

# Grayson Rural Electric Cooperative Corporation

109 Bagby Park • Grayson, KY 41143-1292  
Telephone 606-474-5136 • 1-800-562-3532 • Fax 606-474-5862

**RECEIVED**

DEC 16 2010

PUBLIC SERVICE  
COMMISSION

## COMMONWEALTH OF KENTUCKY BEFORE THE PUBLIC SERVICE COMMISSION

**In the matter of:**

Case No. \_\_\_\_\_

APPLICATION OF GRAYSON RURAL ELECTRIC )  
COOPERATIVE CORPORATION FOR AUTHORIZATION )  
TO BORROW \$11,904,064.62 FROM COBANK AND )  
EXECUTE NECESSARY NOTES AND TO REPAY RURAL )  
UTILITIES SERVICES 5% NOTES IN THE SAME AMOUNT )

December 15, 2010

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

Mr. Derouen:

Please find attached the original and ten (10) copies of Grayson Rural Electric's application in the above referenced case.

If there are any questions, please feel free to inquire at (606) 474-5136.

Sincerely,



Don M. Combs  
Grayson Rural Electric

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF GRAYSON RURAL ELECTRIC )  
COOPERATIVE CORPORATION FOR AUTHORIZATION )  
TO BORROW \$11,904,064.62 FROM COBANK AND ) CASE NO. 2010-\_\_\_\_\_  
EXECUTE NECESSARY NOTES AND TO REPAY RURAL )  
UTILITIES SERVICES 5% NOTES IN THE SAME AMOUNT )

APPLICATION

Grayson Rural Electric Cooperative Corporation (“Grayson RECC”) respectfully submits this application seeking expedited approval by January 7, 2011 (in order to close by January 14, 2011) of long-term refinancing, pursuant to KRS 278.300. The petition respectfully shows:

1. Grayson RECC is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member customers in the Kentucky counties of Carter, Elliott, Greenup, Lawrence, Lewis, and Rowan.
2. Grayson RECC’s post office address is 109 Bagby Park, Grayson, Kentucky 41143.
3. Grayson RECC’s current Articles of Incorporation are filed in Case No. 92-496 before this Commission.
4. As of September 30, 2011 Grayson RECC services 15,559 member-customers. It has 2,471 miles of distribution lines in its nine-county service territory, and owns additional facilities necessary to support this distribution system. The total original cost of these distribution lines and additional facilities as of September 30, 2011 is 60,439,834.00.
5. The financial exhibit, as required by 807 KAR 5:001, Section 11(2)(a), is attached as Exhibit 1, 2, and 3 to this application.

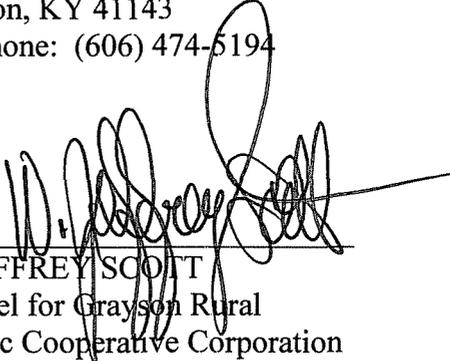
6. Grayson RECC is not seeking authorization to issue any kinds of stock as part of this application.
7. Grayson RECC seeks to borrow from CoBank a total of 11,904,064.62 and execute one note in conjunction with this borrowing from CoBank at a fixed interest rate of 4.62%. The CoBank loan will be slightly less than the weighted average life of the debt being financed. A copy of the proposal letter from CoBank is attached in Exhibit 5, of this application. A copy of the resolution of the Grayson RECC Board of Directors approving the subject refinancing is attached in Exhibit 4. The CoBank loan is secured under the provisions of the Restated Mortgage and Security Agreement filed as Exhibit 6.
8. Grayson RECC expects the actual payoff to be very close to the \$11,904,064.62. Grayson RECC proposes to adjust any difference through a line of credit agreement with CoBank, which will allow the principal amount of the note with Cobank to remain at \$11,904,064.62.
9. Grayson RECC will use the proceeds from the CoBank loan to prepay notes of the same amount outstanding to Rural Utilities Service (“RUS”). The notes being prepaid are listed in the CoBank proposal as Exhibit 5.
10. The notes secured by mortgages of Grayson RECC are listed in Exhibit 5, of this application.
11. In as much as no property is being acquired in conjunction with this financing, 807 KAR 5:001, Section 11(2)(c) is not applicable.
12. Additional information in support of this application is included in attached Exhibit 5, including net present value analysis of the cash flows over the life of the loan. This

lifetime nominal cash flow dollar savings are \$1,573,087.00, with a present value of \$965,326.00 discounted at the fixed interest rate of 5.00%.

WHEREFORE, Grayson RECC asks that the Commission issue an Order authorizing Grayson RECC to execute and issue evidences of indebtedness and security for the CoBank loan described herein, and for any other relief to which it may be entitled.

DATED this 14<sup>TH</sup> day of December, 2011

W. JEFFREY SCOTT, P.S.C.  
Attorney at Law  
311 W Main Street  
Grayson, KY 41143  
Telephone: (606) 474-5194

By   
W. JEFFREY SCOTT  
Counsel for Grayson Rural  
Electric Cooperative Corporation

VERIFICATION

The undersigned, Carol Hall Fraley, being first duly sworn states that she is the Manager of Grayson Rural Electric Cooperative Corporation; that she has personal knowledge of the matters set forth in the foregoing application; and that the statements contained therein are true and correct to the best of her knowledge, information, and belief.

  
\_\_\_\_\_  
CAROL HALL FRALEY

COMMONWEALTH OF KENTUCKY

COUNTY OF CARTER

13<sup>th</sup> Subscribed, sworn to, and acknowledged before me my Carol Hall Fraley, this day of December, 2011.

My commission expires: October 7, 2012

  
\_\_\_\_\_  
Notary Public  
Notary ID: \_\_\_\_\_

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

CASE NO. \_\_\_\_\_

INDEX OF EXHIBITS TO APPLICATION

FINANCIAL EXHIBIT -807 KAR 5:001, SECTION 6

Exhibit 1 – .....	Notes Executed
Exhibit 2 – .....	Statement of Operations
Exhibit 3 – .....	Financial & Statistical Report
Exhibit 4 – .....	Board Resolution
Exhibit 5 – .....	CoBank Proposal
Exhibit 6 – .....	Restated Mortgage & Security Agreement



## LONG TERM DEBT - RUS

## Complete Schedule Showing Total Obligation to RUS

Note No. (a)	Interest Rate (b)	Date (c)	Original Balance (d)	Plus	Less		Balance Long Term Debt (h)	
				Interest Accrued (e)	Principal Payments (f)	Funds Unadvanced (g)		
1B340	5%	08/12/77	\$ 311,500.00		\$ 278,870.60		\$ 32,629.40	
1B342	5%	12/21/77	\$ 311,500.00		\$ 278,870.60		\$ 32,629.40	
1B350	5%	08/03/78	\$ 270,000.00		\$ 226,552.62		\$ 43,447.38	
1B352	5%	02/19/79	\$ 270,000.00		\$ 226,552.62		\$ 43,447.38	
1B360	5%	08/16/79	\$ 773,500.00		\$ 607,956.82		\$ 165,543.18	
1B362	5%	02/13/81	\$ 773,500.00		\$ 607,956.82		\$ 165,543.18	
1B370	5%	10/04/82	\$ 640,000.00		\$ 426,638.88		\$ 213,361.12	
1B373	5%	04/01/85	\$ 640,000.00		\$ 416,691.04		\$ 223,308.96	
1B380	5%	08/30/85	\$ 525,000.00		\$ 276,732.92		\$ 248,267.08	
1B382	5%	03/09/87	\$ 525,000.00		\$ 276,732.92		\$ 248,267.08	
1B390	5%	02/29/88	\$ 667,500.00		\$ 290,384.50		\$ 377,115.50	
1B392	5%	11/30/89	\$ 499,500.00		\$ 217,303.71		\$ 282,196.29	
1B393	5%	02/28/90	\$ 168,000.00		\$ 70,358.31		\$ 97,641.69	
1B400	5%	06/18/91	\$ 755,500.00		\$ 253,587.61		\$ 501,912.39	
1B403	5%	02/28/94	\$ 755,500.00		\$ 239,731.18		\$ 515,768.82	
1B410	5%	09/19/94	\$ 1,100,000.00		\$ 274,367.04		\$ 825,632.96	
1B411	5%	12/12/94	\$ 197,000.00		\$ 49,136.52		\$ 147,863.48	
1B412	5%	03/20/95	\$ 512,000.00		\$ 127,705.41		\$ 384,294.59	
1B413	5%	04/24/95	\$ 500,000.00		\$ 124,712.24		\$ 375,287.76	
1B414	5%	05/22/95	\$ 285,000.00		\$ 71,085.93		\$ 213,914.07	
1B420	5%	03/30/96	\$ 1,975,000.00		\$ 404,268.55		\$ 1,570,731.45	
1B421	5%	01/24/97	\$ 1,000,000.00		\$ 204,692.78		\$ 795,307.22	
1B422	5%	04/21/97	\$ 800,000.00		\$ 163,754.31		\$ 636,245.69	
1B423	5%	09/15/97	\$ 1,100,000.00		\$ 225,162.16		\$ 874,837.84	
1B424	5%	12/15/97	\$ 900,000.00		\$ 184,223.52		\$ 715,776.48	
1B425	5%	04/20/98	\$ 850,000.00		\$ 173,989.04		\$ 676,010.96	
1B426	5%	10/07/98	\$ 650,000.00		\$ 129,776.27		\$ 520,223.73	
1B427	5%	01/13/99	\$ 650,000.00		\$ 128,773.50		\$ 521,226.50	
1B428	5%	06/02/99	\$ 723,000.00		\$ 140,119.20		\$ 582,880.80	
1B430	4.70%	05/01/05	\$ 2,000,000.00		\$ 164,601.46		\$ 1,835,398.54	
1B431	4.95%	07/27/07	\$ 4,000,000.00		\$ 174,765.44		\$ 3,825,234.56	
1B432	4.63%	05/23/08	\$ 4,800,000.00		\$ 168,971.22		\$ 4,631,028.78	
1B433	3.17%	12/18/08	\$ 660,000.00		\$ 22,937.60		\$ 637,062.40	
		TOTAL	\$ 30,588,000.00	\$0.00	\$ 7,627,963.34	\$0.00	\$22,960,036.66	
Less: Advance Payments Unapplied (Note #4990)								
TOTAL OBLIGATION - RUS							\$	22,960,036.66





Grayson Rural Electric  
Statement of Operations  
12 months ending September 30, 2010

Exhibit II  
Page 1 of 1  
Witness: Don M. Combs

Operating Revenue	\$ 29,997,639
Operating Expenses	
Cost of Power	18,407,966
Distribution Operations	1,057,967
Distribution Maintenance	2,443,112
Consumer Accounts	833,908
Consumer Service	217,875
Sales	29,694
Administrative and General	<u>1,667,192</u>
	24,657,714
Depreciation and Amortization	2,695,918
Taxes - Other	28,925
Interest on Long Term Debt	1,175,850
Other Interest Expense	71,982
Other Deductions	<u>196,930</u>
	<u>28,827,319</u>
Utility Operating Margins	<u>1,170,320</u>
Nonoperating margins, interest	29,755
Nonoperating margins, other	<u>3,996</u>
	<u>33,751</u>
Patronage Capital	
G & T	825,375
Others	<u>69,966</u>
	<u>895,341</u>
Net Margins	<u>\$ 2,099,412</u>



## Assets

Electric Plant	
In service	59,991,204
Under construction	448,631
	<u>60,439,835</u>
Less Accumulated depreciation	(11,213,154)
	<u>49,226,681</u>
Investments	<u>6,608,799</u>
Current Assets	
Cash and temporary investments	102,737
Accunts receivable, net	4,588,461
Other receivables	420,423
Material and supplies	357,032
Prepayments	172,468
	<u>5,641,121</u>
Other deferred debits	<u>246,216</u>
Total Assets	<u><u>61,722,817</u></u>

## Members Equities and Liabilities

Margins and Equities	
Memberships	152,335
Patronage Capital	15,960,563
	<u>16,112,898</u>
Long Term Debt	<u>36,597,398</u>
Accumulated Operating Provisions	<u>2,868,586</u>
Current Liabilities	
Notes Payable	2,241,359
Accounts Payable	1,907,084
Consumer Deposits	1,229,079
Accrued Expense	612,497
	<u>5,990,019</u>
Consumer Advances	<u>153,916</u>
Total Member's Equity and Liabilities	<u><u>61,722,817</u></u>



Authorization of Grayson Rural Electric's Board of Directors to refinance RUS 5%  
Loans will follow shortly



# Grayson Rural Electric Cooperative Corporation

RUS Refinancing Term Loan  
\$11,904,065

November 23, 2010

## Table of Contents

### Executive Summary

1. Existing RUS Loan Profile & Summary Analysis
2. Side by Side Comparison of RUS Notes and CoBank Loan
3. CoBank Patronage and Effective Cost of Borrowing - RUS Notes
4. Closing Procedures

## Executive Summary

Grayson Rural Electric Cooperative Corporation (Grayson) currently holds approximately \$11.9 million in RUS debt at an interest rate of 5%, which would qualify for CoBank refinancing at a life time fixed rate currently of 4.62%. At such a rate, CoBank's patronage refunds would result in an effective rate of approximately 3.86%, an effective savings of 76 basis points. The total projected savings amounts to \$1,573,087 with a present value of \$965,326. CoBank requests Grayson's consideration as lender for these loans. Such refinancing of mortgage debt is permitted by RUS under Article II, Section 2.02 of the Mortgage.

We have enclosed for your review a profile of existing eligible notes including a comparison of savings opportunity (Tab 1), a side by side comparison of the RUS loans' interest cost versus CoBank's loan interest cost and patronage payments (Tab 2), an analysis of CoBank's Patronage Refunds, Capital Plan and Effective Cost of Borrowing (Tab 3) and a summary of anticipated closing procedures (Tab 4).

We propose to consolidate the twenty-nine RUS notes into a single note with a principal repayment schedule matching the consolidated scheduled principal payments of all of the RUS refinanced notes. This would decrease Grayson's administration while, at the same time, not increase principal debt service.

CoBank is pleased to have this opportunity to present this information as part of its effort to find innovative ways for Grayson to enhance its success. This booklet is not a commitment to lend or an offer to make a loan. A commitment shall be in the form of a loan agreement upon receipt of an acceptable application, resolution, and other documentation as required by CoBank. Thank you for your consideration.

# TAB 1

**RUS notes proposed for refinancing:**

Note ID	Principal Balance	Final Payment Date	Years Remaining	Weighted Average Life
1B340	28,147.41	08/31/2012	1.67	0.89
1B342	28,147.41	08/31/2012	1.67	0.89
1B350	39,751.49	08/31/2013	2.67	1.42
1B352	39,751.49	08/31/2013	2.67	1.42
1B360	165,525.89	11/30/2014	3.92	2.08
1B362	165,525.89	11/30/2014	3.92	2.08
1B370	205,969.41	11/30/2016	5.92	3.27
1B373	215,612.59	11/30/2016	5.92	3.28
1B380	243,233.00	05/31/2020	9.42	4.94
1B382	243,233.00	05/31/2020	9.42	4.94
1B390	371,492.69	12/31/2022	12.01	6.46
1B392	277,988.62	12/31/2022	12.01	6.46
1B393	96,195.24	12/31/2022	12.01	6.49
1B400	496,498.36	02/28/2026	15.17	8.42
1B403	510,234.30	03/31/2026	15.26	8.45
1B410	818,950.41	05/31/2029	18.43	10.50
1B411	146,666.67	05/31/2029	18.43	10.50
1B412	381,184.18	05/31/2029	18.43	10.50
1B413	372,250.25	05/31/2029	18.43	10.50
1B414	212,182.67	05/31/2029	18.43	10.50
1B420	1,559,851.08	04/30/2031	20.34	11.77
1B421	789,798.16	04/30/2031	20.34	11.77
1B422	631,838.44	04/30/2031	20.34	11.77
1B423	868,777.87	04/30/2031	20.34	11.77
1B424	710,818.35	04/30/2031	20.34	11.77
1B425	671,328.27	04/30/2031	20.34	11.77
1B427	517,621.41	04/30/2031	20.34	11.78
1B428	578,844.95	04/30/2031	20.34	11.77
1B426	516,645.12	05/31/2031	20.43	11.83
<b>Totals</b>	<b>11,904,064.62</b>		<b>20.43</b>	<b>9.90</b>

**Interest Savings (over life of notes):**

<u>Total Interest RUS @ 5.00%</u>	<u>Total Interest CoBank @ 4.62%</u>	<u>Total Savings</u>
\$5,997,415	\$5,623,578	\$373,837
CoBank Cash Patronage Refund:		\$779,512
CoBank Stock Patronage Refund:		<u>\$419,737</u>
Total Life Time Benefit:		<u>\$1,573,087</u>
Present Value of Benefit (discounted @ 5.00%)		<u>\$965,326</u>

There are no prepayment penalties arising from prepayment of RUS debt. CoBank would document this transaction using outside counsel to be paid by Grayson. The estimated cost is \$5,000 and is included in the loan analysis under tab 2 (shown in the column Legal Cost/Pat. Refund). The documentation cost is considered in the effective interest rate analysis.

