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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

2 COMMISSIONERS

- 3 KRISTEN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-02527A-09-0088
 9 GRAHAM COUNTY UTILITIES, INC. FOR A)
 RATE INCREASE)

10 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-02527A-09-0032
 11 GRAHAM COUNTY UTILITIES, INC. GAS)
 DIVISION FOR APPROVAL OF A LOAN)

12 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02527A-09-0201
 13 GRAHAM COUNTY UTILITIES, INC. WATER)
 DIVISION FOR A RATE INCREASE)

14 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02527A-09-0033
 15 GRAHAM COUNTY UTILITIES, INC. WATER)
 DIVISION FOR APPROVAL OF A LOAN)

16 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01749A-09-0087
 17 GRAHAM COUNTY ELECTRIC)
 18 COOPERATIVE, INC. FOR APPROVAL OF A)
 19 LOAN GUARANTEE)

20
 21 Graham County Utilities, Inc. ("GCU") hereby files its executed loan documents in
 22 compliance with Decision No. 71690 dated May 3, 2010.

23 RESPECTFULLY SUBMITTED this 14th day of July, 2010.

24 Arizona Corporation Commission By

25 DOCKETED

26 JUL 14 2010

27 John V. Wallace
 28 Grand Canyon State Electric Cooperative Assn., Inc.
 Consultant for Graham County Utilities, Inc.

DOCKETED BY

1 **Original** and nineteen (13) copies filed
2 this 14th day of July, 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington
6 Phoenix, AZ 85007
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LOAN AGREEMENT

LOAN AGREEMENT (this "Agreement") dated as of July 7, 2010, between GRAHAM COUNTY UTILITIES, INC. ("Borrower"), a corporation organized and existing under the laws of the State of Arizona and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association incorporated under the laws of the District of Columbia.

RECITALS

WHEREAS, the Borrower has applied to CFC for a loan and agrees to use the proceeds thereof for the purpose set forth on Schedule 1 hereto, consistent with the Borrower's articles of incorporation, bylaws and applicable federal, state and local laws and regulations;

WHEREAS, CFC has approved a loan to the Borrower in the aggregate principal amount of the CFC Commitment (as hereinafter defined), subject to the terms and conditions stated herein; and

WHEREAS, the Borrower has agreed to execute one or more secured promissory notes to evidence Borrower's indebtedness to CFC under this Agreement.

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

ARTICLE I

DEFINITIONS

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

"Accounting Requirements" shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Borrower or, in the absence thereof, the requirements of generally accepted accounting principles applicable to businesses similar to that of the Borrower.

"Advance" or "Advances" shall mean one or more advances of funds by CFC to Borrower under a Note and pursuant to the terms and conditions of this Agreement.

"Amortization Basis Date" shall mean the first calendar day of the month following the end of the Billing Cycle in which the Advance occurs, provided, however, that if the Advance is made on the first day of a Billing Cycle, and such day is a Business Day, then the Amortization Basis Date shall be the date of the Advance.

"Billing Cycle" shall mean any 3-month period ending on, and including, a Payment Date.

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

"CFC Commitment" shall have the meaning as defined in Schedule 1.

"CFC Fixed Rate" shall mean (i) such fixed rate as is then available for loans similarly classified pursuant to CFC's policies and procedures then in effect, or (ii) such other fixed rate as may be agreed to by the parties and reflected on the written requisition for funds in the form attached as Exhibit A hereto.

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

"CFC Variable Rate" shall mean (i) the rate established by CFC for variable interest rate long-term loans similarly classified pursuant to the long-term loan programs established by CFC from time to time, or (ii) such other variable rate as may be agreed to by the parties on the written requisition for funds in the form attached as Exhibit A hereto.

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

"Debt Service Coverage Ratio ("DSC")" shall mean the ratio determined as follows: for any calendar year add (a) Operating Margins, (b) Non-Operating Margins-Interest, (c) Interest Expense, (d) Depreciation and Amortization Expense for such year, and (e) cash received in respect of generation and transmission and other capital credits, and divide the sum so obtained by the sum of all payments of Principal and Interest Expense required to be made during such calendar year; provided, however, that in the event that any Long-Term Debt has been refinanced during such year the payments of Principal and Interest required to be made during such year on account of such Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced Long-Term Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payment of Principal and Interest Expense required to be made during the following year on account of such refinancing debt.

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

"Distributions" shall have the meaning defined in Section 5.H.

"Equities and Margins" shall mean Borrower's equities and margins computed pursuant to Accounting Requirements.

"Equity" shall mean the aggregate of Borrower's Equities and Margins computed pursuant to Accounting Requirements.

"Capital Certificate" shall mean a certificate, or book entry form of account, evidencing the Borrower's purchase of subordinated debt instruments issued by CFC from time to time. Such instruments may be denoted by CFC as "Loan Capital Term Certificates", "Member Capital Securities", "Subordinated Term Certificates", or other like designations.

"Interest Expense" shall mean an amount constituting the interest expense with respect to Total Long-Term Debt of the Borrower computed pursuant to Accounting Requirements. In

computing Interest Expense, 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 Borrower over two percent (2%) of the Borrower's Equities and Margins.

"Interest Rate Reset Date" shall mean, with respect to any Advance, the first day following the expiration of the CFC Fixed Rate Term for such Advance.

"LCTC Purchase Provisions" shall mean the specific conditions and covenants in any Prior Loan Document requiring the Borrower to purchase subordinated debt instruments issued by CFC that may be referred to in Prior Loan Documents as "LCTCs", "Loan Capital Term Certificates", "Capital Certificates", "Equity Certificates", "Subordinated Term Certificates" or instruments with other like designations.

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

"Make-Whole Premium" shall mean, with respect to any principal sum of a CFC Fixed Rate Advance paid prior to the expiration of the CFC Fixed Rate Term applicable thereto (the "Prepaid Principal Amount"), an amount calculated as set forth below. The Make-Whole Premium represents Lender's reinvestment loss resulting from making a fixed rate loan.

(1) Compute the amount of interest ("Loan Interest") that would have been due on the Prepaid Principal Amount at the applicable CFC Fixed Rate for the period from the prepayment date through the end of the CFC Fixed Rate Term (such period is hereinafter referred to as the "Remaining Term"), calculated on the basis of a 30-day month/360-day year, adjusted to include any amortization of principal in accordance with the amortization schedule that would have been in effect for the Prepaid Principal Amount.

