

COMMONWEALTH OF KENTUCKY

KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF GRAYSON RURAL)
ELECTRIC COOPERATIVE CORPORATION)
FOR AUTHORIZATION TO BORROW)
\$9,800,000.00 FROM THE NATIONAL)
RURAL UTILITIES COOPERATIVE)
FINANCE CORPORATION, AND EXECUTE)
THE NECESSARY NOTE, AND PREPAY)
RURAL UTILITY SERVICE NOTES OF THE)
SAME AMOUNT.)

CASE NO. 2016-00327

APPLICATION FOR RUS REFINANCING

Comes now Grayson Rural Electric Cooperative Corporation (Grayson) and herewith submits its application seeking approval to refinance its Rural Utility Service (RUS) long term debt pursuant to KRS 278.300 and all other applicable law. In support of this application Grayson states as follows:

1. Grayson is a non-profit electric cooperative organized and existing under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member owners in the Commonwealth of Kentucky counties of Lewis, Greenup, Carter, Rowan, Elliott, and Lawrence.
2. The mailing and physical address of Grayson is 109 Bagby Park, Grayson, Kentucky, 41143, and its electronic mailing address is c/o Carol Fraley at carol.fraley@graysonrecc.com and Bradley Cherry at bradley.cherry@graysonrecc.com and the undersigned legal counsel for Grayson electronic mailing address is wjscott@windstream.net.

3. The Articles of Incorporation and all amendments thereto for Grayson are on file with the Commission and Grayson's corporate existence is in good standing with the Secretary of State of the Commonwealth of Kentucky.
4. As of September 20, 2016, Grayson had 11,310 members/owners with 2,471.4 miles of distribution line in its service territory.
5. The financial exhibit, as required by 807 KAR 5:001, Section 12(1)(a), is attached hereto as Exhibit 1 to this application.
6. Grayson is not seeking authorization to issue any kind of stock as part of this application.
7. Grayson seeks to borrow from National Rural Electric Cooperative Finance Corporation (CFC) \$9,800,000.00 and execute a loan agreement with CFC in conformity with the attached Exhibit 2.
8. The RUS qualified loans sought to be paid are identified on the attached Exhibit 3.
9. A copy of the resolution of the Board of Directors of Grayson approving the application to CFC for the purposes herein expressed, which resolution is dated August 26, 2016, and executed by the secretary of the corporation as attached hereto as Exhibit 4.
10. Grayson will use the proceeds from the CFC loan solely to prepay notes of the same aggregate amount to RUS.
11. There is no property being acquired in conjunction with this financing.
12. In addition to the foregoing, Grayson attaches hereto as collective Exhibit 5 a "Annual Cash Flow Summary", Grayson RECC CFC Loan Scenario, and Grayson RECC RUS payoff which describes the debt to be paid and amount to be borrowed from CFC and interest rate thereon.

13. Grayson knows of no fees nor expenses to prepay the RUS loans or to close the loan with the exception of legal expenses incurred for Grayson's attorney in connection with the within proceeding and other document preparation by legal counsel including, but not limited to, CFC opinion of counsel and other associated documents for all of which Grayson is not likely to expend a sum in excess of \$5,000.00.

WHEREFORE, Grayson respectfully requests that the Commission issue an order authorizing Grayson to execute evidence of the indebtedness as requested hereinabove for the CFC loan described herein and for any and all other relief to which it may appear to be entitled.

This 11th day of October, 2016.

RESPECTFULLY SUBMITTED,

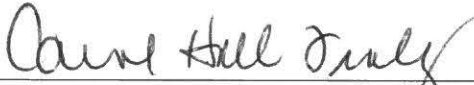
BY: 

W. JEFFREY SCOTT
COUNSEL FOR GRAYSON RECC
311 WEST MAIN STREET
P.O. BOX 608
GRAYSON, KY 41143
(606) 474-5194 PHONE
(606) 474-5196 FACSIMILE
wjscott@windstream.net

VERIFICATION

The undersigned, Carol Hall Fraley, after first being duly sworn deposes and states as follows:

1. That she is President and CEO of Grayson Rural Electric Cooperative Corporation and that she has personal knowledge of the matters set forth in the foregoing application and states that the statements contained therein are true and correct to the best of her knowledge, information, and belief.



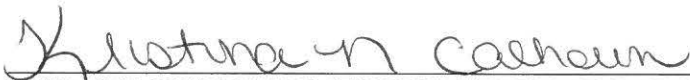
CAROL HALL FRALEY, PRESIDENT & CEO
GRAYSON RECC

STATE OF KENTUCKY

COUNTY OF CARTER

Subscribed and sworn to before me by Carol Hall Fraley, President and CEO of Grayson Rural Electric Cooperative Corporation, this the 11th day of October, 2016.

