suit filed against EKP by the Environmental Protection Agency. EKP made repairs and modifications to plants. EKP considered the modifications repairs but the EPA considered them upgrades that should have been permitted. EKP did not obtain permits.

Attorney Marvin Suit has gotten a satisfactory explanation of language in the Wholesale Power Amendment and it has been signed and returned to EKP.

**KAEC Report:** William Cooper reported that margins were \$785,000 for 2003. The Fleming-Mason Annual Meeting has been scheduled for May 13<sup>th</sup>. The Congressional Breakfast has been scheduled for May 3<sup>rd</sup> thru the 5<sup>th</sup>.

January "Patronage Refunds" were withheld until completion of the 2003 Audit. Payments will resume after 2003 margins are allocated.

**Legal Report:** Attorney Marvin Suit reported that the Ky. Public Service Commission has denied Fleming-Mason Energy's request to guarantee the Fleming-Mason Services \$750,000 line-of-credit loan from NCSC.

The Board was given a report on investments and short-term borrowing with CFC.

The Operating Report for the month ending December 31, 2003 was reviewed and accepted as filed on motion of Tim Eldridge seconded by Elmer Foxworthy. Margins thru December were reported as \$355,980 with a TIER 1.44. EKP assigned patronage Capital of \$2,265,834 bringing total margins to \$2,621,814.

The Board approved applications for Membership or Service Connection for the month of December on motion of William Cooper seconded by Tom Saunders.

**Old Business:** None.

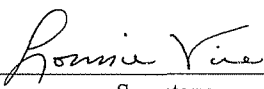
**New Business:** The Board approved a resolution authorizing a flexible spending option to be added to the Section 125 health plan on motion of William Cooper seconded by Lonnie Vice.

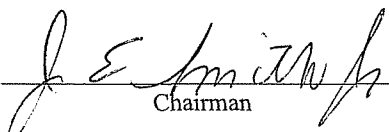
The Board agreed to purchase an additional 300 shares of stock from Fleming-Mason Services on motion of Tom Saunders Seconded by Lonnie Vice.

Henry Ginn was recognized for his years of service as Director. Mr. Ginn retired effective March 1<sup>st</sup>.

The Board heard a report from Chip Spann on the activities of FM Services. The wireless company now has 480 customers.

There being no further business to come before the Board, the meeting was adjourned.

  
Secretary

  
Chairman