(2) Compute the amount of interest ("Investment Interest") that would be earned on the Prepaid Principal Amount (adjusted to include any applicable amortization) if invested in a United States government security with a term equivalent to the Remaining Term, calculated on the basis of a 30-day month/360-day year. The yield used to determine the amount of Investment Interest shall be based upon United States government security yields dated no more than two Business Days prior to the prepayment date in Federal Reserve statistical release H.15 (519), under the caption "U.S. Government Securities/Treasury Constant Maturities". If there is no such United States government security under said caption with a term equivalent to the Remaining Term, then the yield shall be determined by interpolating between the terms of whole years nearest to the Remaining Term.

(3) Subtract the amount of Investment Interest from the amount of Loan Interest. If the difference is zero or less, then the Make-Whole Premium is zero. If the difference is greater than zero, then the Make-Whole premium is a sum equal to the present value of the difference, applying as the present value discount a rate equal to the yield utilized to determine Investment Interest.

"Maturity Date", with respect to each Note, shall mean the date set forth therein, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

"Mortgage" shall have the meaning as described in Schedule 1.

"Mortgaged Property" shall have the meaning as defined in the Mortgage.

"Non-Operating Margins--Interest" shall mean the amount of non-operating margins--interest of Borrower computed pursuant to Accounting Requirements.

"Note" or "Notes" shall mean each secured promissory note, payable to the order of CFC, executed by the Borrower, dated as of even date herewith, pursuant to this Agreement as identified on Schedule 1 hereto, and shall include all substitute, amended or replacement promissory notes.

"Operating Margins" shall mean the amount of net patronage capital and operating margins of the Borrower computed pursuant to Accounting Requirements.

"Patronage Capital or Operating Margins" shall mean the amount of net patronage capital or margins of the Borrower computed pursuant to Accounting Requirements.

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

"Principal" shall mean the amount of principal billed on account of Total Long-Term Debt of the Borrower as computed for purposes of the Accounting Requirements.

"Prior Loan Documents" shall mean, collectively, all long term loan agreements entered into prior to the date hereof by and between CFC and the Borrower, and all promissory notes delivered pursuant thereto secured under the Mortgage.

"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 three (3) years and covering property having an initial cost in excess of \$250,000 other than automobiles, trucks, trailers, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

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

"Total Assets" shall mean an amount constituting the total assets of the Borrower computed pursuant to Accounting Requirements.

"Total Long-Term Debt" shall mean an amount constituting the long-term debt of the Borrower computed pursuant to Accounting Requirements.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2. The Borrower represents and warrant to CFC as of the date of this Agreement that:

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

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

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

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

E. Title to Properties. Borrower has good and marketable title to all of its real properties and owns all of its other properties and assets free and clear of any liens, except the lien of the Mortgage and Permitted Encumbrances.

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

G. Litigation. There are no outstanding judgments, suits, claims, actions or proceedings pending, or to the knowledge of the Borrower, threatened against or affecting the Borrower or its properties which, if adversely determined, would have a material adverse effect upon the financial condition or the business of the Borrower. The Borrower is not, to its knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court, governmental agency or other instrumentality which would have a material adverse effect on the Borrower.

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

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

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

K. No Other Liens. As to property which is presently included in the description of Mortgaged Property (as that term is defined in the Mortgage), the Borrower has not, without the prior written approval of CFC, signed any security agreement or mortgage or filed or permitted to be filed any financing statement with respect to assets owned by it, other than security agreements, mortgages and financing statements running in favor of CFC or except as disclosed in writing to CFC prior to the date hereof.

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

ARTICLE III

LOAN

Section 3.1. Advances. CFC agrees to make, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time at the main office of CFC, or at such other place as may be mutually agreed upon, in an aggregate principal amount not to exceed the CFC Commitment.

On the Termination Date, CFC may stop advancing funds and limit the CFC Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by one or more Notes. The Borrower shall give CFC written notice of the date on which each Advance is to be made.

Section 3.2. Interest Rate and Payment. Notes shall be payable and bear interest as follows:

A. Payments; Maturity; Amortization.

(i) Each Note shall have a Maturity Date as stated therein, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

(ii) Prior to or at the time of each amortizing Advance on a Note, Borrower may elect an amortization method for principal. If no election is made, then said Advance shall amortize on a level debt service basis shall be as provided in the definitions section of this Agreement.

Each Advance shall amortize over a period not to exceed thirty-five (35) years from the date of such Advance, *provided, however*, that such period shall not extend beyond the Maturity Date. For each Advance, Borrower shall promptly pay interest in the amount invoiced on each Payment Date until the first Payment Date of the Billing Cycle in which the Amortization Basis Date occurs. On such Payment Date, and on each Payment Date thereafter, Borrower shall promptly pay interest and principal in the amounts invoiced. If not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees, if any, shall be due and payable on the Maturity Date. The amortization method for each Advance shall be as stated on Schedule 1 or, if not so stated, then as stated on the written requisition for such Advance submitted by Borrower to CFC pursuant to the terms hereof or as otherwise set forth in the immediately preceding subparagraph (ii).

(iii) CFC will invoice the Borrower at least ten (10) days before each Payment Date, provided, however, that CFC's failure to send an invoice shall not constitute a waiver by CFC or be deemed to relieve Borrower of its obligation to make payments as and when due as provided for herein.

(iv) No provision of this Agreement or of any Note shall require the payment, or permit the collection, of interest in excess of the highest rate permitted by applicable law.

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

C. Election of Interest Rate and Interest Rate Computation. Prior to each Advance on a Note, the Borrower must select in writing either a CFC Fixed Rate or the CFC Variable Rate, as follows:

(i) **CFC Fixed Rate.** If the Borrower selects a CFC Fixed Rate for an Advance, then such rate shall be in effect for the CFC Fixed Rate Term selected by the Borrower. CFC shall provide the Borrower with at least sixty (60) days prior written or electronic notice of the Interest Rate Reset Date for such Advance. The Borrower may then select any available interest rate option for such Advance pursuant to CFC's policies of general application. The Advance shall bear interest according to the interest rate option so selected beginning on the Interest Rate Reset Date. If the Borrower does not select an interest rate in writing prior to the Interest Rate Reset Date, then beginning on the Interest Rate Reset Date the Advance shall bear interest at the CFC Variable Rate. CFC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date. For any Advance, the Borrower may not select a CFC Fixed

Rate with a CFC Fixed Rate Term that extends beyond the Maturity Date. Interest on amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the Billing Cycle in which the Amortization Basis Date occurs; interest shall then be computed on the basis of a 30-day month and 360-day year. Interest on non-amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

(ii) **CFC Variable Rate.** If the Borrower elects the CFC Variable Rate for an Advance, then such CFC Variable Rate shall apply until the Maturity Date, unless the Borrower elects to convert to a CFC Fixed Rate pursuant to the terms hereof. Interest on Advances bearing interest at the CFC Variable Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

Section 3.3. Conversion of Interest Rates.