TAB 2

Grayson RECC  
Annual Summary

Scenario - 20.43 Years Matching RUS Principal Repayment

Run Date	11/23/10
Loan Amount	\$11,904,065
CoBank Loan Interest Rate	4.62%
Lifetime Cash Flow Savings	\$1,573,087
Lifetime CoBank Patronage	\$1,199,250
Lifetime Interest Savings	\$373,837
Lifetime NPV Benefit *	\$965,326
Net Effective Interest Rate	3.86%

\* NPV Discount Rate = 5.00%

	Combined RUS Loans				CoBank Loan					
	Principal Balance	Annual Principal Payment	Annual Interest Payment	Total Ann Cash Flow	Annual Cash Flow Differential	Total Ann Cash Flow	Annual Interest Payment	Annual Principal Payment	Principal Balance	Patronage Refund
2010	\$11,904,065	\$0	\$0	\$0	-\$5,000	\$5,000	\$5,000	\$0	\$11,904,065	\$0
2011	\$11,292,118	\$611,946	\$581,242	\$1,193,188	\$36,715	\$1,156,473	\$544,527	\$611,946	\$11,292,118	\$0
2012	\$10,670,101	\$622,017	\$550,205	\$1,172,222	\$110,307	\$1,061,916	\$515,451	\$622,017	\$10,670,101	-\$75,552
2013	\$10,051,724	\$618,377	\$519,195	\$1,137,572	\$104,317	\$1,033,255	\$486,399	\$618,377	\$10,051,724	-\$71,522
2014	\$9,442,947	\$608,777	\$488,272	\$1,097,050	\$98,328	\$998,721	\$457,430	\$608,777	\$9,442,947	-\$67,486
2015	\$8,878,659	\$564,288	\$459,281	\$1,023,569	\$92,477	\$931,092	\$430,270	\$564,288	\$8,878,659	-\$63,466
2016	\$8,289,418	\$589,241	\$430,477	\$1,019,718	\$86,890	\$932,828	\$403,285	\$589,241	\$8,289,418	-\$59,698
2017	\$7,749,855	\$539,563	\$402,173	\$941,737	\$81,361	\$860,375	\$376,769	\$539,563	\$7,749,855	-\$55,958
2018	\$7,182,687	\$567,168	\$374,571	\$941,740	\$75,935	\$865,804	\$350,911	\$567,168	\$7,182,687	-\$52,275
2019	\$6,586,501	\$596,186	\$345,557	\$941,743	\$70,514	\$871,229	\$323,729	\$596,186	\$6,586,501	-\$48,686
2020	\$6,002,434	\$584,067	\$315,667	\$899,733	\$64,854	\$834,880	\$295,727	\$584,067	\$6,002,434	-\$44,914
2021	\$5,412,528	\$589,906	\$286,693	\$876,600	\$59,142	\$817,458	\$268,584	\$589,906	\$5,412,528	-\$41,032
2022	\$4,797,632	\$614,896	\$256,516	\$871,412	\$53,465	\$817,947	\$240,313	\$614,896	\$4,797,632	-\$37,262
2023	\$4,231,111	\$566,521	\$226,991	\$793,512	\$47,677	\$745,835	\$212,653	\$566,521	\$4,231,111	-\$33,338
2024	\$3,636,204	\$594,907	\$198,034	\$792,942	\$42,010	\$750,932	\$185,525	\$594,907	\$3,636,204	-\$29,501
2025	\$3,010,262	\$625,941	\$167,576	\$793,518	\$36,325	\$757,193	\$156,991	\$625,941	\$3,010,262	-\$25,740
2026	\$2,434,746	\$575,516	\$137,132	\$712,648	\$30,438	\$682,210	\$128,470	\$575,516	\$2,434,746	-\$21,776
2027	\$1,844,473	\$590,273	\$108,320	\$698,593	\$24,661	\$673,932	\$101,478	\$590,273	\$1,844,473	-\$17,819
2028	\$1,224,257	\$620,216	\$78,134	\$698,350	\$41,656	\$656,694	\$73,199	\$620,216	\$1,224,257	-\$36,721
2029	\$674,774	\$549,483	\$47,797	\$597,280	\$66,065	\$531,215	\$44,778	\$549,483	\$674,774	-\$63,045
2030	\$159,147	\$515,627	\$22,026	\$537,653	\$58,579	\$479,073	\$20,635	\$515,627	\$159,147	-\$57,188
2031	\$0	\$159,147	\$1,553	\$160,701	\$51,478	\$109,223	\$1,455	\$159,147	\$0	-\$51,380
2032	\$0	\$0	\$0	\$0	\$45,922	-\$45,922	\$0	\$0	\$0	-\$45,922
2033	\$0	\$0	\$0	\$0	\$41,032	-\$41,032	\$0	\$0	\$0	-\$41,032
2034	\$0	\$0	\$0	\$0	\$36,309	-\$36,309	\$0	\$0	\$0	-\$36,309
2035	\$0	\$0	\$0	\$0	\$31,680	-\$31,680	\$0	\$0	\$0	-\$31,680
2036	\$0	\$0	\$0	\$0	\$26,801	-\$26,801	\$0	\$0	\$0	-\$26,801
2037	\$0	\$0	\$0	\$0	\$21,931	-\$21,931	\$0	\$0	\$0	-\$21,931
2038	\$0	\$0	\$0	\$0	\$17,321	-\$17,321	\$0	\$0	\$0	-\$17,321
2039	\$0	\$0	\$0	\$0	\$12,496	-\$12,496	\$0	\$0	\$0	-\$12,496
2040	\$0	\$0	\$0	\$0	\$7,638	-\$7,638	\$0	\$0	\$0	-\$7,638
2041	\$0	\$0	\$0	\$0	\$3,515	-\$3,515	\$0	\$0	\$0	-\$3,515
2042	\$0	\$0	\$0	\$0	\$245	-\$245	\$0	\$0	\$0	-\$245
2043	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2044	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2045	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sum	\$11,904,065	\$5,997,415	\$17,901,480	\$1,573,087	\$16,328,393	\$5,623,578	\$11,904,065	\$1,199,250		

Scenario - 20.43 Years Matching RUS Principal Repayment

EXISTING RUS LOANS

Beginning Loan Balance	\$ 11,904,064.62
Final Payment Date	5/31/31
Remaining Monthly Pmts	245
Initial RUS Monthly Pmt	\$81,294.68
Roll Forward Date	12/31/2010

CoBANK REFINANCING LOAN

Beginning Loan Balance	\$ 11,904,064.62
Final Payment Date	5/31/31
Remaining Monthly Pmts	245
CoBANK Interest Rate	4.62%
Legal Costs	\$5,000

Lifetime Interest	\$5,997,415	Lifetime Interest	\$5,618,578
Present Value of RUS Cash Flow	\$11,904,065	Present Value of CoBank Cash Flow	\$10,938,739
		NPV Benefit of Refi =	\$965,326

Combined RUS Loans

CoBank Loan

Payment Number	Principal Balance	Principal Payment	Interest Payment	Total Cash Flow	Total Cash Flow	Interest Payment	Principal Payment	Principal Balance	Legal Cost/ Pat. Refund
12/31/2010	0	\$11,904,065						\$11,904,065	
01/31/2011	1	11,872,370	\$31,694	\$49,600	\$81,295	\$83,162	\$46,467	\$31,694	\$5,000
02/28/2011	2	11,783,896	88,474	49,468	137,942	134,818	46,343	88,474	0
03/31/2011	3	11,751,913	31,983	49,100	81,083	77,981	45,998	31,983	0
04/30/2011	4	11,718,298	33,614	48,966	82,581	79,488	45,873	33,614	0
05/31/2011	5	11,633,491	84,807	48,826	133,633	130,549	45,742	84,807	0
06/30/2011	6	11,599,606	33,885	48,473	82,358	79,296	45,411	33,885	0
07/31/2011	7	11,567,063	32,543	48,332	80,875	77,822	45,279	32,543	0
08/31/2011	8	11,481,175	85,888	48,196	134,084	131,040	45,152	85,888	0
09/30/2011	9	11,446,883	34,292	47,838	82,131	79,109	44,816	34,292	0
10/31/2011	10	11,413,917	32,965	47,695	80,661	77,648	44,683	32,965	0
11/30/2011	11	11,325,371	88,547	47,558	136,105	133,101	44,554	88,547	0
12/31/2011	12	11,292,118	33,252	47,189	80,441	77,460	44,208	33,252	0
01/31/2012	13	11,258,725	33,393	47,050	80,444	77,472	44,078	33,393	0
02/29/2012	14	11,167,640	91,085	46,911	137,996	135,033	43,948	91,085	0
03/31/2012	15	11,133,950	33,690	46,532	80,222	1,730	43,593	33,690	-75,552
04/30/2012	16	11,098,677	35,273	46,391	81,664	78,734	43,461	35,273	0
05/31/2012	17	11,009,447	89,229	46,244	135,474	132,553	43,323	89,229	0
06/30/2012	18	10,973,890	35,558	45,873	81,430	78,533	42,975	35,558	0
07/31/2012	19	10,939,612	34,278	45,725	80,003	77,114	42,836	34,278	0
08/31/2012	20	10,858,927	80,685	45,582	126,266	123,387	42,702	80,685	0
09/30/2012	21	10,822,941	35,986	45,246	81,232	78,374	42,388	35,986	0
10/31/2012	22	10,788,218	34,723	45,096	79,818	76,970	42,247	34,723	0
11/30/2012	23	10,705,125	83,093	44,951	128,044	125,204	42,112	83,093	0
12/31/2012	24	10,670,101	35,024	44,605	79,629	76,811	41,787	35,024	0
01/31/2013	25	10,634,928	35,173	44,459	79,632	76,823	41,650	35,173	0
02/28/2013	26	10,547,966	86,963	44,312	131,275	128,476	41,513	86,963	0
03/31/2013	27	10,512,476	35,490	43,950	79,440	5,142	41,174	35,490	-71,522
04/30/2013	28	10,475,453	37,022	43,802	80,824	78,058	41,035	37,022	0
05/31/2013	29	10,391,722	83,731	43,648	127,379	124,622	40,891	83,731	0
06/30/2013	30	10,354,400	37,322	43,299	80,621	77,885	40,564	37,322	0
07/31/2013	31	10,318,292	36,108	43,143	79,252	76,527	40,418	36,108	0
08/31/2013	32	10,241,658	76,634	42,993	119,627	116,911	40,277	76,634	0
09/30/2013	33	10,203,886	37,772	42,674	80,446	77,750	39,978	37,772	0
10/31/2013	34	10,167,310	36,576	42,516	79,092	76,407	39,831	36,576	0
11/30/2013	35	10,088,617	78,692	42,364	121,056	118,380	39,688	78,692	0
12/31/2013	36	10,051,724	36,893	42,036	78,929	76,274	39,381	36,893	0
01/31/2014	37	10,014,674	37,050	41,882	78,932	76,287	39,237	37,050	0
02/28/2014	38	9,932,312	82,362	41,728	124,090	121,454	39,092	82,362	0
03/31/2014	39	9,894,930	37,382	41,385	78,767	8,667	38,771	37,382	-67,486
04/30/2014	40	9,856,069	38,861	41,229	80,090	77,486	38,625	38,861	0
05/31/2014	41	9,776,764	79,305	41,067	120,371	117,777	38,473	79,305	0
06/30/2014	42	9,737,588	39,176	40,737	79,912	77,339	38,163	39,176	0
07/31/2014	43	9,699,556	38,032	40,573	78,606	76,043	38,010	38,032	0
08/31/2014	44	9,619,239	80,317	40,415	120,732	118,179	37,862	80,317	0
09/30/2014	45	9,579,589	39,650	40,080	79,730	77,199	37,548	39,650	0
10/31/2014	46	9,541,065	38,525	39,915	78,439	75,918	37,394	38,525	0
11/30/2014	47	9,481,805	59,260	39,754	99,014	96,503	37,243	59,260	0
12/31/2014	48	9,442,947	38,858	39,508	78,365	75,870	37,012	38,858	0
01/31/2015	49	9,403,924	39,023	39,346	78,368	75,883	36,860	39,023	0
02/28/2015	50	9,342,283	61,641	39,183	100,824	98,349	36,708	61,641	0
03/31/2015	51	9,302,912	39,371	38,926	78,297	12,372	36,467	39,371	-63,466
04/30/2015	52	9,262,117	40,794	38,762	79,556	77,108	36,314	40,794	0
05/31/2015	53	9,203,562	58,555	38,592	97,148	94,710	36,154	58,555	0
06/30/2015	54	9,162,437	41,125	38,348	79,473	77,051	35,926	41,125	0
07/31/2015	55	9,122,382	40,055	38,177	78,232	75,820	35,765	40,055	0
08/31/2015	56	9,063,076	59,306	38,010	97,316	94,915	35,609	59,306	0
09/30/2015	57	9,021,452	41,624	37,613	79,387	77,002	35,377	41,624	0
10/31/2015	58	8,980,879	40,572	37,589	78,162	75,787	35,215	40,572	0
11/30/2015	59	8,919,582	61,297	37,420	98,717	96,354	35,057	61,297	0
12/31/2015	60	8,878,659	40,923	37,165	78,088	75,740	34,817	40,923	0
01/31/2016	61	8,837,562	41,097	36,994	78,091	75,754	34,658	41,097	0
02/29/2016	62	8,774,315	63,248	36,823	100,071	97,745	34,497	63,248	0
03/31/2016	63	8,732,858	41,457	36,560	78,016	16,009	34,250	41,457	-59,698
04/30/2016	64	8,690,037	42,821	36,387	79,208	76,910	34,088	42,821	0
05/31/2016	65	8,628,410	61,627	36,208	97,835	95,548	33,921	61,627	0