My Commission Expires: August 23, 2018



NOTARY PUBLIC KENTUCKY STATE AT LARGE

Notary ID # 515702

APPLICATION OF GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
FINANCIAL EXHIBIT 807 KAR 5:001, SECTION 12, EXHIBIT 1

Unless otherwise noted the financial information contained in this exhibit is for the twelve month period ending on the 31st day of August, 2016:

- Section 12(2)(a) Grayson Rural Electric Cooperative Corporation has not stock authorized.
- Section 12(2)(b) Grayson Rural Electric Cooperative Corporation has not stock issued or outstanding.
- Section 12(2)(c) Grayson Rural Electric Cooperative Corporation has no preferred stock issued.
- Section 12(2)(d) All of Grayson Rural Electric Cooperative Corporation, Inc., loans with RUS and CFC are secured by a restated mortgage with Grayson as the mortgagor, and RUS and CFC as the mortgagees. The total cumulative, actual indebtedness is \$32,433,297.00, but the amount sought to be refinanced by the CFC mortgage requested in the attached application is in total, \$9,546,025.43. The maximum authorized indebtedness of the Cooperative is \$100,000,000.00.
- Section 12(2)(e) Grayson Rural Electric has no authorized bonds nor any issued bonds.
- Section 12(2)(f)&(g) Grayson Rural Electric has no other outstanding long term indebtedness other than as set forth hereinabove.
- Section 12(2)(h) Grayson has no authorized stock issued nor outstanding and, therefore, no dividends have been paid during five previous fiscal years as there is no stock upon which any dividends would be paid.
- Section 12(2)(i) Grayson Rural Electric's statement of operations and balance sheet is also attached hereto as part of this exhibit.





**National Rural Utilities
Cooperative Finance Corporation**

Created and Owned by America's Electric Cooperative Network

20701 Cooperative Way
Dulles, Virginia, 20166
703-467-1800 | www.nrucfc.coop

August 26, 2016

Mrs. Carol Hall Fraley
General Manager
Grayson Rural Electric Cooperative Corporation
109 Bagby Park
Grayson, KY 41143

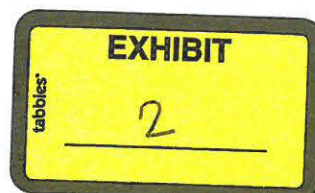
RE: Grayson Rural Electric Cooperative Corporation ("Borrower") Rate Lock Option
Offer Loan No. KY061-A-TBD

Dear Carol:

Pursuant to Borrower's request, National Rural Utilities Cooperative Finance Corporation ("CFC") is pleased to offer Borrower this interest rate lock option for drawing certain funds, as more particularly described on the attached Schedule A ("Rate Lock Option"). The loan number, advance amount, advance date, interest rate and any other terms for each advance for which CFC is offering the Rate Lock Option are set forth on Schedule A, and such attributes together constitute a "Scheduled Advance" for purposes of the Rate Lock Option. In consideration of CFC's offer and Borrower's acceptance of it, CFC and Borrower hereby agree as follows:

- (a) The Rate Lock Option is limited to Scheduled Advances, and shall not be construed as an offer, agreement or obligation associated with any other advance that has been or may be made by CFC;
- (b) CFC's obligation to fund any Scheduled Advance is expressly conditioned upon Borrower and CFC entering into and executing a mutually agreeable loan agreement that governs the terms of the Schedule Advance(s) ("Loan Agreement"), and upon Borrower meeting all of the conditions to advance as set forth therein; and
- (c) By exercising this Rate Lock Option, Borrower agrees to the following terms:

CFC FACIL
KY061-A-TBD(WELSHA)
210299-1



IF:	THEN:
as of the date of the first Scheduled Advance, Borrower has not entered into a Loan Agreement with CFC regarding such Scheduled Advance:	Borrower shall pay to CFC, on demand, (1) a make-whole amount, computed on the amount of the Scheduled Advance, in accordance with CFC's standard formula for calculating reinvestment loss resulting from its commitment to make a fixed rate loan, plus (2) an administrative fee of 33 basis points on the amount of the Scheduled Advance (collectively, the "Make-Whole Amount");
Borrower draws the full amount of the Scheduled Advance on or before its scheduled date:	the Scheduled Advance is subject to the Rate Lock Option.
Borrower does not draw any of the Scheduled Advance on or before its scheduled date:	Borrower shall pay to CFC, on demand, the Make-Whole Amount.
Borrower draws less than the full amount of the Scheduled Advance on or before its scheduled date:	Borrower shall pay to CFC, on demand, the Make-Whole Amount, <i>except</i> that the Make-Whole amount shall be computed only upon the undrawn amount of the Scheduled Advance; <i>and</i> the amount drawn shall be subject to the Rate Lock Option.
Borrower draws more than the full amount of the Scheduled Advance on or before its scheduled date:	the amount of the Scheduled Advance shall be subject to the Rate Lock Option; <i>and</i> the excess amount drawn shall not be subject to the Rate Lock Option, but instead shall be subject to the interest rate terms of the Loan Agreement.

(d) By signing below, the signatory hereby irrevocably exercises the Rate Lock Option on behalf of Borrower and certifies that (1) the signatory is duly authorized to act for, on behalf of, and commit Borrower as described herein, (2) no state regulatory commission or other governmental approval is required to exercise the Rate Lock Option and perform under the terms and conditions set forth herein or, if such

approvals are required, then such approvals have been obtained, are in effect, and evidence thereof is attached hereto.

If the foregoing accurately describes our mutual understanding of the Rate Lock Option and the terms and conditions under which it is offered, please execute and return a copy of this letter by e-mail or facsimile before 6 pm on August 26, 2016, at which time this offer for the Rate Lock Option will automatically be deemed withdrawn.