A. CFC Variable Rate to a CFC Fixed Rate. The Borrower may, at its option, at any time convert from the CFC Variable Rate to a CFC Fixed Rate by submitting to CFC a Conversion Request requesting that a CFC Fixed Rate apply to any outstanding Advance. The rate shall be equal to the rate of interest offered by CFC in effect on the date of the Conversion Request. The effective date of the new interest rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

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

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

Section 3.4 Optional Prepayment. The Borrower may at any time, on not less than thirty (30) days prior written notice to CFC, prepay any Advance, in whole or in part. In the event the Borrower prepays all or any part of an Advance (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrower shall pay any prepayment fee or Make-Whole Premium as CFC may prescribe pursuant to the terms of this Section 3.4. All prepayments shall be accompanied by payment of accrued and unpaid interest on the amount of and to the date of the repayment. All prepayments shall be applied first to fees, second to the payment of accrued and unpaid interest, and then to the unpaid balance of the principal amount of the applicable Advance. If the Advance bears interest at the CFC Variable Rate, the Borrower may prepay the Advance or any portion thereof, as the case may

be, at any time subject to the terms hereof and said prepayment fee shall be in an amount equal to thirty three (33) basis points times the amount being prepaid. If the Advance bears interest at a CFC Fixed Rate, the Borrower may (a) prepay the Advance on the day before an Interest Rate Reset Date provided that the Borrower shall pay a prepayment fee in an amount equal to thirty three (33) basis points times the amount being prepaid or (b) any such other date provided that the Borrower shall pay a prepayment fee in an amount equal to thirty three (33) basis points times the amount being prepaid plus any applicable Make-Whole Premium.

ARTICLE IV

CONDITIONS OF LENDING

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

A. Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for CFC and, as to all matters of local law, to such local counsel as counsel for CFC may retain.

B. Documents. CFC shall have been furnished with executed originals, satisfactory to CFC, of this Agreement, each Note and the Mortgage and certified copies, satisfactory to CFC, of all such corporate documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require. CFC shall have received an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require.

C. Government Approvals. The Borrower shall have furnished to CFC true and correct copies of all certificates, authorizations and consents necessary for the execution, delivery or performance by the Borrower of this Agreement, each Note and the Mortgage.

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

E. Mortgage Filing. The Mortgage (and any amendments, supplements or restatements as CFC may require from time to time) shall have been duly recorded as a mortgage on real property and duly filed, recorded or indexed as a security interest in personal property wherever CFC shall have requested, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

F. Requisitions. Borrower shall have requested the Advance in writing by submitting its requisition to CFC in form and substance satisfactory to CFC.

G. Other Information. Borrower shall have furnished such other information as CFC may reasonably require, including but not limited to (i) information regarding the specific purpose for an Advance and the use thereof, and (ii) feasibility studies, cash flow projections, financial analyses and pro forma financial statements sufficient to demonstrate to CFC's reasonable satisfaction that after giving effect to the Advance requested, Borrower shall continue to achieve the DSC ratio set forth in Section 5.B. herein, to meet all of its debt service obligations, and otherwise to perform and to comply with all other covenants and conditions set forth in this Agreement.

H. Capital Certificate Purchase. The Borrower will purchase Capital Certificates, if required, in an amount calculated pursuant to CFC's policies of general application and shall pay for such Capital Certificates as required thereby.

I. Special Conditions. Borrower shall have complied with any special conditions listed in Schedule 1.

J. Guaranty. CFC shall have been furnished with (i) an executed original of an absolute and unconditional guaranty of the Borrower's obligations hereunder from a guarantor acceptable to CFC, (ii) certified copies of all such corporate documents and proceedings of said guarantor relating to such guaranty, and (iii) an opinion of counsel for the guarantor addressing such legal matters as CFC shall reasonably require. The documentation identified in (i) through (iii) shall be in form and substance satisfactory to CFC.

ARTICLE V

COVENANTS

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

A. Membership. Borrower agrees that it will either (i) remain a member in good standing of CFC, (ii) continue to be owned, controlled or operated by one or more Class A, B, or C members of CFC, or (iii) as determined by CFC, continue to provide substantial benefit to one or more Class A, B, or C members of CFC.

B. Financial Ratios. The Borrower, subject to events in the judgment of CFC to be beyond the control of the Borrower, shall so operate and manage its business as to achieve an annual DSC ratio of not less than that identified on Schedule 1 hereto.

C. Annual Certificates. Within one hundred twenty (120) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, Borrower will deliver to CFC a written statement, in form and substance satisfactory to CFC, either (a) signed by the Borrower's General Manager or Chief Executive Officer, or (b) submitted electronically through means made available to the Borrower by CFC, stating that during such year, and that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement, each Note, and the Mortgage throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof. Borrower shall deliver to CFC within one hundred twenty (120) days after the close of each calendar year, in form and substance satisfactory to CFC, regarding the condition of the Mortgaged Property

prepared by a professional engineer satisfactory to CFC. Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

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

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

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

F. Financial Books; Financial Reports; Right of Inspection. The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with generally accepted accounting principles. When requested by CFC, the Borrower will prepare and furnish CFC from time to time, periodic financial and statistical reports on its condition and operations. Such reports shall be in such form and include such information as may be specified by CFC, including without limitation an analysis of Borrower's revenues, expenses and consumer accounts. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such calendar year, in form and substance satisfactory to CFC. In addition, within one hundred twenty (120) days of the end of each Borrower's fiscal years during the term hereof, Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such fiscal year, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to CFC and accompanied by a report of such audit in form and substance satisfactory to CFC. CFC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in any way pertaining to its property or business.

G. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets. The Borrower shall not consolidate with, merge, or sell all or substantially all of its business or assets, to another entity without the prior written consent of CFC.

H. Limitations on Dividends, Patronage Refunds and Other Distributions.

(i) The Borrower may make Distributions in any calendar year if, after giving effect to the Distribution, the total Equity of the Borrower will be at least thirty percent (30%) of its Total Assets.

(ii) If, after giving effect to the Distribution, the total Equity of the Borrower will be less than thirty percent (30%) of its Total Assets, then the Borrower may nevertheless make Distributions of up to thirty percent (30%) of its Patronage Capital or Operating Margins for the preceding calendar year.

(iii) Notwithstanding anything to the contrary in subparagraphs (i) and (ii) above, the Borrower shall not make any Distribution without the prior written consent of CFC if (a) a payment default or other Event of Default under this Agreement has occurred and is continuing, or (b) such Distribution would be in excess of the Distributions permitted by subparagraphs (i) or (ii), above.

(iv) For purposes of this paragraph H., the term "Distribution" means any dividend, patronage refund, patronage capital retirement or cash distribution to its members, stockholders or consumers (including but not limited to any general cancellation or abatement of charges for electric energy or services furnished by the Borrower). The term "Distribution" shall not include (a) a distribution by the Borrower to the estate of a deceased patron, (b) repayment by the Borrower of a membership fee upon termination of a membership, or (c) any rebate to a patron resulting from a cost abatement received by the Borrower, such as a reduction of wholesale power cost previously incurred.

I. Limitations on Loans, Investments and Other Obligations.

(i) The Borrower shall not, without first obtaining the written approval of CFC: (a) purchase or make any commitment to purchase any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interests in, (b) make any other investment in, (c) make any loan to, or (d) guarantee, assume, or otherwise become liable for any obligation of any corporation, association, partnership, joint venture, trust, government or any agency or department thereof, or any other entity of any kind if, after giving effect to such purchase, investment, loan, guarantee or commitment, the aggregate amount thereof would exceed the greater of three percent (3%) of Total Assets or twenty-five percent (25%) of Equities and Margins.

(ii) The aggregate amount of all purchases, investments, loans, guarantees, commitments and other obligations described in (i) above shall at all times be less than three percent (3%) of Total Assets or twenty-five percent (25%) of Equities and Margins, whichever is greater.

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

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

J. Organizational Change. Borrower agrees that it shall not, directly or indirectly, change its type of organization, jurisdiction of organization or other legal structure, except (a) with the prior written consent of CFC, or (b) as permitted by Section 5, Paragraph G. hereof, in which case Borrower shall provide written notice to CFC within 30 days of any such permitted change.

K. Notice of Additional Secured Debt. Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC.

L. Funds Requisition; Use of Proceeds. Borrower agrees (i) that CFC may rely conclusively upon the interest rate option, interest rate term and other written instructions submitted to CFC in Borrower's written request for an Advance hereunder, (ii) that such instructions shall constitute a covenant under this Agreement to repay the Advance in accordance with such instructions, the applicable Note, the Mortgage and this Agreement, (iii) to request Advances only for the purposes set forth herein, and (iv) to use the proceeds thereof only in accordance with the terms hereof.

M. Issuance of Equity Interests. Borrower shall not issue any voting stock or sell, transfer or issue any equity interest in the Borrower without the prior written consent of CFC.

N. Special Affirmative Covenants. Borrower agrees to comply with any special affirmative covenant(s) identified in Schedule 1.

ARTICLE VI

EVENTS OF DEFAULT

Section 6. The following shall be "Events of Default" under this Agreement:

A. Payment. Borrower shall fail to pay any amount due under the terms of a Note or this Agreement within five (5) Business Days of when the same is due and payable, whether by acceleration or otherwise;

B. Representations and Warranties. Any representation or warranty made by the Borrower herein, in the Mortgage or in any certificate or financial statement furnished to CFC hereunder shall prove to be false or misleading in any material respect;

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

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

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

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

G. Dissolution or Liquidation. Other than as provided in subsection F. above, the dissolution or liquidation of the Borrower or any guarantor of the Borrower's obligations hereunder, or failure by the Borrower or any such guarantor promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days, or

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

ARTICLE VII

REMEDIES

Section 7. If any of the Events of Default listed in Section 6 hereof shall occur after the date of this Agreement and shall not have been remedied within the grace periods specified therein, then CFC may pursue all rights and remedies available to CFC that are contemplated by this Agreement, the Mortgage or any of the Notes in the manner, upon the conditions, and with the effect provided in this Agreement, the Mortgage or any of the Notes, including, but not limited to, terminating Borrower's ability to make additional Advances hereunder, a suit for specific performance, injunctive relief, damages or to declare all unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. Nothing herein shall limit the right of CFC to pursue all rights and legal and equitable remedies available to a creditor following the occurrence of an Event of Default listed in Section 6 hereof. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Notices. All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered or telecopied to the intended recipient at the "Address for Notices" specified below, or, as to any party, at such other address as shall be designated by such party in a notice to each

other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when personally delivered or, in the case of a telecopied or mailed notice, upon receipt, in each case given or addressed as provided for herein. The Addresses for Notices of the respective parties are as follows:

CFC:

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attention: Senior Vice President - Member Services
Fax: (703) 709-6776

Borrower:

the address set forth in
Schedule 1 hereto

Section 8.2. Expenses. The Borrower will pay all costs and expenses of CFC, including reasonable fees of counsel, incurred in connection with the enforcement of this Agreement, the Note(s), the Mortgage and the other instruments provided for herein or with the preparation for such enforcement if CFC has reasonable grounds to believe that such enforcement may be necessary.

Section 8.3. Late Payments. If payment of any amount due hereunder is not received at CFC's office in Herndon, Virginia, or such other location as CFC may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as CFC may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower will pay to CFC, in addition to all other amounts due under the terms of a Note, the Mortgage and this Agreement, any late-payment charge as may be fixed by CFC from time to time on the delinquent amount for the late-payment period.

Section 8.4. Filing Fees. To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the fees and expenses of its counsel) in connection with the filing or recordation of the Mortgage, all financing statements and instruments as may be required by CFC in connection with this Agreement, including, without limitation, any supplements, amendments or restatements thereto, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on a Note.

Section 8.5. No Waiver. No failure on the part of CFC to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by CFC of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

SECTION 8.6. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

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

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

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

Section 8.7. Holiday Payments. If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 8.8. Modifications. No modification or waiver of any provision of this Agreement or a Note, and no consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent.

Section 8.9. Merger and Integration. This Agreement (including the Recitals and all exhibits and schedules hereto), the instructions contained in the written funds requisition statement with respect to each Advance, and matters incorporated by reference herein together contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby.

Section 8.10. Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 8.11. Severability. If any term, provision or condition, or any part thereof, of this Agreement, any Note or the Mortgage shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, any Note, and the Mortgage shall survive and be

construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 8.12. Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, CFC is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under any Note. CFC agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

Section 8.13. Prior Loan Documents. It is understood and agreed that the covenants set forth in this Agreement under the Article entitled "COVENANTS" shall restate and supersede all of the covenants set forth in the corresponding Article or Articles of each Prior Loan Document dealing with covenants, regardless of the specific title or titles thereof, *except for* (a) the LCTC Purchase Provisions and (b) any special covenant or other specific term set forth on Schedule 1 to any Prior Loan Document, unless otherwise explicitly agreed to in writing by CFC, or superseded by explicit reference thereto in this Agreement. For purposes of the foregoing, this Section 8.13 shall be deemed to amend all Prior Loan Documents, and notwithstanding termination of this Agreement for any reason, this Section 8.13 shall nevertheless survive and shall continue to amend each Prior Loan Document for as long as the respective Prior Loan Document is in effect, but only with respect to the matters set forth in this Section 8.13.

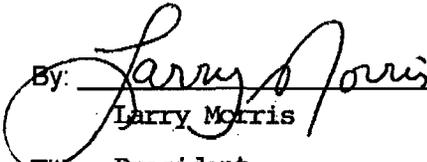
Section 8.14. Schedule 1. Schedule 1 attached hereto is an integral part of this Agreement.

Section 8.15 Rescission Fee. The Borrower may elect not to borrow all or any portion of the CFC Commitment in which event CFC shall release the Borrower from its obligation hereunder, provided the Borrower complies with such terms and conditions as CFC may impose for such release including, without limitation, payment of any rescission fee that CFC may from time to time prescribe, pursuant to its policies of general application.

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

GRAHAM COUNTY UTILITIES, INC.

(SEAL)

By: 
Larry Morris
Title: President

Attest: 
Secretary

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: _____
Assistant Secretary-Treasurer

Attest: _____
Assistant Secretary-Treasurer

SCHEDULE 1

1. The purpose of this loan is to finance capital expenditures for natural gas and water systems, *provided, however*, that Borrower may also use Advances this loan to purchase Capital Certificates as required herein.
2. The aggregate "CFC Commitment" is \$1,050,000.00. Within this aggregate amount, Borrower may, at its discretion, execute one or more Notes, each Note representing a separate loan with CFC and containing a face amount and Maturity Date in accordance with the terms, conditions and provisions of this Agreement.
3. The "Mortgage" shall mean the Mortgage and Security Agreement dated as of October 25, 1989 between the Borrower and CFC, as it may have been or shall be supplemented, amended, consolidated, or restated from time to time.
4. The "Payment Date" months are March, June, September, and December.
5. The date of the Borrower's balance sheet referred to in Section 2.H. is September 30, 2008.
6. The Borrower's exact legal name is: Graham County Utilities, Inc.
7. The Borrower's organizational type is: corporation
8. The Borrower is organized under the laws of the state of: Arizona
9. The Borrower's organizational identification number is: 0212078-3
10. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.I. is 9 West Center, Pima, AZ 85543-0290.
11. The property of the Borrower referred to in Section 2.J. is located in the counties of Graham County, AZ.
12. The special condition(s) referred to in Section 4.I. is (are): N/A
13. The special affirmative covenant(s) referred to in Section 5.N. is (are): N/A
14. The governmental authority referred to in Section 2.L. is: Arizona Corporation Commission.
15. The guarantor referred to in Section 4.J. is Graham County Electric Cooperative, Inc.
16. The DSC ratio referred to in Section 5.B. is: 1.15.
17. The address for notices to the Borrower referred to in Section 8.1 is P.O. Drawer B, Pima, AZ 85543-0290, Attention: General Manager, Fax: (928) 485-9491.

18. The Notes executed pursuant hereto and the amortization method for such Notes are as follows:

LOAN NUMBER	AMOUNT	AMORTIZATION METHOD
AZ700-A-9004	\$1,050,000.00	Level Debt Service

SECURED PROMISSORY NOTE

\$1,050,000.00

dated as of July 7, 2010

GRAHAM COUNTY UTILITIES, INC., an Arizona corporation (the "Borrower"), for value received, hereby promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (the "Payee"), at its office in Herndon, Virginia office or such other location as the Payee may designate to the Borrower, in lawful money of the United States, the principal sum of ONE MILLION FIFTY THOUSAND DOLLARS (\$1,050,000.00), or such lesser sum of the aggregate unpaid principal amount of all advances made by the Payee pursuant to that certain Loan Agreement dated as of even date herewith between the Borrower and the Payee, as it may be amended from time to time (herein called the "Loan Agreement"), and to pay interest on all amounts remaining unpaid hereunder from the date of each advance in like money, at said office, at the rate and in amounts and payable on the dates provided in the Loan Agreement together with any other amount payable under the Loan Agreement. If not sooner paid, any balance of the principal amount and interest accrued thereon shall be due and payable thirty (30) years from the date of the Loan Agreement (such date herein called the "Maturity Date") provided, however, that if such date is not a Payment Date (as defined in the Loan Agreement), then the Maturity Date shall be the Payment Date immediately preceding such date.

This Note is secured under a Mortgage and Security Agreement dated as of October 25, 1989, between the Borrower and the Payee, as it may have been or shall be supplemented, amended, consolidated or restated from time to time ("Mortgage"). This Note is one of the Notes referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

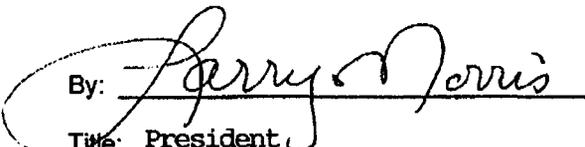
The principal hereof and interest accrued thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Mortgage or the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment of this Note.

IN WITNESS WHEREOF the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and to be attested by its duly authorized officers, all as of the day and year first above written.

GRAHAM COUNTY UTILITIES, INC.

(SEAL)

By: 
Title: President

Attest: 
Secretary

Loan No. AZ700-A-9004

CFC NOTE
AZ700-A-9004 (KHETANA)
139202-1

CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, Michael K. Crockett, do hereby certify that (i) I am the Secretary of Graham County Utilities, Inc. (hereinafter called the "Cooperative"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Cooperative at a meeting held on July 7, 2010; (iii) the meeting was duly and regularly called and held in accordance with the articles and bylaws of the Cooperative; (iv) the Cooperative is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Cooperative; (v) forms of the CFC loan documents were submitted to the meeting and were authorized by the board of directors to be executed; (vi) none of the following resolutions has been rescinded or modified as of this date; and (vii) the persons authorized below have been duly elected or appointed to their respective positions and occupied such positions on the date of actual execution of the CFC loan documents:

RESOLVED, that the Cooperative borrow from National Rural Utilities Cooperative Finance Corporation (CFC), from time to time as determined by the officers or proper persons designated by the board of directors of the Cooperative, an aggregate amount not to exceed \$1,050,000.00, and purchase with general funds a Capital Certificate, if required, in an amount not to exceed the amount set forth in the loan agreement governing such loan; and

RESOLVED, that the proceeds of this loan be used for the purpose set forth in the Loan Agreement; and

RESOLVED, that the individuals listed below are hereby authorized to execute and to deliver to CFC the following documents (including as many counterparts as may be required):

- a) a loan agreement with CFC governing the loan substantially in the form of the loan agreement submitted to this meeting; and
- b) one or more secured promissory notes payable to the order of National Rural Utilities Cooperative Finance Corporation, which in the aggregate equal the principal amount of \$1,050,000.00, substantially in the form of the note presented to this meeting; and
- c) any other documents which maybe required or needed.

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

<u>Office or Title</u>	<u>Name (typed or printed)</u>
<u>President</u>	<u>Larry Morris</u>
<u>General Manager</u>	<u>Steve M. Lines</u>
<u>Finance Manager</u>	<u>Jeffrey Kirk Gray</u>
<u>Office Manager</u>	<u>Than W Ashby</u>

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Cooperative this 7th day of July, 2010.


Secretary

(SEAL)

CONTINUING GUARANTY

For and in consideration of loans, advances, discounts, extensions of credit or other financial accommodations made or to be made by NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a corporation organized and existing under the laws of the District of Columbia ("CFC"), to, for the account of, or on behalf of GRAHAM COUNTY UTILITIES, INC. ("Borrower"), pursuant to a Loan Agreement designated by CFC Loan Number AZ700-A-9004, between the Borrower and CFC, (the "Loan Agreement"), the undersigned GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. ("Guarantor") hereby absolutely and unconditionally guarantees to CFC (i) the outstanding principal amount due from the Borrower to CFC, whether by acceleration or otherwise, under that certain promissory note from Borrower to CFC, as payee thereof, in original principal amount of One Million Fifty Thousand Dollars (\$1,050,000.00), (ii) all accrued interest thereon, (iii) all other costs, fees or expenses of CFC for which the Borrower is obligated thereon (including costs of collection and reasonable attorney's fees), and (iv) all other indebtedness of Borrower to CFC, whether now existing or hereafter created or arising, direct or indirect, matured or unmatured, and whether absolute or contingent and arising out of or in connection with the Loan Agreement. The obligations referred to in items (i) through (iv) above are collectively referred to herein as the "Guaranteed Debt".

The obligations of Guarantor hereunder are absolute and unconditional, and shall continue until payment in full to CFC of the Guaranteed Debt. No act by CFC to grant credit from time to time to Borrower, Guarantor or any other party, and no act or omission by CFC with respect to any matter whatsoever shall operate to release Guarantor from its obligations hereunder other than the execution and delivery by CFC to Guarantor of an express written release of this Guaranty.

If an event of default has occurred under the Loan Agreement and any applicable cure periods have expired, then CFC shall have the right to declare the Guaranteed Debt immediately due and payable in full, without notice to Borrower or Guarantor, regardless of whether CFC has accelerated all or any part of Borrower's indebtedness. Without limiting the generality of the foregoing, if the Borrower should at any time (i) become insolvent, (ii) make a general assignment for the benefit of creditors, (iii) petition for or be subject to a receivership proceeding, or (iv) be subject to a petition in bankruptcy or any insolvency or reorganization proceeding, whether voluntary or involuntary, then CFC shall have the right to declare the Guaranteed Debt immediately due and payable in full, without notice to Borrower or Guarantor, regardless of whether CFC has accelerated all or any part of Borrower's indebtedness, and CFC shall have the right to demand and to collect from Guarantor payment in full of the Guaranteed Debt, including all principal, interest, fees and charges, whether or not then due and payable by Borrower.

Guarantor expressly waives the following:

- a) notice that Borrower has incurred debt to or is in default to CFC;
- b) CFC's acceptance of this Guaranty;
- c) presentment, demand for payment, protest, notice of protest, notice of dishonor, notice of any election, acceptance, diligence in collection, notice of non-payment of any instrument evidencing any indebtedness of the Borrower, and to the extent permitted by law, all benefit of valuation, appraisal, exemptions and any and all other notices that

would otherwise be required under the laws of the Commonwealth of Virginia;

d) any right to require CFC to institute and prosecute with due diligence to judgment and by execution suit against the Borrower, another guarantor or any other person on the underlying debt of the Borrower or for performance of the Borrower or any other guarantor under any agreement with CFC;

e) any right to require suit against the Borrower, another guarantor or any other person before enforcing this Guaranty, and with respect thereto, Guarantor specifically agrees that any proceeding for collection under this Guaranty may be brought against Guarantor before, after or simultaneously with any proceeding that may be brought against Borrower, another guarantor, or any other party for nonpayment of any indebtedness to CFC, notwithstanding any notices or demands to the contrary that Guarantor may transmit to CFC;

f) any right to have security applied before enforcing this Guaranty;

g) until the Borrower's indebtedness to CFC is paid in full, any right of subrogation to CFC's rights against the Borrower;

h) any right or remedy which Guarantor may now have or may hereafter acquire against the Borrower that would otherwise act to release Guarantor hereunder, including but not limited to any right of contribution, indemnification, subrogation, reimbursement, exoneration or participation, regardless of whether such right or remedy arises under equity, contract, in common law or otherwise; and

i) any rights of setoff, deduction, recoupment or counterclaim against CFC.

Guarantor hereby agrees that, without notice of any kind to Guarantor and without altering the absolute and unconditional obligation of Guarantor hereunder, CFC may renew time of payment, extend time of payment, surrender, release, exchange, substitute, deal with or take additional collateral security, take or release other guarantees, abstain from taking advantage of or realizing upon any collateral security or other guarantees, discharge, compromise, release or settle any or all of Borrower's indebtedness to CFC (regardless of whether such indebtedness is part of the Guaranteed Debt), extend, grant indulgences, forbear against or otherwise modify any term, provision, covenant, obligation or condition with respect to any or all of the Borrower's indebtedness to CFC (regardless of whether such indebtedness is part of the Guaranteed Debt).

If Borrower shall be in default under the Loan Agreement, then the Guaranteed Debt shall, for the purpose of this Guaranty, be deemed at CFC's election to have become immediately due and payable.

In the event Guarantor fails to pay its obligations hereunder in full upon demand, then CFC is hereby authorized at any time and from time to time, without prior notice to Guarantor, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to Guarantor or for the credit or account of Guarantor against any and all of the obligations of Guarantor hereunder. CFC agrees to notify Guarantor promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this

section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have.

Guarantor further agrees to pay to CFC, in addition to payment of the Guaranteed Debt, any and all costs, expenses and reasonable attorneys' fees paid or incurred by CFC in collecting or endeavoring to collect the Guaranteed Debt from Guarantor, regardless of whether suit is brought.

Guarantor represents and warrants that, during the term of this Guaranty, (i) the aggregate amount of obligations guaranteed hereunder shall not exceed the maximum amount allowed under a mortgage, indenture, or agreement of any kind entered into by or affecting Guarantor, and (ii) Guarantor will not, without the written consent of CFC, make any loan, deposit, advance, investment or obligation which would cause the total aggregate indebtedness guaranteed hereunder to exceed said maximum allowable amount.

This Guaranty shall be binding upon Guarantor and its successors and assigns, and shall inure to the benefit of CFC and its successors and assigns. The terms "Guarantor" and "Borrower" and any pronouns referring thereto as used herein shall be construed in the singular or plural as the context may require.

THE PERFORMANCE AND CONSTRUCTION OF THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

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

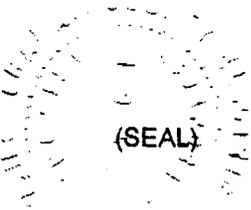
EACH OF GUARANTOR AND CFC HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY.

No modification or waiver of any provision of this Guaranty shall in any event be effective unless the same shall be in writing signed by CFC.

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

IN WITNESS WHEREOF this Guaranty has been executed and delivered to CFC by the undersigned Guarantor this 7th day of July, 2010.

CFC GUARANTY
AZ700-A-9004 (KHETANA)
139210-1



GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: Gene Robert Larson

Title: President

Attest: Mad Peck
(Secretary)

GUARANTOR'S CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, M. Max Peck, do hereby certify that (i) I am the Secretary of Graham County Electric Cooperative, Inc. (hereinafter called the "Guarantor"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Guarantor at a meeting held on July 7, 2010; (iii) the meeting was duly and regularly called and held in accordance with the articles and bylaws of the Guarantor; (iv) the Guarantor is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Guarantor; (v) the form of Guaranty was submitted to the meeting and was authorized by the board of directors to be executed; (vi) none of the following resolutions has been rescinded or modified as of this date; and (vii) the persons authorized below have been duly elected or appointed to their respective positions and occupied such positions on the date of actual execution of the Guaranty:

RESOLVED, that the Guarantor guarantee advances under a loan agreement in the aggregate principal amount of \$1,050,000.00 obtained by Graham County Utilities, Inc. ("Borrower") from the National Rural Utilities Cooperative Finance Corporation ("CFC") upon terms and conditions set forth therein.

RESOLVED, that the individuals listed below are hereby authorized to execute and to deliver to CFC a Guaranty substantially in the form of the guaranty submitted to this meeting.

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

<u>Office</u>	<u>Name (typed)</u>	<u>Signature</u>
<u>President</u>	<u>Gene Robert Larson</u>	<u><i>Gene Robert Larson</i></u>
<u>General Manager</u>	<u>Steve M. Lines</u>	<u><i>Steve M. Lines</i></u>
<u>Finance Manager</u>	<u>Jeffrey Kirk Gray</u>	<u><i>Jeffrey Kirk Gray</i></u>
<u>Office Manager</u>	<u>Than W Ashby</u>	<u><i>Than W. Ashby</i></u>
_____	_____	_____

IN WITNESS WHEREOF, I have set my hand and affixed the seal of the Guarantor this 7th day of July, 2010.

Max Peck
Secretary

(SEAL)

CFC INCUMB
AZ700-A-9004 (KHETANA)
139223-1

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attn: Legal Administrative Assistant

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
Graham County Utilities, Inc.

OR
 1b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

1c. MAILING ADDRESS
P. O. Drawer B

CITY Pima	STATE AZ	POSTAL CODE 85543-0290	COUNTRY USA
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1d. SEE INSTRUCTIONS	ADD'L INFO RE ORGANIZATION DEBTOR	1e. TYPE OF ORGANIZATION Corporation	1f. JURISDICTION OF ORGANIZATION Arizona	1g. ORGANIZATIONAL ID #, if any 0212078-3	<input type="checkbox"/> NONE
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2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR
 2b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

2c. MAILING ADDRESS

CITY	STATE	POSTAL CODE	COUNTRY

2d. SEE INSTRUCTIONS	ADD'L INFO RE ORGANIZATION DEBTOR	2e. TYPE OF ORGANIZATION	2f. JURISDICTION OF ORGANIZATION	2g. ORGANIZATIONAL ID #, if any	<input type="checkbox"/> NONE
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3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
National Rural Utilities Cooperative Finance Corporation

OR
 3b. INDIVIDUAL'S LAST NAME

FIRST NAME	MIDDLE NAME	SUFFIX

3c. MAILING ADDRESS
2201 Cooperative Way

CITY Herndon	STATE VA	POSTAL CODE 20171-3025	COUNTRY USA
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4. This FINANCING STATEMENT covers the following collateral:

All Assets.

5. ALTERNATIVE DESIGNATION (if applicable):	LESSEE/LESSOR	CONSIGNEE/CONSIGNOR	BAILEE/BAILOR	SELLER/BUYER	AG. LIEN	NON-UCC FILING
6. This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum (if applicable).	7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (optional). (ADDITIONAL FEE)	All Debtors	Debtor 1	Debtor 2		

8. OPTIONAL FILER REFERENCE DATA

AZ700-A-9004

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attn: Legal Administrative Assistant

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
Graham County Utilities, Inc.

OR
 1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
P. O. Drawer B Pima AZ 85543-0290 USA

1d. SEE INSTRUCTIONS ADD'L INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any
Corporation Arizona 0212078-3 NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR
 2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. SEE INSTRUCTIONS ADD'L INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any
 NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR(S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
National Rural Utilities Cooperative Finance Corporation

OR
 3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
2201 Cooperative Way Herndon VA 20171-3025 USA

4. This FINANCING STATEMENT covers the following collateral:

All Assets.

5. ALTERNATIVE DESIGNATION (if applicable): LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS - Attach Addendum (if applicable) 7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (optional) All Debtors Debtor 1 Debtor 2 (ADDITIONAL FEE)

8. OPTIONAL FILER REFERENCE DATA

AZ700-A-9004

LAW OFFICES OF
LEVEN B. FERRIN
1536 CHEROKEE LANE
SAFFORD, ARIZONA 85546
(928) 428-1602

Date: July 9, 2010

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attn.: General Counsel

Re: Graham County Utilities, Inc.
Loan Designation AZ700-A-9004

Dear Sir:

I am counsel for Graham County Utilities, Inc., organized under the laws of the State of Arizona ("Borrower"), and render this opinion to you in connection with the loan of \$1,050,000.00 provided for in the loan agreement ("Loan Agreement"), dated as of July 7, 2010, made by and between the Borrower and National Rural Utilities Cooperative Finance Corporation ("CFC").

I have examined such corporate records and proceedings of the Borrower, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

I have also examined the following documents as executed and delivered: (1) the Loan Agreement, (2) the secured promissory note(s) dated as of July 7, 2010, in the principal amount of \$1,050,000.00, said Note payable to the order of CFC, ("Note(s)") and (3) the Mortgage and Security Agreement dated as of October 25, 1989 by and between Borrower and CFC, as it may have been supplemented, amended, consolidated or restated from time to time ("Mortgage"). The Note, the Loan Agreement and the Mortgage are collectively referred to herein as the "Loan Documents."

I have also examined the records and files of all offices in which there might be recorded, filed or indexed evidence of the Borrower's title, and any liens of any nature whatsoever affecting the title, to any real or personal property of the Borrower, other than easements or rights of way relating to the electric lines of the Borrower.

I have supervised, examined, or caused to be examined by competent and trustworthy persons, (i) the recordation of the Mortgage as a mortgage of real property in the County of Graham in the State of Arizona; and (ii) the filing of the Mortgage as a financing statement ("Financing Statement") with the Secretary of State of Arizona and in such other locations necessary to provide CFC with a perfected lien on all of Borrower's Mortgaged Property (as defined in the Mortgage) to the extent set forth below. All taxes, recording and filing fees required to be paid in connection with the recording of the Mortgage and the filing of the Financing Statement have been paid.

Based upon the foregoing, I am of the opinion that:

(i) the Borrower is a duly organized, validly existing corporation and in good standing under the laws of the jurisdiction of its organization, and the Borrower has full corporate power (a) to execute and deliver the Loan Documents; (b) to perform all acts required to be done by it under the Loan Documents; and (c) to own, operate and maintain its properties and operate its business as conducted at the date of this Opinion;

(ii) to the extent reasonably required for the maintenance and operation of its properties and business taken as a whole, the Borrower has complied with all requirements of the laws of all States in which it operates or does business and, to the extent reasonably required to enable the Borrower to engage in the business currently transacted by it, the Borrower holds all certificates, licenses, consents or approvals of governmental authorities required to be obtained on or prior to the date of this Opinion;

(iii) the Loan Documents have been duly authorized, executed and delivered by the Borrower to CFC and constitute the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, provided, however, that: (A) enforceability may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights; and (B) applicable law may limit or impose conditions upon the exercise of certain remedies included in the Loan Documents, but such limitations or conditions will not affect the validity of the Loan Documents, each of which contains adequate enforceable provisions for the practical realization of the substantive benefits and security purported to be afforded thereby;

(iv) the execution and performance by the Borrower of the Loan Documents, and the transactions contemplated thereby will not violate any provision of law, the articles of incorporation, or bylaws of the Borrower, or result in the breach of, or constitute a default under, any agreement, indenture or other instrument to which the Borrower is a party, or by which it may be bound, known to the undersigned;

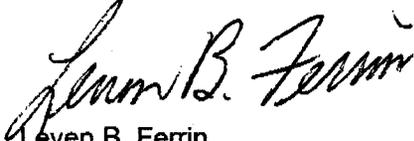
(v) all authorizations from regulatory bodies required in connection with the execution, delivery and performance of the Loan Documents have been obtained and copies thereof are attached hereto;

(vi) I know of no legal proceedings pending or threatened against or affecting the Borrower or its property which, if adversely determined, would have a material adverse effect upon the business, operations or financial condition of the Borrower; and

(vii) the Mortgage creates a validly recorded, filed and perfected lien on, and security interest in, all of Borrower's real and personal property, including, without limitation, all such property of the Borrower acquired after the date of the delivery of the Mortgage, securing Borrower's obligations under the Note and the Loan Agreement subject and subordinate only to those liens and encumbrances expressly permitted by the Mortgage.

Although the parties have agreed that the Loan Agreement and Note shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, if a court were to hold that the Loan Agreement is to be governed by and construed in accordance with the laws of the State of Arizona, the Loan Agreement and Note would under the laws of the State of Arizona be legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms, subject as to enforceability only to those qualifications referenced in subparagraph (iii), above.

Sincerely,



Leven B. Ferrin
Attorney

LAW OFFICES OF
LEVEN B. FERRIN
1536 CHEROKEE LANE
SAFFORD, ARIZONA 85546
(928) 428-1602

Date: July 9, 2010

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025

Attn: General Counsel

Re: GRAHAM COUNTY UTILITIES, INC. GUARANTY

Dear Sir:

I am counsel for Graham County Electric Cooperative, Inc., organized under the laws of the state of Arizona ("Company"), and render this opinion to you in connection with the execution and delivery of the Guaranty dated July 7, 2010, executed by the Company in favor of National Rural Utilities Cooperative Finance Corporation, which guaranties certain obligations of Graham County Utilities, Inc. (the "Guaranty").

I have examined the Guaranty and such corporate records and proceedings of the Company, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

Based upon the foregoing, I am of the opinion that:

(a) the Company is a duly organized, validly existing corporation in good standing under the laws of the jurisdiction of its organization, and the Company has full corporate power to execute and deliver the Guaranty and to perform all acts required to be done by it thereunder;

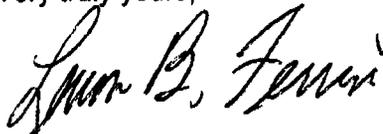
(b) the Guaranty has been duly authorized, executed and delivered by the Company to NCSC, and constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its respective terms provided, however, that enforceability may be limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights and that the enforcement thereof may be limited by laws with respect to or affecting the remedies provided for in said agreement or instrument; and

(c) the execution and performance by the Company of the Guaranty and the transactions contemplated thereby will not violate any provision of law, the Articles or Bylaws of the Company, or result in the breach of, or constitute a default under, any agreement, indenture or other instrument to which the Company is a party, or by which it may be bound, known to the undersigned; and

(d) all authorizations from regulatory bodies required in connection with the execution and delivery of the Guaranty have been obtained and a copy thereof is attached hereto; and

(e) I know of no judgments rendered or litigation pending or threatened against or affecting the Company or any of its property which, in my opinion, would have a material adverse effect upon the business, operations or financial condition of the Company.

Very truly yours,

A handwritten signature in black ink, appearing to read "Leven B. Ferrin". The signature is written in a cursive, flowing style.

Leven B. Ferrin
Attorney