06/30/2016	66	8,585,241	43,169	35,952	79,121	76,850	33,681	43,169	8,585,241	0
07/31/2016	67	8,543,065	42,176	35,772	77,947	75,688	33,512	42,176	8,543,065	0
08/31/2016	68	8,480,649	62,417	35,596	98,013	95,764	33,348	62,417	8,480,649	0
09/30/2016	69	8,436,955	43,694	35,336	79,030	76,798	33,104	43,694	8,436,955	0
10/31/2016	70	8,394,235	42,720	35,154	77,874	75,653	32,933	42,720	8,394,235	0
11/30/2016	71	8,332,507	61,728	34,976	96,704	94,495	32,767	61,728	8,332,507	0
12/31/2016	72	8,289,418	43,089	34,719	77,807	75,614	32,526	43,089	8,289,418	0
01/31/2017	73	8,246,147	43,271	34,539	77,811	75,629	32,358	43,271	8,246,147	0
02/28/2017	74	8,199,302	46,844	34,359	81,203	79,033	32,189	46,844	8,199,302	0
03/31/2017	75	8,155,648	43,654	34,164	77,818	75,102	32,006	43,654	8,155,648	-55,858
04/30/2017	76	8,110,692	44,957	33,982	78,939	76,792	31,835	44,957	8,110,692	0
05/31/2017	77	8,066,661	44,030	33,795	77,825	75,690	31,660	44,030	8,066,661	0
06/30/2017	78	8,021,339	45,322	33,611	78,934	76,810	31,488	45,322	8,021,339	0
07/31/2017	79	7,976,929	44,410	33,422	77,832	75,721	31,311	44,410	7,976,929	0
08/31/2017	80	7,932,330	44,599	33,237	77,836	75,736	31,138	44,599	7,932,330	0
09/30/2017	81	7,886,456	45,875	33,051	78,926	76,838	30,964	45,875	7,886,456	0
10/31/2017	82	7,841,473	44,983	32,860	77,843	75,767	30,785	44,983	7,841,473	0
11/30/2017	83	7,795,225	46,248	32,673	78,921	76,857	30,609	46,248	7,795,225	0
12/31/2017	84	7,749,855	45,370	32,480	77,850	75,799	30,428	45,370	7,749,855	0
01/31/2018	85	7,704,292	45,563	32,291	77,854	75,814	30,251	45,563	7,704,292	0
02/28/2018	86	7,655,370	48,922	32,101	81,024	78,996	30,073	48,922	7,655,370	0
03/31/2018	87	7,609,406	45,964	31,897	77,861	75,814	29,883	45,964	7,609,406	-52,275
04/30/2018	88	7,562,204	47,202	31,706	78,907	76,905	29,703	47,202	7,562,204	0
05/31/2018	89	7,515,844	46,360	31,509	77,869	75,879	29,519	46,360	7,515,844	0
06/30/2018	90	7,468,258	47,586	31,316	78,902	76,924	29,338	47,586	7,468,258	0
07/31/2018	91	7,421,500	46,759	31,118	77,876	75,911	29,152	46,759	7,421,500	0
08/31/2018	92	7,374,542	46,957	30,923	77,880	75,927	28,970	46,957	7,374,542	0
09/30/2018	93	7,326,376	48,167	30,727	78,894	76,953	28,786	48,167	7,326,376	0
10/31/2018	94	7,279,014	47,361	30,527	77,888	75,959	28,598	47,361	7,279,014	0
11/30/2018	95	7,230,455	48,559	30,329	78,889	76,973	28,413	48,559	7,230,455	0
12/31/2018	96	7,182,687	47,768	30,127	77,895	75,992	28,224	47,768	7,182,687	0
01/31/2019	97	7,134,715	47,971	29,928	77,899	76,009	28,037	47,971	7,134,715	0
02/28/2019	98	7,083,608	51,107	29,728	80,835	78,957	27,850	51,107	7,083,608	0
03/31/2019	99	7,035,216	48,392	29,515	77,907	77,357	27,651	48,392	7,035,216	-48,686
04/30/2019	100	6,985,655	49,561	29,313	78,875	77,023	27,462	49,561	6,985,655	0
05/31/2019	101	6,936,847	48,808	29,107	77,915	76,076	27,268	48,808	6,936,847	0
06/30/2019	102	6,886,881	49,966	28,904	78,869	77,043	27,078	49,966	6,886,881	0
07/31/2019	103	6,837,654	49,227	28,695	77,923	76,110	26,883	49,227	6,837,654	0
08/31/2019	104	6,788,217	49,437	28,490	77,927	76,127	26,691	49,437	6,788,217	0
09/30/2019	105	6,737,641	50,576	28,284	78,861	77,074	26,498	50,576	6,737,641	0
10/31/2019	106	6,687,780	49,861	28,074	77,935	76,161	26,300	49,861	6,687,780	0
11/30/2019	107	6,636,790	50,989	27,866	78,855	77,095	26,106	50,989	6,636,790	0
12/31/2019	108	6,586,501	50,290	27,653	77,943	76,196	25,907	50,290	6,586,501	0
01/31/2020	109	6,535,998	50,503	27,444	77,947	76,213	25,710	50,503	6,535,998	0
02/29/2020	110	6,483,490	52,508	27,233	79,742	78,021	25,513	52,508	6,483,490	0
03/31/2020	111	6,432,549	50,941	27,015	77,955	77,335	25,308	50,941	6,432,549	-44,914
04/30/2020	112	6,380,511	52,038	26,802	78,840	77,147	25,109	52,038	6,380,511	0
05/31/2020	113	6,332,247	48,264	26,585	74,850	73,170	24,906	48,264	6,332,247	0
06/30/2020	114	6,285,225	47,022	26,384	73,406	71,739	24,718	47,022	6,285,225	0
07/31/2020	115	6,238,871	46,354	26,188	72,542	70,888	24,534	46,354	6,238,871	0
08/31/2020	116	6,192,321	46,551	25,995	72,546	70,904	24,353	46,551	6,192,321	0
09/30/2020	117	6,144,724	47,597	25,801	73,398	71,768	24,172	47,597	6,144,724	0
10/31/2020	118	6,097,773	46,951	25,603	72,554	70,936	23,986	46,951	6,097,773	0
11/30/2020	119	6,049,788	47,985	25,407	73,393	71,788	23,802	47,985	6,049,788	0
12/31/2020	120	6,002,434	47,354	25,207	72,561	70,969	23,615	47,354	6,002,434	0
01/31/2021	121	5,954,879	47,555	25,010	72,565	70,985	23,430	47,555	5,954,879	0
02/28/2021	122	5,904,675	50,204	24,812	75,016	73,449	23,245	50,204	5,904,675	0
03/31/2021	123	5,856,705	47,970	24,603	72,573	72,986	23,049	47,970	5,856,705	-41,032
04/30/2021	124	5,807,729	48,976	24,403	73,379	71,837	22,861	48,976	5,807,729	0
05/31/2021	125	5,759,348	48,382	24,199	72,581	71,052	22,670	48,382	5,759,348	0
06/30/2021	126	5,709,972	49,376	23,997	73,373	71,858	22,481	49,376	5,709,972	0
07/31/2021	127	5,661,175	48,797	23,792	72,588	71,086	22,289	48,797	5,661,175	0
08/31/2021	128	5,612,171	49,004	23,588	72,592	71,102	22,098	49,004	5,612,171	0
09/30/2021	129	5,562,190	49,981	23,384	73,365	71,888	21,907	49,981	5,562,190	0
10/31/2021	130	5,512,765	49,424	23,176	72,600	71,136	21,712	49,424	5,512,765	0
11/30/2021	131	5,462,376	50,389	22,970	73,359	71,908	21,519	50,389	5,462,376	0
12/31/2021	132	5,412,528	49,848	22,760	72,608	71,170	21,322	49,848	5,412,528	0
01/31/2022	133	5,362,468	50,060	22,552	72,612	71,188	21,128	50,060	5,362,468	0
02/28/2022	134	5,309,992	52,476	22,344	74,820	73,409	20,932	52,476	5,309,992	0
03/31/2022	135	5,259,496	50,495	22,125	72,620	73,961	20,727	50,495	5,259,496	-37,262
04/30/2022	136	5,208,066	51,430	21,915	73,345	71,961	20,530	51,430	5,208,066	0
05/31/2022	137	5,157,138	50,928	21,700	72,628	71,258	20,330	50,928	5,157,138	0
06/30/2022	138	5,105,287	51,851	21,488	73,339	71,982	20,131	51,851	5,105,287	0
07/31/2022	139	5,053,922	51,365	21,272	72,637	71,293	19,928	51,365	5,053,922	0
08/31/2022	140	5,002,339	51,583	21,058	72,641	71,311	19,728	51,583	5,002,339	0
09/30/2022	141	4,949,852	52,487	20,843	73,330	72,014	19,526	52,487	4,949,852	0
10/31/2022	142	4,897,828	52,025	20,624	72,649	71,346	19,322	52,025	4,897,828	0
11/30/2022	143	4,844,911	52,917	20,408	73,324	72,035	19,119	52,917	4,844,911	0
12/31/2022	144	4,797,632	47,279	20,187	67,466	66,191	18,912	47,279	4,797,632	0
01/31/2023	145	4,751,885	45,747	19,990	65,737	64,475	18,727	45,747	4,751,885	0
02/28/2023	146	4,703,990	47,894	19,800	67,694	66,443	18,549	47,894	4,703,990	0
03/31/2023	147	4,657,845	46,145	19,600	65,745	63,169	18,362	46,145	4,657,845	-33,338
04/30/2023	148	4,610,866	46,979	19,408	66,387	65,161	18,182	46,979	4,610,866	0
05/31/2023	149	4,564,326	46,540	19,212	65,752	64,539	17,998	46,540	4,564,326	0
06/30/2023	150	4,516,962	47,363	19,018	66,381	65,180	17,817	47,363	4,516,962	0
07/31/2023	151	4,470,023	46,939	18,821	65,760	64,571	17,632	46,939	4,470,023	0
08/31/2023	152	4,422,885	47,139	18,625	65,764	64,587	17,449	47,139	4,422,885	0
09/30/2023	153	4,374,940	47,945	18,429	66,373	65,209	17,265	47,945	4,374,940	0
10/31/2023	154	4,327,398	47,542	18,229	65,771	64,620	17,077	47,542	4,327,398	0
11/30/2023	155	4,279,061	48,337	18,031	66,368	65,229	16,892	48,337	4,279,061	0
12/31/2023	156	4,231,111	47,950	17,829	65,779	64,653	16,703	47,950	4,231,111	0
01/31/2024	157	4,182,958	48,153	17,630	65,783	64,669	16,516	48,153	4,182,958	0





06/30/2039	342	0	0	0	0	0	0	0	0	0	0
07/31/2039	343	0	0	0	0	0	0	0	0	0	0
08/31/2039	344	0	0	0	0	0	0	0	0	0	0
09/30/2039	345	0	0	0	0	0	0	0	0	0	0
10/31/2039	346	0	0	0	0	0	0	0	0	0	0
11/30/2039	347	0	0	0	0	0	0	0	0	0	0
12/31/2039	348	0	0	0	0	0	0	0	0	0	0
01/31/2040	349	0	0	0	0	0	0	0	0	0	0
02/29/2040	350	0	0	0	0	0	0	0	0	0	0
03/31/2040	351	0	0	0	0	-7,638	0	0	0	0	-7,638
04/30/2040	352	0	0	0	0	0	0	0	0	0	0
05/31/2040	353	0	0	0	0	0	0	0	0	0	0
06/30/2040	354	0	0	0	0	0	0	0	0	0	0
07/31/2040	355	0	0	0	0	0	0	0	0	0	0
08/31/2040	356	0	0	0	0	0	0	0	0	0	0
09/30/2040	357	0	0	0	0	0	0	0	0	0	0
10/31/2040	358	0	0	0	0	0	0	0	0	0	0
11/30/2040	359	0	0	0	0	0	0	0	0	0	0
12/31/2040	360	0	0	0	0	0	0	0	0	0	0
01/31/2041	361	0	0	0	0	0	0	0	0	0	0
02/28/2041	362	0	0	0	0	0	0	0	0	0	0
03/31/2041	363	0	0	0	0	-3,515	0	0	0	0	-3,515
04/30/2041	364	0	0	0	0	0	0	0	0	0	0
05/31/2041	365	0	0	0	0	0	0	0	0	0	0
06/30/2041	366	0	0	0	0	0	0	0	0	0	0
07/31/2041	367	0	0	0	0	0	0	0	0	0	0
08/31/2041	368	0	0	0	0	0	0	0	0	0	0
09/30/2041	369	0	0	0	0	0	0	0	0	0	0
10/31/2041	370	0	0	0	0	0	0	0	0	0	0
11/30/2041	371	0	0	0	0	0	0	0	0	0	0
12/31/2041	372	0	0	0	0	0	0	0	0	0	0
01/31/2042	373	0	0	0	0	0	0	0	0	0	0
02/28/2042	374	0	0	0	0	0	0	0	0	0	0
03/31/2042	375	0	0	0	0	-245	0	0	0	0	-245
04/30/2042	376	0	0	0	0	0	0	0	0	0	0
05/31/2042	377	0	0	0	0	0	0	0	0	0	0
06/30/2042	378	0	0	0	0	0	0	0	0	0	0
07/31/2042	379	0	0	0	0	0	0	0	0	0	0
08/31/2042	380	0	0	0	0	0	0	0	0	0	0
09/30/2042	381	0	0	0	0	0	0	0	0	0	0
10/31/2042	382	0	0	0	0	0	0	0	0	0	0
11/30/2042	383	0	0	0	0	0	0	0	0	0	0
12/31/2042	384	0	0	0	0	0	0	0	0	0	0
01/31/2043	385	0	0	0	0	0	0	0	0	0	0
02/28/2043	386	0	0	0	0	0	0	0	0	0	0
03/31/2043	387	0	0	0	0	0	0	0	0	0	0
04/30/2043	388	0	0	0	0	0	0	0	0	0	0
05/31/2043	389	0	0	0	0	0	0	0	0	0	0
06/30/2043	390	0	0	0	0	0	0	0	0	0	0
07/31/2043	391	0	0	0	0	0	0	0	0	0	0
08/31/2043	392	0	0	0	0	0	0	0	0	0	0
09/30/2043	393	0	0	0	0	0	0	0	0	0	0
10/31/2043	394	0	0	0	0	0	0	0	0	0	0
11/30/2043	395	0	0	0	0	0	0	0	0	0	0
12/31/2043	396	0	0	0	0	0	0	0	0	0	0
01/31/2044	397	0	0	0	0	0	0	0	0	0	0
02/29/2044	398	0	0	0	0	0	0	0	0	0	0
03/31/2044	399	0	0	0	0	0	0	0	0	0	0
04/30/2044	400	0	0	0	0	0	0	0	0	0	0
05/31/2044	401	0	0	0	0	0	0	0	0	0	0
06/30/2044	402	0	0	0	0	0	0	0	0	0	0
07/31/2044	403	0	0	0	0	0	0	0	0	0	0
08/31/2044	404	0	0	0	0	0	0	0	0	0	0
09/30/2044	405	0	0	0	0	0	0	0	0	0	0
10/31/2044	406	0	0	0	0	0	0	0	0	0	0
11/30/2044	407	0	0	0	0	0	0	0	0	0	0
12/31/2044	408	0	0	0	0	0	0	0	0	0	0
01/31/2045	409	0	0	0	0	0	0	0	0	0	0
02/28/2045	410	0	0	0	0	0	0	0	0	0	0
03/31/2045	411	0	0	0	0	0	0	0	0	0	0
04/30/2045	412	0	0	0	0	0	0	0	0	0	0
05/31/2045	413	0	0	0	0	0	0	0	0	0	0
06/30/2045	414	0	0	0	0	0	0	0	0	0	0
07/31/2045	415	0	0	0	0	0	0	0	0	0	0
08/31/2045	416	0	0	0	0	0	0	0	0	0	0
09/30/2045	417	0	0	0	0	0	0	0	0	0	0
10/31/2045	418	0	0	0	0	0	0	0	0	0	0
11/30/2045	419	0	0	0	0	0	0	0	0	0	0
12/31/2045	420	0	0	0	0	0	0	0	0	0	0
01/31/2046	421	0	0	0	0	0	0	0	0	0	0
02/28/2046	422	0	0	0	0	0	0	0	0	0	0
03/31/2046	423	0	0	0	0	0	0	0	0	0	0
04/30/2046	424	0	0	0	0	0	0	0	0	0	0
05/31/2046	425	0	0	0	0	0	0	0	0	0	0
06/30/2046	426	0	0	0	0	0	0	0	0	0	0
07/31/2046	427	0	0	0	0	0	0	0	0	0	0
08/31/2046	428	0	0	0	0	0	0	0	0	0	0
09/30/2046	429	0	0	0	0	0	0	0	0	0	0
10/31/2046	430	0	0	0	0	0	0	0	0	0	0
11/30/2046	431	0	0	0	0	0	0	0	0	0	0
Sum		11,904,065	5,997,415	17,901,480	16,328,393	5,618,578	11,904,065				-1,194,250

TAB 3



**Projection of Cash Flows and Effective Interest Rate**

**Rural America's Cooperative Bank**

The projection of cash flows is based on loan amounts, dates and interest rates shown below along with the present capital plan and expected retirement of bank equities.

The capital plan, patronage rate and equity retirements may be changed at the discretion of the bank's board of directors. The following projections are intended for illustrative purposes only, are not intended to represent a commitment to a specific interest rate, and will not become part of any loan documentation.

The effective interest rate shown is the discount rate applied on a monthly basis at which the net present value of all the cash flows equal to zero (commonly called the internal rate of return).

Borrower Name	Grayson RECC	Nominal Interest Rate	4.62%
Schedule	20.43 Years Matching RUS Principal Repayment	<b>Net Effective Interest Rate</b>	<b>3.86%</b>
Account Officer	LaDuca	<b>Reduction of Interest Rate</b>	<b>0.76%</b>
Prepared by:	Darneille	Patronage Rate	1.00%
Quote Date	November 23, 2010	% Cash Patronage	65.00%
Origination Date	December 31, 2010	Initial Capital Purchase Amount	\$0
Amortization Start Date	January 31, 2011	Target Equity	8.00%
Loan Amount	\$11,904,065	Prior Year End Capital Balance	0
Years to Maturity	20.430	Avg Loan Balance - 1 year ago	0
Nominal Interest Rate	4.62%	Avg Loan Balance - 2 years ago	0
Estimated Legal Fees (\$)	5,000	Avg Loan Balance - 3 years ago	0
		Avg Loan Balance - 4 years ago	0
		Avg Loan Balance - 5 years ago	0
Payments/Year	12	Avg Loan Balance - 6 years ago	0
Amort Method	Irregular Payments	Avg Loan Balance - 7 years ago	0
Days per Year	360	Avg Loan Balance - 8 years ago	0
Payment Amount	\$0		

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**Borrower:** Grayson RECC  
**Quote Date:** November 23, 2010  
**Origin Date:** December 31, 2010  
**Schedule:** 20-43 Years Matching RUS Principal Repayment  
**Effective Interest Rate:** 3.86%