Sincerely,

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

By: Elaine MacDonald
Elaine MacDonald
Assistant Secretary-Treasurer

ACCEPTED AND AGREED TO THIS 25th day of August, 2016

Grayson Rural Electric Cooperative Corporation

By: Campbell Spence
Its: President + CEO

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

KY0061

LIST OF QUALIFIED NOTES TO BE PREPAID

LOAN DESIGNATION	LOAN DESIGNATION	RUS ACCOUNT NUMBER	ADVANCE DATE	MATURITY DATE	ORIGINAL AMOUNT	PRINCIPAL BALANCE 09/19/2016
RET-8-1	AC44 Treasury Rate	1B430	05/05/2005	10/01/2039	\$2,000,000.00	\$1,469,458.01
RET-8-2	AC44 Treasury Rate	1B431	07/27/2007	10/01/2039	\$4,000,000.00	\$3,415,647.35
RET-8-3	AC44 Treasury Rate	1B432	05/23/2008	10/01/2039	\$4,800,000.00	\$4,112,086.89
RET-8-4	AC44 Treasury Rate	1B433	12/04/2008	10/01/2039	\$ 660,000.00	\$ 549,591.63
TOTALS					\$11,460,000.00	\$9,546,783.88



Board Resolution Requesting RUS Discounted Prepayment

I, Billy E. "Eddie" Martin, do hereby certify that: I am the Secretary of Grayson Rural Electric Cooperative Corporation ("Applicant") and the following is a true and correct copy of excerpts from the minutes of a meeting of Applicant's Board of Directors held on August 26, 2016, as they appear in the Minutes Book of Applicant, including the resolution duly adopted thereat; the meeting was duly and regularly held in accordance with the bylaws of Applicant; and said resolution has not been rescinded or modified:

WHEREAS, the Board of Directors of Applicant has caused to be conducted a thorough review of the feasibility of prepayment of all of its Qualified Notes currently outstanding with the Rural Utilities Service (RUS), and

WHEREAS, the Board of Directors has, after full study and consideration, determined that it is in the best interest of Applicant and its membership, that it prepay all of its RUS notes, as set forth on the Schedule attached to this resolution, at a discounted present value at the earliest practicable date, as authorized in 7 CFR Part 1786, now, therefore, be it

RESOLVED, that the Board of Directors hereby requests that RUS enter into a prepayment agreement with the Applicant providing for the prepayment of all of its Qualified Notes and that it be communicated to the appropriate RUS Regional Director by the President of the Board of Directors, and

WHEREAS, the Board of Directors of Applicant, has determined that it will seek to prepay, at a discount, its existing RUS debt, and CFC financing is needed for the prepayment in the approximate amount of \$9,800,000.

NOW THEREFORE BE IT RESOLVED, that the Applicant make application to CFC for a commitment in the approximate amount of \$9,800,000 to be used to prepay RUS debt.

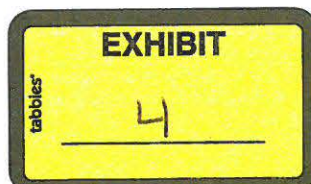
BE IT FURTHER RESOLVED, that the CFC financing requested herein include several different loan amounts, each loan having a maturity no longer than 30 years, as determined by the *General Manager* and provided to CFC in writing prior to the preparation of CFC loan and security documentation. The loans, which in the aggregate total the financing commitment request of \$9,800,000, will have separate CFC interest rate options which will be selected at the time of the advance by the *General Manager*.

BE IT ALSO RESOLVED, that Applicant hereby authorizes the release of information from RUS to CFC in connection with the system as it relates to this application.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of Applicant, this 26th day of August, 2016.


Secretary

(Corporate Seal)



Co-op Name: Grayson RECC
 Co-op ID: KY061
 Date Prepared: 8/25/2016
 Interest Rates as of: 8/25/2016
 Advance Date: 9/26/2016
 Scenario Name: RUS Refinance - Matching Principal
 Financing Amount: \$9,546,025.43

Interest Rate Comparison*		
	CFC	RUS
Interest Rate:	3.59%	4.06%
Discounts & Fees:	0.00%	0.00%
Int Rate Prior to Pat. Cap:	3.59%	4.06%
Patronage **:	-0.24%	0.00%
Effective Int Rate:	3.35%	4.06%

