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August 19, 2010

RECEIVED

AUG 19 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

2010 - 00337

RE: Application of Fleming-Mason Energy Cooperative, Inc. for Authorization To Borrow \$6,649,696 from CoBank and Execute Necessary Note and to Prepay Rural Utilities Service 5% Notes of the Same Amount

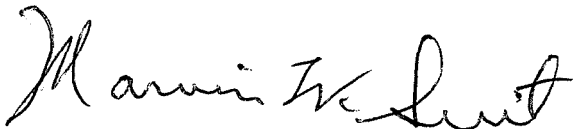
Dear Mr. Derouen:

We enclose for filing the original and 10 copies of application pertaining to the above. Please notify the undersigned of the case number when it has been assigned.

The fixed rate being offered by lender CoBank expires October 18, 2010. Accordingly, we request expedited handling of this application so that we may have Commission approval prior to that date.

Thank you for your assistance in this matter.

Sincerely,



MARVIN W. SUIT
Counsel for Fleming-Mason Energy Cooperative, Inc.

**Application of Fleming-Mason Energy
Cooperative, Inc. for Authorization
To Borrow \$6,649,696 from CoBank and
Execute Necessary Note and To Prepay Rural
Utilities Service 5% Notes of the Same Amount**

August 19, 2010

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
AUG 19 2010
PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF FLEMING-MASON ENERGY)
COOPERATIVE, INC. FOR AUTHORIZATION TO)
BORROW \$6,649,696 FROM COBANK AND)
EXECUTE NECESSARY NOTES AND TO PREPAY)
RURAL UTILITIES SERVICE 5% NOTES OF THE)
SAME AMOUNT)

CASE NO. 2010-00337

APPLICATION

Fleming-Mason Energy Cooperative, Inc. ("FME") respectfully submits this application seeking expedited approval (in order to close by October 18, 2010) of long-term refinancing, pursuant to KRS 278.300. The petition respectfully shows:

1. FME 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 Bath, Bracken, Fleming, Lewis, Mason, Nicholas, Robertson and Rowan.
2. FME's post office address is Post Office Box 328, Flemingsburg, KY 41041-0328.
3. The Articles of Incorporation and all amendments thereto for FME were filed with the Commission in PSC Case No. 1990-00081, Adjustment of Rates of Fleming-Mason Rural Electric Cooperative Corporation (807 KAR 5:001, Section 8(3)).
4. As of June 30, 2010, FME serves 23,733 member-customers. It has 3,523 miles of distribution lines in its eight 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 June 30, 2010 is \$85,366,566.
5. The financial exhibit, as required by 807 KAR 5:001, Section 11(2)(a) is attached as Exhibit 2 of this application.
6. FME is not seeking authorization to issue any kinds of stock as part of this application.
7. FME seeks to borrow from CoBank a total of \$6,649,696 and execute one note in conjunction with this borrowing from CoBank at a fixed interest rate of 3.73% per

annum. The CoBank loan will be for a 10 year period which is 8.5 years less than the debt being refinanced. A copy of the approval letter from CoBank is attached in Exhibit 3 of this application. The CoBank loan will be secured under the provisions of a Restated Mortgage and Security Agreement being prepared by RUS.

8. FME expects the actual payoff to be very close to \$6,649,696. FME proposed to adjust any difference via electronic payment to CoBank, which will allow the note with CoBank to stay at \$6,649,696.
9. FME will use the proceeds from the CoBank loan to repay notes of the same amount outstanding to Rural Utilities Service ("RUS"). The notes being prepaid are listed in the CoBank proposal in Exhibit 3.
10. RUS has given notice to cooperatives that this type of refinancing is allowed under the Restated Mortgage and Security Agreement dated September 1, 2004 that is Exhibit 1
11. The mortgages of FME are listed in Exhibit 2, Attachment A of this application.
12. As no property is being acquired in conjunction with this financing, 807 KAR 5:001, Section 11(2)(c) is not applicable.
13. Additional information in support of this application is included in Exhibit 3 attached, including net present value analysis of the cash flows over the life of the loan. The nominal dollar savings are \$1,826,628, with a present value of \$601,101 discounted at the fixed interest rate of 5%.

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

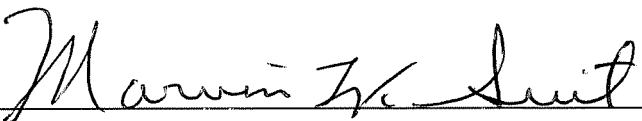
DATED at Flemingsburg, Kentucky this 19th day of August, 2010.

MARVIN W. SUIT

Counsel for Fleming-Mason Energy Cooperative, Inc.

207 Court Square, Flemingsburg, KY 41041

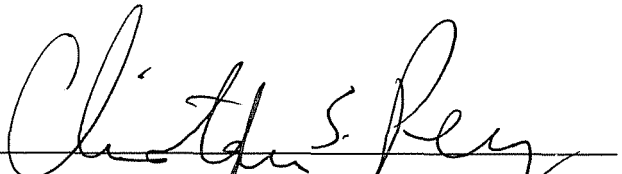
Phone: 606.849.2338, Fax: 606.845.8701

By: 

MARVIN W. SUIT

VERIFICATION

The undersigned, Christopher S. Perry, being first duly sworn, states that he is the President and Chief Executive Officer of Fleming-Mason Energy Cooperative, Inc.; that he 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 his knowledge, information and belief.


Christopher S. Perry, President/CEO

STATE OF KENTUCKY
COUNTY OF FLEMING

Subscribed, sworn to and acknowledged before me by Christopher S. Perry this 19th day of August, 2010.

My Commission expires June 20, 2014.


Notary Public, State of Kentucky At Large

FLEMING-MASON ENERGY COOPERATIVE, INC.

CASE NO. _____

INDEX OF EXHIBITS TO APPLICATION

MORTGAGE AGREEMENT

Exhibit 1 – Restated Mortgage and Security Agreement dated September 1, 2004

FINANCIAL EXHIBIT – 807 KAR 5:001, SECTION 6

Exhibit 2 – Attachment A Notes Executed
Exhibit 2 - Attachment B Statement of Operations
Exhibit 2 - Attachment C Financial & Statistical Report

SUPPLEMENTAL INFORMATION

Exhibit 3 – Attachment A Board Resolution
Exhibit 3 – Attachment B CoBank Proposal

RUS PROJECT DESIGNATION:

KENTUCKY 52-AT44 FLEMING

RESTATED MORTGAGE
AND
SECURITY AGREEMENT

made by and among

FLEMING-MASON ENERGY COOPERATIVE, INC.
1449 Elizaville Road
Flemingsburg, Kentucky 41041,

Mortgagor, and

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

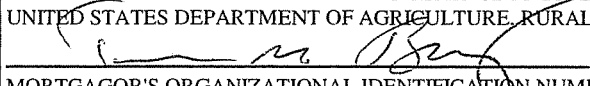
Mortgagee, and

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

Mortgagee

Dated as of September 1, 2004

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, USDA, AS ATTORNEY FOR UNITED STATES DEPARTMENT OF AGRICULTURE, RURAL UTILITIES SERVICE, WASHINGTON, D.C. 20250-1500.



MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0017666.

No. 17

Generated: August 12, 2004

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RESTATED MORTGAGE AND SECURITY AGREEMENT, dated as of September 1, 2004 (hereinafter sometimes called this "Mortgage"), is made by and among FLEMING-MASON ENERGY COOPERATIVE, INC. (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, 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 CFC 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 Restated Mortgage and Security Agreement dated as of November 1, 1999, as supplemented, amended or restated (the "Original Mortgage" identified in Schedule "A" of this Mortgage) originally entered into among 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, the purchase or guarantee of Notes by the guarantors or holders thereof, and other good and valuable consideration, 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, assets, 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 or arising 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 equipment, 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

With the exception of Excepted Property, all right, title and interest of the Mortgagor in, to and under all personal property and fixtures of every kind and nature including without limitation all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts, chattel paper, electronic chattel paper, deposit accounts (including, but not limited to, money held in a trust account

pursuant hereto or to a loan agreement), letter-of-credit rights, investment property (including certificated and uncertificated securities, security entitlements and securities accounts), software, general intangibles (including, but not limited to, payment intangibles), supporting obligations, any other contract rights or rights to the payment of money, insurance claims, and proceeds (as such terms are presently or hereinafter defined in the applicable UCC; provided, however that the term "instrument" shall be such term as defined in Article 9 of the applicable UCC rather than Article 3);

GRANTING CLAUSE THIRD

With the exception of Excepted Property, all right, title and interest of the Mortgagor in, to and under any and all agreements, leases or contracts heretofore or hereafter executed by and between the Mortgagor and any person, firm or corporation relating to the Mortgaged Property (including contracts for the lease, occupancy or sale of the Mortgaged Property, or any portion thereof);

GRANTING CLAUSE FOURTH

With the exception of Excepted Property, all right title and interest of the Mortgagor in, to and under any and all books, records and correspondence relating to the Mortgaged Property, including, but not limited to all records, ledgers, leases and computer and automatic machinery software and programs, including without limitation, programs, databases, disc or tape files and automatic machinery print outs, runs and other computer prepared information indicating, summarizing, evidencing or otherwise necessary or helpful in the collection of or realization on the Mortgaged Property;

GRANTING CLAUSE FIFTH

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 franchises 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 SIXTH

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 subsection 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 SEVENTH

Together with (subject to the rights of the Mortgagor set forth in 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 and CoBank, ACB and its predecessors in interest 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 which are titled and/or registered in any state of the United States of America, 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 Sixth, 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 or guaranteed or insured as to payment by 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 C, 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 1.25 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 through Seventh, 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, including, but not limited to, at the request of any Mortgagee, taking such actions and executing and delivering such documents as are necessary under the Uniform Commercial Code or other applicable law to perfect or establish the Mortgagees' first priority security interests in any Mortgaged Property to the extent that such perfection or priority cannot be accomplished by the filing of a financing statement.
- (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 1.25 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.

Section 3.21. Maximum Debt Limit:

The Notes at any one time secured by this Mortgage shall not in the aggregate principal amount exceed the Maximum Debt Limit.

Section 3.22. Authorization to File Financing Statements:

The Mortgagor hereby irrevocably authorizes the Mortgagee at any time and from time to time to file in any jurisdiction any initial financing statements and amendments thereto that:

- (a) Indicate the Mortgaged Property (i) as all assets of the Mortgagor or words of similar effect, regardless of whether any particular asset comprised in the Mortgaged Property falls within the scope of Article 9 of the applicable UCC, or (ii) as being of an equal or lesser scope or with greater detail, and
- (b) Contain any other information required by the applicable UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including, but not limited to (i) whether the Mortgagor is an organization, the type of organization and any organizational identification number issued to the Mortgagor, and (ii) in the case of a financing statement filed as a fixture filing, a sufficient description of real property to which the Mortgaged Property relates. The Mortgagor agrees to furnish any such information to the Mortgagee promptly upon request. The Mortgagor also ratifies its authorization for the Mortgagee to have filed in any UCC jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

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, acknowledgments 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 Clause:

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

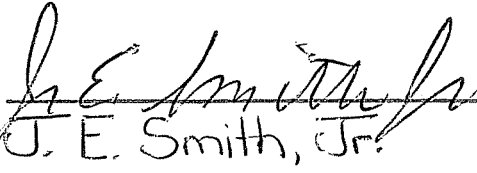
statement. PROCEEDS OF COLLATERAL ARE COVERED HEREBY. The Mortgagor is an organization of the type and organized in the jurisdiction set forth on the first page hereof. The cover page hereof accurately sets forth the Mortgagor's organizational identification number or accurately states that the Mortgagor has none.

Section 6.06. Indemnification by Mortgagor of Mortgagees:

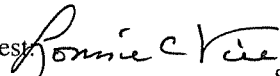
The Mortgagor agrees to indemnify and save harmless each Mortgagee against any liability or damages which any of them may incur or sustain in the exercise and performance of their rightful powers and duties hereunder. For such reimbursement and indemnity, each Mortgagee shall be secured under this Mortgage 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, FLEMING-MASON ENERGY COOPERATIVE, INC., 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, 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 this day and year first above written.

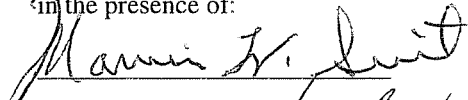
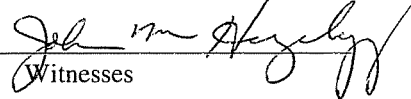
FLEMING-MASON ENERGY COOPERATIVE, INC.

by  , Chairman
J. E. Smith, Jr.

(Seal)

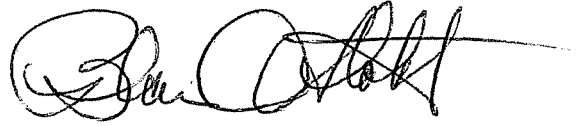
Attest 
Secretary - Lonnie C. Vice

Executed by the Mortgagor
in the presence of:



Witnesses

UNITED STATES OF AMERICA

by



Assistant Administrator
Electric Program
of the
Rural Utilities Service

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

Sara Wetklow Sara Wetklow

Jamie Davenport Jamie Davenport
Witnesses

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

by 

AMY S. LUONGO

Assistant Secretary-Treasurer

(SEAL)

Attest: Elaine Macdonald ELAINE M. MACDONALD
Assistant Secretary-Treasurer

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

David W. Olah DAVID W. OLAH

Elizabeth C. Miksche ELIZABETH C. MIKSCH
Witnesses

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF Fleming)

I, Joni K. Hurst, a Notary Public in and for the County and Commonwealth aforesaid, do hereby certify that J.E. Smith, JR, personally known to me to be the Chairman of Fleming-Mason Energy Cooperative, Inc., 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 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 7th day of October, 20 04.

Joni K. Hurst
Notary Public
in and for Fleming County, Kentucky

(Notarial Seal)

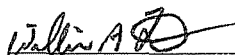
My Commission expires: June 20, 2006

DISTRICT OF COLUMBIA

) SS

On this 25 day of August, 2004, personally appeared before me
BLAINE D. STOCKTON, who, being duly sworn, did say that he is the Assistant
Administrator - Electric Program 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.



Notary Public

(Notarial Seal)

William A. Frost
Notary Public, District of Columbia
My Commission Expires 04/14/2006

My commission expires: _____.

COMMONWEALTH OF VIRGINIA

)
) SS

COUNTY OF FAIRFAX

On this 3/5th day of August, 2004, before me appeared AMY S. LUONGO, 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.

Trisa Neal
Notary Public Trisa Neal

(Notarial Seal)

My commission expires: 3/21/04

SCHEDULE A: Part One

1. The Maximum Debt Limit referred to in Section 1.01 is \$100,000,000.00
2. The state referred to in Section 1.04 is Kentucky.
3. The addresses of the parties referred to in Sections 1.05 and 6.05 are as follows:

As to the Mortgagor:

Fleming-Mason Energy Cooperative, Inc.
1449 Elizaville Road
Flemingsburg, Kentucky 41041

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 20171-3025

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

Instrument Title

Instrument Date

Restated Mortgage and Security Agreement

November 1, 1999

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 Government¹

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate²</u>
AC	\$830,000.00	16 Apr 1970	16 Apr 2005	2.00
AD2	\$358,000.00	7 Sep 1972	7 Sep 2007	2.00
AF6	\$350,000.00	3 Jul 1974	3 Jul 2009	5.00
AG6	\$350,000.00	3 Apr 1975	3 Apr 2010	5.00
AH6	\$711,000.00	19 Jul 1977	19 Jul 2012	5.00
AK6	\$710,000.00	8 Jun 1978	8 Jun 2013	5.00
AL6	\$1,797,000.00	1 Oct 1979	1 Oct 2014	5.00
AM6	\$1,625,000.00	12 Nov 1981	12 Nov 2016	5.00
AN6	\$1,830,000.00	8 Feb 1989	8 Feb 2024	5.00
AP6	\$1,966,000.00	1 Oct 1992	1 Oct 2027	5.00
AR6	\$4,025,000.00	3 Feb 1994	3 Feb 2029	5.00
AS8 ³	\$20,437,000.00	1 Nov 1999	31 Dec 2033	V
AT44	\$16,535,000.00	1 Sep 2004	1 Sep 2039	V

¹"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 (FFB), an instrumentality of the United States Department of Treasury, and held by RUS, but may also be issued to non-governmental entities.

²V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the Secretary of Treasury. CFC=an interest rate which may be fixed or variable from time to time as provided in the CFC Loan Agreement pertaining to a loan which has been made by CFC and guaranteed by RUS. CoBank=an interest rate which may be fixed or variable from time to time as provided in the CoBank Loan Agreement pertaining to a loan which has been made by CoBank and guaranteed by RUS.

³In addition to this note which the Mortgagor has issued to FFB, the Mortgagor has also issued a corresponding promissory note to RUS designated as the certain "Reimbursement Note" bearing even date therewith. Such Reimbursement Note is payable to the Government on demand and evidences the Mortgagor's obligation immediately to repay RUS, any payment which RUS may make pursuant to the RUS guarantee of such FFB note, together with interest, expenses and penalties (all as described in such Reimbursement Note). Such Reimbursement Note is an "ORIGINAL NOTE issued to the Government" for purposes of this Part One of Schedule A and this Mortgage and is entitled to all of the benefits and security of this Mortgage.

SCHEDULE A: Part Two

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 CFC

<u>CFC Loan Designation</u>	<u>Face Amount of Note</u>	<u>Note Date</u>	<u>Maturity Date</u>
KY052-C-9001	\$89,000.00	09/07/1972	12/07/2007
KY052-C-9003	\$150,000.00	07/03/1974	07/03/2009
KY052-C-9005	\$150,000.00	04/03/1975	04/03/2010
KY052-C-9009	\$305,000.00	07/19/1977	07/19/2012
KY052-C-9010	\$304,000.00	06/08/1978	06/08/2013
KY052-C-9013	\$811,000.00	10/01/1979	10/01/2014
KY052-C-9016	\$733,000.00	11/12/1981	11/12/2016
KY052-C-9017	\$800,000.00	02/08/1989	02/08/2024
KY052-C-9018	\$860,204.00	10/01/1992	10/01/2027
KY052-C-9019	\$1,778,351.00	02/03/1994	02/03/2029

SCHEDULE B

Property Schedule

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

The recording jurisdictions referred to in Subclause B of Granting Clause First are: the Counties of Bath, Bracken, Fleming, Lewis, Mason, Nicholas, Robertson and Rowan in the Commonwealth of Kentucky.

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., as amended.

1. A certain tract of land described in a certain deed, dated April 22, 1958, by Emma B. Landrigan and Russell Landrigan, her husband, as grantors to the Fleming-Mason Rural Electric Cooperative Corporation, as grantee and recorded in the Fleming County Court Clerk's Office, in the State of Kentucky, in Deed Book 115, on page 309.

2. A certain tract of land described in a certain deed, dated October 6, 1956, by George Faulkner, receiver of the Fleming Circuit Court as grantor to the Fleming-Mason Rural Electric Cooperative Corporation, as grantee, and recorded in the Fleming County Court Clerk's Office, in the State of Kentucky, in receiver's Deed Book 4, on page 424.

SCHEDULE C
Excepted Property

None.

Exhibit A

Manager's Certificate

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

On behalf of Name of Borrower (the "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 Date Note(s) are to be Signed pursuant to Section 2.01 of the Mortgage 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.

SAMPLE - NOT FOR EXECUTION

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.
- 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

[ACKNOWLEDGMENTS]

SAMPLE - NOT FOR EXECUTION

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:

Supplemental Mortgage Schedule B

Property Schedule

The fee and leasehold interests in real property referred to in clause A of the Granting Clause are described on the attached pages designated through of this Schedule B.

APPLICATION OF FLEMING-MASON ENERGY COOPERATIVE, INC.

EXHIBIT 2

FINANCIAL EXHIBIT — 807 KAR 5:001, SECTION 6

Unless otherwise noted, the financial information contained in this Exhibit is for the twelve months ending or as of June 30, 2010, which is within the 90-day requirement of 807 KAR 5:001, Section 6.

- Section 6(1) Fleming-Mason Energy has no stock authorized.
- Section 6(2) Fleming-Mason Energy has no stock issued or outstanding.
- Section 6(3) Fleming-Mason Energy has no preferred stock issued.
- Section 6(4) All of Fleming-Mason Energy's loans with the RUS and CFC are secured by the Restated Mortgage and Security Agreement which was executed on September 1, 2004, shown in Exhibit 1. Fleming-Mason Energy is the mortgagor, while the RUS and CFC are the mortgagees. The total debt limit is \$500,000,000. The current actual indebtedness is shown as Attachment A, pages 1-2 of Exhibit 2. There are no sinking fund provisions contained in the Restated Mortgage. RUS is presently preparing a new Restated Mortgage and Security Agreement that we will forward upon receipt.
- Section 6(5) Fleming-Mason Energy has no bonds authorized or issued.
- Section 6(6) Attachment A to this Exhibit contains the listing of Fleming-Mason Energy's total notes outstanding.
- Section 6(7) Fleming-Mason Energy has no other indebtedness.
- Section 6(8) As Fleming-Mason Energy has no stock authorized, issued or outstanding, no dividends have been paid during the five previous fiscal years.
- Section 6(9) Attachments B and C to this Exhibit contains Fleming-Mason Energy's detailed income statement and balance sheet.

FINANCIAL EXHIBITS FOR FLEMING-MASON ENERGY
NOTES EXECUTED
AS OF JUNE 30, 2010

RUS

Note No. (a)	Interest Rate (b)	Date (c)	Original Balance (d)	Principal Payments (e)	Balance Long Term Debt (f)	Final Maturity Date (g)	2009 Interest Paid (h)
1B290	5%	04/03/75	175,000	174,806	194	08/31/10	473
1B292	5%	04/03/75	175,000	174,806	194	08/31/10	473
1B300	5%	07/19/77	355,500	313,194	42,306	08/31/12	3,206
1B302	5%	07/19/77	355,500	313,194	42,306	08/31/12	3,206
1B310	5%	06/08/78	355,000	293,069	61,931	08/31/13	4,133
1B312	5%	06/08/78	355,000	293,069	61,931	08/31/13	4,133
1B320	5%	10/01/79	898,500	683,599	214,901	11/30/14	13,209
1B322	5%	10/01/79	898,500	683,599	214,901	11/30/14	13,209
1B330	5%	11/12/81	812,000	541,506	270,494	11/30/16	15,547
1B331	5%	11/12/81	500	333	167	11/30/16	10
1B333	5%	11/12/81	812,500	541,020	271,480	11/30/16	15,713
1B340	5%	02/08/89	915,000	360,733	554,267	02/28/24	29,180
1B343	5%	02/08/89	915,000	345,078	569,922	02/28/24	29,995
1B350	5%	10/01/92	983,000	282,782	700,218	11/30/27	36,323
1B355	5%	10/01/92	983,000	282,782	700,218	11/30/27	36,323
1B360	5%	02/03/94	1,500,000	381,025	1,118,975	02/28/29	54,824
1B362	5%	02/03/94	512,500	119,836	392,664	02/28/29	20,288
1B366	5%	02/03/94	2,012,500	465,121	1,547,379	02/28/29	79,927
1B370	4.58%	09/01/05	2,000,000	110,034	1,889,966	11/30/40	88,015
1B371	4.72%	03/20/06	4,000,000	213,300	3,786,700	02/28/41	181,644
1B372	4.95%	10/24/06	3,000,000	148,602	2,851,398	11/30/41	143,366
1B373	4.87%	01/01/07	2,000,000	94,236	1,905,764	02/28/42	94,284
1B374	5.18%	07/01/07	2,000,000	77,299	1,922,701	08/31/42	101,095
1B375	3.92%	11/01/07	2,000,000	87,045	1,912,955	11/30/42	76,401
1B376	4.08%	09/18/08	1,535,000	45,205	1,489,795	11/30/43	61,893
TOTAL			29,549,000	7,025,273	22,523,727		1,106,872

Less Advance Payments Unapplied

(11,754)

22,511,973

FINANCIAL EXHIBITS FOR FLEMING-MASON ENERGY
NOTES EXECUTED
AS OF JUNE 30, 2010

RUS

Note No. (a)	Interest Rate (b)	Date (c)	Original Balance (d)	Principal Payments (e)	Balance Long Term Debt (f)	Final Maturity Date (g)	2009 Interest Paid (h)
1B290	5%	04/03/75	175,000	174,806	194	08/31/10	473
1B292	5%	04/03/75	175,000	174,806	194	08/31/10	473
1B300	5%	07/19/77	355,500	313,194	42,306	08/31/12	3,206
1B302	5%	07/19/77	355,500	313,194	42,306	08/31/12	3,206
1B310	5%	06/08/78	355,000	293,069	61,931	08/31/13	4,133
1B312	5%	06/08/78	355,000	293,069	61,931	08/31/13	4,133
1B320	5%	10/01/79	898,500	683,599	214,901	11/30/14	13,209
1B322	5%	10/01/79	898,500	683,599	214,901	11/30/14	13,209
1B330	5%	11/12/81	812,000	541,506	270,494	11/30/16	15,547
1B331	5%	11/12/81	500	333	167	11/30/16	10
1B333	5%	11/12/81	812,500	541,020	271,480	11/30/16	15,713
1B340	5%	02/08/89	915,000	360,733	554,267	02/28/24	29,180
1B343	5%	02/08/89	915,000	345,078	569,922	02/28/24	29,995
1B350	5%	10/01/92	983,000	282,782	700,218	11/30/27	36,323
1B355	5%	10/01/92	983,000	282,782	700,218	11/30/27	36,323
1B360	5%	02/03/94	1,500,000	381,025	1,118,975	02/28/29	54,824
1B362	5%	02/03/94	512,500	119,836	392,664	02/28/29	20,288
1B366	5%	02/03/94	2,012,500	465,121	1,547,379	02/28/29	79,927
1B370	4.58%	09/01/05	2,000,000	110,034	1,889,966	11/30/40	88,015
1B371	4.72%	03/20/06	4,000,000	213,300	3,786,700	02/28/41	181,644
1B372	4.95%	10/24/06	3,000,000	148,602	2,851,398	11/30/41	143,366
1B373	4.87%	01/01/07	2,000,000	94,236	1,905,764	02/28/42	94,284
1B374	5.18%	07/01/07	2,000,000	77,299	1,922,701	08/31/42	101,095
1B375	3.92%	11/01/07	2,000,000	87,045	1,912,955	11/30/42	76,401
1B376	4.08%	09/18/08	1,535,000	45,205	1,489,795	11/30/43	61,893
TOTAL			29,549,000	7,025,273	22,523,727		1,106,872

Less Advance Payments Unapplied

(11,754)

22,511,973

FLEMING-MASON ENERGY
STATEMENT OF OPERATIONS

ITEM	Twelve Months Ending June 30, 2010
1. Operating Revenue and Patronage Capital	\$66,292,464
2. Power Production Expense	
3. Cost of Purchased Power	\$52,299,367
4. Transmission Expense	
5. Distribution Expense - Operation	\$1,534,760
6. Distribution Expense - Maintenance	\$2,860,743
7. Customer Accounts Expense	\$1,749,298
8. Customer Service and Informational Expense	\$105,447
9. Sales Expense	\$98,034
10. Administrative and General Expense	\$1,428,208
11. Total Operations & Maintenance Expense <i>(2 thru 10)</i>	\$60,075,855
12. Depreciation and Amortization Expense	\$2,682,580
13. Tax Expense - Property & Gross Receipts	
14. Tax Expense - Other	\$67,861
15. Interest on Long-Term Debt	\$1,322,795
16. Interest Charged to Construction - Credit	
17. Interest Expense - Other	\$226,774
18. Other Deductions	\$26,135
19. Total Cost of Electric Service <i>(11 thru 18)</i>	\$64,401,999
20. Patronage Capital & Operating Margins <i>(1 minus 19)</i>	\$1,890,464
21. Non Operating Margins - Interest	\$43,761
22. Allowance for Funds Used During Construction	
23. Income (Loss) from Equity Investments	
24. Non Operating Margins - Other	(\$25,296)
25. Generation and Transmission Capital Credits	\$2,683,314
26. Other Capital Credits and Patronage Dividends	\$112,728
27. Extraordinary Items	
28. Patronage Capital or Margins <i>(20 thru 27)</i>	\$4,704,972

USDA - RUS FINANCIAL AND STATISTICAL REPORT		BORROWER DESIGNATION KY 052	
		PERIOD ENDED 6/30/2010	
PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	84,325,417	29. Memberships	234,323
2. Construction Work in Progress	1,041,149	30. Patronage Capital	29,318,885
3. Total Utility Plant (1 + 2)	85,366,566	31. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation and Amort.	23,506,281	32. Operating Margins - Current Year	1,330,310
5. Net Utility Plant (3 - 4)	61,860,285	33. Non-Operating Margins	12,497
6. Non-Utility Property (Net)	0	34. Other Margins and Equities	(7,645,258)
7. Investments in Subsidiary Companies	0	35. Total Margins & Equities (29 thru 34)	23,250,756
8. Invest. In Assoc Org-Patronage Capital	15,930,948	36. Long-Term Debt - RUS (Net)	22,511,973
9. Invest. In Assoc Org-Other-General Funds	0	37. Long-Term Debt - RUS - Econ. Devel. (Net)	21,137,348
10. Invest. In Assoc Org-Other-Nongen Funds	866,474	38. Long-Term Debt - FFB - RUS Guaranteed	672,163
11. Invest. In Economic Development Projects	0	39. Long-Term Debt - Other - RUS Guaranteed	3,119,251
12. Other Investments	169,124	40. Long-Term Debt Other (Net)	0
13. Special Funds	0	41. Prepayments - Unapplied	
14. Total Other Property & Investments (6 thru 13)	16,966,546	42. Total Long-Term Debt (36 thru 40)	47,440,735
15. Cash - General Funds	301,821	43. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	0	44. Accumulated Operating Provisions	6,754,350
17. Special Deposits	0	45. Total Other Noncurrent Liabilities (42 + 43)	6,754,350
18. Temporary Investments	0	46. Notes Payable	2,658,000
19. Notes Receivable (Net)	0	47. Accounts Payable	4,785,868
20. Accounts Receivable-Sales of Energy (Net)	5,573,111	48. Consumers Deposits	734,091
21. Accounts Receivable - Other (Net)	1,076,353	49. Current Maturities Long-Term Debt	0
22. Materials and Supplies - Electric & Other	523,866	50. Current Maturities Long-Term Debt-Economic Develop	0
23. Prepayments	306,412	51. Current Maturities Capital Leases	0
24. Other Current and Accrued Assets	200,280	52. Other Current and Accrued Liabilities	1,137,853
25. Total Current and Accrued Assets (15 thru 24)	7,981,843	53. Total Current & Accrued Liabilities (45 thru 51)	9,315,812
26. Regulatory Assets	0	54. Regulatory Liabilities	0
27. Other Deferred Debits	0	55. Other Deferred Credits	47,021
28. Total Assets & Other Debits (5+14+25thru27)	86,808,675	56. Total Liabilities and Other Credits (35+41+44+52 thru 54)	86,808,675

Fleming-Mason Energy Cooperative, Inc.
Resolution of Board of Directors
Refinancing of Rural Utilities Service 5% Notes

WHEREAS, a refinancing of Rural Utilities Service (RUS) secured debt is permitted under Article II, Section 2.02 of the RUS mortgage,

WHEREAS, Fleming-Mason Energy has approximately \$6.6 million of RUS fixed 5% notes with maturities ranging from 2 to 18 years,

WHEREAS, in the current interest rate environment it appears that Fleming-Mason will realize a savings if it replaces said RUS 5% notes with CoBank notes,

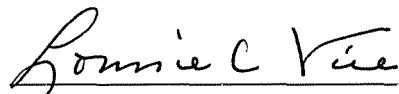
WHEREAS, the interest rate changes daily and the exact date of the loan closing is undeterminable because Kentucky Public Service Commission (KPSC) approval is required,

NOW THEREFORE BE IT RESOLVED, that Christopher S. Perry, President/CEO, is authorized and directed, on behalf of Fleming-Mason, to seek KPSC approval for refinancing all or a portion of said RUS 5% notes, as determined by the President/CEO and approved by KPSC.

BE IT FURTHER RESOLVED, that the effective interest rate on these new notes, exclusive of capital credit retirements, shall be 5% or less, the schedule for the new note payments shall be accelerated to 10 years versus the current 18.5 years, and the stated interest rate shall be fixed with no interest repricing risk.

I, Lonnie C. Vice, Secretary/Treasurer of Fleming-Mason Energy, do hereby certify that the above is a true and correct copy of a resolution adopted at the meeting of the Board of Directors of Fleming-Mason Energy on August 19, 2010, at which a quorum was present and voted.

(Seal)



Lonnie C. Vice, Secretary/Treasurer



August 10, 2010

900 Circle 75 Parkway, Ste 1400
Atlanta, GA 30339
Phone: 770-618-3200
Fax: 770-618-3202
www.cobank.com

Joni Hazelrigg
Chief Financial Officer
Fleming-Mason Energy Cooperative
P.O. Drawer 328
Flemingsburg, KY 41041

Dear Joni,

The purpose of this letter is to confirm the agreement between CoBank, ACB ("CoBank") and Fleming-Mason Energy Cooperative (the "Company") regarding the forward setting of a fixed rate with respect to a \$6,649,696.48 term loan to refinance the Rural Utilities Service. The terms of our agreement are as follows:

1. Amount to be fixed: \$6,649,696.48
2. Fixed Rate: 3.73% per annum.
3. Date fixed rate first becomes available: August 10, 2010
4. Date forward fixed rate ceases to be available: October 18, 2010
5. Date fixed rate period ends: September 20, 2020
6. Amount to be fixed does amortize over the fixed rate period as follows: Monthly level P&I payments commencing October 20, 2010 and ending September 20, 2020.
7. Broken Funding Charge: The Company agrees to pay to CoBank, on demand, a broken funding charge in the amount specified below if the Company does not, for any reason whatsoever (including, without limitation, the inability of the parties to agree on documentation or the Company's failure to satisfy applicable conditions precedent or the underlying loan commitment having been suspended or canceled or the reasons set forth in paragraph 8 below), borrow all of the amount to be fixed hereunder on or prior to the date the fixed rate ceases to be available. The broken funding charge shall be in an amount (calculated in accordance with methodology established by CoBank) equal to the present value of the sum of: (1) all losses and expenses incurred by CoBank in retiring, liquidating, or reallocating any debt, obligation, or cost incurred or allocated by CoBank to fund or hedge the forward fixed rate; plus (2) 1/2 of 1 percent of the amount to be fixed hereunder for the period such amount was scheduled to have been outstanding at the rate set forth above.
8. Please be advised that the loan requested by you has not been approved by CoBank, nor has a commitment for such loan been issued by CoBank. By signing this agreement, you acknowledge and agree that the broken funding charge provision will be applicable in the event that approval for the requested loan shall be denied or not obtained.

For our records, please acknowledge our agreement by signing in the space provided below and by returning this confirmation to my attention prior to the close of business today.

CoBANK, ACB

By: Bill LaDuan
Title: Vice President

AGREED AND ACCEPTED as of the date shown above:
FLEMING-MASON ENERGY COOPERATIVE

By: Christopher S. Remy
Title: President CEO

Fleming-Mason Energy Cooperative

RUS Refinancing Term Loan \$6,649,696

August 10, 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

Fleming-Mason Energy Cooperative (Fleming-Mason) currently holds fifteen notes totaling approximately \$6.6 million in RUS debt at an interest rate of 5%, which would qualify for CoBank refinancing at a life time fixed rate currently of 3.73%. At such a rate, CoBank's patronage refunds would result in an effective rate of approximately 2.92%, an effective savings of 81 basis points. The total projected savings amounts to \$1,826,628 with a present value of \$601,101. CoBank requests Fleming-Mason'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 fifteen RUS notes into a single note with a principal repayment tenor of 10 years versus the RUS consolidated notes' remaining life of eighteen years. Shortening the life of these notes to ten years would not dramatically increase your total debt service and will provide for a greater lifetime interest expense savings.

CoBank is pleased to have this opportunity to present this information as part of its effort to find innovative ways for Fleming-Mason 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
1B300	37,257.97	08/31/2012	1.92	1.14
1B302	37,257.97	08/31/2012	1.92	1.14
1B310	57,138.31	08/31/2013	2.92	1.67
1B312	57,138.31	08/31/2013	2.92	1.67
1B320	203,502.40	11/30/2014	4.17	2.33
1B322	203,502.40	11/30/2014	4.17	2.33
1B330	261,146.00	08/31/2016	5.92	3.38
1B333	261,592.75	05/31/2016	5.67	3.23
1B340	547,032.51	12/31/2023	13.26	7.31
1B343	562,526.86	12/31/2023	13.26	7.34
1B350	693,770.94	08/31/2027	16.93	9.61
1B355	693,770.94	08/31/2027	16.93	9.61
1B360	1,109,775.62	12/31/2028	18.27	10.47
1B362	389,451.32	12/31/2028	18.27	10.50
1B366	1,534,832.18	02/28/2029	18.43	10.57
Totals	\$6,649,696.48		18.43	8.39

Interest Savings (over life of notes):

<u>Total Interest RUS @ 5.00%</u>	<u>Total Interest CoBank @ 3.73%</u>	<u>Total Savings</u>
\$2,,813,874	\$1,340,215	\$1,473,659
CoBank Cash Patronage Refund:		\$229,430
CoBank Stock Patronage Refund:		<u>\$123,539</u>
Total Life Time Benefit:		<u>\$1,826,628</u>
Present Value of Benefit (discounted @ 5.0%)		<u>\$601,101</u>

There are no prepayment penalties arising from prepayment of RUS debt. CoBank would document this transaction using outside counsel to be paid by Fleming-Mason. 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

Fleming-Mason Annual Summary

Scenario - 10 Year Principal Repayment

Run Date	8/10/10
Loan Amount	\$6,649,696
CoBank Loan Interest Rate	3.73%
Lifetime Cash Flow Savings	\$1,826,628
Lifetime CoBank Patronage	\$352,969
Lifetime Interest Savings	\$1,473,659
Lifetime NPV Benefit *	\$601,101
Net Effective Interest Rate	2.92%

* 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	\$6,533,892	\$115,805	\$82,639	\$198,444	-\$7,898	\$206,342	\$67,837	\$138,505	\$6,511,192	\$0
2011	\$6,053,753	\$480,138	\$315,755	\$795,894	\$1,345	\$794,548	\$236,447	\$568,921	\$5,942,271	-\$10,819
2012	\$5,572,278	\$481,475	\$291,459	\$772,934	\$8,198	\$764,736	\$214,554	\$590,813	\$5,351,457	-\$40,631
2013	\$5,110,540	\$461,739	\$267,823	\$729,561	-\$38,934	\$768,495	\$191,819	\$613,548	\$4,737,909	-\$36,872
2014	\$4,676,672	\$433,867	\$245,126	\$678,993	-\$93,414	\$772,407	\$168,210	\$637,158	\$4,100,751	-\$32,960
2015	\$4,307,632	\$369,040	\$225,427	\$594,467	-\$181,998	\$776,465	\$143,692	\$661,676	\$3,439,075	-\$28,902
2016	\$3,966,631	\$341,001	\$207,066	\$548,067	-\$232,613	\$780,680	\$118,230	\$687,138	\$2,751,937	-\$24,688
2017	\$3,667,535	\$299,096	\$191,518	\$490,614	-\$294,438	\$785,052	\$91,789	\$713,579	\$2,038,358	-\$20,316
2018	\$3,353,137	\$314,398	\$176,217	\$490,615	-\$298,986	\$789,601	\$64,330	\$741,038	\$1,297,320	-\$15,766
2019	\$3,022,654	\$330,483	\$160,134	\$490,617	-\$303,704	\$794,321	\$35,814	\$769,554	\$527,767	-\$11,046
2020	\$2,675,691	\$346,964	\$143,245	\$490,209	-\$38,907	\$529,116	\$7,494	\$527,767	\$0	-\$6,145
2021	\$2,310,548	\$365,143	\$125,478	\$490,621	\$491,904	-\$1,283	\$0	\$0	\$0	-\$1,283
2022	\$1,926,724	\$383,824	\$106,799	\$490,623	\$490,623	\$0	\$0	\$0	\$0	\$0
2023	\$1,527,908	\$398,816	\$87,164	\$485,980	\$485,980	\$0	\$0	\$0	\$0	\$0
2024	\$1,221,902	\$306,006	\$69,442	\$375,448	\$375,448	\$0	\$0	\$0	\$0	\$0
2025	\$900,026	\$321,876	\$53,779	\$375,655	\$401,663	-\$26,008	\$0	\$0	\$0	-\$26,008
2026	\$561,682	\$338,344	\$37,313	\$375,657	\$406,042	-\$30,385	\$0	\$0	\$0	-\$30,385
2027	\$253,256	\$308,426	\$20,364	\$328,789	\$353,793	-\$25,004	\$0	\$0	\$0	-\$25,004
2028	\$12,840	\$240,416	\$7,063	\$247,478	\$266,883	-\$19,405	\$0	\$0	\$0	-\$19,405
2029	\$0	\$12,840	\$63	\$12,903	\$26,498	-\$13,595	\$0	\$0	\$0	-\$13,595
2030	\$0	\$0	\$0	\$0	\$7,563	-\$7,563	\$0	\$0	\$0	-\$7,563
2031	\$0	\$0	\$0	\$0	\$1,579	-\$1,579	\$0	\$0	\$0	-\$1,579
2032	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2033	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2034	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2035	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2036	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2037	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2038	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2039	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2040	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2041	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2042	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
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		\$6,649,696	\$2,813,874	\$9,463,571	\$1,826,628	\$7,636,943	\$1,340,215	\$6,649,696		\$352,969

Scenario - 10 Year Principal Repayment

EXISTING RUS LOANS

Beginning Loan Balance	\$ 6,649,696.48
Final Payment Date	2/28/29
Remaining Monthly Pmts	221
Initial RUS Monthly Pmt	\$45,100.36
Roll Forward Date	09/30/2010

CoBANK REFINANCING LOAN

Beginning Loan Balance	\$ 6,649,696.48
Final Payment Date	9/30/20
Remaining Monthly Pmts	120
CoBANK Interest Rate	3.73%
Legal Costs	\$5,000

Lifetime Interest	\$2,813,874	Lifetime Interest	\$1,335,215
Present Value of RUS Cash Flow	\$6,649,696	Present Value of CoBank Cash Flow	\$6,048,596
NPV Benefit of Refi = \$601,101			

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
09/30/2010	0	\$6,649,696							\$6,649,696	
10/31/2010	1	6,632,303	\$17,393	\$27,707	\$45,100	\$72,114	\$21,358	\$45,756	6,603,941	\$5,000
11/30/2010	2	6,551,436	80,867	27,635	108,502	67,114	20,812	46,302	6,557,639	0
12/31/2010	3	6,533,892	17,545	27,298	44,842	67,114	20,666	46,448	6,511,192	0
01/31/2011	4	6,516,273	17,619	27,225	44,844	67,114	20,520	46,594	6,464,598	0
02/28/2011	5	6,432,765	83,508	27,151	110,659	67,114	20,373	46,741	6,417,857	0
03/31/2011	6	6,414,986	17,779	26,803	44,582	56,295	20,226	46,888	6,370,969	-10,819
04/30/2011	7	6,396,389	18,597	26,729	45,326	67,114	20,078	47,036	6,323,933	0
05/31/2011	8	6,314,375	82,015	26,652	108,667	67,114	19,930	47,184	6,276,749	0
06/30/2011	9	6,295,628	18,747	26,310	45,057	67,114	19,781	47,333	6,229,416	0
07/31/2011	10	6,277,539	18,089	26,232	44,321	67,114	19,632	47,482	6,181,934	0
08/31/2011	11	6,194,484	83,055	26,156	109,211	67,114	19,482	47,632	6,134,303	0
09/30/2011	12	6,175,511	18,973	25,810	44,783	67,114	19,332	47,782	6,086,521	0
10/31/2011	13	6,157,188	18,323	25,731	44,055	67,114	19,182	47,932	6,038,589	0
11/30/2011	14	6,072,236	84,952	25,655	110,607	67,114	19,031	48,083	5,990,506	0
12/31/2011	15	6,053,753	18,482	25,301	43,783	67,114	18,879	48,235	5,942,271	0
01/31/2012	16	6,035,193	18,561	25,224	43,785	67,114	18,727	48,387	5,893,884	0
02/29/2012	17	5,948,472	86,721	25,147	111,867	67,114	18,575	48,539	5,845,344	0
03/31/2012	18	5,929,747	18,725	24,785	43,510	26,483	18,422	48,692	5,796,652	-40,631
04/30/2012	19	5,910,230	19,517	24,707	44,224	67,114	18,268	48,846	5,747,806	0
05/31/2012	20	5,823,966	86,264	24,626	110,890	67,114	18,114	49,000	5,698,807	0
06/30/2012	21	5,804,292	19,674	24,267	43,941	67,114	17,960	49,154	5,649,652	0
07/31/2012	22	5,785,241	19,051	24,185	43,236	67,114	17,805	49,309	5,600,343	0
08/31/2012	23	5,708,894	76,347	24,105	100,452	67,114	17,650	49,464	5,550,879	0
09/30/2012	24	5,688,982	19,912	23,787	43,699	67,114	17,494	49,620	5,501,259	0
10/31/2012	25	5,669,684	19,298	23,704	43,002	67,114	17,337	49,777	5,451,482	0
11/30/2012	26	5,591,743	77,941	23,624	101,564	67,114	17,180	49,934	5,401,548	0
12/31/2012	27	5,572,278	19,465	23,299	42,764	67,114	17,023	50,091	5,351,457	0
01/31/2013	28	5,552,731	19,548	23,218	42,765	67,114	16,865	50,249	5,301,208	0
02/28/2013	29	5,472,380	80,351	23,136	103,487	67,114	16,707	50,407	5,250,801	0
03/31/2013	30	5,452,657	19,723	22,802	42,524	30,242	16,548	50,566	5,200,235	-36,872
04/30/2013	31	5,432,171	20,486	22,719	43,206	67,114	16,389	50,725	5,149,510	0
05/31/2013	32	5,353,025	79,146	22,634	101,780	67,114	16,229	50,885	5,098,624	0
06/30/2013	33	5,332,372	20,652	22,304	42,956	67,114	16,068	51,046	5,047,579	0
07/31/2013	34	5,312,307	20,066	22,218	42,284	67,114	15,907	51,207	4,996,372	0
08/31/2013	35	5,242,866	69,440	22,135	91,575	67,114	15,746	51,368	4,945,004	0
09/30/2013	36	5,221,964	20,902	21,845	42,748	67,114	15,584	51,530	4,893,475	0
10/31/2013	37	5,201,639	20,325	21,758	42,083	67,114	15,422	51,692	4,841,783	0
11/30/2013	38	5,131,041	70,598	21,673	92,271	67,114	15,259	51,855	4,789,927	0
12/31/2013	39	5,110,540	20,501	21,379	41,880	67,114	15,095	52,018	4,737,909	0
01/31/2014	40	5,089,952	20,588	21,294	41,882	67,114	14,932	52,182	4,685,727	0
02/28/2014	41	5,017,132	72,820	21,208	94,028	67,114	14,767	52,347	4,633,380	0
03/31/2014	42	4,996,361	20,772	20,905	41,676	34,154	14,602	52,512	4,580,868	-32,960
04/30/2014	43	4,974,855	21,506	20,818	42,324	67,114	14,437	52,677	4,528,190	0
05/31/2014	44	4,903,173	71,682	20,729	92,410	67,114	14,271	52,843	4,475,347	0
06/30/2014	45	4,881,493	21,680	20,430	42,110	67,114	14,104	53,010	4,422,337	0
07/31/2014	46	4,860,361	21,132	20,340	41,472	67,114	13,937	53,177	4,369,160	0
08/31/2014	47	4,787,769	72,592	20,252	92,843	67,114	13,769	53,345	4,315,816	0
09/30/2014	48	4,765,826	21,943	19,949	41,892	67,114	13,601	53,513	4,262,303	0
10/31/2014	49	4,744,421	21,405	19,858	41,263	67,114	13,433	53,681	4,208,622	0
11/30/2014	50	4,698,262	46,159	19,768	65,927	67,114	13,263	53,850	4,154,771	0
12/31/2014	51	4,676,672	21,590	19,576	41,166	67,114	13,094	54,020	4,100,751	0
01/31/2015	52	4,654,991	21,682	19,486	41,168	67,114	12,924	54,190	4,046,561	0
02/28/2015	53	4,607,218	47,773	19,396	67,169	67,114	12,753	54,361	3,992,199	0
03/31/2015	54	4,585,344	21,874	19,197	41,071	38,212	12,581	54,533	3,937,667	-28,902
04/30/2015	55	4,562,767	22,577	19,106	41,683	67,114	12,410	54,704	3,882,962	0
05/31/2015	56	4,516,292	46,474	19,012	65,486	67,114	12,237	54,877	3,828,086	0
06/30/2015	57	4,493,532	22,761	18,818	41,578	67,114	12,064	55,050	3,773,036	0
07/31/2015	58	4,471,279	22,253	18,723	40,976	67,114	11,891	55,223	3,717,813	0
08/31/2015	59	4,424,212	47,067	18,630	65,697	67,114	11,717	55,397	3,662,415	0
09/30/2015	60	4,401,174	23,037	18,434	41,472	67,114	11,542	55,572	3,606,844	0
10/31/2015	61	4,378,634	22,540	18,338	40,879	67,114	11,367	55,747	3,551,097	0
11/30/2015	62	4,330,367	48,267	18,244	66,511	67,114	11,191	55,923	3,495,174	0
12/31/2015	63	4,307,632	22,735	18,043	40,778	67,114	11,015	56,099	3,439,075	0
01/31/2016	64	4,284,801	22,831	17,948	40,780	67,114	10,838	56,276	3,382,799	0
02/29/2016	65	4,235,360	49,441	17,853	67,294	67,114	10,661	56,453	3,326,346	0

11/30/2023	158	1,557,530	34,340	6,633	40,973	0	0	0	0	0
12/31/2023	159	1,527,908	29,623	6,490	36,113	0	0	0	0	0
01/31/2024	160	1,503,094	24,813	6,366	31,180	0	0	0	0	0
02/29/2024	161	1,477,764	25,331	6,263	31,593	0	0	0	0	0
03/31/2024	162	1,452,737	25,026	6,157	31,184	0	0	0	0	0
04/30/2024	163	1,427,406	25,332	6,053	31,385	0	0	0	0	0
05/31/2024	164	1,402,166	25,240	5,948	31,188	0	0	0	0	0
06/30/2024	165	1,376,626	25,539	5,842	31,382	0	0	0	0	0
07/31/2024	166	1,351,171	25,456	5,736	31,192	0	0	0	0	0
08/31/2024	167	1,325,607	25,564	5,630	31,194	0	0	0	0	0
09/30/2024	168	1,299,753	25,854	5,523	31,377	0	0	0	0	0
10/31/2024	169	1,273,971	25,782	5,416	31,198	0	0	0	0	0
11/30/2024	170	1,247,904	26,066	5,308	31,374	0	0	0	0	0
12/31/2024	171	1,221,902	26,002	5,200	31,202	0	0	0	0	0
01/31/2025	172	1,195,789	26,113	5,091	31,204	0	0	0	0	0
02/28/2025	173	1,169,074	26,715	4,982	31,698	0	0	0	0	0
03/31/2025	174	1,142,737	26,337	4,871	31,208	-26,008	0	0	0	-26,008
04/30/2025	175	1,116,131	26,606	4,761	31,367	0	0	0	0	0
05/31/2025	176	1,089,569	26,562	4,651	31,213	0	0	0	0	0
06/30/2025	177	1,062,745	26,824	4,540	31,364	0	0	0	0	0
07/31/2025	178	1,035,956	26,789	4,428	31,217	0	0	0	0	0
08/31/2025	179	1,009,054	26,902	4,316	31,219	0	0	0	0	0
09/30/2025	180	981,899	27,155	4,204	31,359	0	0	0	0	0
10/31/2025	181	954,767	27,132	4,091	31,223	0	0	0	0	0
11/30/2025	182	927,389	27,378	3,978	31,356	0	0	0	0	0
12/31/2025	183	900,026	27,363	3,864	31,228	0	0	0	0	0
01/31/2026	184	872,546	27,480	3,750	31,230	0	0	0	0	0
02/28/2026	185	844,591	27,955	3,636	31,591	0	0	0	0	0
03/31/2026	186	816,876	27,715	3,519	31,234	-30,385	0	0	0	-30,385
04/30/2026	187	788,931	27,945	3,404	31,348	0	0	0	0	0
05/31/2026	188	760,980	27,951	3,287	31,239	0	0	0	0	0
06/30/2026	189	732,805	28,174	3,171	31,345	0	0	0	0	0
07/31/2026	190	704,615	28,190	3,053	31,243	0	0	0	0	0
08/31/2026	191	676,306	28,310	2,936	31,245	0	0	0	0	0
09/30/2026	192	647,784	28,522	2,818	31,340	0	0	0	0	0
10/31/2026	193	619,233	28,551	2,699	31,250	0	0	0	0	0
11/30/2026	194	590,476	28,757	2,580	31,337	0	0	0	0	0
12/31/2026	195	561,682	28,794	2,460	31,255	0	0	0	0	0
01/31/2027	196	532,765	28,916	2,340	31,257	0	0	0	0	0
02/28/2027	197	503,507	29,258	2,220	31,478	0	0	0	0	0
03/31/2027	198	474,343	29,164	2,098	31,261	-25,004	0	0	0	-25,004
04/30/2027	199	444,991	29,352	1,976	31,329	0	0	0	0	0
05/31/2027	200	415,579	29,412	1,854	31,266	0	0	0	0	0
06/30/2027	201	385,985	29,594	1,732	31,325	0	0	0	0	0
07/31/2027	202	356,322	29,663	1,608	31,271	0	0	0	0	0
08/31/2027	203	332,744	23,578	1,485	25,063	0	0	0	0	0
09/30/2027	204	312,974	19,770	1,386	21,156	0	0	0	0	0
10/31/2027	205	293,166	19,808	1,304	21,112	0	0	0	0	0
11/30/2027	206	273,233	19,933	1,222	21,154	0	0	0	0	0
12/31/2027	207	253,256	19,977	1,138	21,116	0	0	0	0	0
01/31/2028	208	233,194	20,062	1,055	21,117	0	0	0	0	0
02/29/2028	209	212,983	20,211	972	21,183	0	0	0	0	0
03/31/2028	210	192,750	20,233	887	21,120	-19,405	0	0	0	-19,405
04/30/2028	211	172,404	20,345	803	21,148	0	0	0	0	0
05/31/2028	212	151,999	20,405	718	21,124	0	0	0	0	0
06/30/2028	213	131,486	20,513	633	21,146	0	0	0	0	0
07/31/2028	214	110,907	20,579	548	21,127	0	0	0	0	0
08/31/2028	215	90,240	20,667	462	21,129	0	0	0	0	0
09/30/2028	216	69,474	20,767	376	21,143	0	0	0	0	0
10/31/2028	217	48,631	20,842	289	21,132	0	0	0	0	0
11/30/2028	218	27,694	20,938	203	21,140	0	0	0	0	0
12/31/2028	219	12,840	14,854	115	14,969	0	0	0	0	0
01/31/2029	220	2,228	10,612	53	10,665	0	0	0	0	0
02/28/2029	221	0	2,228	9	2,238	0	0	0	0	0
03/31/2029	222	0	0	0	0	-13,595	0	0	0	-13,595
04/30/2029	223	0	0	0	0	0	0	0	0	0
05/31/2029	224	0	0	0	0	0	0	0	0	0
06/30/2029	225	0	0	0	0	0	0	0	0	0
07/31/2029	226	0	0	0	0	0	0	0	0	0
08/31/2029	227	0	0	0	0	0	0	0	0	0
09/30/2029	228	0	0	0	0	0	0	0	0	0
10/31/2029	229	0	0	0	0	0	0	0	0	0
11/30/2029	230	0	0	0	0	0	0	0	0	0
12/31/2029	231	0	0	0	0	0	0	0	0	0
01/31/2030	232	0	0	0	0	0	0	0	0	0
02/28/2030	233	0	0	0	0	0	0	0	0	0
03/31/2030	234	0	0	0	0	-7,563	0	0	0	-7,563
04/30/2030	235	0	0	0	0	0	0	0	0	0
05/31/2030	236	0	0	0	0	0	0	0	0	0
06/30/2030	237	0	0	0	0	0	0	0	0	0
07/31/2030	238	0	0	0	0	0	0	0	0	0
08/31/2030	239	0	0	0	0	0	0	0	0	0
09/30/2030	240	0	0	0	0	0	0	0	0	0
10/31/2030	241	0	0	0	0	0	0	0	0	0
11/30/2030	242	0	0	0	0	0	0	0	0	0
12/31/2030	243	0	0	0	0	0	0	0	0	0
01/31/2031	244	0	0	0	0	0	0	0	0	0
02/28/2031	245	0	0	0	0	0	0	0	0	0
03/31/2031	246	0	0	0	0	-1,579	0	0	0	-1,579
04/30/2031	247	0	0	0	0	0	0	0	0	0
05/31/2031	248	0	0	0	0	0	0	0	0	0
06/30/2031	249	0	0	0	0	0	0	0	0	0

07/31/2031	250	0	0	0	0	0	0	0	0	0	0
08/31/2031	251	0	0	0	0	0	0	0	0	0	0
09/30/2031	252	0	0	0	0	0	0	0	0	0	0
10/31/2031	253	0	0	0	0	0	0	0	0	0	0
11/30/2031	254	0	0	0	0	0	0	0	0	0	0
12/31/2031	255	0	0	0	0	0	0	0	0	0	0
01/31/2032	256	0	0	0	0	0	0	0	0	0	0
02/29/2032	257	0	0	0	0	0	0	0	0	0	0
03/31/2032	258	0	0	0	0	0	0	0	0	0	0
04/30/2032	259	0	0	0	0	0	0	0	0	0	0
05/31/2032	260	0	0	0	0	0	0	0	0	0	0
06/30/2032	261	0	0	0	0	0	0	0	0	0	0
07/31/2032	262	0	0	0	0	0	0	0	0	0	0
08/31/2032	263	0	0	0	0	0	0	0	0	0	0
09/30/2032	264	0	0	0	0	0	0	0	0	0	0
10/31/2032	265	0	0	0	0	0	0	0	0	0	0
11/30/2032	266	0	0	0	0	0	0	0	0	0	0
12/31/2032	267	0	0	0	0	0	0	0	0	0	0
01/31/2033	268	0	0	0	0	0	0	0	0	0	0
02/28/2033	269	0	0	0	0	0	0	0	0	0	0
03/31/2033	270	0	0	0	0	0	0	0	0	0	0
04/30/2033	271	0	0	0	0	0	0	0	0	0	0
05/31/2033	272	0	0	0	0	0	0	0	0	0	0
06/30/2033	273	0	0	0	0	0	0	0	0	0	0
07/31/2033	274	0	0	0	0	0	0	0	0	0	0
08/31/2033	275	0	0	0	0	0	0	0	0	0	0
09/30/2033	276	0	0	0	0	0	0	0	0	0	0
10/31/2033	277	0	0	0	0	0	0	0	0	0	0
11/30/2033	278	0	0	0	0	0	0	0	0	0	0
12/31/2033	279	0	0	0	0	0	0	0	0	0	0
01/31/2034	280	0	0	0	0	0	0	0	0	0	0
02/28/2034	281	0	0	0	0	0	0	0	0	0	0
03/31/2034	282	0	0	0	0	0	0	0	0	0	0
04/30/2034	283	0	0	0	0	0	0	0	0	0	0
05/31/2034	284	0	0	0	0	0	0	0	0	0	0
06/30/2034	285	0	0	0	0	0	0	0	0	0	0
07/31/2034	286	0	0	0	0	0	0	0	0	0	0
08/31/2034	287	0	0	0	0	0	0	0	0	0	0
09/30/2034	288	0	0	0	0	0	0	0	0	0	0
10/31/2034	289	0	0	0	0	0	0	0	0	0	0
11/30/2034	290	0	0	0	0	0	0	0	0	0	0
12/31/2034	291	0	0	0	0	0	0	0	0	0	0
01/31/2035	292	0	0	0	0	0	0	0	0	0	0
02/28/2035	293	0	0	0	0	0	0	0	0	0	0
03/31/2035	294	0	0	0	0	0	0	0	0	0	0
04/30/2035	295	0	0	0	0	0	0	0	0	0	0
05/31/2035	296	0	0	0	0	0	0	0	0	0	0
06/30/2035	297	0	0	0	0	0	0	0	0	0	0
07/31/2035	298	0	0	0	0	0	0	0	0	0	0
08/31/2035	299	0	0	0	0	0	0	0	0	0	0
09/30/2035	300	0	0	0	0	0	0	0	0	0	0
10/31/2035	301	0	0	0	0	0	0	0	0	0	0
11/30/2035	302	0	0	0	0	0	0	0	0	0	0
12/31/2035	303	0	0	0	0	0	0	0	0	0	0
01/31/2036	304	0	0	0	0	0	0	0	0	0	0
02/29/2036	305	0	0	0	0	0	0	0	0	0	0
03/31/2036	306	0	0	0	0	0	0	0	0	0	0
04/30/2036	307	0	0	0	0	0	0	0	0	0	0
05/31/2036	308	0	0	0	0	0	0	0	0	0	0
06/30/2036	309	0	0	0	0	0	0	0	0	0	0
07/31/2036	310	0	0	0	0	0	0	0	0	0	0
08/31/2036	311	0	0	0	0	0	0	0	0	0	0
09/30/2036	312	0	0	0	0	0	0	0	0	0	0
10/31/2036	313	0	0	0	0	0	0	0	0	0	0
11/30/2036	314	0	0	0	0	0	0	0	0	0	0
12/31/2036	315	0	0	0	0	0	0	0	0	0	0
01/31/2037	316	0	0	0	0	0	0	0	0	0	0
02/28/2037	317	0	0	0	0	0	0	0	0	0	0
03/31/2037	318	0	0	0	0	0	0	0	0	0	0
04/30/2037	319	0	0	0	0	0	0	0	0	0	0
05/31/2037	320	0	0	0	0	0	0	0	0	0	0
06/30/2037	321	0	0	0	0	0	0	0	0	0	0
07/31/2037	322	0	0	0	0	0	0	0	0	0	0
08/31/2037	323	0	0	0	0	0	0	0	0	0	0
09/30/2037	324	0	0	0	0	0	0	0	0	0	0
10/31/2037	325	0	0	0	0	0	0	0	0	0	0
11/30/2037	326	0	0	0	0	0	0	0	0	0	0
12/31/2037	327	0	0	0	0	0	0	0	0	0	0
01/31/2038	328	0	0	0	0	0	0	0	0	0	0
02/28/2038	329	0	0	0	0	0	0	0	0	0	0
03/31/2038	330	0	0	0	0	0	0	0	0	0	0
04/30/2038	331	0	0	0	0	0	0	0	0	0	0
05/31/2038	332	0	0	0	0	0	0	0	0	0	0
06/30/2038	333	0	0	0	0	0	0	0	0	0	0
07/31/2038	334	0	0	0	0	0	0	0	0	0	0
08/31/2038	335	0	0	0	0	0	0	0	0	0	0
09/30/2038	336	0	0	0	0	0	0	0	0	0	0
10/31/2038	337	0	0	0	0	0	0	0	0	0	0
11/30/2038	338	0	0	0	0	0	0	0	0	0	0
12/31/2038	339	0	0	0	0	0	0	0	0	0	0
01/31/2039	340	0	0	0	0	0	0	0	0	0	0
02/28/2039	341	0	0	0	0	0	0	0	0	0	0

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

Sum

6,649,696

2,813,874

9,463,571

7,636,943

1,335,215

6,649,696

-347,969

ATTACHMENT B

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TAB 3



Rural America's Cooperative Bank

Projection of Cash Flows and Effective Interest Rate

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).

ATTACHMENT B
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Borrower Name	Fleming-Mason
Schedule	10 Year Principal Repayment
Account Officer	LaDuca
Prepared by:	Darneille
Quote Date	August 10, 2010
Origination Date	September 30, 2010
Amortization Start Date	October 31, 2010
<hr/>	
Loan Amount	\$6,649,696
Years to Maturity	10.000
Nominal Interest Rate	3.73%
Estimated Legal Fees (\$)	5,000
Payments/Year	12
Amort Method	Level Payment
Days per Year	360
Payment Amount	\$67,114

Nominal Interest Rate	3.73%
Net Effective Interest Rate	2.92%
Reduction of Interest Rate	0.81%
<hr/>	
Patronage Rate	1.00%
% Cash Patronage	65.00%
Initial Capital Purchase Amount	\$0
Target Equity	8.00%
<hr/>	
Prior Year End Capital Balance	0
Avg Loan Balance - 1 year ago	0
Avg Loan Balance - 2 years ago	0
Avg Loan Balance - 3 years ago	0
Avg Loan Balance - 4 years ago	0
Avg Loan Balance - 5 years ago	0
Avg Loan Balance - 6 years ago	0
Avg Loan Balance - 7 years ago	0
Avg Loan Balance - 8 years ago	0

Borrower: Fleming-Mason													
Quote Date: August 10, 2010													
Schedule: 10 Year Principal Repayment													
Origination Date: September 30, 2010													
Effective Interest Rate: 2.97%													
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	6,649,696	138,505	67,837	0	0	0	6,443,355	5,826	5,826	6,511,192	1,664,509	166,451	13,316
2011	0	568,921	236,447	0	10,819	0	-794,548	21,878	27,704	5,942,271	6,250,984	791,549	63,324
2012	0	590,813	214,554	0	40,631	0	-764,736	19,854	47,559	5,351,457	5,672,656	1,358,815	108,705
2013	0	613,548	191,819	0	36,872	0	-768,495	17,748	65,306	4,737,909	5,070,838	1,865,899	149,272
2014	0	637,158	168,210	0	32,960	0	-772,407	15,563	80,869	4,100,751	4,446,492	2,310,548	184,844
2015	0	661,676	143,692	0	28,902	0	-776,465	13,293	94,163	3,439,075	3,798,120	2,690,360	215,229
2016	0	687,138	118,230	0	24,688	0	-780,680	10,939	105,102	2,751,937	3,125,503	3,002,910	240,233
2017	0	713,579	91,789	0	20,316	0	-785,052	8,489	113,591	2,038,358	2,425,567	3,245,467	259,637
2018	0	741,038	64,330	0	15,766	0	-789,601	5,948	119,539	1,297,320	1,699,429	3,415,410	273,233
2019	0	769,554	35,814	0	11,046	0	-794,321	3,309	122,848	527,767	945,349	3,509,945	280,796
2020	0	527,767	7,494	0	6,145	0	-529,116	691	123,539	0	197,436	3,363,238	269,059
2021	0	0	0	0	1,283	0	1,283	0	123,539	0	0	2,738,139	219,051
2022	0	0	0	0	0	0	0	0	123,539	0	0	2,170,873	173,670
2023	0	0	0	0	0	0	0	0	123,539	0	0	1,663,790	133,103
2024	0	0	0	0	0	0	0	0	123,539	0	0	1,219,140	97,531
2025	0	0	0	0	0	26,008	26,008	0	97,531	0	0	839,328	67,146
2026	0	0	0	0	0	30,385	30,385	0	67,146	0	0	526,778	42,142
2027	0	0	0	0	0	25,004	25,004	0	42,142	0	0	284,221	22,738
2028	0	0	0	0	0	19,405	19,405	0	22,738	0	0	114,278	9,142
2029	0	0	0	0	0	13,595	13,595	0	9,142	0	0	19,744	1,579
2030	0	0	0	0	0	7,563	7,563	0	1,579	0	0	0	0
2031	0	0	0	0	0	1,579	1,579	0	0	0	0	0	0
TOTAL	\$6,649,696	\$6,649,696	\$1,340,215	\$0	\$229,430	\$123,539		\$123,539					



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.

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
 - 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.