Year	Principal Advance	Principal Payments	Interest Payments	Capital Purchases	Cash Patronage	Capital Retired in Cash	Net Cash Flow	Patronage Paid as Capital	Capital Balance	End of Period Loan Balance	1 Year Avg Loan Balance	10 Year Avg Loan Balance	Target Equity
	A	B	C	D	E	F	G	H	I	J	K	L	M
2010	11,904,065	0	5,000	0	0	0	11,899,065	0	0	11,904,065	0	0	0
2011	0	611,946	544,527	0	0	0	-1,156,473	40,682	40,682	11,292,118	11,623,402	1,162,340	92,987
2012	0	622,017	515,451	0	75,552	0	-1,061,916	38,512	79,194	10,670,101	11,003,332	2,262,673	181,014
2013	0	618,377	486,399	0	71,522	0	-1,033,255	36,339	115,532	10,051,724	10,382,447	3,300,918	264,073
2014	0	608,777	457,430	0	67,486	0	-998,721	34,174	149,706	9,442,947	9,764,024	4,277,321	342,186
2015	0	564,288	430,270	0	63,466	0	-931,092	32,145	181,851	8,878,659	9,184,361	5,195,757	415,661
2016	0	589,241	403,285	0	59,698	0	-932,828	30,131	211,982	8,289,418	8,608,847	6,056,641	484,531
2017	0	539,563	376,769	0	55,958	0	-860,375	28,148	240,130	7,749,855	8,042,289	6,860,870	548,870
2018	0	567,168	350,911	0	52,275	0	-865,804	26,216	266,346	7,182,687	7,490,189	7,609,889	608,791
2019	0	596,186	323,729	0	48,686	0	-871,229	24,184	290,531	6,586,501	6,909,842	8,300,873	664,070
2020	0	584,067	295,727	0	44,914	0	-834,880	22,094	312,625	6,002,434	6,312,659	8,932,139	714,571
2021	0	589,906	268,584	0	41,032	0	-817,458	20,064	332,689	5,412,528	5,732,585	8,343,057	667,445
2022	0	614,896	240,313	0	37,262	0	-817,947	17,951	350,640	4,797,632	5,128,971	7,755,621	620,450
2023	0	566,521	212,653	0	33,338	0	-745,835	15,885	366,525	4,231,111	4,538,586	7,171,235	573,699
2024	0	594,907	185,525	0	29,501	0	-750,932	13,860	380,385	3,636,204	3,960,002	6,590,833	527,267
2025	0	625,941	156,991	0	25,740	0	-757,193	11,726	392,111	3,010,262	3,350,171	6,007,414	480,593
2026	0	575,516	128,470	0	21,776	0	-682,210	9,595	401,706	2,434,746	2,741,406	5,420,670	433,654
2027	0	590,273	101,478	0	17,819	0	-673,932	7,578	409,284	1,844,473	2,165,122	4,832,953	386,636
2028	0	620,216	73,199	0	14,073	22,648	-656,694	5,467	392,103	1,224,257	1,561,980	4,240,132	339,211
2029	0	549,483	44,778	0	10,153	52,893	-531,215	3,341	342,552	674,774	954,711	3,644,619	291,570
2030	0	515,627	20,635	0	6,206	50,983	-479,073	1,538	293,107	159,147	439,407	3,057,294	244,584
2031	0	159,147	1,455	0	2,856	48,524	-109,223	107	244,691	0	30,647	2,487,100	198,968
2032	0	0	0	0	199	45,723	45,922	0	198,968	0	0	1,974,203	157,936
2033	0	0	0	0	0	41,032	41,032	0	157,936	0	0	1,520,345	121,628
2034	0	0	0	0	0	36,309	36,309	0	121,628	0	0	1,124,344	89,948
2035	0	0	0	0	0	31,680	31,680	0	89,948	0	0	789,327	63,146
2036	0	0	0	0	0	26,801	26,801	0	63,146	0	0	515,187	41,215
2037	0	0	0	0	0	21,931	21,931	0	41,215	0	0	298,674	23,894
2038	0	0	0	0	0	17,321	17,321	0	23,894	0	0	142,477	11,398
2039	0	0	0	0	0	12,496	12,496	0	11,398	0	0	47,005	3,760
2040	0	0	0	0	0	7,638	7,638	0	3,760	0	0	3,065	245
2041	0	0	0	0	0	3,515	3,515	0	245	0	0	0	0
2042	0	0	0	0	0	245	245	0	0	0	0	0	0
2043	0	0	0	0	0	0	0	0	0	0	0	0	0
2044	0	0	0	0	0	0	0	0	0	0	0	0	0
2045	0	0	0	0	0	0	0	0	0	0	0	0	0
2046	0	0	0	0	0	0	0	0	0	0	0	0	0
2047	0	0	0	0	0	0	0	0	0	0	0	0	0
2048	0	0	0	0	0	0	0	0	0	0	0	0	0
2049	0	0	0	0	0	0	0	0	0	0	0	0	0
2050	0	0	0	0	0	0	0	0	0	0	0	0	0
2051	0	0	0	0	0	0	0	0	0	0	0	0	0
2052	0	0	0	0	0	0	0	0	0	0	0	0	0
2053	0	0	0	0	0	0	0	0	0	0	0	0	0
2054	0	0	0	0	0	0	0	0	0	0	0	0	0
2055	0	0	0	0	0	0	0	0	0	0	0	0	0
2056	0	0	0	0	0	0	0	0	0	0	0	0	0
2057	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>\$11,904,065</b>	<b>\$11,904,065</b>	<b>\$5,623,578</b>	<b>\$0</b>	<b>\$779,512</b>	<b>\$419,737</b>		<b>\$419,737</b>					

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*Rural America's Cooperative Bank*

### Projection of Cash Flows and Effective Interest Rates

The following provides a column-by-column description of CoBank's Loan Rate Model. The Loan Rate Model provides projections of cash flows and effective interest rates based upon the assumptions given for each printout.

- Column C reflects the principal advances on the loan.
- Column E reflects the periodic principal payments.
- Column F reflects the periodic interest payments.
- Column H shows the capital purchases required based upon the assumptions. A new borrower must purchase \$1,000 capital.
- Column I reflects the cash patronage. Total patronage is calculated as a percentage of the one year average loan balance. CoBank is required by statute to pay a minimum of 20 percent patronage capital allocated to a borrower during each year in cash.
- Column J shows capital retirements in cash.
- Column K reflects the net cash flow for the borrower throughout the term of the loan.
- Column L reflects the allocated patronage used to purchase additional capital in CoBank. This represents the balance of the capital allocated each year which was not paid in cash.
- Column M shows the balance of purchased and allocated capital on a cumulative basis each year.
- Column N reflects the loan balance at the end of the year.
- Column O represents the one year average loan balance which is the basis for annual patronage.
- Column P represents average ten year loan balance which is the basis for determining the capital target for the borrower.
- Column Q shows the target equity for the borrower based upon the ten year average loan balance.

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TAB 4

## Refinancing Process

A refinancing of secured debt is permitted under the RUS Mortgage. Included below is an excerpt from the RUS Mortgage providing for such refinancing. CoBank can provide electronic copies of all CoBank documents.

The specific steps for refinancing RUS notes are:

1. Provide CoBank with your RUS form 613 (Quarterly RUS Statement of Loan Account) in order to analyze notes beneficial to refinance.
2. CoBank completes due diligence and provides loan commitment.
3. Provide notice to RUS of prepayment, designating notes to be prepaid and request for payoff memorandum. This notice must be at least four business days before the desired pay off date.
  - RUS Payoff Information: Direct Loan and Grant Branch (DLGB)
    - Telephone: 314-457-4049 or 314-457-4083
    - Fax: 314-457-4283 or 314-457-4284
    - Email: [dlgb@stl.rural.usda.gov](mailto:dlgb@stl.rural.usda.gov)
  - Cash Transmittal Questions: Cash Management Branch (CMB)
    - Telephone: 314-457-4021
4. Obtain and forward to CoBank, RUS prepared spreadsheet setting forth principal and interest to be paid off.
5. Apply and obtain any required regulatory approval as defined by applicable state.
6. Provide borrowing resolution and return all executed loan documents to CoBank.
7. Borrower notifies CoBank as to whether prior period amounts due will be delivered to CoBank or if it will be drawn from borrower's CoBank line of credit for final settlement of RUS notes.
8. Principal balance and interest wired by CoBank to RUS paying off notes.
9. Supplemental mortgages filing complete and opinion of counsel delivered to CoBank.

Excerpt from Article II of the RUS Mortgage

SECTION 2.02. Refunding or Refinancing Notes: The Mortgagor shall also have the right without the consent of any Mortgagee or any Noteholder to issue Additional Notes for the purpose of refunding or refinancing any Notes so long as the total amount of outstanding indebtedness evidenced by such Additional Note or Notes is not greater than 105% of the then outstanding principal balance of the Note or Notes being refunded or refinanced. PROVIDED, HOWEVER, that the Mortgagor may not exercise its rights under this Section if an Event of Default has occurred and is continuing, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing. On or before the first advance of proceeds from Notes issued under this section, the Mortgagor shall notify each Mortgagee of the refunding or refinancing. Additional Notes issued pursuant to this Section [2.02] will thereupon be secured equally and ratably with the Notes.



KENTUCKY 61-AA42 CARTER

**RESTATED MORTGAGE**

**AND**

**SECURITY AGREEMENT**

Made By And Among

**GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION,**  
Mortgagor

and

**UNITED STATES OF AMERICA**  
Mortgagee

and

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE**  
**CORPORATION,**  
Mortgagee

Dated as of June 3, 1996

THE MORTGAGOR, AS DEBTOR IS A TRANSMITTING UTILITY.

FUTURE ADVANCES AND FUTURE OBLIGATIONS ARE SECURED BY THIS INSTRUMENT.

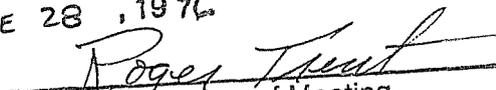
PROCEEDS AND PRODUCTS OF COLLATERAL ARE COVERED BY THIS INSTRUMENT.

AFTER-ACQUIRED PROPERTY, BOTH REAL AND PERSONAL, ARE COVERED BY THIS INSTRUMENT.

THIS INSTRUMENT WAS PREPARED BY GEORGANN GUTTERIDGE, ATTORNEY,  
ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL, UNITED  
STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C. 20250-1400.

Identified as form of document presented  
to and approved by the board of directors  
trustees of the above named corporation at  
a meeting held

JUNE 28, 1996

  
Secretary of Meeting

\_\_\_\_\_

RESTATED MORTGAGE AND SECURITY AGREEMENT, dated as of June 3, 1996 (hereinafter sometimes called this "Mortgage") is made by and among GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Kentucky, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC") a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, as well as any and all other lenders pursuant to Article II of this Mortgage that enter into a supplemental mortgage in accordance with Section 2.04 of Article II hereof (the Government and any such other lenders being herein sometimes collectively referred to as the "Mortgagees").

### RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Supplemental Mortgage and Security Agreement dated as of September 1, 1972, as supplemented, amended or restated (the "Original Mortgage" identified in Schedule "A" of this Mortgage) originally entered into between the Mortgagor, the Government, acting by and through the Administrator of the Rural Electrification Administration, the predecessor of RUS, and CFC;

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor from time to time in one or more series, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same;

WHEREAS, the Mortgagor desires to enter into this Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity;

WHEREAS, this Mortgage restates and consolidates the Original Mortgage while preserving the priority of the Lien under the Original Mortgage securing the payment of Mortgagor's outstanding obligations secured under the Original Mortgage, which indebtedness is described more particularly by listing the Original Notes in Schedule "A" hereto; and

WHEREAS, all acts necessary to make this Mortgage a valid and binding legal instrument for the security of such notes and obligations, subject to the terms of this Mortgage, have been in all respects duly authorized;

NOW, THEREFORE, THIS MORTGAGE WITNESSETH: That to secure the payment of the principal of (and premium, if any) and interest on the Original Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and

grant a continuing security interest and lien in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein OR ANY OTHER KIND OR NATURE, except any Excepted Property, now owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

#### GRANTING CLAUSE FIRST

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule;
- B. all of the Mortgagor's interest in fixtures, easements, permits, licenses and rights-of-way comprising real property, and all other interests in real property, comprising any portion of the Utility System (as herein defined) located in the Counties listed in Schedule "B" hereto;
- C. all right, title and interest of the Mortgagor in and to those contracts of the Mortgagor
  - (i) relating to the ownership, operation or maintenance of any generation, transmission or distribution facility owned, whether solely or jointly, by the Mortgagor,
  - (ii) for the purchase of electric power and energy by the Mortgagor and having an original term in excess of 3 years,
  - (iii) for the sale of electric power and energy by the Mortgagor and having an original term in excess of 3 years, and
  - (iv) for the transmission of electric power and energy by or on behalf of the Mortgagor and having an original term in excess of 3 years, including in respect of any of the foregoing, any amendments, supplements and replacements thereto;
- D. all the property, rights, privileges, allowances and franchises particularly described in the annexed Schedule "B" are hereby made a part of, and deemed to be described in, this Granting Clause as fully as if set forth in this Granting Clause at length; and

ALSO ALL OTHER PROPERTY, real estate, lands, easements, servitudes, licenses, permits, allowances, consents, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same; all power sites, storage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, waterways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electric and other forms of energy (whether now known or hereafter developed) by steam, water, sunlight, chemical processes and/or (without limitation) all other sources of power (whether now known or hereafter developed); all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto; all telephone, radio, television and other communications, image and data transmission systems, air conditioning systems and equipment incidental thereto, water wheels, waterworks, water systems,

steam and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereto, all machinery, engines, boilers, dynamos, turbines, electric, gas and other machines, prime movers, regulators, meters, transformers, generators (including, but not limited to, engine-driven generators and turbo generator units), motors, electrical, gas and mechanical appliances, conduits, cables, water, steam, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, towers, overhead conductors and devices, underground conduits, underground conductors and devices, wires, cables, tools, implements, apparatus, storage battery equipment, and all other fixtures and personalty; all municipal and other franchises, consents, certificates or permits; all emissions allowances; all lines for the transmission and distribution of electric current and other forms of energy, gas, steam, water or communications, images and data for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith, and (except as hereinbefore or hereinafter expressly excepted) all the right, title and interest of the Mortgagor in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or employed in connection with any property hereinbefore described, but in all circumstances excluding Excepted Property;

#### GRANTING CLAUSE SECOND

All other property, real, personal or mixed, of whatever kind and description and wheresoever situated, including without limitation goods, accounts, money held in a trust account pursuant hereto or to a Loan Agreement, and general intangibles now owned or which may be hereafter acquired by the Mortgagor, but excluding Excepted Property, now owned or which may be hereafter acquired by the Mortgagor, it being the intention hereof that all property, rights, privileges, allowances and franchisees now owned by the Mortgagor or acquired by the Mortgagor after the date hereof (other than Excepted Property) shall be as fully embraced within and subjected to the lien hereof as if such property were specifically described herein.

#### GRANTING CLAUSE THIRD

Also any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof by the Mortgagor or by anyone in its behalf; and any Mortgagee is hereby authorized to receive the same at any time as additional security hereunder for the benefit of all the Mortgagees. Such subjection to the lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Mortgagor or the person so acting in its behalf or by such Mortgagee respecting the use and disposition of such property or the proceeds thereof.

#### GRANTING CLAUSE FOURTH

Together with (subject to the rights of the Mortgagor set forth on Section 5.01) all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and all the tolls, earnings, rents, issues, profits, revenues and other income, products and proceeds of the property subjected or required to be subjected to the lien of this Mortgage, and all other property of

any nature appertaining to any of the plants, systems, business or operations of the Mortgagor, whether or not affixed to the realty, used in the operation of any of the premises or plants or the Utility System, or otherwise, which are now owned or acquired by the Mortgagor, and all the estate, right, title and interest of every nature whatsoever, at law as well as in equity, of the Mortgagor in and to the same and every part thereof (other than Excepted Property with respect to any of the foregoing).

#### EXCEPTED PROPERTY

There is, however, expressly excepted and excluded from the lien and operation of this Mortgage the following described property of the Mortgagor, now owned or hereafter acquired (herein sometimes referred to as "Excepted Property"):

- A. all shares of stock, securities or other interests of the Mortgagor in the National Rural Utilities Cooperative Finance Corporation, CoBank, ACB, its predecessors in interest and the St. Paul Bank for Cooperatives other than any stock, securities or other interests that are specifically described in Subclause D of Granting Clause First as being subjected to the lien hereof;
- B. all rolling stock (except mobile substations), automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- C. all vessels, boats, ships, barges and other marine equipment, all airplanes, airplane engines and other flight equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- D. all office furniture, equipment and supplies that is not data processing, accounting or other computer equipment or software;
- E. all leasehold interests for office purposes;
- F. all leasehold interests of the Mortgagor under leases for an original term (including any period for which the Mortgagor shall have a right of renewal) of less than five (5) years;
- G. all timber and crops (both growing and harvested) and all coal, ore, gas, oil and other minerals (both in place or severed);
- H. the last day of the term of each leasehold estate (oral or written) and any agreement therefor, now or hereafter enjoyed by the Mortgagor and whether falling within a general or specific description of property herein: PROVIDED, HOWEVER, that the Mortgagor covenants and agrees that it will hold each such last day in trust for the use and benefit of all of the Mortgagees and Noteholders and that it will dispose of each such last day from time to time in accordance with such written order as the Mortgagee in its discretion may give;
- I. all permits, licenses, franchises, contracts, agreements, contract rights and other rights not specifically subjected or required to be subjected to the lien hereof by the express provisions of this Mortgage, whether now owned or hereafter acquired by the Mortgagor, which by their

terms or by reason of applicable law would become void or voidable if mortgaged or pledged hereunder by the Mortgagor, or which cannot be granted, conveyed, mortgaged, transferred or assigned by this Mortgage without the consent of other parties whose consent has been withheld, or without subjecting any Mortgagee to a liability not otherwise contemplated by the provisions of this Mortgage, or which otherwise may not be, hereby lawfully and effectively granted, conveyed, mortgaged, transferred and assigned by the Mortgagor; and

J. the property identified in Schedule "C" hereto.

PROVIDED, HOWEVER, that (I) if, upon the occurrence of an Event of Default, any Mortgagee, or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Mortgaged Property, all the Excepted Property described or referred to in the foregoing Subdivisions A through H, inclusive, then owned or thereafter acquired by the Mortgagor shall immediately, and, in the case of any Excepted Property described or referred to in Subdivisions I through J, inclusive, upon demand of any Mortgagee or such receiver, become subject to the lien hereof to the extent permitted by law, and any Mortgagee or such receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and (ii) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Mortgaged Property shall have been restored to the Mortgagor, such Excepted Property shall again be excepted and excluded from the lien hereof to the extent and otherwise as hereinabove set forth.

However, pursuant to Granting Clause Third, the Mortgagor may subject to the lien of this Mortgage any Excepted Property, whereupon the same shall cease to be Excepted Property.