ANNUAL CASH FLOW SUMMARY

	CFC					RUS					Interest Expense Difference	Patronage Capital Retirement	Total Cash Flow Difference	
	Ending Balance	Principal Payments	Interest Expense	Cash Patronage	Cash Discounts	Cash Flows	Ending Balance	Principal Payments	Interest Expense	Section 9 Interest				Cash Flows
29-Feb	(9,546,025)		(4,570,171)	429,082	0	(13,687,115)	(9,546,025)		(5,156,062)	0	(14,702,087)	585,890	429,082	1,014,972
2016	9,546,025	0	0	0	0	0	9,546,025	0	0	0	0	0	0	0
2017	9,413,846	(132,179)	(142,778)	10,636	0	(264,321)	9,413,846	(132,179)	(187,485)	0	(319,664)	44,706	10,636	55,342
2018	9,146,108	(267,738)	(327,490)	15,290	0	(579,938)	9,146,108	(267,738)	(371,589)	0	(639,328)	44,100	15,290	59,389
2019	8,868,451	(277,657)	(319,702)	14,919	0	(582,441)	8,868,451	(277,657)	(361,670)	0	(639,328)	41,968	14,919	56,887
2020	8,581,199	(287,251)	(312,279)	14,524	0	(585,006)	8,581,199	(287,251)	(352,076)	0	(639,328)	39,798	14,524	54,322
2021	8,281,513	(299,686)	(302,406)	14,067	0	(588,005)	8,281,513	(299,686)	(339,642)	0	(639,328)	37,235	14,067	51,322
2022	7,971,201	(310,312)	(292,460)	13,615	0	(589,178)	7,971,201	(310,312)	(329,015)	0	(639,328)	36,535	13,615	50,150
2023	7,648,958	(322,243)	(282,034)	13,118	0	(591,159)	7,648,958	(322,243)	(317,084)	0	(639,328)	35,050	13,118	48,168
2024	7,314,902	(334,055)	(271,753)	12,594	0	(593,214)	7,314,902	(334,055)	(305,272)	0	(639,328)	33,520	12,594	46,114
2025	6,966,420	(348,482)	(259,425)	12,042	0	(595,865)	6,966,420	(348,482)	(290,846)	0	(639,328)	31,421	12,042	43,463
2026	6,604,886	(361,535)	(247,234)	11,464	0	(597,306)	6,604,886	(361,535)	(277,793)	0	(639,328)	30,559	11,464	42,022
2027	6,228,991	(375,895)	(234,508)	10,858	0	(599,544)	6,228,991	(375,895)	(263,433)	0	(639,328)	26,925	10,858	39,783
2028	5,838,606	(390,385)	(221,745)	10,225	0	(601,904)	5,838,606	(390,385)	(248,943)	0	(639,328)	27,198	10,225	37,423
2029	5,431,387	(407,218)	(207,204)	9,561	0	(604,862)	5,431,387	(407,218)	(232,109)	0	(639,328)	24,905	9,561	34,466
2030	5,008,186	(423,201)	(192,537)	8,865	0	(606,873)	5,008,186	(423,201)	(216,126)	0	(639,328)	23,589	8,865	32,455
2031	4,567,691	(440,495)	(177,203)	8,135	0	(609,563)	4,567,691	(440,495)	(198,832)	0	(639,328)	21,629	8,135	29,764
2032	4,105,471	(458,220)	(161,521)	7,372	0	(612,369)	4,105,471	(458,220)	(181,108)	0	(639,328)	19,587	7,372	26,958
2033	3,631,510	(477,961)	(144,259)	6,570	0	(615,650)	3,631,510	(477,961)	(161,367)	0	(639,328)	17,107	6,570	23,677
2034	3,134,027	(497,483)	(126,549)	5,730	0	(618,302)	3,134,027	(497,483)	(141,845)	0	(639,328)	15,296	5,730	21,026
2035	2,615,706	(518,321)	(108,107)	4,855	0	(621,574)	2,615,706	(518,321)	(121,007)	0	(639,328)	12,899	4,855	17,754
2036	2,075,755	(539,952)	(89,105)	3,943	0	(625,113)	2,075,754	(539,952)	(99,376)	0	(639,328)	10,271	3,943	14,214
2037	1,512,548	(563,207)	(68,871)	2,993	0	(629,085)	1,512,548	(563,207)	(76,121)	0	(639,328)	7,250	2,993	10,243
2038	925,543	(587,004)	(47,862)	1,994	0	(632,893)	925,543	(587,004)	(52,324)	0	(639,328)	4,441	1,994	6,435
2039	313,419	(612,124)	(25,817)	946	0	(636,995)	313,419	(612,124)	(27,203)	0	(639,328)	1,386	946	2,333
2040	0	(313,419)	(7,281)	206	0	(320,495)	0	(313,419)	(3,797)	0	(317,216)	(3,484)	206	(3,278)
2041	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2042	0	0	0	10,636	0	10,636	0	0	0	0	0	0	10,636	10,636
2043	0	0	0	15,290	0	15,290	0	0	0	0	0	0	15,290	15,290
2044	0	0	0	14,919	0	14,919	0	0	0	0	0	0	14,919	14,919
2045	0	0	0	14,524	0	14,524	0	0	0	0	0	0	14,524	14,524
2046	0	0	0	14,087	0	14,087	0	0	0	0	0	0	14,087	14,087
2047	0	0	0	13,615	0	13,615	0	0	0	0	0	0	13,615	13,615
2048	0	0	0	13,118	0	13,118	0	0	0	0	0	0	13,118	13,118
2049	0	0	0	12,594	0	12,594	0	0	0	0	0	0	12,594	12,594
2050	0	0	0	12,042	0	12,042	0	0	0	0	0	0	12,042	12,042
2051	0	0	0	11,464	0	11,464	0	0	0	0	0	0	11,464	11,464
2052	0	0	0	10,858	0	10,858	0	0	0	0	0	0	10,858	10,858
2053	0	0	0	10,225	0	10,225	0	0	0	0	0	0	10,225	10,225
2054	0	0	0	9,561	0	9,561	0	0	0	0	0	0	9,561	9,561
2055	0	0	0	8,865	0	8,865	0	0	0	0	0	0	8,865	8,865
2056	0	0	0	8,135	0	8,135	0	0	0	0	0	0	8,135	8,135
2057	0	0	0	7,372	0	7,372	0	0	0	0	0	0	7,372	7,372
2058	0	0	0	6,570	0	6,570	0	0	0	0	0	0	6,570	6,570
2059	0	0	0	5,730	0	5,730	0	0	0	0	0	0	5,730	5,730
2060	0	0	0	4,855	0	4,855	0	0	0	0	0	0	4,855	4,855
2061	0	0	0	3,943	0	3,943	0	0	0	0	0	0	3,943	3,943
2062	0	0	0	2,993	0	2,993	0	0	0	0	0	0	2,993	2,993
2063	0	0	0	1,994	0	1,994	0	0	0	0	0	0	1,994	1,994
2064	0	0	0	946	0	946	0	0	0	0	0	0	946	946
2065	0	0	0	206	0	206	0	0	0	0	0	0	206	206
2066	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2067	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2068	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2069	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2070	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2071	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2072	0	0	0	0	0	0	0	0	0	0	0	0	0	0