#### HABENDUM

TO HAVE AND TO HOLD all said property, rights, privileges and franchises of every kind and description, real, personal or mixed, hereby and hereafter (by supplemental mortgage or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, encumbered, hypothecated, pledged, set over, confirmed, or subjected to a continuing security interest and lien as aforesaid, together with all the appurtenances thereto appertaining (said properties, rights, privileges and franchises, including any cash and securities hereafter deposited with any Mortgagee ((other than any such cash, if any, which is specifically stated herein not to be deemed part of the Mortgaged Property))), being herein collectively called the "Mortgaged Property") unto the Mortgagees and the respective assigns of the Mortgagees forever, to secure equally and ratably the payment of the principal of (and premium, if any) and interest on the Notes, according to their terms, without preference, priority or distinction as to interest or principal (except as otherwise specifically provided herein) or as to lien or otherwise of any Note over any other Note by reason of the priority in time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof, or otherwise, and to secure the due performance of all of the covenants, agreements and provisions herein and in the Loan Agreements contained, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

SUBJECT, HOWEVER, to Permitted Encumbrances (as defined in Section 1.01).

## ARTICLE I

### DEFINITIONS & OTHER PROVISIONS OF GENERAL APPLICATION

#### Section 1.01. Definitions.

In addition to the terms defined elsewhere in this Mortgage, the terms defined in this Article I shall have the meanings specified herein and under the UCC, unless the context clearly requires otherwise. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Accounting Requirements shall mean the requirements of any system of accounts prescribed by RUS so long as the Government is the holder, insurer or guarantor of any Notes, or, in the absence thereof, the requirements of generally accepted accounting principles applicable to businesses similar to that of the Mortgagor.

Additional Notes shall mean any Government Notes issued by the Mortgagor to the Government and any Notes issued by the Mortgagor to any other lender, in either case pursuant to Article II of this Mortgage, including any refunding, renewal, or substitute Notes or Government Notes which may from time to time be executed and delivered by the Mortgagor pursuant to the terms of Article II.

Board shall mean either the Board of Directors or the Board of Trustees, as the case may be, of the Mortgagor.

Business Day shall mean any day that the Government is open for business.

Debt Service Coverage Ratio ("DSC") shall mean the ratio determined as follows: for each calendar year add

- (I) Patronage Capital or Margins of the Mortgagor,
- (ii) Interest Expense on Total Long Term Debt of the Mortgagor (as computed in accordance with the principles set forth in the definition of TIER) and
- (iii) Depreciation and Amortization Expense of the Mortgagor, and divide the total so obtained by an amount equal to the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt during such calendar year increasing said sum by any addition to interest expense on account of Restricted Rentals as computed with respect to the Times Interest Earned Ratio herein.

Depreciation and Amortization Expense shall mean an amount constituting the depreciation and amortization of the Mortgagor as computed pursuant to Accounting Requirements.

**Electric System** shall mean, and shall be broadly construed to encompass and include, all of the Mortgagor's interests in all electric production, transmission, distribution, conservation, load management, general plant and other related facilities, equipment or property and in any mine, well, pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind or in any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the Mortgagor's generating plants, now existing or hereafter acquired by lease, contract, purchase or otherwise or constructed by the Mortgagor, including any interest or participation of the Mortgagor in any such facilities or any rights to the output or capacity thereof, together with all additions, betterments, extensions and improvements to such Electric System or any part thereof hereafter made and together with all lands, easements and rights-of-way of the Mortgagor and all other works, property or structures of the Mortgagor and contract rights and other tangible and intangible assets of the Mortgagor used or useful in connection with or related to such Electric System, including without limitation a contract right or other contractual arrangement referred to in Granting Clause First, Subclause © but excluding any Excepted Property.

**Environmental Law and Environmental Laws** shall mean all federal, state, and local laws, regulations, and requirements related to protection of human health or the environment, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. 9601 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq.), the Clean Water Act (33 U.S.C. 1251 et seq.) and the Clean Air Act (42 U.S.C. 7401 et seq.), and any amendments and implementing regulations of such acts.

**Equity** shall mean the total margins and equities computed pursuant to Accounting Requirements, but excluding any Regulatory Created Assets.

**Event of Default** shall have the meaning specified in Section 4.01 hereof.

**Excepted Property** shall have the meaning stated in the Granting Clauses.

**Government** shall mean the United States of America acting by and through the Administrator of RUS or REA and shall include its successors and assigns.

**Government Notes** shall mean the Original Notes, and any Additional Notes, issued by the Mortgagor to the Government, or guaranteed or insured as to payment by the Government.

**Independent** shall mean when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Mortgagor or in any affiliate of the Mortgagor and (3) is not connected with the Mortgagor as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

*Interest Expense* shall mean an amount constituting the interest expense of the Mortgagor as computed pursuant to Accounting Requirements.

*Lien* shall mean any statutory or common law or non-consensual mortgage, pledge, security interest, encumbrance, lien, right of set off, claim or charge of any kind, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature thereof and any secured transaction under the UCC.

*Loan Agreement* shall mean any agreement executed by and between the Mortgagor and the Government or any other lender in connection with the execution and delivery of any Notes secured hereby.

*Long-Term Debt* shall mean any amount included in Total Long-Term Debt pursuant to Accounting Requirements.

*Long-Term Lease* shall mean a lease having an unexpired term (taking into account terms of renewal at the option of the lessor, whether or not such lease has previously been renewed) of more than 12 months.

*Margins* shall mean the sum of amounts recorded as operating margins and non-operating margins as computed in accordance with Accounting Requirements.

*Maximum Debt Limit*, if any, shall mean the amount more particularly described in Schedule "A" hereof.

*Mortgage* shall mean this Restated Mortgage and Security Agreement, including any amendments or supplements thereto from time to time.

*Mortgaged Property* shall have the meaning specified as stated in the Habendum to the Granting Clauses.

*Mortgagee or Mortgagees* shall mean the parties identified in the first paragraph of this instrument as the "Mortgagees", as well as any and all other entities that become a Mortgagee pursuant to Article II of this Mortgage by entering into a supplemental mortgage in accordance with Section 2.04 of Article II hereof. The term also includes in all cases the successors and assigns of any Mortgagee.

*Net Utility Plant* shall mean the amount constituting the total utility plant of the Mortgagor less depreciation computed in accordance with Accounting Requirements.

*Note or Notes* shall mean one or more of the Government Notes, and any other Notes which may, from time to time, be secured under this Mortgage.

*Noteholder or Noteholders* shall mean one or more of the holders of Notes secured by this Mortgage; PROVIDED, however, that in the case of any Notes that have been guaranteed or insured as to payment by the Government, as to such Notes Noteholder or Noteholders shall mean the Government, exclusively, regardless of whether such

notes are in the possession of the Government.

**Original Mortgage** means the instrument(s) identified as such in Schedule "A" hereof.

**Original Notes** shall mean the Notes listed on Schedule "A" hereto as such, such Notes being instruments evidencing outstanding indebtedness of the Mortgagor (i) to the Government (including indebtedness which has been issued by the Mortgagor to a third party and guaranteed or insured as to payment by the Government) and (ii) to each other Mortgagee on the date of this Mortgage.

**Outstanding Notes** shall mean as of the date of determination, (i) all Notes theretofore issued, executed and delivered to any Mortgagee and (ii) any Notes guaranteed or insured as to payment by the Government, except (a) Notes referred to in clause (i) or (ii) for which the principal and interest have been fully paid and which have been canceled by the Noteholder, and (b) Notes the payment for which has been provided for pursuant to Section 5.03.

**Permitted Debt** shall have the meaning specified in Section 3.08.

**Permitted Encumbrances** shall mean:

- (1) as to the property specifically described in Granting Clause First, the restrictions, exceptions, reservations, conditions, limitations, interests and other matters which are set forth or referred to in such descriptions and each of which fits one or more of the clauses of this definition, PROVIDED, such matters do not in the aggregate materially detract from the value of the Mortgaged Property taken as a whole and do not materially impair the use of such property for the purposes for which it is held by the Mortgagor;
- (2) liens for taxes, assessments and other governmental charges which are not delinquent;
- (3) liens for taxes, assessments and other governmental charges already delinquent which are currently being contested in good faith by appropriate proceedings; PROVIDED the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
- (4) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' liens and other similar liens arising in the ordinary course of business for charges which are not delinquent, or which are being contested in good faith and have not proceeded to judgment; PROVIDED the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
- (5) liens in respect of judgments or awards with respect to which the Mortgagor shall in good faith currently be prosecuting an appeal or proceedings for review and with respect to which the Mortgagor shall have secured a stay of execution pending such appeal or proceedings for review; PROVIDED the Mortgagor

shall have set aside on its books adequate reserves with respect thereto;

- (6) easements and similar rights granted by the Mortgagor over or in respect of any Mortgaged Property, PROVIDED that in the opinion of the Board or a duly authorized officer of the Mortgagor such grant will not impair the usefulness of such property in the conduct of the Mortgagor's business and will not be prejudicial to the interests of the Mortgagees, and similar rights granted by any predecessor in title of the Mortgagor;
- (7) easements, leases, reservations or other rights of others in any property of the Mortgagor for streets, roads, bridges, pipes, pipe lines, railroads, electric transmission and distribution lines, telegraph and telephone lines, the removal of oil, gas, coal or other minerals and other similar purposes, flood rights, river control and development rights, sewage and drainage rights, restrictions against pollution and zoning laws and minor defects and irregularities in the record evidence of title, PROVIDED that such easements, leases, reservations, rights, restrictions, laws, defects and irregularities do not materially affect the marketability of title to such property and do not in the aggregate materially impair the use of the Mortgaged Property taken as a whole for the purposes for which it is held by the Mortgagor;
- (8) liens upon lands over which easements or rights of way are acquired by the Mortgagor for any of the purposes specified in Clause (7) of this definition, securing indebtedness neither created, assumed nor guaranteed by the Mortgagor nor on account of which it customarily pays interest, which liens do not materially impair the use of such easements or rights of way for the purposes for which they are held by the Mortgagor;
- (9) leases existing at the date of this instrument affecting property owned by the Mortgagor at said date which have been previously disclosed to the Mortgagees in writing and leases for a term of not more than two years (including any extensions or renewals) affecting property acquired by the Mortgagor after said date;
- (10) terminable or short term leases or permits for occupancy, which leases or permits expressly grant to the Mortgagor the right to terminate them at any time on not more than six months' notice and which occupancy does not interfere with the operation of the business of the Mortgagor;
- (11) any lien or privilege vested in any lessor, licensor or permittor for rent to become due or for other obligations or acts to be performed, the payment of which rent or performance of which other obligations or acts is required under leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent;
- (12) liens or privileges of any employees of the Mortgagor for salary or wages earned but not yet payable;

- (13) the burdens of any law or governmental regulation or permit requiring the Mortgagor to maintain certain facilities or perform certain acts as a condition of its occupancy of or interference with any public lands or any river or stream or navigable waters;
- (14) any irregularities in or deficiencies of title to any rights-of-way for pipe lines, telephone lines, telegraph lines, power lines or appurtenances thereto, or other improvements thereon, and to any real estate used or to be used primarily for right-of-way purposes, PROVIDED that in the opinion of counsel for the Mortgagor, the Mortgagor shall have obtained from the apparent owner of the lands or estates therein covered by any such right-of-way a sufficient right, by the terms of the instrument granting such right-of-way, to the use thereof for the construction, operation or maintenance of the lines, appurtenances or improvements for which the same are used or are to be used, or PROVIDED that in the opinion of counsel for the Mortgagor, the Mortgagor has power under eminent domain, or similar statutes, to remove such irregularities or deficiencies;
- (15) rights reserved to, or vested in, any municipality or governmental or other public authority to control or regulate any property of the Mortgagor, or to use such property in any manner, which rights do not materially impair the use of such property, for the purposes for which it is held by the Mortgagor;
- (16) any obligations or duties, affecting the property of the Mortgagor, to any municipality or governmental or other public authority with respect to any franchise, grant, license or permit;
- (17) any right which any municipal or governmental authority may have by virtue of any franchise, license, contract or statute to purchase, or designate a purchaser of or order the sale of, any property of the Mortgagor upon payment of cash or reasonable compensation therefor or to terminate any franchise, license or other rights or to regulate the property and business of the Mortgagor; PROVIDED, HOWEVER, that nothing in this clause 17 is intended to waive any claim or rights that the Government may otherwise have under Federal laws;
- (18) as to properties of other operating electric companies acquired after the date of this Mortgage by the Mortgagor as permitted by Section 3.10 hereof, reservations and other matters as to which such properties may be subject as more fully set forth in such Section;
- (19) any lien required by law or governmental regulations as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Mortgagor to maintain self-insurance or to participate in any fund established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements; PROVIDED, HOWEVER, that nothing in this clause 19 is intended to waive any claim or rights that the Government may

otherwise have under Federal laws;

- (20) liens arising out of any defeased mortgage or indenture of the Mortgagor;
- (21) the undivided interest of other owners, and liens on such undivided interests, in property owned jointly with the Mortgagor as well as the rights of such owners to such property pursuant to the ownership contracts;
- (22) any lien or privilege vested in any lessor, licensor or permittor for rent to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent;
- (23) purchase money mortgages permitted by Section 3.08;
- (24) the Original Mortgage;
- (25) this Mortgage.

**Property Additions** shall mean Utility System property as to which the Mortgagor shall provide Title Evidence and which shall be (or, if retired, shall have been) subject to the lien of this Mortgage, which shall be properly chargeable to the Mortgagor's utility plant accounts under Accounting Requirements (including property constructed or acquired to replace retired property credited to such accounts) and which shall be:

- (1) acquired (including acquisition by merger, consolidation, conveyance or transfer) or constructed by the Mortgagor after the date hereof, including property in the process of construction, insofar as not reflected on the books of the Mortgagor with respect to periods on or prior to the date hereof, and
- (2) used or useful in the utility business of the Mortgagor conducted with the properties described in the Granting Clauses of this Mortgage, even though separate from and not physically connected with such properties.

"Property Additions" shall also include:

- (3) easements and rights-of-way that are useful for the conduct of the utility business of the Mortgagor, and
- (4) property located or constructed on, over or under public highways, rivers or other public property if the Mortgagor has the lawful right under permits, licenses or franchises granted by a governmental body having jurisdiction in the premises or by the law of the State in which such property is located to maintain and operate such property for an unlimited, indeterminate or indefinite period or for the period, if any, specified in such permit, license or franchise or law and to remove such property at the expiration of the period covered by such permit, license or franchise or law, or if the terms of such permit, license, franchise or

law require any public authority having the right to take over such property to pay fair consideration therefor.

"Property Additions" shall NOT include:

- (a) good will, going concern value, contracts, agreements, franchises, licenses or permits, whether acquired as such, separate and distinct from the property operated in connection therewith, or acquired as an incident thereto, or
- (b) any shares of stock or indebtedness or certificates or evidences of interest therein or other securities, or
- (c) any plant or system or other property in which the Mortgagor shall acquire only a leasehold interest, or any betterments, extensions, improvements or additions (other than movable physical personal property which the Mortgagor has the right to remove), of, upon or to any plant or system or other property in which the Mortgagor shall own only a leasehold interest unless (i) the term of the leasehold interest in the property to which such betterment, extension, improvement or addition relates shall extend for at least 75% of the useful life of such betterment, extension, improvement or addition and (ii) the lessor shall have agreed to give the Mortgagee reasonable notice and opportunity to cure any default by the Mortgagor under such lease and not to disturb any Mortgagee's possession of such leasehold estate in the event any Mortgagee succeeds to the Mortgagor's interest in such lease upon any Mortgagee's exercise of any remedies under this Mortgage so long as there is no default in the performance of the tenant's covenants contained therein, or
- (d) any property of the Mortgagor subject to the Permitted Encumbrance described in clause (23) of the definition thereof.

**Prudent Utility Practice** shall mean any of the practices, methods and acts which, in the exercise of reasonable judgment, in light of the facts, including, but not limited to, the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result consistent with cost-effectiveness, reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with cost-effectiveness, reliability, safety and expedition.

**REA** shall mean the Rural Electrification Administration of the United States Department of Agriculture, the predecessor of RUS.

**Regulatory Created Assets** shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, pursuant to

Accounting Requirements.

**Restricted Rentals** shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of 3 years and covering property having an initial cost in excess of \$250,000 other than aircraft, ships, barges, automobiles, trucks, trailers, rolling stock and vehicles; office, garage and warehouse space; office equipment and computers.

**RUS** shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture, or if at any time after the execution of this Mortgage RUS is not existing and performing the duties of administering a program of rural electrification as currently assigned to it, then the entity performing such duties at such time.

**Security Interest** shall mean any assignment, transfer, mortgage, hypothecation or pledge.

**Subordinated Indebtedness** shall mean secured indebtedness of the Mortgagor, payment of which shall be subordinated to the prior payment of the Notes in accordance with the provisions of Section 3.08 hereof by subordination agreement in form and substance satisfactory to each Mortgagee which approval will not be unreasonably withheld.

**Supplemental Mortgage** shall mean an instrument of the type described in Section 2.04.

**Times Interest Earned Ratio ("TIER")** shall mean the ratio determined as follows: for each calendar year: add (i) patronage capital or margins of the Mortgagor and (ii) Interest Expense on Total Long-Term Debt of the Mortgagor and divide the total so obtained by Interest Expense on Total Long-Term Debt of the Mortgagor, provided, however, that in computing Interest Expense on Total Long-Term Debt, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Mortgagor over 2% of the Mortgagor's Equity.

**Title Evidence** shall mean with respect to any real property:

- (1) an opinion of counsel to the effect that the Mortgagor has title, whether fairly deducible of record or based upon prescriptive rights (or, as to personal property, based on such evidence as counsel shall determine to be sufficient), as in the opinion of counsel is satisfactory for the use thereof in connection with the operations of the Mortgagor, and counsel in giving such opinion may disregard any irregularity or deficiency in the record evidence of title which, in

the opinion of such counsel, can be cured by proceedings within the power of the Mortgagor or does not substantially impair the usefulness of such property for the purpose of the Mortgagor and may base such opinion upon counsel's own investigation or upon affidavits, certificates, abstracts of title, statements or investigations made by persons in whom such counsel has confidence or upon examination of a certificate or guaranty of title or policy of title insurance in which counsel has confidence; or

- (2) a mortgagee's policy of title insurance in the amount of the cost to the Mortgagor of the land included in Property Additions, as such cost is determined by the Mortgagor in accordance with the Accounting Requirements, issued in favor of the Mortgagees by an entity authorized to insure title in the states where the subject property is located, showing the Mortgagor as the owner of the subject property and insuring the lien of this Mortgage; and with respect to any personal property a certificate of the general manager or other duly authorized officer that the Mortgagor lawfully owns and is possessed of such property.

**Total Assets** shall mean an amount constituting total assets of the Mortgagor as computed pursuant to Accounting Requirements, but excluding any Regulatory Created Assets.

**Total Long-Term Debt** shall mean the total outstanding long-term debt of the Mortgagor as computed pursuant to Accounting Requirements.

**Total Utility Plant** shall mean the total of all property properly recorded in the utility plant accounts of the Mortgagor, pursuant to Accounting Requirements.

**Uniform Commercial Code or UCC** shall mean the UCC of the state referred to in Section 1.04, and if Mortgaged Property is located in a state other than that state, then as to such Mortgaged Property UCC refers to the UCC in effect in the state where such property is located.

**Utility System** shall mean the Electric System and all of the Mortgagor's interest in community infrastructure located substantially within its electric service territory, namely water and waste systems, solid waste disposal facilities, telecommunications and other electronic communications systems, and natural gas distribution systems.

**Section 1.02. General Rules of Construction:**

- a. Accounting terms not defined in Section 1.01 are used in this Mortgage in their ordinary sense and any computations relating to such terms shall be computed in accordance with the Accounting Requirements.
- b. Any reference to "directors" or "board of directors" shall be deemed to mean "trustees" or "board of trustees," as the case may be.

**Section 1.03. Special Rules of Construction if RUS is a Mortgagee:**

During any period that RUS is a Mortgagee, the following additional provisions shall apply:

- a. In the case of any Notes that have been guaranteed or insured as to payment by RUS, as to such Notes RUS shall be considered to be the Noteholder, exclusively, regardless of whether such Notes are in the possession of RUS.
- b. In the case of any prior approval rights conferred upon RUS by Federal statutes, including (without limitation) Section 7 of the Rural Electrification Act of 1936, as amended, with respect to the sale or disposition of property, rights, or franchises of the Mortgagor, all such statutory rights are reserved except to the extent that they are expressly modified or waived in this Mortgage.

**Section 1.04. Governing Law:**

This Mortgage shall be construed in and governed by Federal law to the extent applicable, and otherwise by the laws of the state listed on Schedule "A" hereto.

**Section 1.05 Notices:**

All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if sent by registered or certified mail, postage prepaid, or delivered by hand, or sent by facsimile transmission, receipt confirmed, addressed to the proper party or parties at the addresses listed on Schedule "A" hereto, and as to any other person, firm, corporation or governmental body or agency having an interest herein by reason of being a Mortgagee, at the last address designated by such person, firm, corporation, governmental body or agency to the Mortgagor and the other Mortgagees. Any such party may from time to time designate to each other a new address to which demands, notices, reports, approvals, designations or directions may be addressed, and from and after any such designation the address designated shall be deemed to be the address of such party in lieu of the address given above.

## ARTICLE II

### ADDITIONAL NOTES

#### Section 2.01. Additional Notes:

- (a) Without the prior consent of any Mortgagee or any Noteholder, the Mortgagor may issue Additional Notes to the Government or to another lender or lenders for the purpose of acquiring, procuring or constructing new or replacement Eligible Property Additions and such Additional Notes will thereupon be secured equally and ratably with the Notes if each of the following requirements are satisfied:
- (1) As evidenced by a certificate of an Independent certified public accountant sent to each Mortgagee on or before the first advance of proceeds from such Additional Notes:
    - (i) The Mortgagor shall have achieved for each of the two calendar years immediately preceding the issuance of such Additional Notes, a TIER of not less than 1.5 and a DSC of not less than 1.25;
    - (ii) After taking into account the effect of such Additional Notes on the Total Long Term Debt of the Mortgagor, the ratio of the Mortgagor's Net Utility Plant to its Total Long Term Debt shall be greater than or equal to 1.0 on a pro forma basis;
    - (iii) After taking into account the effect of such Additional Notes on the Total Assets of such Mortgagor, the Mortgagor shall have Equity greater than or equal to 27 percent of Total Assets on a pro forma basis; and
    - (iv) The sum of the aggregate principal amount of such Additional Notes (if any) that are not related to the Electric System if added to the aggregate outstanding principal amount of all the existing Notes (if any) that are not related to the Electric System will not exceed 30% of the Mortgagor's Equity on a pro forma basis.
  - (2) No Event of Default has occurred and is continuing hereunder, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing.
  - (3) The Eligible Property Additions being constructed, acquired, procured or replaced are part of the Mortgagor's Utility System.
  - (4) The Mortgagor's general manager or other duly authorized officer shall send to each of the Mortgagees a certificate in substantially the form attached hereto as Exhibit A on or before the date of the first advance of

proceeds from such Additional Notes.

- (b) For purposes of this section:
- (1) "Eligible Property Additions" shall mean Property Additions acquired or whose construction was completed not more than 5 years prior to the issuance of the Additional Notes and Property Additions acquired or whose construction is started and/or completed not more than 4 years after issuance of the Additional Notes, but shall exclude any Property Additions financed by any other debt secured under the Mortgage at the time additional Notes are issued;
  - (2) Notes are considered to be "issued" on, and the date of "issuance" shall be, the date on which they are executed by the Mortgagor; and
  - (3) For purposes of calculating the pro forma ratios in subparagraphs (a)(1)(ii) and (iii), the values for Total Long Term Debt and Total Assets before debt issuance and the values for Equity and Net Utility Plant shall be the most recently available end-of-month figures preceding the issuance of the Additional Notes, but in no case for a month ending more than 180 days preceding such issuance.

**Section 2.02. Refunding or Refinancing Notes:**

The Mortgagor shall also have the right without the consent of any Mortgagee or any Noteholder to issue Additional Notes for the purpose of refunding or refinancing any Notes so long as the total amount of outstanding indebtedness evidenced by such Additional Note or Notes is not greater than 105% of the then outstanding principal balance of the Note or Notes being refunded or refinanced. PROVIDED, HOWEVER, that the Mortgagor may not exercise its rights under this Section if an Event of Default has occurred and is continuing, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing. On or before the first advance of proceeds from Additional Notes issued under this section, the Mortgagor shall notify each Mortgagee of the refunding or refinancing. Additional Notes issued pursuant to this Section 2.02 will thereupon be secured equally and ratably with the Notes.

**Section 2.03. Other Additional Notes.**

With the prior written consent of each Mortgagee, the Mortgagor may issue Additional Notes to the Government or any lender or lenders, which Notes will thereupon be secured equally and ratably with Notes without regard to whether any of the requirements of Sections 2.01 or 2.02 are satisfied.

**Section 2.04. Additional Lenders Entitled to the Benefit of This Mortgage:**

Without the prior consent of any Mortgagee or any Noteholder, each new lender

designated as a payee in any Additional Notes issued by the Mortgagor pursuant to Section 2.01 or 2.02 of this Mortgage shall become a Mortgagee hereunder upon the execution and delivery by the Mortgagor and such lender of a supplemental mortgage hereto designating such lender as a Mortgagee hereunder. Such new lender shall be entitled to the benefits of this Mortgage without further act or deed. Each Mortgagee and each person or entity that becomes a lender pursuant to Section 2.01 or 2.02 of this Mortgage shall, upon the request of the Mortgagor to do so, execute and deliver a supplement to this Mortgage in substantially the form set forth in Section 2.05 to evidence the addition of such new lender as an additional Mortgagee entitled to the benefits of this Mortgage. The failure of any existing Mortgagee to enter into such supplemental mortgage shall not deprive the new lender of its rights under this Mortgage; provided that such additional indebtedness otherwise conforms in all respects with the requirements for issuing Additional Notes under this Mortgage.

**Section 2.05. Form of Supplemental Mortgage:**

- (a) The form of supplemental mortgage referred to in Section 2.04 is attached to this Mortgage as Exhibit B and hereby incorporated by reference as if set forth in full at this point.
- (b) In the event that the Mortgagor subsequently issues Additional Notes pursuant to Sections 2.01 or 2.02 to any existing Mortgagee and that Mortgagee desires further assurance that such Additional Notes will be secured by the lien of the Mortgage, an instrument substantially in the form of the supplemental mortgage attached as Exhibit B may be used.
- (c) In the event that the Mortgagor issues Additional Notes pursuant to Section 2.03 to either an existing Mortgagee or a new lender, in either case with the prior written consent of each Mortgagee, then an instrument substantially in the form of the supplemental mortgage attached as Exhibit B may also be used.

**ARTICLE III**

**PARTICULAR COVENANTS OF THE MORTGAGOR**

**Section 3.01. Payment of Debt Service on Notes:**

The Mortgagor will duly and punctually pay the principal, premium, if any, and interest on the Notes in accordance with the terms of the Notes, the Loan Agreements, this Mortgage and any Supplemental Mortgage authorizing such Notes.

**Section 3.02. Warranty of Title:**

- (a) At the time of the execution and delivery of this instrument, the Mortgagor has good and marketable title in fee simple to the real property specifically described in Granting Clause First as owned in fee and good and marketable

title to the interests in real property specifically described in Granting Clause First, subject to no mortgage, lien, charge or encumbrance except as stated therein, and has full power and lawful authority to grant, bargain, sell, alien, remise, release, convey, assign, transfer, encumber, mortgage, pledge, set over and confirm said real property and interests in real property in the manner and form aforesaid.

- (b) At the time of the execution and delivery of this instrument, the Mortgagor lawfully owns and is possessed of the personal property specifically described in Granting Clauses First and Second, subject to no mortgage, lien, charge or encumbrance except as stated therein, and has full power and lawful authority to mortgage, assign, transfer, deliver, pledge and grant a continuing security interest in said property and, including any proceeds thereof, in the manner and form aforesaid.
- (c) The Mortgagor hereby does and will forever warrant and defend the title to the property specifically described in Granting Clause First against the claims and demands of all persons whomsoever, except Permitted Encumbrances.

**Section 3.03. After-Acquired Property; Further Assurances; Recording:**

- (a) All property of every kind, other than Excepted Property, acquired by the Mortgagor after the date hereof, shall, immediately upon the acquisition thereof by the Mortgagor, and without any further mortgage, conveyance or assignment, become subject to the lien of this Mortgage; SUBJECT, HOWEVER, to Permitted Encumbrances and the exceptions, if any, to which all of the Mortgagees consent. Nevertheless, the Mortgagor will do, execute, acknowledge and deliver all and every such further acts, conveyances, mortgages, financing statements and assurances as any Mortgagee shall require for accomplishing the purposes of this Mortgage.
- (b) The Mortgagor will cause this Mortgage and all Supplemental Mortgages and other instruments of further assurance, including all financing statements covering security interests in personal property, to be promptly recorded, registered and filed, and will execute and file such financing statements and cause to be issued and filed such continuation statements, all in such manner and in such places as may be required by law fully to preserve and protect the rights of all of the Mortgagees and Noteholders hereunder to all property comprising the Mortgaged Property. The Mortgagor will furnish to each Mortgagee:
  - (1) promptly after the execution and delivery of this instrument and of each Supplemental Mortgage or other instrument of further assurance, an Opinion of Counsel stating that, in the opinion of such Counsel, this instrument and all such Supplemental Mortgages and other instruments of further assurance have been properly recorded, registered and filed to the extent necessary to make effective the lien intended to be created by this Mortgage, and reciting the details of such action or referring to prior Opinions of Counsel in which such details are given, and stating that all

financing statements and continuation statements have been executed and filed that are necessary fully to preserve and protect the rights of all of the Mortgagees and Noteholders hereunder, or stating that, in the opinion of such Counsel, no such action is necessary to make the lien effective; and

- (2) during the month of January in each year following the first anniversary of the date of this Mortgage, an Opinion of Counsel, dated on or about the date of delivery, either stating that, in the opinion of such Counsel, such action has been taken with respect to the recording, registering, filing, re-recording, re-registering and re-filing of this instrument and of all Supplemental Mortgages, financing statements, continuation statements or other instruments of further assurances as is necessary to maintain the lien of this Mortgage (including the lien on any property acquired by the Mortgagor after the execution and delivery of this instrument and owned by the Mortgagor at the end of preceding calendar year) and reciting the details of such action or referring to prior Opinions of Counsel in which such details are given, and stating that all financing statements and continuation statements have been executed and filed that are necessary to fully preserve and protect the rights of all of the Mortgagees and Noteholders hereunder, or stating that, in the opinion of such Counsel, no such action is necessary to maintain such lien.

**Section 3.04. Environmental Requirements and Indemnity:**

- (a) The Mortgagor shall, with respect to all facilities which may be part of the Mortgaged Property, comply with all Environmental Laws.
- (b) The Mortgagor shall defend, indemnify, and hold harmless each Mortgagee, its successors and assigns, from and against any and all liabilities, losses, damages, costs, expenses (including but not limited to reasonable attorneys' fees and expenses), causes of actions, administrative proceedings, suits, claims, demands, or judgments of any nature arising out of or in connection with any matter related to the Mortgage Property and any Environmental Law, including but not limited to:
  - (1) the past, present, or future presence of any hazardous substance, contaminant, pollutant, or hazardous waste on or related to the Mortgaged Property;
  - (2) any failure at any time by the undersigned to comply with the terms of any order related to the Mortgaged Property and issued by any Federal, state, or municipal department or agency (other than RUS) exercising its authority to enforce any Environmental Law; and
  - (3) any lien or claim imposed under any Environmental Law related to clause (1).
- (c) Within 10 (ten) business days after receiving knowledge of any liability, losses,

damages, costs, expenses (including but not limited to reasonable attorneys' fees and expenses), cause of action, administrative proceeding, suit, claim, demand, judgment, lien, reportable event including but not limited to the release of a hazardous substance, or potential or actual violation or non-compliance arising out of or in connection with the Mortgaged Property and any Environmental Law, the Mortgagor shall provide each Mortgagee with written notice of such matter. With respect to any matter upon which it has provided such notice, the Mortgagor shall immediately take any and all appropriate actions to remedy, cure, defend, or otherwise affirmatively respond to the matter.

**Section 3.05. Payment of Taxes:**

The Mortgagor will pay or cause to be paid as they become due and payable all taxes, assessments and other governmental charges lawfully levied or assessed or imposed upon the Mortgaged Property or any part thereof or upon any income therefrom, and also (to the extent that such payment will not be contrary to any applicable laws) all taxes, assessments and other governmental charges lawfully levied, assessed or imposed upon the lien or interest of the Noteholders or of the Mortgagees in the Mortgaged Property, so that (to the extent aforesaid) the lien of this Mortgage shall at all times be wholly preserved at the cost of the Mortgagor and without expense to the Mortgagees or the Noteholders; PROVIDED, HOWEVER, that the Mortgagor shall not be required to pay and discharge or cause to be paid and discharged any such tax, assessment or governmental charge to the extent that the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and the Mortgagor shall have established and shall maintain adequate reserves on its books for the payment of the same.

**Section 3.06. Authority to Execute and Deliver Notes, Loan Agreements and Mortgage; All Action Taken; Enforceable Obligations:**

The Mortgagor is authorized under its articles of incorporation and bylaws (or code of regulations) and all applicable laws and by corporate action to execute and deliver the Notes, any Additional Notes, the Loan Agreements and this Mortgage. The Notes, the Loan Agreements and this Mortgage are, and any Additional Notes and Loan Agreements when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

**Section 3.07. Restrictions on Further Encumbrances on Property:**

Except to secure Additional Notes, the Mortgagor will not, without the prior written consent of each Mortgagee, create or incur or suffer or permit to be created or incurred or to exist any Lien, charge, assignment, pledge or mortgage on any of the Mortgaged Property inferior to, prior to, or on a parity with the Lien of this Mortgage except for the Permitted Encumbrances. Subject to the provisions of Section 3.08, or unless approved by each of the Mortgagees, the Mortgagor will purchase all materials, equipment and replacements to be incorporated in or used in connection with the Mortgaged Property outright and not subject to any conditional sales agreement, chattel mortgage, bailment, lease or other agreement reserving to the

seller any right, title or Lien.

**Section 3.08. Restrictions On Additional Permitted Debt:**

The Mortgagor shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals (including Subordinated Debt) other than the following: ("Permitted Debt")

- (1) Additional Notes issued in compliance with Article II hereof;
- (2) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (3) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;
- (4) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (5) Unsecured indebtedness for borrowed money;
- (6) Debt represented by dividends declared but not paid; and
- (7) Subordinated Indebtedness approved by each Mortgagee.