* Interest rates are calculated as a monthly internal rate of return.
 ** The estimated impact of Pat. Cap. is based on CFC's historical patronage allocation level and CFC's current retirement policy. CFC's patronage allocation & retirement are subject to approval by CFC's Board of Directors.
 *** This information is confidential and is not to be disclosed to third parties without prior CFC consent. This presentation reflects CFC's programs and policies in effect at the time this presentation was created. No future representation of interest rates is implied. Rates are subject to change daily.

Created & Owned by America's Electric Cooperative Network





Created & Owned by America's Electric Cooperative Network

Grayson RECC
CFC Loan Scenario

RUS Refinance - Matching Principal

Count	Variable or Fixed	Interest Rate	Amort. Type	Advance Date	Amortization Start Date	Interest Rate Term	Loan Term In Months	Months to defer	Balloon Date	Final Payment Date	Loan Amount	L/CTC's required?	Loans w/ Volume	Loans w/ Performance	Loans w/ Collateral	Loans w/ Equity
1	F	2.800%	LD	9/26/2016	12/1/2016	1	6	0		2/28/2017	\$132,179	No	\$0	N	N	N
2	F	2.850%	LD	9/26/2016	3/1/2017	2	18	3		2/28/2018	\$267,738	No	\$0	N	N	N
3	F	2.900%	LD	9/26/2016	3/1/2018	3	30	15		2/28/2019	\$277,657	No	\$0	N	N	N
4	F	3.000%	LD	9/26/2016	3/1/2019	4	42	27		2/29/2020	\$287,251	No	\$0	N	N	N
5	F	3.250%	LD	9/26/2016	3/1/2020	5	54	39		2/28/2021	\$299,686	No	\$0	N	N	N
6	F	3.300%	LD	9/26/2016	3/1/2021	6	66	51		2/28/2022	\$310,312	No	\$0	N	N	N
7	F	3.350%	LD	9/26/2016	3/1/2022	7	78	63		2/28/2023	\$322,243	No	\$0	N	N	N
8	F	3.400%	LD	9/26/2016	3/1/2023	8	90	75		2/29/2024	\$334,055	No	\$0	N	N	N
9	F	3.450%	LD	9/26/2016	3/1/2024	9	102	87		2/28/2025	\$348,482	No	\$0	N	N	N
10	F	3.450%	LD	9/26/2016	3/1/2025	10	114	99		2/28/2026	\$361,535	No	\$0	N	N	N
11	F	3.500%	LD	9/26/2016	3/1/2026	11	126	111		2/28/2027	\$375,895	No	\$0	N	N	N
12	F	3.500%	LD	9/26/2016	3/1/2027	12	138	123		2/29/2028	\$390,385	No	\$0	N	N	N
13	F	3.550%	LD	9/26/2016	3/1/2028	13	150	135		2/28/2029	\$407,218	No	\$0	N	N	N
14	F	3.550%	LD	9/26/2016	3/1/2029	14	162	147		2/28/2030	\$423,201	No	\$0	N	N	N
15	F	3.600%	LD	9/26/2016	3/1/2030	15	174	159		2/28/2031	\$440,495	No	\$0	N	N	N
16	F	3.600%	LD	9/26/2016	3/1/2031	16	186	171		2/29/2032	\$458,220	No	\$0	N	N	N
17	F	3.650%	LD	9/26/2016	3/1/2032	17	198	183		2/28/2033	\$477,961	No	\$0	N	N	N
18	F	3.650%	LD	9/26/2016	3/1/2033	18	210	195		2/28/2034	\$497,483	No	\$0	N	N	N
19	F	3.650%	LD	9/26/2016	3/1/2034	19	222	207		2/28/2035	\$518,321	No	\$0	N	N	N
20	F	3.650%	LD	9/26/2016	3/1/2035	20	234	219		2/29/2036	\$539,952	No	\$0	N	N	N
21	F	3.650%	LD	9/26/2016	3/1/2036	21	246	231		2/28/2037	\$563,207	No	\$0	N	N	N
22	F	3.700%	LD	9/26/2016	3/1/2037	22	258	243		2/28/2038	\$587,004	No	\$0	N	N	N
23	F	3.700%	LD	9/26/2016	3/1/2038	23	270	255		2/28/2039	\$612,124	No	\$0	N	N	N
24	F	3.700%	LD	9/26/2016	3/1/2039	24	282	267		2/29/2040	\$313,419	No	\$0	N	N	N



**National Rural Utilities
Cooperative Finance Corporation**

Created and Owned by America's Electric Cooperative Network

20701 Cooperative Way
Dulles, Virginia 20166
703-467-1800 | www.nrucfc.coop

September 6, 2016

Ms. Carol Hall Fraley
President & CEO
Grayson Rural Electric Cooperative Corporation
109 Bagby Park
Grayson, KY 41143

Dear Ms. Fraley:

On March 22, 1994, RUS published the final rules for the prepayment of RUS notes at a discount. CFC is pleased to inform you that Grayson Rural Electric Cooperative Corporation has been approved to receive CFC funding to refinance its RUS debt.

We have determined that your system may refinance approximately \$9,600,000 with a secured long-term commitment from CFC for a term that matches the composite life of the existing RUS debt. CFC will also consider lending for terms other than the composite life of the existing RUS debt. It is anticipated that distribution systems interested in refinancing for shorter terms than their existing RUS debt will need to run financial forecasts to evaluate and support the goals and expectations of their system.

According to RUS' rules, borrowers that apply for the note buyout must show evidence of available financing for prepayment of notes. This letter may be used for that purpose. Financing will be available to Grayson Rural Electric Cooperative Corporation after the execution of CFC loan and security documents and, as may be required by some systems, regulatory approval from state and/or federal agencies.

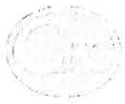
CFC's approved commitment to Grayson Rural Electric Cooperative Corporation will be available for advance anytime during the next eighteen months, which means you will have quick access to loan funds in the event you choose to refinance your RUS debt. We look forward to providing you with any assistance that may be needed. Please contact Brian Stavish, your Regional Vice President at 571-213-9003 or Elaine MacDonald in our Dulles office at (800) 424-2954, extension 1883 for more information concerning the note buyout.

Sincerely,

Sheldon C. Petersen
Chief Executive Officer

SCHEDULE A

Loan #	Date of Interest Rates	Advance Amount	Advance Date	Loan Term in Months	Amort Type	Deferral Period in Months	Amort Start Date	Final Pmt Date	Interest Rate Term	Reprice Date	Interest Rate on Advance Date
1	8/25/2016	\$181,114	12/20/2016	6	LD	0	1/1/2017	5/31/2017	1	FTM	2.80%
2	8/25/2016	\$336,205	12/20/2016	18	LD	5	6/1/2017	5/31/2018	2	FTM	2.85%
3	8/25/2016	\$345,522	12/20/2016	30	LD	17	6/1/2018	5/31/2019	3	FTM	2.90%
4	8/25/2016	\$354,532	12/20/2016	42	LD	29	6/1/2019	5/31/2020	4	FTM	3.00%
5	8/25/2016	\$366,007	12/20/2016	54	LD	41	6/1/2020	5/31/2021	5	FTM	3.25%
6	8/25/2016	\$377,581	12/20/2016	66	LD	53	6/1/2021	5/31/2022	6	FTM	3.30%
7	8/25/2016	\$389,703	12/20/2016	78	LD	65	6/1/2022	5/31/2023	7	FTM	3.35%
8	8/25/2016	\$401,734	12/20/2016	90	LD	77	6/1/2023	5/31/2024	8	FTM	3.40%
9	8/25/2016	\$415,692	12/20/2016	102	LD	89	6/1/2024	5/31/2025	9	FTM	3.45%
10	8/25/2016	\$429,549	12/20/2016	114	LD	101	6/1/2025	5/31/2026	10	FTM	3.45%
11	8/25/2016	\$443,962	12/20/2016	126	LD	113	6/1/2026	5/31/2027	11	FTM	3.50%
12	8/25/2016	\$458,469	12/20/2016	138	LD	125	6/1/2027	5/31/2028	12	FTM	3.50%
13	8/25/2016	\$474,571	12/20/2016	150	LD	137	6/1/2028	5/31/2029	13	FTM	3.55%
14	8/25/2016	\$490,838	12/20/2016	162	LD	149	6/1/2029	5/31/2030	14	FTM	3.55%
15	8/25/2016	\$507,768	12/20/2016	174	LD	161	6/1/2030	5/31/2031	15	FTM	3.60%
16	8/25/2016	\$525,105	12/20/2016	186	LD	173	6/1/2031	5/31/2032	16	FTM	3.60%
17	8/25/2016	\$543,764	12/20/2016	198	LD	185	6/1/2032	5/31/2033	17	FTM	3.65%
18	8/25/2016	\$562,907	12/20/2016	210	LD	197	6/1/2033	5/31/2034	18	FTM	3.65%
19	8/25/2016	\$582,714	12/20/2016	222	LD	209	6/1/2034	5/31/2035	19	FTM	3.65%
20	8/25/2016	\$603,136	12/20/2016	234	LD	221	6/1/2035	5/31/2036	20	FTM	3.65%
21	8/25/2016	\$624,411	12/20/2016	246	LD	233	6/1/2036	5/31/2037	21	FTM	3.65%
22	8/25/2016	\$65,365	12/20/2016	258	LD	245	6/1/2037	5/31/2038	22	FTM	3.70%



Created & Owned by America's Electric Cooperative Network

Grayson RECC

RUS Payoff

RUS Refinance - Matching Principal

Count	Loan Number	Payments Per Year	Interest Rate	Amort Type	Loan Balance	Payment	Maturity Date	Years to Maturity	Treasury Rate	Payoff Amount	Amount of Discount	Percentage Discount
1	RET-8-1	12	0.26%	LD	\$ 1,468,680.32	\$ 5,472.30	9/30/2039	22.92	0.00%	\$ 1,468,680.32	\$ (0.00)	0.000%
2	RET-8-2	12	4.95%	LD	\$ 3,415,656.18	\$ 20,760.00	8/31/2039	22.92	0.00%	\$ 3,415,656.18	\$ 0.00	0.000%
3	RET-8-3	12	4.63%	LD	\$ 4,112,096.52	\$ 24,240.00	8/31/2039	22.92	0.00%	\$ 4,112,096.52	\$ (0.00)	0.000%
4	RET-8-4	12	3.17%	LD	\$ 549,592.38	\$ 2,805.00	9/30/2039	22.92	0.00%	\$ 549,592.38	\$ 0.00	0.000%