PROVIDED, However, that the Mortgagor may incur Permitted Debt without the consent of the Mortgagee only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Mortgage any consent of RUS that the Mortgagor would otherwise be required to obtain under this Section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate existing Federal laws or government regulations.

**Section 3.09. Preservation of Corporate Existence and Franchises:**

The Mortgagor will, so long as any Outstanding Notes exist, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and to preserve and renew all franchises, rights of way, easements, permits, and licenses now or hereafter to be granted or upon it conferred the loss of which would have a material adverse affect on the Mortgagor's financial condition or business. The Mortgagor will comply with all laws, ordinances, regulations, orders, decrees and other legal requirements applicable to it or its property the violation of which could have a material adverse affect on the Mortgagor's financial condition or business.

**Section 3.10. Limitations on Consolidations and Mergers:**

The Mortgagor shall not, without the prior written approval of each Mortgagee, consolidate or merge with any other corporation or convey or transfer the Mortgaged Property substantially as an entirety unless:

- (1) such consolidation, merger, conveyance or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Mortgagees hereunder;
- (2) the entity formed by such consolidation or with which the Mortgagor is merged or the corporation which acquires by conveyance or transfer the Mortgaged Property substantially as an entirety shall execute and deliver to the Mortgagees a mortgage supplemental hereto in recordable form and containing an assumption by such successor entity of the due and punctual payment of the principal of and interest on all of the Outstanding Notes and the performance and observance of every covenant and condition of this Mortgage;
- (3) immediately after giving effect to such transaction, no default hereunder shall have occurred and be continuing;
- (4) the Mortgagor shall have delivered to the Mortgagees a certificate of its general manager or other officer, in form and substance satisfactory to each of the Mortgagees, which shall state that such consolidation, merger, conveyance or transfer and such supplemental mortgage comply with this subsection and that all conditions precedent herein provided for relating to such transaction have been complied with;
- (5) the Mortgagor shall have delivered to the Mortgagees an opinion of counsel in form and substance satisfactory to each of the Mortgagees; and
- (6) the entity formed by such consolidation or with which the Mortgagor is merged or the corporation which acquires by conveyance or transfer the Mortgaged Property substantially as an entirety shall be an entity -
  - (A) having Equity equal to at least 27% of its Total Assets on a pro forma basis after giving effect to such transaction,
  - (B) having a pro forma TIER of not less than 1.50 and a pro forma DSC of not less than 1.25 for each of the two preceding calendar years, and
  - (C) having Net Utility Plant equal to or greater than 1.0 times its Total Long-Term Debt on a pro forma basis. Upon any consolidation or merger or any conveyance or transfer of the Mortgaged Property substantially as an entirety in accordance with this subsection, the successor entity formed by such consolidation or with which the Mortgagor is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right

and power of, the Mortgagor under this Mortgage with the same effect as if such successor entity had been named as the Mortgagor herein.

**Section 3.11. Limitations on Transfers of Property:**

The Mortgagor may not, except as provided in Section 3.10 above, without the prior written approval of each Mortgagee, sell, lease or transfer any Mortgaged Property to any other person or entity (including any subsidiary or affiliate of the Mortgagor), unless

- (1) there exists no Event of Default or occurrence which with the passing of time and the giving of notice would be an Event of Default,
- (2) fair market value is obtained for such property,
- (3) the aggregate value of assets so sold, leased or transferred in any 12-month period is less than 10% of Net Utility Plant, and
- (4) the proceeds of such sale, lease or transfer, less ordinary and reasonable expenses incident to such transaction, are immediately
  - (i) applied as a prepayment of all Notes equally and ratably,
  - (ii) in the case of dispositions of equipment, materials or scrap, applied to the purchase of other property useful in the Mortgagor's utility business, not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the Lien of the Mortgage, or
  - (iii) applied to the acquisition or construction of utility plant.

**Section 3.12. Maintenance of Mortgaged Property:**

- (a) So long as the Mortgagor holds title to the Mortgaged Property, the Mortgagor will at all times maintain and preserve the Mortgaged Property which is used or useful in the Mortgagor's business and each and every part and parcel thereof in good repair, working order and condition, ordinary wear and tear and acts of God excepted, and in compliance with Prudent Utility Practice and in compliance with all applicable laws, regulations and orders, and will from time to time make all needed and proper repairs, renewals and replacements, and useful and proper alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times use all reasonable diligence to furnish the consumers served by it through the Mortgaged Property, or any part thereof, with an adequate supply of electric power and energy. If any substantial part of the Mortgaged Property is leased by the Mortgagor to any other party, the lease agreement between the Mortgagor and the lessee shall obligate the lessee to comply with the provisions of subsections (a) and (b) of this Section in respect of the leased facilities and to

permit the Mortgagor to operate the leased facilities in the event of any failure - by the lessee to so comply.

- (b) If in the sole judgement of any Mortgagee, the Mortgaged Property is not being maintained and repaired in accordance with paragraph (a) of this section, such Mortgagee may send to the Mortgagor a written report of needed improvements and the Mortgagor will upon receipt of such written report promptly undertake to accomplish such improvements.
- (c) The Mortgagor further agrees that upon reasonable written request of any Mortgagee, which request together with the requests of any other Mortgagees shall be made no more frequently than once every three years, the Mortgagor will supply promptly to each Mortgagee a certification (hereinafter called the "Engineer's Certification"), in form satisfactory to the requestor, prepared by a professional engineer, who shall be satisfactory to the Mortgagees, as to the condition of the Mortgaged Property. If in the sole judgment of any Mortgagee the Engineer's Certification discloses the need for improvements to the condition of the Mortgaged Property or any other operations of the Mortgagor, such Mortgagee may send to the Mortgagor a written report of such improvements and the Mortgagor will upon receipt of such written report promptly undertake to accomplish such of these improvements as are required by such Mortgagee.

**Section 3.13. Insurance; Restoration of Damaged Mortgaged Property:**

- (a) The Mortgagor will take out, as the respective risks are incurred, and maintain the classes and amounts of insurance in conformance with generally accepted utility industry standards for such classes and amounts of coverages of utilities of the size and character of the Mortgagor and consistent with Prudent Utility Practice.
- (b) The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities having jurisdiction, and, with respect to insurance upon any part of the Mortgaged Property, shall provide that the insurance shall be payable to the Mortgagees as their interests may appear by means of the standard mortgagee clause without contribution. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right of cancellation reserved to such insurer, such policy or contract shall continue in force for at least 30 days after written notice to each Mortgagee of cancellation.
- (c) In the event of damage to or the destruction or loss of any portion of the Mortgaged Property which is used or useful in the Mortgagor's business and which shall be covered by insurance, unless each Mortgagee shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed or lost portion so that such Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss, and shall apply the proceeds of the insurance for that purpose. The Mortgagor shall replace the lost portion of such Mortgaged Property or shall commence such restoration

promptly after such damage, destruction or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance all costs and expenses in connection therewith.

- (d) Sums recovered under any policy or fidelity bond by the Mortgagor for a loss of funds advanced under the Notes or recovered by any Mortgagee or any Noteholder for any loss under such policy or bond shall, unless applied as provided in the preceding paragraph, be used to finance construction of utility plant secured or to be secured by this Mortgage, or unless otherwise directed by the Mortgagees, be applied to the prepayment of the Notes pro rata according to the unpaid principal amounts thereof (such prepayments to be applied to such Notes and installments thereof as may be designated by the respective Mortgagee at the time of any such prepayment), or be used to construct or acquire utility plant which will become part of the Mortgaged Property. At the request of any Mortgagee, the Mortgagor shall exercise such rights and remedies which they may have under such policy or fidelity bond and which may be designated by such Mortgagee, and the Mortgagor hereby irrevocably appoints each Mortgagee as its agent to exercise such rights and remedies under such policy or bond as such Mortgagee may choose, and the Mortgagor shall pay all costs and reasonable expenses incurred by the Mortgagee in connection with such exercise.

**Section 3.14. Mortgagee Right to Expend Money to Protect Mortgaged Property:**

The Mortgagor agrees that any Mortgagee from time to time hereunder may, in its sole discretion, after having given 5 Business days prior written notice to the Mortgagor, but shall not be obligated to, advance funds on behalf of the Mortgagor, in order to insure the Mortgagor's compliance with any covenant, warranty, representation or agreement of the Mortgagor made in or pursuant to this Mortgage or any of the Loan Agreements, to preserve or protect any right or interest of the Mortgagees in the Mortgaged Property or under or pursuant to this Mortgage or any of the Loan Agreements, including without limitation, the payment of any insurance premiums or taxes and the satisfaction or discharge of any judgment or any Lien upon the Mortgaged Property or other property or assets of the Mortgagor; provided, however, that the making of any such advance by or through any Mortgagee shall not constitute a waiver by any Mortgagee of any Event of Default with respect to which such advance is made nor relieve the Mortgagor of any such Event of Default. The Mortgagor shall pay to a Mortgagee upon demand all such advances made by such Mortgagee with interest thereon at a rate equal to that on the Note having the highest interest rate but in no event shall such rate be in excess of the maximum rate permitted by applicable law. All such advances shall be included in the obligations and secured by the security interest granted hereunder.

**Section 3.15. Time Extensions for Payment of Notes:**

Any Mortgagee may, at any time or times in succession without notice to or the consent of the Mortgagor, or any other Mortgagee, and upon such terms as such

Mortgagee may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of (and premium, if any) or interest on any Note held by or indebtedness owed to such Mortgagee or who may be affected by the lien hereby created, an extension of the time for the payment of such principal, (and premium, if any) or interest, and after any such extension the Mortgagor will remain liable for the payment of such Note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

**Section 3.16. Application of Proceeds from Condemnation:**

- (a) In the event that the Mortgaged Property or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom may be used to finance construction of utility plant secured or to be secured by this Mortgage. Any proceeds not so used shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness secured by this Mortgage other than principal of or interest on the Notes; second, to the ratable payment of interest which shall have accrued on the Notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the Notes, to such installments thereof as may be designated by the respective Mortgagee at the time of any such payment; and fourth, the balance shall be paid to whomsoever shall be entitled thereto.
- (b) If any part of the Mortgaged Property shall be taken by eminent domain, each Mortgagee shall release the property so taken from the Mortgaged Property and shall be fully protected in so doing upon being furnished with:
  - (1) A certificate of a duly authorized officer of the Mortgagor requesting such release, describing the property to be released and stating that such property has been taken by eminent domain and that all conditions precedent herein provided or relating to such release have been complied with; and
  - (2) an opinion of counsel to the effect that such property has been lawfully taken by exercise of the right of eminent domain, that the award for such property so taken has become final and that all conditions precedent herein provided for relating to such release have been complied with.

**Section 3.17. Compliance with Loan Agreements; Notice of Amendments to and Defaults under Loan Agreements:**

The Mortgagor will observe and perform all of the material covenants, agreements, terms and conditions contained in any Loan Agreement entered into in connection with the issuance of any of the Notes, as from time to time amended. The Mortgagor will send promptly to each Mortgagee notice of any default by the Mortgagor under any Loan Agreement and notice of any amendment to any Loan Agreement. Upon request of any Mortgagee, the Mortgagor will furnish to such Mortgagee single copies of such Loan Agreements and amendments thereto as such Mortgagee may request.

**Section 3.18. Rights of Way, etc., Necessary in Business:**

The Mortgagor will use its best efforts to obtain all such rights of way, easements from landowners and releases from lienors as shall be necessary or advisable in the conduct of its business, and, if requested by any Mortgagee, deliver to such Mortgagee evidence satisfactory to such Mortgagee of the obtaining of such rights of way, easements or releases.

**Section 3.19. Limitations on Providing Free Electric Services:**

The Mortgagor will not furnish or supply or cause to be furnished or supplied any electric power, energy or capacity free of charge to any person, firm or corporation, public or private, and the Mortgagor will enforce the payment of any and all amounts owing to the Mortgagor by reason of the ownership and operation of the Utility System by discontinuing such use, output, capacity, or service, or by filing suit therefor within 90 days after any such accounts are due, or by both such discontinuance and by filing suit.

**Section 3.20. Keeping Books; Inspection by Mortgagee:**

The Mortgagor will keep proper books, records and accounts, in which full and correct entries shall be made of all dealings or transactions of or in relation to the Notes and the Utility System, properties, business and affairs of the Mortgagor in accordance with the Accounting Requirements. The Mortgagor will at any and all times, upon the written request of any Mortgagee and at the expense of the Mortgagor, permit such Mortgagee by its representatives to inspect the Utility System and properties, books of account, records, reports and other papers of the Mortgagor and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection, and the Mortgagor will furnish to each Mortgagee any and all such information as such Mortgagee may request, with respect to the performance by the Mortgagor of its covenants under this Mortgage, the Notes and the Loan Agreements.

**ARTICLE IV**

**EVENTS OF DEFAULT AND REMEDIES**

**Section 4.01. Events of Default:**

Each of the following shall be an "Event of Default" under this Mortgage:

- (a) default shall be made in the payment of any installment of or on account of interest on or principal of (or premium, if any associated with) any Note or Notes for more than five (5) Business Days after the same shall be required to be made;

- (b) default shall be made in the due observance or performance of any other of the covenants, conditions or agreements on the part of the Mortgagor, in any of the Notes, Loan Agreements or in this Mortgage, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" hereunder shall have been given to the Mortgagor by any Mortgagee; PROVIDED, HOWEVER that in the case of a default on the terms of a Note or Loan Agreement of a particular Mortgagee, the "Notice of Default" required under this paragraph may only be given by that Mortgagee;
- (c) the Mortgagor 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;
- (d) a receiver or liquidator of the Mortgagor or of any substantial portion of its property shall be appointed and the order appointing such receiver or liquidator shall not be vacated within sixty (60) days after the entry thereof;
- (e) the Mortgagor shall forfeit or otherwise be deprived of its corporate charter or franchises, permits, easements, or licenses required to carry on any material portion of its business;
- (f) a final judgment for an amount of more than \$25,000 shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of sixty (60) days; or,
- (g) any material representation or warranty made by the Mortgagor herein, in the Loan Agreements or in any certificate or financial statement delivered hereunder or thereunder shall prove to be false or misleading in any material respect at the time made.

**Section 4.02. Acceleration of Maturity; Rescission and Annulment:**

- (a) If an Event of Default described in Section 4.01(a) has occurred and is continuing, any Mortgagee upon which such default has occurred may declare the principal of all its Notes secured hereunder to be due and payable immediately by a notice in writing to the Mortgagor and to the other Mortgagees (failure to provide said notice to any other Mortgagee shall not affect the validity of any acceleration of the Note or Notes by such Mortgagee), and upon such declaration, all unpaid principal (and 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) If any other Event of Default shall have occurred and be continuing, any Mortgagee may declare the principal of all its Notes secured hereunder to be due and payable immediately by a notice in writing to the Mortgagor and to the other Mortgagees (failure to provide said notice to any other Mortgagee shall not affect the validity of any acceleration of the Note or Notes by such Mortgagee), and upon such declaration, all unpaid principal (and 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.
- (c) Upon receipt of actual knowledge of or any notice of acceleration by any Mortgagee, any other Mortgagee may declare the principal of all of its Notes to be due and payable immediately by a notice in writing to the Mortgagor and upon such declaration, all unpaid principal (and premium, if any) and accrued interest so declared shall become due and payable immediately, anything contained herein or in any Note or Notes or Loan Agreements to the contrary notwithstanding.
- (d) If after the unpaid principal of (and 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 the respective Mortgagees, and (i) all other defaults under the Loan Agreements, the Notes and this Mortgage shall have been made good or cured to the satisfaction of the Mortgagees representing at least 80% of the aggregate unpaid principal balance of all of the Notes then outstanding, (ii) proceedings to foreclose the lien of this Mortgage have not been commenced, and (iii) all reasonable expenses paid or incurred by the Mortgagees in connection with the acceleration shall have been paid to the respective Mortgagees, then in every such case such Mortgagees representing at least 80% of the aggregate unpaid principal balance of all of the Notes then outstanding may by written notice to the Mortgagor, for purposes of this Mortgage, 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.

**Section 4.03. Remedies of Mortgagees:**

If one or more of the Events of Default shall occur and be continuing, any Mortgagee personally or by attorney, in its or their discretion, may, in so far as not prohibited by law:

- (a) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues, proceeds and profits pertaining to or arising from the Mortgaged Property, or any part thereof, whether then past due or accruing thereafter, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession

thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable by such Mortgagee in possession;

- (b) proceed to protect and enforce the rights of all of the Mortgagees by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed necessary or advisable to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit the Mortgagee instituting such action or suit shall have the right to have appointed a receiver of the Mortgaged Property and of all proceeds, rents, income, revenues and profits pertaining thereto or arising therefrom, whether then past due or accruing after the appointment of such receiver, derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers in like and similar cases, to the fullest extent permitted by law, and if application shall be made for the appointment of a receiver the Mortgagor hereby expressly consents that the court to which such application shall be made may make said appointment; and
- (c) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction at such place in any county (or its equivalent locality) in which the property to be sold, or any part thereof, is located, at such time and upon such terms as may be specified in a notice of sale, which shall state the time when and the place where the sale is to be held, shall contain a brief general description of the property to be sold, and shall be given by mailing a copy thereof to the Mortgagor at least fifteen (15) days prior to the date fixed for such sale and by publishing the same once in each week for two successive calendar weeks prior to the date of such sale in a newspaper of general circulation published in said locality or, if no such newspaper is published in such locality, in a newspaper of general circulation in such locality, the first such publication to be not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for such sale. Any sale to be made under this subparagraph (c) of this Section 4.03 may be adjourned from time to time by announcement at the time and place appointed for such sale or for such adjourned sale or sales, and without further notice or publication the sale may be had at the time and place to which the same shall be adjourned; provided, however, that in the event another or different notice of sale or another or different manner of conducting the same shall be required by law the notice of sale shall be given or the sale be conducted, as the case may be, in accordance with the applicable provisions of law. The expense incurred by any Mortgagee (including, but not limited to, receiver's fees, counsel fees, cost of advertisement and agents' compensation) in the exercise of any of the remedies provided in this Mortgage shall be secured by this Mortgage.