RUS PROJECT DESIGNATION:

KENTUCKY 61-AD8 CARTER

SUPPLEMENTAL MORTGAGE

made by and among

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
109 Bagby Park
Grayson, Kentucky 41143-1203,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of December 1, 2009

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS.
NOTICE - THIS MORTGAGE SECURES CREDIT IN THE AMOUNT OF UP TO \$100,000,000.00.
INDEBTEDNESS SECURED HEREUNDER, INCLUDING FUTURE INDEBTEDNESS, TOGETHER WITH INTEREST, ARE SENIOR TO INDEBTEDNESS TO OTHER CREDITORS UNDER MORTGAGES AND LIENS FILED OR RECORDED SUBSEQUENT HERETO.
THIS INSTRUMENT WAS PREPARED BY TERENCE M. BRADY, ASSISTANT GENERAL COUNSEL, AS ATTORNEY FOR UNITED STATES DEPARTMENT OF AGRICULTURE, RURAL UTILITIES SERVICE, WASHINGTON, D.C. 20250-1500.


MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0020454.

No. 1

Generated: November 4, 2009

restmort.v1h 12/3/98 v5.74 w/ UCC-1 revisions

Carter County

OR 250 PG 435

SUPPLEMENTAL MORTGAGE, dated as of December 1, 2009 (hereinafter sometimes called this "Supplemental Mortgage"), is made by and among GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION (hereinafter called the "Mortgagor"), a corporation existing under the laws of the Commonwealth 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, in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

RECITALS

WHEREAS, the Mortgagor, the Government and CFC 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 among the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and CFC; 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, hereunder and under the Existing Mortgage (this Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to as the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto are 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

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and 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 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 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 in

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

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION

by Roger Lunt, Chairman

(Seal)

Attest:

Secretary

Billy E. "Eddie" Martin

Executed by the Mortgagor
in the presence of:

Bonnie Seabart
Priscilla Parks

Witnesses


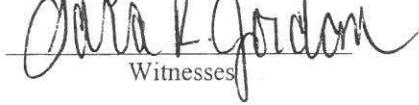
UNITED STATES OF AMERICA

by



ACTING Administrator
of the
Rural Utilities Service

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



Witnesses

MARY E. WEBER

SARA R. JORDAN

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF Carter)

I, Pamela A. Lovett, a Notary Public in and for the County and Commonwealth aforesaid, do hereby certify that Roger Trent, personally known to me to be the Chairman 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 Chairman of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument pursuant to me in the County aforesaid and acknowledged that as such Chairman 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 26th day of February, 20 10.

Pamela A. Lovett
Notary Public Kentucky State at Large
in and for County, Kentucky

(Notarial Seal)

My Commission expires: 9-22-2012

DISTRICT OF COLUMBIA) SS

On this 9 day of December, 2009, personally appeared before me
Jessica Zufolo, who, being duly sworn, did say that she is the Acting
Administrator of the Rural Utilities Service, an agency of the United States of America, and acknowledged to me
that, acting under a delegation of authority duly given and evidenced by law and presently in effect, he executed said
instrument as the act and deed of the United States of America for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF I have heretofore set my hand and official seal the day and year last above
written.

William A. Frost
Notary Public

(Notarial Seal) William A. Frost
Notary Public, District of Columbia
My Commission Expires 04-14-2011

My commission expires: _____.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: *B Russell*
Assistant Secretary-Treasurer

BRYAN RUSSELL

Attest: *Natalie J. Adlung*
Assistant Secretary Treasurer
Title: Assistant Secretary - Treasurer

NATALIE J ADLUNG

Executed by the Mortgagee
in the presence of:

Paula Z Kramp
Anthony M Stephan
Witnesses

PAULA Z KRAMP

ANTHONY M STEPHAN

COMMONWEALTH OF VIRGINIA)
)SS
COUNTY OF FAIRFAX)

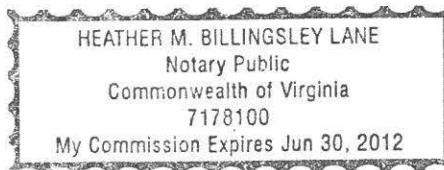
I, Heather M. Billingsley Lane, a Notary Public in and for the Commonwealth of Virginia, County of Fairfax, do certify that BRYAN RUSSELL, whose name is signed to the writing above, bearing date on the 1st day of December, 2009, has acknowledged the same before me in my county aforesaid.

Given under my hand this 15th day of December, 2009.

Notary Public

Heather M Billingsley Lane

(Notarial Seal)



My commission expires:

Supplemental Mortgage Schedule B
Property Schedule

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.
3. A certain tract of land described in a certain deed from Paul J. and Laura H. Wallace to the Grayson Rural Electric Cooperative Corporation dated April 22, 2005, and recorded in Deed Book 146, page 619, Carter County Deed Records.
4. A certain tract of land described in a certain deed from Dawn McGuire to the Grayson Rural Electric Cooperative Corporation dated September 24, 2008, and recorded in Deed Book 224, Page 214, Carter County Deed Records.
5. A certain tract of land described in a certain deed from James Thomas Burton a/k/a Jim Burton, a widower and single individual, dated October 13, 2009, and recorded in Official Records Book 243, Page 894, Carter County Deed Records.



327136
Filed on: 03/10/2010 2:02:51 PM
Book: OR Number: 250
Pages: 435 - 446
Mike D. Johnston, Carter County
DC: KAREN FRALEY
Deed Tax: \$6.00

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
FINANCIAL AND STATISTICAL REPORT
TWELVE MONTHS ENDED AUGUST 31, 2016

ASSETS		LIABILITIES AND OTHER CREDITS	
Total Utility Plant in Service	\$ 74,617,331	Memberships	\$ (153,740)
Construction Work in Progress	\$ 1,083,499	Patronage Capital	\$ (25,827,301)
Total Utility Plant	<u>\$ 75,700,829</u>	Operating Margins - Prior Year	\$ -
Accum Prov for Depreciation and Amortization	<u>\$ (21,468,316)</u>	Operating Margins - Current Year	\$ (1,753,393)
<i>Net Utility Plant</i>	<u>\$ 54,232,514</u>	Non-Operating Margins	\$ (125,955)
Non-Utility Property	\$ -	Other Margins and Equities	<u>\$ 695,653</u>
Investments in Subsidiary Companies	\$ -	<i>Total Margins & Equities</i>	<u>\$ (27,164,736)</u>
Inv in Assoc Org - Patronage Capital	\$ 15,135,261	Long-Term Debt - RUS	\$ (9,463,573)
Inv in Assoc Org - Other General Funds	\$ -	Long-Term Debt - FFB - RUS Guaranteed	\$ (20,987,959)
Inv in Assoc Org - Non General Funds	\$ 639,230	Long-Term Debt - Other	\$ (9,579,389)
Inv in Economic Development Projects	\$ -	Long-Term Debt - Econ Dev	\$ -
Other Investments	\$ 99	Payments - Unapplied	\$ -
Special Funds	<u>\$ -</u>	<i>Total Long-Term Debt</i>	<u>\$ (40,030,921)</u>
<i>Total Other Property & Investments</i>	<u>\$ 15,774,590</u>	Obligations Under Capital Lease	\$ -
Cash - General Funds	\$ 473,835	Accumulated Operating Provisions	\$ (3,323,505)
Cash - Construction Fund Trust	\$ -	<i>Total Other Noncurrent Liabilities</i>	<u>\$ (3,323,505)</u>
Special Deposits	\$ -	Notes Payable	\$ (3,764,525)
Temporary Investments	\$ -	Accounts Payable	\$ (2,275,162)
Notes Receivable	\$ -	Consumer Deposits	\$ (1,211,673)
Accounts Receivable - Sales of Energy	\$ 6,150,079	Current Maturities Long-Term Debt	\$ -
Accounts Receivable - Other	\$ 419,539	Current Maturities Long-Term Debt Econ Dev	\$ -
Renewable Energy Credits	\$ -	Current Maturities Capital Leases	\$ -
Materials & Supplies - Electric & Other	\$ 374,331	Other Current & Accrued Liabilities	\$ (662,003)
Prepayments	\$ 101,329	<i>Total Current and Accrued Liabilities</i>	<u>\$ (7,913,362)</u>
Other Current & Accrued Assets	<u>\$ 7,667</u>	Regulatory Liabilities	\$ -
<i>Total Current & Accrued Assets</i>	<u>\$ 7,526,780</u>	Other Deferred Liabilities	<u>\$ (245,576)</u>
Regulatory Assets	\$ -	Total Liabilities and Other Credits	<u><u>\$ (78,678,100)</u></u>
Other Deferred Assets	<u>\$ 1,144,217</u>		
Total Assets & Other Debits	<u><u>\$ 78,678,100</u></u>		

GRAYSON RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENT OF OPERATIONS
TWELVE MONTHS ENDED AUGUST 31, 2016

Operating Revenue and Patronage Capital	\$ 30,386,135
Cost of Purchased Power	\$ 17,804,904
Distribution Expense - Operation	\$ 1,197,833
Distribution Expense - Maintenance	\$ 3,191,056
Consumer Accounts Expense	\$ 1,130,244
Customer Service & Information Expense	\$ 251,605
Sales Expense	\$ 20,801
Administrative & General Expenses	\$ 2,044,114
<i>Total Operation and Maintenance Expense</i>	<u>\$ 25,640,558</u>
Depreciation and Amortization	\$ 3,301,456
Tax Expense - Other	\$ 41,113
Interest on Long Term Debt	\$ 904,523
Interest Expense - Other	\$ 3,586
Other Deductions	\$ 31,764
<i>Total Cost of Electric Service</i>	<u>\$ 29,923,000</u>
Patronage Capital and Operating Margins	\$ 463,136
Non Operating Margins - Interest	\$ 29,694
Non Operating Margins - Other	\$ 96,261
Generation and Transmission Capital Credits	\$ 1,154,984
Other Capital Credits and Patronage Dividends	\$ 135,273
Patronage Capital and Margins	<u><u>\$ 1,879,348</u></u>