- (d) In the event that a Mortgagee proceeds to enforce remedies under this Section, any other Mortgagee may join in such proceedings. In the event that the Mortgagees are not in agreement with the method or manner of enforcement chosen by any other Mortgagee, the Mortgagees representing a majority of the aggregate unpaid principal balance on the then outstanding Notes may direct the method and manner in which remedial action will proceed.

**Section 4.04. Application of Proceeds from Remedial Actions:**

Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied first, to the ratable payment of indebtedness hereby secured other than the principal of or interest on the Notes; second, to the ratable payment of interest which shall have accrued on the Notes and which shall be unpaid; third, to the ratable payment of or on account of the unpaid principal of the Notes; and the balance, if any, shall be paid to whomsoever shall be entitled thereto.

**Section 4.05. Remedies Cumulative; No Election:**

Every right or remedy herein conferred upon or reserved to the Mortgagees or to the Noteholders shall be cumulative and shall be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy shall not be construed as an election.

**Section 4.06. Waiver of Appraisal Rights; Marshaling of Assets Not Required:**

The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisal, valuation, stay, extension or redemption laws now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser or purchasers thereat, and the Mortgagor, for itself and all who may claim through or under it, hereby waives the benefit of all such laws unless such waiver shall be forbidden by law. Under no circumstances shall there be any marshaling of assets upon any foreclosure or to other enforcement of this Mortgage.

**Section 4.07. Notice of Default:**

The Mortgagor covenants that it will give immediate written notice to each Mortgagee of the occurrence of any Event of Default or in the event that any right or remedy described in Sections 4.02 and 4.03 hereof is exercised or enforced or any action is taken to exercise or enforce any such right or remedy.

## ARTICLE V

### POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

#### **Section 5.01. Possession Until Default:**

Until some one or more of the Events of Default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, proceeds, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

#### **Section 5.02. Defeasance:**

If the Mortgagor shall pay or cause to be paid the whole amount of the principal of (and premium, if any) and interest on the Notes at the times and in the manner therein provided, and shall also pay or cause to be paid all other sums payable by the Mortgagor hereunder or under any Loan Agreement and shall keep and perform, all covenants herein required to be kept and performed by it, then and in that case, all property, rights and interest hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagee so paid shall thereupon cease, determine and become void and such Mortgagee, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of the Mortgage upon the record. In any event, each Mortgagee, upon payment in full to such Mortgagee by the Mortgagor of all principal of (and premium, if any) and interest on any Note held by such Mortgagee and the payment and discharge by the Mortgagor of all charges due to such Mortgagee hereunder or under any Loan Agreement, shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

#### **Section 5.03. Special Defeasance:**

Other than any Notes excluded by the foregoing Sections 5.01 and 5.02 and Notes which have become due and payable, the Mortgagor may cause the Lien of this Mortgage to be defeased with respect to any Note for which it has deposited or caused to be deposited in trust solely for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Note for principal (and premium, if any) and interest to the date of maturity thereof; PROVIDED, HOWEVER, that depository serving as trustee for such trust must first be accepted as such by the Mortgagee whose Notes are being defeased under this section. In such event, such a Note will no longer be considered to be an Outstanding Note for purposes of this Mortgage and the Mortgagee shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

## ARTICLE VI

### MISCELLANEOUS

#### **Section 6.01. Property Deemed Real Property:**

It is hereby declared to be the intention of the Mortgagor that any electric generating plant or plants and facilities and all electric transmission and distribution lines, or other Electric System or Utility System facilities, embraced in the Mortgaged Property, including (without limitation) all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the construction, operation or maintenance of such plant, lines, facilities or systems, and all other property physically attached to any of the foregoing, shall be deemed to be real property.

#### **Section 6.02. Mortgage to Bind and Benefit Successors and Assigns:**

All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagees shall pass to and inure to the benefit of the successors and assigns of the Mortgagees and shall be deemed to be granted or conferred for the ratable benefit and security of all who shall from time to time be a Mortgagee. The Mortgagor hereby agrees to execute such consents, acknowledgements and other instruments as may be reasonably requested by any Mortgagee in connection with the assignment, transfer, mortgage, hypothecation or pledge of the rights or interests of such Mortgagee hereunder or under the Notes or in and to any of the Mortgaged Property.

#### **Section 6.03. Headings:**

The descriptive headings of the various articles and sections of this Mortgage and also the table of contents were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

#### **Section 6.04. Severability Cause:**

In case any provision of this Mortgage or in the Notes or in the Loan Agreements shall be invalid or unenforceable, the validity, legality and enforceability of the remaining provisions thereof shall not in any way be affected or impaired, nor, nor shall any invalidity or unenforceability as to any Mortgagee hereunder affect or impair the rights hereunder of any other Mortgagee.

#### **Section 6.05. Mortgage Deemed Security Agreement:**

To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the UCC this Mortgage is hereby deemed a "security agreement" under the UCC, and, if so elected by any Mortgagee, a "financing

statement" under the UCC for said security agreement. The mailing addresses of the Mortgagor as debtor, and the Mortgagees as secured parties are as set forth in Schedule "A" hereof. If any Mortgagee so directs the Mortgagor to do so, the Mortgagor shall file as a financing statement under the UCC for said security agreement and for the benefit of all of the Mortgagees, an instrument other than this Mortgage. In such case, the instrument to be filed shall be in a form customarily accepted by the filing office as a financing statement. PROCEEDS OF COLLATERAL ARE COVERED HEREBY.

**Section 6.06. Indemnification by Mortgagor of Mortgagees:**

The Mortgagor agrees to indemnify and save harmless each Mortgagee against any liability or damages which any of them may incur or sustain in the exercise and performance of their rightful powers and duties hereunder. For such reimbursement and indemnity, each Mortgagee shall be secured under this Mortgage in the same manner as the Notes and all such reimbursements for expense or damage shall be paid to the Mortgagee incurring or suffering the same with interest at the rate specified in Section 3.14 hereof. The Mortgagor's obligation to indemnify the Mortgagees under this section and under Section 3.04 shall survive the satisfaction of the Notes, the reconveyance or foreclosure of this Mortgage, the acceptance of a deed in lieu of foreclosure, or any transfer or abandonment of the Mortgaged Property.

IN WITNESS WHEREOF, GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, as Mortgagor, has caused this Restated Mortgage and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and UNITED STATES OF AMERICA, as Mortgagee, and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Restated Mortgage and Security Agreement to be signed in their respective names by duly authorized persons, all as of the day and year first above written.

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

By: \_\_\_\_\_  
*President*

(SEAL)

Attest: \_\_\_\_\_

Title: \_\_\_\_\_

Executed by the Mortgagor in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*

UNITED STATES OF AMERICA

By: \_\_\_\_\_  
Director, of the Northern Regional Division  
Rural Utilities Service

Executed by the United States of America,  
Mortgagee, in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*

NATIONAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION

By: \_\_\_\_\_  
ASSISTANT SECRETARY-TREASURER

(SEAL)

Attest: \_\_\_\_\_  
ASSISTANT SECRETARY-TREASURER

Executed by the above-named Mortgagee  
in the presence of:

\_\_\_\_\_

\_\_\_\_\_

*Witnesses*

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF )

I, \_\_\_\_\_, a Notary Public in and for the County and Commonwealth aforesaid, do hereby certify that \_\_\_\_\_, personally known to me to be the \_\_\_\_\_ President of GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION, a corporation of the Commonwealth of Kentucky, and to me known to be the identical person whose name is as President of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the County aforesaid and acknowledged that as such President he signed the foregoing instrument pursuant to authority given by the board of directors of said corporation as his free and voluntary act and deed and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth and that the seal affixed to the foregoing instrument is the corporate seal of said corporation.

Given under my hand this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_ .

---

Notary Public

(Notarial Seal)

My commission expires:

COMMONWEALTH OF VIRGINIA )  
 ) SS  
COUNTY OF FAIRFAX )

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public

(Notarial Seal)

My commission expires:

DISTRICT OF COLUMBIA ) SS

BEFORE ME, a Notary Public, in and for the District of Columbia, appeared in person the within named \_\_\_\_\_, Director, Northern Regional Division of the Rural Utilities Service, United States of America, to me personally known, and known to be the identical person who subscribed the foregoing instrument in said capacity, and who, after being by me duly sworn, stated that he is duly authorized to execute the foregoing instrument for and in the name and behalf of the United States of America, and further stated and acknowledged that he had executed the foregoing instrument as the free and voluntary act and deed of the United States of America, for the consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this  
day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Notary Public

(Notarial Seal)

My commission expires:

**SCHEDULE A: Part One**

1. The Maximum Debt Limit referred to in Section 1.01 is \$50,000,000. The Notes at any one time secured hereby shall not in the aggregate principal amount exceed the Maximum Debt Limit.
2. The state referred to in Section 1.04 is Kentucky.
3. The addresses of the parties referred to in Section 1.05 are as follows:

As to the Mortgagor:

Grayson Rural Electric Cooperative Corporation  
109 Bagby Park  
Grayson, Kentucky 41143

As to the Mortgagees:

Rural Utilities Service  
United States Department of Agriculture  
Washington, DC 20250-1500

National Rural Utilities Cooperative Finance Corporation  
2201 Cooperative Way  
Herndon, Virginia 22071-3025

4. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Dated as of</u>
Supplemental Mortgage and Security Agreement	September 1, 1972
Supplement to Supplemental Mortgage and Security Agreement	July 26, 1974
Restated Mortgage and Security Agreement	February 23, 1988

5. The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

**ORIGINAL NOTES issued to the Government<sup>1</sup>**

Payor<sup>2</sup>:

<u>Note Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate<sup>3</sup></u>
G	\$651,000.00	June 10, 1961	June 10, 1996	2%
H	\$491,000.00	January 3, 1964	January 4, 2002	2%
K	\$727,000.00	September 7, 1966	September 7, 2001	2%
L	\$546,000.00	April 16, 1969	April 16, 2004	2%
M2	\$377,000.00	September 1, 1972	September 1, 2007	2%
P6	\$368,000.00	July 26, 1974	July 26, 2009	5%
R6	\$368,000.00	September 16, 1975	September 16, 2010	5%
S6	\$623,000.00	July 18, 1977	July 18, 2012	5%
T6	\$540,000.00	June 20, 1978	June 20, 2013	5%
U6	\$1,547,000.00	August 3, 1979	August 3, 2014	5%
V6	\$1,280,000.00	January 7, 1982	January 7, 2017	5%
W6	\$1,050,000.00	July 19, 1985	July 19, 2020	5%
X6	\$1,335,000.00	February 23, 1988	February 23, 2023	5%
Y6	\$1,511,000.00	April 26, 1991	April 26, 2026	5%
Z42	\$2,594,000.00	July 22, 1994	July 22, 2029	5%
AA42	\$8,648,000.00	June 3, 1996	June 3, 2031	5%

<sup>1</sup>"Government" as used in this listing refers to the United States of America acting through the Administrator of the Rural Utilities Service (RUS) or its predecessor agency, the Rural Electrification Administration (REA). Any Notes which are payable to a third party and which either RUS or REA has guaranteed as to payment are also described in this listing as being issued to the Government. Such guaranteed Notes are typically issued to the Federal Financing Bank, an instrumentality of the United States Treasury, and held by RUS.

<sup>2</sup>The name of payor appears in this space only where it differs from the name of the Mortgagor as it appears on page 1 of this instrument.

<sup>3</sup>V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the United States Treasury, Federal Financing Bank.

## Schedule B

### Property Schedule

The contracts referred to in Subclause "C" of Granting Clause First include without limitation the Wholesale Power Contract, dated as of October 1, 1964, between the Mortgagor and East Kentucky Power Cooperative, Inc. (formerly East Kentucky Rural Electric Cooperative Corporation), and the Participation Agreement, dated as of June 12, 1973, among the Government, CFC, East Kentucky Power Cooperative, Inc. (formerly East Kentucky Rural Electric Cooperative Corporation) and the Mortgagor.

*The counties referred to in Subclause "B" of Granting Clause First are: Carter, Elliott, Greenup, Lawrence, Lewis and Rowan, in the State of Kentucky.*

The fee and leasehold interests in real property referred to in Subclause "A" of Granting Clause First are described on the attached page 1 of this Schedule B

- (1) A certain tract of land described in a certain deed from George L. Bagby, single, to the Grayson Rural Electric Cooperative Corporation, dated April 14, 1958, and recorded in Deed Book 106. Page 361, Carter County Deed Records.
- (2) A certain tract of land described in a certain deed from George L. Bagby, Single, to the Grayson Rural Electric Cooperative Corporation, dated May 8, 1953, and recorded in Deed Book 89 Page 570, Carter County Deed Records.

**Schedule C**  
**Excepted Property**

NONE

Exhibit A

Manager's Certificate

MANAGER'S CERTIFICATE REQUIRED UNDER MORTGAGE SECTION 2.01  
FOR ADDITIONAL NOTES

On behalf on \_\_\_\_\_ (the "Borrower"),

(Name of Borrower)

I \_\_\_\_\_ hereby certify as follows:

1. I am the Manager of the Borrower and have been duly authorized to deliver this certificate in connection with the Additional Note or Notes to be issued on or about \_\_\_\_\_ pursuant to Section 2.01 of the Mortgage  
(Date Note or Notes are to be Signed)  
dated \_\_\_\_\_.
2. No Event of Default has occurred and is continuing under the Mortgage, or any event which with the giving of notice or lapse of time or both would become an Event of Default has occurred and is continuing.
3. The Additional Notes described in paragraph 1 are for the purpose of funding Property Additions being constructed, acquired, procured or replaced that are or will become part of the Borrower's Utility System.
4. The Property Additions referred to in paragraph 3 are Eligible Property Additions, i.e. Property Additions acquired or whose construction was completed not more than 5 years prior to the issuance of additional Notes and Property Additions acquired or whose construction is started and/or completed not more than 4 years after issuance of the additional Notes, but shall exclude any Property Additions financed by any other debt secured under the Mortgage at the time additional Notes are issued
5. I have reviewed the certificate of the Independent certified public accountant also being delivered to each of the Mortgagees pursuant to Section 2.01 in connection with the aforesaid Additional Note or Notes and concur with the conclusions expressed therein.

6. Capitalized terms that are used in this certificate but are not defined herein have the meanings defined in the Mortgage.

\_\_\_\_\_

*Signed*

\_\_\_\_\_

*Date*

\_\_\_\_\_

*Name*

\_\_\_\_\_

*Title*

Name and Address of Borrower:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Exhibit B

Form of Supplemental Mortgage

Supplemental Mortgage and Security Agreement, dated as of \_\_\_\_\_, (hereinafter sometimes called this "Supplemental Mortgage") is made by and among \_\_\_\_\_ (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of \_\_\_\_\_, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government"), \_\_\_\_\_ (Supplemental Lender) (hereinafter called \_\_\_\_\_), a \_\_\_\_\_ existing under the laws of \_\_\_\_\_, and intended to confer rights and benefits on both the Government and \_\_\_\_\_ and \_\_\_\_\_ in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and the Supplemental Lenders being hereinafter sometimes collectively referred to as the "Mortgagees").

**Recitals**

Whereas, the Mortgagor, the Government and \_\_\_\_\_ are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into between the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and \_\_\_\_\_; and

Whereas, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

Whereas, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, and to add \_\_\_\_\_ as a Mortgagee and secured party hereunder and under the Existing Mortgage (the Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to the "Mortgage"); and

Whereas, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto is secured pari passu by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

Whereas, the Existing Mortgage provides the terms by which additional pari passu obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

Whereas, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" pari passu with the Outstanding Notes under the Existing Mortgage {and do hereby add \_\_\_\_\_ as a Mortgagee and a secured party under the Existing Mortgage}; and

Whereas, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and related obligations under the terms of the Mortgage, have been in all respects duly authorized:

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property set forth on Schedule "C" hereof owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment to supplement thereto as Mortgaged Property.

It is Further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

- 1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.

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2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.

In Witness Whereof, \_\_\_\_\_ as Mortgagor

[ACKNOWLEDGEMENTS]

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**Supplemental Mortgage Schedule A**

**Maximum Debt Limit and Other Information**

1. The Maximum Debt Limit is \$ \_\_\_\_\_ .
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows: \_\_\_\_\_ .
3. The Outstanding Notes referred to in the fourth WHEREAS clause above are more particularly described as follows:
  
4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

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**Supplemental Mortgage Schedule B**

**Property Schedule**

The fee and leasehold interests in real property referred to in clause A of the granting clause are more particularly described as follows: