

NEW APPLICATION



0000114625

BEFORE THE ARIZONA CORPORATION

COMMISSIONERS ORIGINAL RECEIVED

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 JUL 23 A 11:49

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

E-01575A-10-0311

IN THE MATTER OF THE
APPLICATION OF SULPHUR
SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC., AN ARIZONA
NONPROFIT CORPORATION, FOR
AUTHORIZATION TO INCUR DEBT
TO FINANCE ITS 2010 - 2012
CONSTRUCTION WORK PLAN AND
FOR RELATED APPROVALS.

Docket No. E-1575A-10-\_\_\_\_\_

FINANCING APPLICATION Arizona Corporation Commission

DOCKETED

JUL 23 2010

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I. INTRODUCTION

Pursuant to A.R.S. §§ 40-285, 40-301 and 302, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"), by and through counsel undersigned, submits the following Financing Application ("Application") requesting an Order from the Arizona Corporation Commission ("Commission") authorizing a new assumption of debt in the total amount of \$78,676,664 (the "Total Credit Facility") from the National Rural Utilities Cooperative Finance Corporation (the "CFC") and/or CoBank, ACB ("CoBank") (collectively "Lenders"), and the execution of loan documents in favor of the Lenders in the manner described herein.1 The Total Credit Facility amount is the total amount of loan funds requested by SSVEC and approved by the Lenders. SSVEC seeks to acquire this additional debt as a means of funding its 2010-2012 Construction Work Plan ("CWP").

SSVEC hereby requests that SSVEC be authorized to:

- 1) Pledge, mortgage, lien and/or the encumbrance of SSVEC's utility plant and assets as security for the Total Credit Facility as required by the CFC and CoBank and as authorized by SSVEC's Board of Directors;2

1 Copies of the approval letters for the Total Credit Facility are attached as Exhibit A.

2 See Certificates of Resolution attached as Exhibit B; see also Restated Mortgage and Security Agreement, attached as Exhibit C.

Snell & Wilmer LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000





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| Total Planned Construction               | \$114,271,711       |
| Less CIAC                                | <u>(12,983,000)</u> |
| Subtotal                                 | \$101,288,711       |
| Less: Smart Grid Grant                   | <u>(14,659,496)</u> |
| Net Construction Cost                    | \$86,629,215        |
| Less: Internally Generated Funds         | <u>(7,952,551)</u>  |
| Total Credit Facility Requested Approval | \$78,676,664        |

**C. The Total Credit Facility**

The Total Credit Facility of \$78,676,664 is comprised of two parts: A \$72,676,664 (“CWP Bid Loan”) and a \$6,000,000 (“CREB Loan”) are described as follows:

1. CWP Bid Loan

SSVEC has received approval from the CFC and CoBank to borrow up to a combined maximum of \$72,676,664. The mortgage has been designed to provide the Cooperative the ability to provide CFC and CoBank the opportunity to bid on each loan draw that SSVEC requires from the Total Credit Facility.<sup>8</sup> SSVEC will then borrow from the Lender that provides the best loan terms to ensure that the Cooperative receives the maximum benefit. Once SSVEC draws money from one Lender, the amount of the total Credit Facility is reduced for both Lenders by such draw amount so that the maximum loan amount available under the Credit Facility does not exceed the original \$72,676,664.

2. CREB Loan

The Energy Policy Act of 2005 provides for the issuance of CREBs bonds to afford electric cooperatives and public power systems an incentive to finance renewable generation projects. Qualified projects within the meaning of Section 54(d)(2)(A) of the Internal Revenue Code may apply for an allocation of CREBs bonds from the Department of Treasury. The funds may be used for reimbursement of qualified CREBs project expenses only. SSVEC has received approval for a loan from CoBank in the sum of \$6,000,000. The proceeds from the loan will be used towards construction of a 750 kW

<sup>8</sup> See forms of bid quotes attached as Exhibit E.

1 solar generating facility in Sonoita, Arizona as described in the CWP. This project is in  
2 furtherance of SSVEC's renewable energy requirements pursuant to A.A.C. the  
3 Commission's REST Rules (A.A.C. R14-2-1801, *et.seq.*)

4 **IV. TERMS OF THE FINANCING**

5 SSVEC seeks to acquire the additional debt as a means of funding additional  
6 capital expenditures for its CWP. These capital expenditures for the CWP, which are not  
7 readily offset by revenue from rates, will be provided through the Total Credit Facility.  
8 The interest rate for those advances will either be fixed or variable as determined by  
9 SSVEC and will be set at the time of each advance. The maturity date for the advances  
10 will be determined based upon the particular draw but in no event exceed 35 years from  
11 receipt of the funds. No fees are being paid to any person in connection with the issuance  
12 of the financing.

13 **V. SSVEC'S FINANCIAL STRENGTH**

14 SSVEC has the financial ability to undertake the obligations of the Total Credit  
15 Facility. Attached are copies of the following SSVEC financial documents:

- 16 • Audited Financial Statement with Accompanying Information for the Years Ended  
17 June 30, 2008 and 2009 (Exhibit F);  
18 • Unaudited mid-year Financial and Statistical Report for the period ending  
19 December 31, 2009 (Exhibit G); and  
20 • The most recent unaudited and updated information for the Financial and Statistical  
21 Report for the period ending June 2010 (Exhibit H).

22 **VI. PUBLICATION OF NOTICE**

23 SSVEC will publish such notice of this Application as the Commission may require  
24 pursuant to A.R.S. § 40-302(A). The notice will be substantially in the form attached  
25 hereto as Exhibit I.<sup>9</sup> Proof of publication will be filed with the Commission once the  
26 notice is published.

27 ...

28 <sup>9</sup> See, Commission website at <http://www.cc.state.az.us/divisions/utilities/forms/financeApp.pdf>.

1 **VII. NOTICES TO SSVEC**

2 All communications and correspondence regarding this Application, as well as  
3 communications and pleadings with respect hereto filed by other parties, should be served  
4 on the following:

5 Bradley S. Carroll, Esq.  
6 SNELL & WILMER L.L.P.  
7 One Arizona Center  
8 Phoenix, AZ 85004-2202  
9 Phone: (602) 382-6578  
10 Fax: (602) 382-6070  
11 E-Mail: [bc Carroll@swlaw.com](mailto:bc Carroll@swlaw.com)

12 With a copy to:

13 Kirby Chapman  
14 SULPHUR SPRINGS VALLEY ELECTIC COOPERATIVE, INC.  
15 311 E. Wilcox  
16 Sierra Vista, AZ 85635  
17 Phone: (520) 515-3457  
18 Fax: (520) 458-6860  
19 E-mail: [kchapman@ssvec.com](mailto:kchapman@ssvec.com)

20 **VIII. CONCLUSION**

21 WHEREFORE, SSVEC respectfully requests that the Commission issue its Order  
22 in accordance with A.R.S. §§ 40-285, 40-301 and 302 as follows:

- 23 1. Authorizing SSVEC to assume new debt in the total amount of \$78,676,664  
24 (\$72,676,664 CWP Bid Loan and \$6,000,000 CREBs Loan) from the CFC  
25 and/or CoBank according to the terms of the Total Credit Facility as  
26 described in this Application and to execute the necessary documents  
27 associated therewith;
- 28 2. Authorizing SSVEC to use the proceeds of the Total Credit Facility for the  
purposes described in this Application and the CWP;
3. Finding that the Total Credit Facility is reasonably necessary and  
appropriate for the purposes described in this Application and that such  
purposes are not, wholly or in part, reasonably chargeable to operative  
expenses or to income;

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4. Authorizing SSVEC to pledge, mortgage, lien and/or encumber its real property and utility plant and assets as security for the Total Credit Facility as required by the CFC and/or CoBank and as may be required by the DOE for the Smart Grid Grant projects; and
5. Finding that the Total Credit Facility is for lawful purposes within SSVEC's corporate powers, compatible with the public interest, with sound financial practices, and with proper performance by SSVEC of service as a public service corporation, and will not impair SSVEC's ability to perform the service.

SSVEC further requests that the Commission approve this Application as expeditiously as possible, but in no event later than December 31, 2010; that the Application be approved without a hearing; and that the Commission consider and approve this Application in conjunction with its *Application for Approval of its 2011 REST Plan and Tariff* contemporaneously filed in a separate docket.

RESPECTFULLY SUBMITTED this 23rd day of July, 2010.

SNELL & WILMER L.L.P.

By   
Bradley S. Carroll  
One Arizona Center  
400 East Van Buren  
Phoenix, Arizona 85004-2202  
Attorneys for Sulphur Springs Valley Electric  
Cooperative, Inc.

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ORIGINAL and 13 copies filed this  
23rd day of July, 2010, with:

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered  
this 23rd day of July, 2010, to:

Lyn Farmer, Chief Administrative Law Judge  
Hearing Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Steve Olea, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Janice Alward, Chief Counsel  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

By 

# **EXHIBIT A**



**National Rural Utilities  
Cooperative Finance Corporation**

2201 Cooperative Way  
Herndon, Virginia 20171  
703-709-6700 | [www.nrucfc.coop](http://www.nrucfc.coop)

A Touchstone Energy Cooperative 

October 22, 2009

Mr. Creden W. Huber  
General Manager  
Sulphur Springs Valley Electric Cooperative  
311 East Wilcox  
Sierra Vista, AZ 85635

Re: CFC Long-term Loan: AZ014-A-9052

Dear Mr. Huber:

We are pleased to inform you that National Rural Utilities Cooperative Finance Corporation ("CFC") has approved long-term financing for Sulphur Springs Valley Electric Cooperative ("SSVEC") in an amount up to Seventy-two Million Six Hundred Eighty Thousand Dollars (\$72,680,000) for a term of 35 years for the construction and/or acquisition of utility plant. The loan documents will be sent to your cooperative under separate cover for execution.

CFC's loan commitment is dependent upon the execution of the CFC loan documents by your cooperative, as well as their receipt and acceptance by CFC. Once your loan documents are received at CFC, we will notify you promptly regarding the status of your loan.

If you have any questions, please contact me at 1-800-424-2954 x 6749. At CFC, we appreciate the opportunity to do business with you and look forward to serving your financial needs in the future.

Sincerely,

Marianne Dusold  
Associate Vice President and  
Account Manager

CFC LETTER  
AZ014-A-9052 (DUSOLDM)  
145359-1





5500 South Quebec Street  
Greenwood Village, CO 80111  
800-542-8072  
www.cobank.com

May 24, 2010

Mr. Creden Huber  
General Manager  
Sulphur Springs Valley Electric Cooperative  
311 East Wilcox  
Sierra Vista, AZ 85635

We are pleased to inform you that CoBank has approved long-term financing for Sulphur Springs Valley Electric Cooperative ("SSVEC") in an amount up to Seventy-two Million Six Hundred Eighty Thousand Dollars (\$72,680,000) for a term of 35 years for the construction and/or acquisition of utility plant. Additionally, CoBank has approved up to Six Million Dollars (\$6,000,000) in CREBs for the construction of a solar project within the cooperative's territory. All loan documents will be sent to your cooperative under separate cover for execution.

CoBank's loan commitment is dependent upon the execution of the CoBank loan documents by your cooperative, as well as their receipt and acceptance by CoBank. Once your loan documents are received at CoBank, we will notify you promptly regarding the status of your loan.

If you have any questions, please contact me at 303-740-4034. At CoBank, we appreciate the opportunity to do business with you and look forward to serving your financial needs in the future.

Yours truly,

A handwritten signature in black ink, appearing to read "Tamra Reynolds".

Tamra Reynolds  
Assistant Vice President



**Internal Revenue Service**

Tax Exempt & Government Entities Division  
Tax Exempt Bonds, Compliance & Program Management  
SE:T:GE:TEB:CPM  
1122 Town & Country Commons  
St. Louis, MO 63017

**Department of the Treasury**

**Date: October 23, 2009**

**Sulphur Springs Valley Electric Cooperative,  
Inc.  
311 East Wilcox Drive  
Sierra Vista, AZ 85635**

**Person to Contact:**

**Janae Lemley  
Employee Identification Number:  
0255835  
Contact Telephone Number:  
(636) 255-1202**

RE: Allocation of New Clean Renewable Energy Bonds Issuance Authority for the Sulphur Springs Valley Electric Cooperative, Inc.

Dear Sir or Madam:

This letter is in response to your application for an allocation of authority to issue \$ 6,000,000.00 in New Clean Renewable Energy Bonds (New CREBs) under section 54C of the Internal Revenue Code (the Code).

Pursuant to section 54C of the Code and Notice 2009-33, 2009-17 I.R.B. 865, we allocate authority to the Sulphur Springs Valley Electric Cooperative, Inc. to issue up to \$ 6,000,000.00 of New CREBs for the project named in the application as Sonoita Reliability Project.

The New CREBs allocation authorized pursuant to this letter is valid for three years after the date of this letter. Please note that New CREBs must satisfy all requirements under the Code applicable to qualified tax credit bonds, including without limitation sections 54A and 54C, the regulations issued thereunder, and Notice 2009-33.

In addition, pursuant to the American Recovery and Reinvestment Act of 2009, Division B, section 1601(1), the labor standards under the Davis-Bacon Act must be applied to projects financed with the proceeds of New CREBs issued after February 17, 2009. The Davis-Bacon contract clauses to be incorporated into covered construction contracts financed by the proceeds of the New CREBs authorized to finance the project referenced in this letter are set forth in 29 CFR 5.5(a). Davis-Bacon prevailing wage requirements apply to laborers and mechanics employed on contracts in excess of \$2,000 for construction and repair work.

**This letter only confirms an allocation of authority to Issue New CREBs to finance the project named in the application. This letter is not a ruling or determination by the Service as to whether the proposed New CREBs will satisfy any federal tax requirement applicable to qualified tax credit bonds.**

This letter is directed only to the Applicant named above. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The allocation contained in this letter is based upon information and representations submitted by the Applicant for the New CREB allocation and accompanied by a penalty of perjury statement executed by an appropriate party. While the Service has not verified any of the material submitted in support of the application for an allocation, it is subject to verification on examination.

A copy of this letter must be attached to IRS Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, or to such updated IRS information reporting forms or procedures then in use, filed for New CREBs issued pursuant to this allocation relating to the project referred to herein. Notice 2009-33 provides guidance on information reporting requirements applicable to New CREBs.

We appreciated your submission of the application for our consideration and your patience during the allocation process. If you have any questions with respect to this allocation, please contact Janae Lemley at (636) 255-1202 (not a toll-free call).

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Chamberlin', with a long horizontal stroke extending to the right.

Steven A. Chamberlin  
Manager, Tax Exempt Bonds  
Compliance & Program Management

# **EXHIBIT B**

**CERTIFICATE OF RESOLUTIONS AND INCUMBENCY**  
CFC

I, Charles E. Brown, do hereby certify that (i) I am the Secretary of SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, 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 February 24, 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 persons designated by the board of directors of the Cooperative, an aggregate amount not to exceed \$72,680,000;

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

RESOLVED, that the individuals listed below, after obtaining any necessary approval from the Arizona Corporation Commission, are hereby authorized to execute and deliver to CFC the following documents:

- (a) a loan agreement with CFC governing the loan substantially in the form of the loan agreement submitted to this meeting;
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate shall not exceed the principal amount of \$72,680,000, substantially in the form of the note presented to this meeting; and
- (c) as many counterparts as shall be deemed advisable of a mortgage and security agreement with CFC and CoBank, ACB as mortgagees, substantially in the form of the mortgage presented to this meeting.

2010-08

RESOLVED, that each of the following individuals, after obtaining any necessary approval from the Arizona Corporation Commission, 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, to execute any future amendments to said Loan Agreement as such individual may deem appropriate within the amount of the promissory notes so authorized herein 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>Title or Office</u>         | <u>Name</u>             |
|--------------------------------|-------------------------|
| <u>President</u>               | <u>Dan Barrera</u>      |
| <u>Vice President</u>          | <u>Ron Kline</u>        |
| <u>Secretary</u>               | <u>Charles E. Brown</u> |
| <u>Treasurer</u>               | <u>Pat English</u>      |
| <u>Chief Executive Officer</u> | <u>Creden W. Huber</u>  |

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Cooperative this 24<sup>th</sup> day of February, 2010.

Charles E. Brown  
Secretary

(SEAL)



**RESOLUTION OF THE BOARD OF DIRECTORS**  
of  
**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**  
Willcox, Arizona

WHEREAS, the above named borrower ("Borrower"), under its articles of incorporation, bylaws, or other organizational documents has full power and authority to borrow money and to secure the same with its own property and property delivered to it for marketing or otherwise; and

WHEREAS, all prerequisite acts and proceedings preliminary to the adoption of this Resolution have been taken and done in due and proper form, time and manner;

NOW, THEREFORE, BE IT RESOLVED, that, after obtaining any necessary approvals from the Arizona Corporation Commission, each of the following officers or positions President, Vice President, Treasurer, Chief Financial Officer, Secretary, Chief Executive Officer and any others to be authorized under this Resolution \_\_\_\_\_ ("Officers") of the Borrower are jointly and severally authorized and empowered to obtain for and on behalf of the Borrower from time to time, from CoBank, ACB ("CoBank"), a loan or loans or other financial accommodations (including, without limitation, letters of credit, note purchase agreements and bankers acceptances) (collectively, a "Loan") under this Resolution; and for such purposes: (1) to execute such application or applications (including exhibits, amendments and/or supplements thereto) as may be required for all borrowings; (2) to obligate the Borrower to pay such rate or rates of interest as the Officers so acting shall deem proper, and in connection therewith to purchase such interest rate risk management products as may be offered from time to time by CoBank; (3) to obligate the Borrower to such other terms and conditions as the Officers so acting shall deem proper; (4) to obligate the Borrower to make such investments in CoBank as required by CoBank; (5) to execute and deliver to CoBank or its nominee all such written loan agreements, documents and instruments as may be required by CoBank in regard to or as evidence of any Loan made pursuant to the terms of this Resolution; (6) to pledge, grant a security interest or lien in, or assign property of the Borrower or property of others on which it is entitled to borrow, of any kind and in any amount as security for any or all obligations (past, present and/or future) of the Borrower to CoBank; (7) from time to time extend, amend, renew or refinance any such Loan; (8) to reborrow from time to time, subject to the provisions of this Resolution, all or any part of the amounts repaid to CoBank on any Loan made pursuant hereto (whether for the same or a different purpose); (9) to execute and deliver to CoBank an Electronic Commerce Master Service Agreement, a separate Service Agreement for each different service requested by the Borrower, and such other agreements, addenda, documents or instruments as may be required by CoBank in the event that the Borrower elects to use CoBank's electronic banking system (the "System"); (10) to execute and deliver to CoBank any agreements, addenda, authorization forms and other documents or instruments as may be required by CoBank in the event that the Borrower elects to use any services or products related to the Loan that are offered by CoBank now or in the future, including without limitation an automated clearing house (ACH) service; (11) to direct and delegate to designated employees of the Borrower the authority to direct, by written or telephonic instructions or electronically, if the Borrower has agreed to use the System for such purpose, the disposition of the proceeds of any Loan authorized herein or any property of the Borrower at any time held by CoBank; and (12) to delegate to designated employees of the Borrower the authority to request by telephonic or written means or electronically, if the Borrower has agreed to use the System for such purpose, loan advances and/or other financial accommodations, and in connection therewith, to fix rates and agree to pay fees. In the absence of any direction or delegation authorized in (11) or (12) above, all existing directions and/or delegations shall remain in full force and effect and shall be applicable to any Loan authorized herein.

RESOLVED FURTHER, That each of the Officers are hereby jointly and severally authorized to: (1) establish a Cash Investment Services Account at CoBank; (2) make such investments therein as any Officer shall deem proper; (3) direct by written or telephonic instructions or electronically, if the Borrower has agreed to use the System for such purposes, the disposition of the proceeds therein; (4) delegate to designated employees of the Borrower the authority set forth in (2) and (3) above; and (5) execute and deliver all documents and agreements necessary to carry out this authority.

RESOLVED FURTHER, That each of the Officers are hereby jointly and severally authorized and directed to do and/or cause to be done, from time to time, all things which may be necessary and/or proper for the carrying out of the terms of these Resolutions.

RESOLVED FURTHER, That all prior acts by the Officers or other employees or agents of the Borrower to accomplish the purposes of these Resolutions are hereby approved and ratified.

RESOLVED FURTHER, That any Officer of the Borrower is hereby authorized and directed to cast the ballot of the Borrower in any and all proceedings in which the Borrower is entitled to vote for the selection of a member of CoBank's board of directors or for any other purpose.

RESOLVED FURTHER, That these Resolutions shall remain in full force and effect until a certified copy of a duly adopted resolution effecting a revocation or amendment, as the case may be, shall have been received by CoBank. The authority hereby granted shall apply with equal force and effect to the successors in office of the Officers herein named.

RESOLVED FURTHER, That effective on the date when the Loan under these Resolutions becomes available, the following listed Resolutions are hereby revoked:           n/a          . No such revocation shall affect the validity of any action or actions made or taken in reliance on such resolution(s) prior to the effective date of revocation.

RESOLVED FURTHER, That the Secretary or any Assistant Secretary of the Borrower is hereby authorized and directed to certify to CoBank a copy of these Resolutions, the names and specimen signatures of the present Officers above referred to, and if and when any change is made in the personnel of any said Officers, the fact of such change and the name and specimen signatures of the new Officers. CoBank shall be entitled to rely on any such certification until a new certification is actually received by CoBank.

#### CERTIFICATE

The undersigned, a Secretary or Assistant Secretary of the Borrower, hereby certifies that the Board of Directors, at a meeting duly called, noticed, convened and held on the 24<sup>th</sup> day of February, 2010, at which a quorum was present, did adopt the foregoing resolutions and that said resolutions have not been revoked or amended in any way.

Dated this 24<sup>th</sup> day of February, 2010.

By: Charles E. Brown  
Title: Secretary  
 Secretary or  Assistant Secretary

CoBANK, ACB  
INCUMBENCY CERTIFICATE

The undersigned, as Secretary of the Company named below, hereby certifies that the following persons are the current, duly elected or appointed Officers enumerated in applicable Resolutions of the Company's Board of Directors and that the following are the specimen signatures of those Officers:

OFFICERS

NOTE: INSERT THE NAMES AND OBTAIN THE SIGNATURES OF ONLY THOSE OFFICERS AUTHORIZED BY THE RESOLUTION REFERRED TO ABOVE.

|   |
|---|
| <p align="center"><b>PRESIDENT</b></p> <p align="center"><i>Daniel J. Barrera</i><br/>Signature</p> <p align="center"><b>Daniel J. Barrera</b><br/>TYPE or PRINT name</p>       |
| <p align="center"><b>CHIEF FINANCIAL OFFICER</b></p> <p align="center"><i>Kirby Chapman</i><br/>Signature</p> <p align="center"><b>Kirby Chapman</b><br/>TYPE or PRINT name</p> |
| <p align="center"><b>SECRETARY</b></p> <p align="center"><i>Charles E. Brown</i><br/>Signature</p> <p align="center"><b>Charles E. Brown</b><br/>TYPE or PRINT name</p>         |
| <p align="center">_____<br/>Signature</p> <p align="center">_____<br/>TYPE or PRINT name</p>  |
| <p>TITLE: _____</p> <p align="center">_____<br/>Signature</p> <p align="center">_____<br/>TYPE or PRINT name</p>  |

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|---|
| <p align="center"><b>VICE PRESIDENT</b></p> <p align="center"><i>Ronald A. Kline</i><br/>Signature</p> <p align="center"><b>Ronald Kline</b><br/>TYPE or PRINT name</p>             |
| <p align="center"><b>CHIEF EXECUTIVE OFFICER</b></p> <p align="center"><i>Creden W. Huber</i><br/>Signature</p> <p align="center"><b>Creden W. Huber</b><br/>TYPE or PRINT name</p> |
| <p align="center"><b>TREASURER</b></p> <p align="center"><i>Pat English</i><br/>Signature</p> <p align="center"><b>Pat English</b><br/>TYPE or PRINT name</p>                       |
| <p align="center">_____<br/>Signature</p> <p align="center">_____<br/>TYPE or PRINT name</p>  |
| <p>TITLE: _____</p> <p align="center">_____<br/>Signature</p> <p align="center">_____<br/>TYPE or PRINT name</p>  |

Dated this 24<sup>th</sup> day of February, 2010.

Change of address? Yes No

*Charles E. Brown*  
Secretary

Sulphur Springs Valley Electric Cooperative, Inc.

P.O. Box 820

Willcox, Arizona 85644

Phone: <>

Fax No: <>

Annual Meeting Month: April



**RESOLUTION OF THE BOARD OF DIRECTORS**  
of  
**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**  
Willcox, Arizona

2010-05

**WHEREAS**, the above named borrower ("Borrower"), under its articles of incorporation, bylaws, or other organizational documents has full power and authority to borrow money and to secure the same with its own property; and

**WHEREAS**, all prerequisite acts and proceedings preliminary to the adoption of this Resolution have been taken and done in due and proper form, time and manner;

**NOW, THEREFORE, BE IT RESOLVED**, that, after obtaining any necessary approvals from the Arizona Corporation Commission, each of the following officers or positions) President, Vice President, Treasurer, Secretary, Chief Executive Officer and Chief Financial Officer, ("Officers") of the Borrower are jointly and severally authorized and empowered to obtain for and on behalf of the Borrower from CoBank, ACB ("CoBank"), a loan or loans (the "Loan") under this Resolution in an amount not to exceed **SIX MILLION DOLLARS (\$6,000,000)** for the purpose of financing the purchase, construction and installation of Solar Distributed Generation/Cogeneration Facility; and for such purposes to: (1) execute such loan and loan related documentation as CoBank may require, including, without limitation, a: (a) Supplement to the Master Loan Agreement between the Borrower and CoBank; and (b) a New Clean Renewable Energy Bond (the "Bond") to evidence the Borrower's obligation to repay the Loan; (2) execute such application or applications (including exhibits, amendments and/or supplements thereto) as may be required for all borrowings; (3) obligate the Borrower to pay such rate or rates of interest as the Officers so acting shall deem proper, and in connection therewith to purchase such interest rate risk management products as may be offered from time to time by CoBank; (4) obligate the Borrower to make such investments in CoBank as required by CoBank and to such other terms and conditions as the Officers so acting shall deem proper; (5) execute and deliver to CoBank or its nominee all other agreements, documents and instruments as may be required by CoBank in regard to or as evidence of any Loan made pursuant to the terms of this Resolution; (6) pledge, grant a security interest or lien in, or assign property of the Borrower or property of others on which it is entitled to borrow, of any kind and in any amount as security for any or all obligations (past, present and/or future) of the Borrower to CoBank; (7) from time to time extend, amend, renew or refinance any such Loan; (8) reborrow from time to time, subject to the provisions of this Resolution, all or any part of the amounts repaid to CoBank on any Loan made pursuant hereto (whether for the same or a different purpose); (9) to execute and deliver to CoBank an Electronic Commerce Master Service Agreement, a separate Service Agreement for each different service requested by the Borrower, and such other agreements, addenda, documents or instruments as may be required by CoBank in the event that the Borrower elects to use CoBank's electronic banking system (the "System"); (10) execute and deliver to CoBank any agreements, addenda, authorization forms and other documents or instruments as may be required by CoBank in the event that the Borrower elects to use any services or products related to the Loan that are offered by CoBank now or in the future, including without limitation an automated clearing house (ACH) service; (11) direct and delegate to designated employees of the Borrower the authority to direct, by written or telephonic instructions or electronically, if the Borrower has agreed to use the System for such purpose, the disposition of the proceeds of any Loan authorized herein or any property of the Borrower at any time held by CoBank; and (12) delegate to designated employees of the Borrower the authority to request by telephonic or written means or electronically, if the Borrower has agreed to use the System for such purpose, loan advances and/or other financial accommodations, and in connection therewith, to fix rates and agree to pay fees. In the absence of any direction or delegation authorized in (11) or (12) above, all existing directions and/or delegations shall remain in full force and effect and shall be applicable to any Loan authorized herein.

**RESOLVED FURTHER**, That each of the Officers are hereby jointly and severally authorized to: (1) establish a Cash Investment Services Account or other account at CoBank into which the proceeds

of the Loan will be deposited until drawn upon or to pay the cost of the Project; (2) make such investments therein as any Officer shall deem proper; (3) direct by written or telephonic instructions or electronically, if the Borrower has agreed to use the System for such purposes, the disposition of the proceeds therein; (4) delegate to designated employees of the Company the authority set forth in (2) and (3) above; and (5) execute and deliver all documents and agreements necessary to carry out this authority.

**RESOLVED FURTHER**, That the Borrower hereby designates the Bond as a new clean renewable energy bond for purposes of Section 54C of the Internal Revenue Code of 1986, as amended (the "Code"), in accordance with Section 54(C)(a)(3) of the Code.

**RESOLVED FURTHER**, That each of the Officers are hereby jointly and severally authorized and directed to do and/or cause to be done, from time to time, all things which may be necessary and/or proper for the carrying out of the terms of these Resolutions.

**RESOLVED FURTHER**, That all prior acts by the Officers or other employees or agents of the Borrower to accomplish the purposes of these Resolutions are hereby approved and ratified.

**RESOLVED FURTHER**, That any Officer of the Borrower is hereby authorized and directed to cast the ballot of the Borrower in any and all proceedings in which the Borrower is entitled to vote for the selection of a member of CoBank's board of directors or for any other purpose.

**RESOLVED FURTHER**, That these Resolutions shall remain in full force and effect until a certified copy of a duly adopted resolution effecting a revocation or amendment, as the case may be, shall have been received by CoBank. The authority hereby granted shall apply with equal force and effect to the successors in office of the Officers herein named.

**RESOLVED FURTHER**, That effective on the date when the Loan under these Resolutions becomes available, the following listed Resolutions are hereby revoked: N/A. No such revocation shall affect the validity of any action or actions made or taken in reliance on such resolution(s) prior to the effective date of revocation.

**RESOLVED FURTHER**, That the Secretary or any Assistant Secretary of the Borrower is hereby authorized and directed to certify to CoBank a copy of these Resolutions, the names and specimen signatures of the present Officers above referred to, and if and when any change is made in the personnel of any said Officers, the fact of such change and the name and specimen signatures of the new Officers. CoBank shall be entitled to rely on any such certification until a new certification is actually received by CoBank.

#### CERTIFICATE

The undersigned, a Secretary or Assistant Secretary of the Borrower, hereby certifies that the Board of Directors, at a meeting duly called, noticed, convened and held on the 24<sup>th</sup> day of February 2010, at which a quorum was present, did adopt the foregoing resolutions and that said resolutions have not been revoked or amended in any way.

Dated this 24<sup>th</sup> day of February, 2010.

By:

Charles E. Brown

Title:

Secretary

# **EXHIBIT C**

---

**AMENDED AND RESTATED  
REAL ESTATE MORTGAGE  
AND  
SECURITY AGREEMENT**

Made By And Among

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

P.O. Box 820

Willcox, Arizona 85644

Organizational ID Number: 0038220-2

Organizational Type: Arizona Corporation  
as Mortgagor

and

**NATIONAL RURAL UTILITIES  
COOPERATIVE FINANCE CORPORATION**

2001 Cooperative Way, Herndon, Virginia 20171-3025

as Mortgagee

and

**COBANK, ACB**

5500 South Quebec Street

Greenwood Village, Colorado 80111

as Mortgagee

Dated as of <>, 2010

THIS INSTRUMENT CONSTITUTES A MORTGAGE AND SECURITY AGREEMENT COVERING BOTH REAL AND PERSONAL PROPERTY OF A TRANSMITTING UTILITY ENGAGED IN THE DISTRIBUTION OF POWER AND IS TO BE CROSS INDEXED IN ALL INDICES IN WHICH ARE RECORDED LIENS, MORTGAGES, OR OTHER ENCUMBRANCES AGAINST REAL AND PERSONAL PROPERTY.

THIS INSTRUMENT CONSTITUTES A LIEN ON ALL AFTER ACQUIRED PROPERTY OF THE MORTGAGOR.

THIS INSTRUMENT CONTAINS FUTURE ADVANCE PROVISIONS.

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**THIS AMENDED AND RESTATED MORTGAGE AND SECURITY AGREEMENT**, dated as of February ~~20~~, 2010 ("Mortgage"), is made by and between **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**, an Arizona corporation (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Arizona, **NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION** (hereinafter called "CFC" or "Mortgagee"), a cooperative association incorporated under the laws of the District of Columbia, and **COBANK, ACB** (hereinafter called "CoBank" or "Mortgagee"), a federally chartered instrumentality of the United States.

## **RECITALS**

**WHEREAS**, the Mortgagor and CFC are parties to the "Original Mortgage" (as hereinafter defined);

**WHEREAS**, the Mortgagor has heretofore borrowed funds from CFC pursuant to one or more "Outstanding Loan Agreements" (as hereinafter defined), has duly authorized, executed and delivered to CFC the "Original CFC Notes" (as hereinafter defined), and has secured the Original CFC Notes by the Original Mortgage;

**WHEREAS**, the Mortgagor deems it necessary to borrow additional sums from CoBank pursuant to the "Current CoBank Loan Agreement" (as hereinafter defined), to issue new notes to evidence the same (the "Current CoBank Notes"), and to secure the Current CoBank Notes and the Original CoBank Notes on a parity with all other "Notes" (as hereinafter defined) secured hereby;

**WHEREAS**, the Mortgagor deems it necessary to borrow additional sums from CFC pursuant to the "Current CFC Loan Agreement" (as hereinafter defined), to issue new notes to evidence the same (the "Current CFC Notes"), and to secure the Current CFC Notes and the Original CFC Notes on a parity with all other "Notes" (as hereinafter defined) secured hereby;

**WHEREAS**, this Mortgage, while preserving the priority of CFC's Lien under the Original Mortgage, amends and restates the Original Mortgage, secures the payment of the Original CFC Notes (as identified more particularly in the "Instruments Recital" (as hereinafter defined)), the Current CoBank Notes and the Current CFC Notes, and further secures the payment of any "Additional Notes" (as hereinafter defined); and

**WHEREAS**, the Mortgagor, CFC and CoBank are authorized to enter into this Mortgage;

**NOW, THEREFORE**, the parties hereto, in consideration of the mutual covenants contained herein, do agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

**Section 1.01. Definitions.** Capitalized terms used in this Mortgage shall have the meanings specified below. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

**Accounting Requirements** shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Mortgagor 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 Notes issued by the Mortgagor to a Mortgagee or any other lender pursuant to Article III hereof.

**Business Day** shall mean any day that both CoBank and CFC are open for business.

**CFC** is defined in the introductory clause to this Mortgage and shall include its successors and assigns.

**CFC Notes** shall mean the Original CFC Notes, the Current CFC Notes and any Additional Notes issued by the Mortgagor to CFC.

**CoBank** is defined in the introductory clause to this Mortgage and shall include its successors and assigns.

**CoBank Notes** shall mean the Current CoBank Notes and any Additional Notes issued by the Mortgagor to CoBank.

**Current CFC Loan Agreement** means those certain loan agreements by and between CFC and the Mortgagor identified as such in the Instruments Recital, together with all amendments, supplements thereto and restatements thereof.

**Current CFC Notes** shall mean the Notes more particularly described in Appendix A hereto and issued under the Current CFC Loan Agreement.

**Current CoBank Loan Agreement** means those certain loan agreements by and between CoBank and the Mortgagor identified as such in the Instruments Recital, together with all amendments, supplements thereto and restatements thereof.

**Current CoBank Notes** shall mean the Notes more particularly described in Appendix A hereto and issued under the Current CoBank Loan Agreement.

**Debt Service Coverage Ratio ("DSC")** shall mean the ratio determined as follows: for each calendar year add (a) Operating Margins, Non Operating Margins--Interest, (b) Interest Expense, and (c) Depreciation and Amortization Expense, and divide the total so obtained by an amount equal to 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 Expense 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 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 Mortgagor as computed pursuant to the Accounting Requirements.

**Electric System** shall mean, and shall be broadly construed to encompass and include, all real and personal property of the Mortgagor of every type and description used or useful in the generation, transmission, or distribution of electric power and energy, including, without limitation, all power plants, wind farms, transmission lines, substations, distribution lines, and all conservation, load management, general plant and related facilities, fixtures, equipment or property.

**Equities and Margins** shall mean Mortgagor's equities and margins computed pursuant to the Accounting Requirements.

**Equity** shall mean the aggregate of Mortgagor's Equities and Margins as computed pursuant to the Accounting Requirements.

**Event of Default** shall have the meaning specified in Section 5.01 hereof.

**Excepted Property** shall have the meaning set forth in the Granting Clause.

**Fiscal Year** shall mean the fiscal year of the Mortgagor.

**Independent** shall mean a person or entity who (i) does not have any direct financial interest in the Mortgagor or in any affiliate of the Mortgagor and (ii) is not connected with the Mortgagor as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

**Instruments Recital** shall mean Appendix A hereto.

**Interest Expense** shall mean an amount constituting the interest expense with respect to Total Long-Term Debt of the Mortgagor as computed pursuant to the 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 Mortgagor over two percent (2%) of the Mortgagor's Equities and Margins.

**Lien** shall mean any statutory or common law consensual 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 Uniform Commercial Code.

**Loan Agreements** shall mean all loan, credit or reimbursement agreements, including, but not limited to, the Outstanding Loan Agreements, the Current CFC Loan Agreements and the Current CoBank Loan Agreement, by and between the Mortgagor and CoBank, CFC, or another Mortgagee, in connection with the execution and delivery of any Note secured hereby, and all amendments and supplements thereto and restatements thereof.

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

**Long-Term Leases** shall mean leases having un-expired terms (taking into account terms of renewal at the option of the lessor, whether or not such leases have previously been renewed) of more than 12 months.

**Maximum Debt Limit** shall mean the amount more particularly described in Appendix A hereto.

**Mortgage** shall mean this Amended and Restated Mortgage and Security Agreement, as it may be amended or supplemented from time to time.

**Mortgaged Property** shall have the meaning specified in Section 2.01 hereof.

**Mortgagee or Mortgagees** shall mean CFC, CoBank and any other lender pursuant to this Mortgage that enters into a supplemental mortgage in accordance with Article III hereof.

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

**Net Utility Plant** shall mean the amount constituting the total utility plant of the Mortgagor less depreciation, as computed pursuant to Accounting Requirements.

**Note or Notes** shall mean one or more of the CFC Notes, one or more of the CoBank Notes and any Additional Notes which pursuant to Article III may, from time to time, evidence indebtedness of the Mortgagor to Mortgagees other than CFC or CoBank (all of which are secured under this Mortgage).

**Original CFC Notes** shall mean the promissory notes made by the Mortgagor payable to the order of CFC, as identified in the Instruments Recital.

**Original Mortgage** shall mean that certain Restated Mortgage and Security Agreement, dated as of December 6, 2007, by and between the Mortgagor and CFC, and as supplemented, amended or restated, identified in the Instruments Recital.

**Outstanding Loan Agreements** shall mean those loan agreements between Mortgagor and CFC identified as such in the Instruments Recital.

**Permitted Encumbrances** shall mean:

- (i) any Liens for taxes, assessments or governmental charges for the current year and taxes, assessments or governmental charges due but not yet delinquent;
- (ii) Liens for worker's compensation awards and similar obligations not then delinquent;
- (iii) mechanics', laborers', materialmen's and similar Liens not then delinquent, and any such Liens, whether or not delinquent, whose validity is at the time being contested in good faith and which are stayed;
- (iv) Liens and charges incidental to construction or current operation which have not been filed or asserted or the payment of which has been adequately secured by a deposit or pledge or which are insignificant in amount;
- (v) Liens securing obligations not assumed by the Mortgagor and on account of which it does not pay and does not expect to pay interest, existing upon real estate (or rights in or relating to real estate) over or in respect of which the Mortgagor has a right-

of-way or other easement for substation, transmission, distribution or other right-of-way purposes;

(vi) any right which the United States of America or any state or municipality or governmental body or agency 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 reasonable compensation therefor, or upon reasonable compensation or conditions to terminate any franchise, license or other rights before the expiration date hereof or to regulate the property and business of the Mortgagor;

(vii) attachment of judgment liens which are stayed and covered by insurance (to the extent of the insurance coverage), or upon appeal and covered by bond;

(viii) deposits or pledges to secure payment of worker's compensation, unemployment insurance, pensions or other social security;

(ix) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of borrowed money), leases, public or statutory obligations;

(x) deposits or pledges to secure surety or appeal bonds, and other deposits or pledges for purposes of like general nature in the ordinary course of business;

(xi) easements or reservations in respect to any property for the purpose of transmission and distribution lines and rights-of-way and similar purposes, zoning ordinances, regulations, reservations, restrictions, covenants, party wall agreements, conditions of record and other encumbrances (other than to secure the payment of money), none of which in the opinion of counsel to the Mortgagor is such as to interfere with the proper operation of the property affected thereby;

(xii) the burdens of any law or governmental organization 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 land or any river, stream or other waters;

(xiii) any Lien or encumbrance for the discharge of which moneys have been deposited in trust with a proper depository to apply such moneys to the discharge of such Lien or encumbrances;

(xiv) any Lien reserved as security for rent or compliance with other provisions of the lease in case of any leasehold estate made, or existing on property acquired in the ordinary course of business or in connection with Restricted Rentals permitted by Section 4.03;

(xv) Liens for purchase money indebtedness permitted by Section 4.03; and

(xvi) Liens arising hereunder or under a supplemental mortgage hereto to secure Additional Notes.

**Potential Default** shall mean the occurrence of any event which with the giving of notice and/or the passage of time and/or the occurrence of any other condition would ripen into an Event of Default.

**Principal** shall mean the amount of principal billed on account of Total Long-Term Debt of Mortgagor as computed pursuant to the Accounting Requirements.

**Principal Mortgagees** shall mean each of CFC, CoBank and any other Mortgagee holding Notes the outstanding principal balance of which equals at least 25% of the total outstanding principal balance of all Notes at the time secured hereunder.

**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 automobiles, trucks, trailers, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

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

**Subordinated Indebtedness** shall mean indebtedness of the Mortgagor, payment of which shall be subordinated to the prior payment of the Notes by a subordination agreement in form and substance satisfactory to the Principal Mortgagees, which approval will not be unreasonably withheld.

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

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

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

**Uniform Commercial Code** shall mean the Uniform Commercial Code of the jurisdiction governing construction of this Mortgage.

**Utility Facilities** shall mean, and shall be broadly construed to encompass and include, the Electric System and all real and personal property of the Mortgagor used in whole or in part in connection with any other utility operation now or hereafter conducted by the Mortgagor, including, without limitation,, telephone, radio, television, other image and data communications, cable or satellite television, water or wastewater, solid waste disposal, or natural gas, propane, or other fossil fuels.

**Section 1.02. Construction of Mortgage.** Accounting terms used in this Mortgage and not referred to above shall have the meanings assigned to them under generally accepted accounting principles. The singular shall include the plural, and vice versa, as the context requires.

## ARTICLE II

### SECURITY

**Section 2.01. Granting Clause.** In order to secure equally and ratably the payment of the principal of (and premium, if any) and interest on and any other amount due under the Notes, according to their tenor and effect, and any and all future obligations and advances which may be evidenced by the Notes, whether such future obligations and advances are made as an obligation, made at the option of a Mortgagee, made after reduction to zero or other balance, or made otherwise and whether such future obligations and advances are direct, indirect, contingent or otherwise, to the same extent as if such future obligations and advances were made on the date hereof, up to the Maximum Debt Limit, if any, and further to secure the due performance of the covenants, agreements and provisions contained in this Mortgage and the Loan Agreements, and to declare the terms and conditions upon which the Notes are to be secured, the Mortgagor, in consideration of the premises, has executed and delivered this Mortgage, and has granted, bargained, sold, conveyed, warranted, assigned, transferred, mortgaged, pledged and set over, and by these presents does hereby grant, bargain, sell, convey, warrant, assign, transfer, mortgage, pledge and set over unto the Mortgagees, and the Mortgagor does hereby grant to the Mortgagees, for the purposes herein expressed, a security interest in the following properties, assets and rights of the Mortgagor, wherever located, whether now existing or hereafter acquired or arising, and all proceeds and products thereof (hereinafter sometimes called the "Mortgaged Property"):

#### I

(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 right, title and interest of the Mortgagor in, to and under any and all grants, privileges, rights of way, easements, licenses, and all other interest in real property, whether now existing or hereafter acquired and wherever located, including, without limitation, those located in the counties listed in Schedule B hereto;

(C) All right, title and interest of the Mortgagor in and to (a) the Utility Facilities now existing and located in the counties listed in Appendix B hereto or hereafter constructed or acquired by the Mortgagor, wherever located, and (b) all extensions and improvements thereof and additions thereto, including any and all other property of every kind, nature and description, used, useful or acquired for use by the Mortgagor in connection therewith;

#### II

All right, title and interest of the Mortgagor in, to and under any and all licenses, franchises, ordinances, privileges and permits heretofore granted, issued or executed, or which may hereafter be granted, issued or executed, to it or to its assignors by the United States of America, or by any state, or by any county, township, municipality, village or other political subdivision thereof, or by any agency, board, commission or department of any of the foregoing, authorizing the construction, acquisition or operation of the Mortgaged Property (including, without limitation, the Utility Facilities), insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged or pledged;

### III

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, including, without limitation, contracts: (1) for the lease, occupancy or sale of the Mortgaged Property, or any portion thereof; (2) for the construction, acquisition, use, ownership, operation, or maintenance of any portion of the Utility Facilities, whether owned solely or jointly by the Mortgagor; (iii) for the purchase, sale, exchange, or distribution of electric power, energy, or other utility services, or involving swaps, options, future contracts or other derivative products relating thereof; and (iv) for the interconnection and /or transmission of electric power and energy or other utility services (as each may be amended, supplemented, restated or replaced from time to time).

### IV

All right, title and interest of the Mortgagor in, to and under all fixtures and all personal property of every kind and nature, whether now existing or hereafter acquired, including, without limitation, all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts, chattel paper (whether tangible or electronic), deposit accounts, letters of credit and letter-of-credit rights, commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to the payment of money, insurance claims and proceeds, tort claims, and all general intangibles including, without limitation, all payment intangibles, patents, patent applications, trademarks, trademark applications, trade names, copyrights, copyright applications, software, engineering drawings, service marks, service mark applications, customer lists, goodwill, trade secrets, tax refunds and tax refund claims, monies due or recoverable from pension funds, and all licenses, permits, and agreements of any kind or nature pursuant to which the Mortgagor possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of the Mortgagor, and all recorded data of any kind or nature, regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics (as such terms are defined in the applicable Uniform Commercial Code; provided, however, that the term "instrument" shall be such term as defined in Article 9 of the applicable Uniform Commercial Code rather than Article 3), but excluding Excepted Property;

### V

To the extent (if any) not included above, all right, title and interest of the Mortgagor in, to and under all stock, bonds, notes, debentures, commercial paper, securities, obligations of any corporation, association, partnership, limited liability company, joint venture, trust, government or any agency or department thereof of any other entity of any kind, and all equity or beneficial interests in, to and under any of the foregoing described entities, whether now existing or hereafter acquired, but excluding Excepted Property;

### VI

To the extent (if any) not included above, all right, title and interest of the Mortgagor in, to and under any and all books, records and correspondence relating to the Mortgaged Property, whether now existing or hereafter arising, 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;

## VII

Also, all right, title and interest of the Mortgagor in and to all other property, real or personal, tangible or intangible, of every kind, nature and description, and wheresoever situated, now existing or hereafter acquired by the Mortgagor, it being the intention hereof that all such property now existing but not specifically described herein or acquired or held by the Mortgagor after the date hereof shall be as fully embraced within and subjected to the Lien hereof as if the same were now existing and were specifically described herein to the extent only, however, that the subjection of such property to the Lien hereof shall not be contrary to law;

Together with all rents, income, revenues, profits, cash, proceeds and benefits at any time derived, received or had from any and all of the above-described property or business operations of the Mortgagor, to the fullest extent permitted by law.

Together with all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion or reversions, remainders and remainders and all of the tolls, earnings, issues, rents, income, revenues, profits, cash, proceeds and benefits at any time derived, received or had from any and all of the above-described property or business operations of the Mortgagor, to the fullest extent permitted by law.

Except as expressly provided below, there is, however, expressly excepted from the Lien and operation of this Mortgage the following described property whether now owned or hereafter acquired by the Mortgagor (herein sometimes referred to as the "Excepted Property):

- (A) all automobiles, trucks, trailers, tractors or other vehicles (including, without limitation, aircraft or ships, if any) which are titled and/or registered in any state of the United States and owned or used by the Mortgagor;
- (B) any shares of stock, securities, equity or other interests of the Mortgagor in either CoBank or CFC (hereinafter called "Equity In Mortgagees"); and
- (C) the property identified in Appendix "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 (other than the Equity In Mortgagees and the property identified in Appendix C hereto) then owned or thereafter acquired by the Mortgagor shall immediately, and, 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.

In addition, 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, whereupon the same shall cease to be Excepted Property; and any Mortgagee is hereby

authorized to receive the same at any time as additional security hereunder for the benefit of all the Mortgagees, except that the consent of all Mortgagees shall be required in the event that Equity In Mortgagees is to be subjected to the Lien hereof. Such subjection to the Lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Mortgagor or the person so acting in its behalf or by such Mortgagee or Mortgagees respecting the use and disposition of such property or the proceeds thereof.

**TO HAVE AND TO HOLD** all and singular the Mortgaged Property unto the Mortgagees and their respective assigns forever, to secure equally and ratably the payment of the principal of (and premium, if any) and interest on and any other amount due under the Notes, according to their tenor and effect, 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 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.

### ARTICLE III

#### ADDITIONAL SECURED NOTES

**Section 3.01. Additional Secured Notes.** Without the prior consent of any Mortgagee, the Mortgagor may issue Additional Notes to CoBank, CFC or to the United States of America, acting by and through the administrator of the Rural Utilities Service (including its successors and assigns), which Additional Notes will thereupon be secured *pari passu* equally and ratably under this Mortgage with the all other Notes if the following requirements are satisfied on or before the date such Additional Note is issued:

- (A) As evidenced by a certificate of an Independent certified public accountant delivered to each Mortgagee on or before the date of the Additional Note, the Mortgagor shall have achieved for each of the two calendar years immediately preceding the issuance of such Additional Notes, a DSC of not less than 1.35.
- (B) As evidenced by a certificate of an Independent certified public accountant delivered to each Mortgagee on or before the date of the Additional Note, the: (1) Mortgagor's Long-Term Debt shall not exceed 95% of its Net Utility Plant after taking into account the effect of such Additional Notes and any additions to fixed assets constituting Utility Facilities that are to be acquired or constructed with the proceeds of such Additional Notes and (2) 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 15% of the Mortgagor's Equity on a pro forma basis.
- (C) As evidenced by a certificate of an Independent certified public accountant delivered to each Mortgagee on or before the date of the Additional Note, the Mortgagor, after taking into account the effect of such Additional Note and any assets being acquired or constructed with the proceeds thereof, shall have Equity greater than or equal to 20% of Total Assets on a pro forma basis.

- (D) As evidenced by a certificate of the general manager of the Mortgagor delivered to each Mortgagee on or before the date of the Additional Note no Potential Default or Event of Default has occurred and is continuing or would result therefrom.

**Section 3.02. Refunding or Refinancing Notes.** The Mortgagor shall also have the right without the consent of any Mortgagee, so long as no Potential Default or Event of Default has occurred and is continuing hereunder, to issue Additional Notes for the purpose of refunding, substituting for or refinancing any Note so long as the total amount of outstanding indebtedness evidenced by such Additional Notes is not greater than 105% of the outstanding principal balance of the Note being refunded, substituted for or refinanced.

**Section 3.03. Other Additional Notes.** With the prior written consent of the Principal Mortgagees, the Mortgagor may issue Additional Notes for purposes or under the circumstances not addressed in Section 3.01 or 3.02 hereof, which Additional Notes will thereupon be secured equally and ratably under this Mortgage with all other Notes.

**Section 3.04. Further Conditions.** The Mortgagor and the holder of such Additional Note will, if required by law or any Principal Mortgagee: (1) amend, supplement, or restate this Mortgage to add the holder of such Additional Note to this Mortgage (if not already a Mortgagee hereunder), to subject to the Lien of this Mortgage any Mortgaged Property being acquired or constructed with the proceeds of such Additional Note, or to add such Additional Note as secured debt under this Mortgage; and (2) file and record such amendment, supplement, or restatement in all places necessary or required by any Principal Mortgagee in order to perfect the Lien of this Mortgage for the benefit of the holder and all the Mortgagees hereunder. The Mortgagor and Mortgagees agree to execute such amendment, supplement or restatement, or such other instruments or documents, as may be reasonably required in order to carry out the intent of this Section, and promptly after the execution and delivery of such Additional Note, the Mortgagor shall provide evidence satisfactory to the Mortgagees (including, without limitation, an opinion of counsel acceptable to the Principal Mortgagees) that the requirements of this section have been satisfied.

## ARTICLE IV

### PARTICULAR COVENANTS OF THE MORTGAGOR

The Mortgagor covenants with the Mortgagees as follows:

**Section 4.01. Authority to Execute and Deliver Notes and Mortgage; All Action Taken; Enforceable Obligations.** The Mortgagor is authorized under its articles of incorporation and bylaws and all applicable laws and by corporate action to execute and deliver the Notes and this Mortgage; and the Notes and this Mortgage are, and any Additional Notes when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

**Section 4.02. Authority to Mortgage Property; No Liens; Exception for Permitted Encumbrances; Mortgagor to Defend Title and Remove Liens.** The Mortgagor warrants that it is the owner of, or has other rights in the Mortgaged Property, that it has good, right and lawful authority to mortgage the Mortgaged Property for the purposes herein expressed, and that the Mortgaged Property is free and clear of any Lien affecting the title thereto, except the

Lien of this Mortgage and Permitted Encumbrances. Except as to Permitted Encumbrances which are entitled to priority under law, the Mortgagor will, so long as any of the Notes shall be outstanding, maintain and preserve the Lien of this Mortgage superior to all other Liens affecting the Mortgaged Property and will forever warrant and defend the title to the Mortgaged Property against any and all claims and demands. Subject to the provisions of Section 4.03, or unless approved by 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. Except as to Permitted Encumbrances, the Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such Lien or charge might exist or could be created and any and all lawful taxes, rates, levies, assessments, Liens, claims or other charges imposed upon or accruing upon any of the Mortgagor's property (whether taxed to the Mortgagor or to the Mortgagees), or the franchises, earnings or business of the Mortgagor, as and when the same shall become due and payable; provided, however, that this provision shall not be deemed to require the payment or discharge of any tax, rate, levy, assessment or other governmental charge while the Mortgagor is contesting the validity thereof by appropriate proceedings in good faith and so long as any Lien securing same is stayed and the Mortgagor shall have set aside on its books adequate reserves with respect thereto.

**Section 4.03. Additional Permitted Debt.** Except as permitted by Section 3.01 hereunder and subject to any additional limitations contained in any Loan Agreement, the Mortgagor shall not incur, assume, guarantee or otherwise become liable in respect of any debt (including Subordinated Indebtedness) other than the following:

- (1) Purchase money indebtedness in non-Electric System property, in an amount not exceeding ten percent (10%) of Total Utility Plant or fifty percent (50%) of Equity, whichever is greater;
- (2) Restricted Rentals in an amount not to exceed five percent (5%) of Equity during any 12 consecutive calendar month period;
- (3) Unsecured current debt and lease obligations incurred in the ordinary course of business including accounts payable for goods and services; and
- (4) Unsecured indebtedness.

**Section 4.04. Payment of Notes.** The Mortgagor will duly and punctually pay the principal of (and premium, if any) and interest on the Notes at the dates and places and in the manner provided therein, and all other sums becoming due hereunder.

**Section 4.05. Preservation of Corporate Existence and Franchises.** The Mortgagor will, so long as any of the Notes are outstanding, 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, and will comply with all valid laws, ordinances, regulations and requirements applicable to it or the Mortgaged Property.

**Section 4.06. Maintenance of Mortgaged Property.** So long as the Mortgagor holds title to the Mortgaged Property, the Mortgagor will at all times maintain and preserve the

Mortgaged Property in good repair, working order and condition, ordinary wear and tear excepted, and in compliance with all applicable laws, regulations and orders, and will from time to time make all necessary 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 keep its plant and properties in continuous operating condition and 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 energy and other services furnished by the Mortgagor. If, with the consent of the Principal Mortgagees, 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 this Section in respect of the leased facilities and permit the Mortgagor to operate the leased facilities in the event of any failure by the lessee to so comply.

**Section 4.07. Insurance; Restoration of Damaged Mortgaged Property.** 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.

The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities, and, with respect to insurance upon any part of the Mortgaged Property, shall provide (unless waived by the Mortgagees) 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 thirty (30) days after written notice to the Mortgagees of cancellation.

In the event of damage to or the destruction or loss of any portion of the Mortgaged Property, unless the Principal Mortgagees shall otherwise agree, the Mortgagor shall promptly replace or restore such damaged, destroyed or lost portion so that the Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss. Provided that no Potential Default or Event of Default exists, each Mortgagee shall provide to the Mortgagor any insurance proceeds received by such Mortgagee upon such reasonable terms and conditions as such Mortgagee may require in order to ensure that such proceeds are used for the foregoing purpose and that such required replacement or restoration will be completed. The Mortgagor shall replace the lost portion of the 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 in such a manner as to ensure that such replacement or restoration shall be so completed shall be free and clear of all Liens other than Permitted Encumbrances..

Except to the extent used to replace or repair damaged property as required by this Section, all proceeds of any policy or bond shall, 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 Mortgagees at the time of any such prepayment).

At the request of any Principal Mortgagee, the Mortgagor shall exercise such rights and remedies which it may have under such policy or fidelity bond and which may be designated by such Principal Mortgagee, and the Mortgagor hereby irrevocably appoints such Principal Mortgagee as its agent to exercise such rights and remedies under such policy or bond as such Principal

Mortgagee may choose, and the Mortgagor shall pay all costs and expenses incurred by such Principal Mortgagee in connection with such exercise.

**Section 4.08. Mortgagees' Right to Expend Money to Protect Mortgaged Property.** The Mortgagor agrees that any Principal Mortgagee from time to time hereunder may in its sole discretion, but shall not be obligated to, after having given five (5) Business Days prior written notice to Mortgagor, advance funds on behalf of Mortgagor, in order to insure Mortgagor's compliance with any covenant, warranty, representation or agreement of Mortgagor made in or pursuant to this Mortgage or any Loan Agreement, to preserve or protect any right or interest of the Mortgagees in the Mortgaged Property or under or pursuant to this Mortgage or any Loan Agreement, 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 Mortgagor; provided, however, that the making of any such advance by a Mortgagee shall not constitute a waiver by such Mortgagee of any Event of Default with respect to which such advance is made nor relieve the Mortgagor of any such Event of Default. Notwithstanding the foregoing, if, in the sole discretion of any Principal Mortgagee, a situation arises which requires immediate action by such Mortgagee to preserve and protect any of the Mortgaged Property given to secure the obligations secured by this Mortgage, such Principal Mortgagee shall be free to take such action as it reasonably deems appropriate to preserve and protect such Mortgaged Property without delivery of prior written notice to Mortgagor, or if such notice has been delivered, without waiting for the expiration of the aforementioned grace period. The Mortgagor shall pay to such Mortgagee upon demand all such advances made by such Mortgagee with interest thereon at a rate equal to such Mortgagee's rate at such time for short-term loans (which, in the case of CoBank, shall mean the "CoBank Base Rate" (as established by CoBank from time to time) and, in the case of CFC, shall mean its CFC Variable 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 this Mortgage.

**Section 4.09. Further Assurances.** Upon the written request of any Mortgagee, the Mortgagor shall promptly make, execute, acknowledge and deliver or cause to be made, executed, acknowledged or delivered to such Mortgagee all such further and supplemental indentures of mortgage, deeds of trust, mortgages, financing statements and amendments thereto (including continuation statements), security agreements, pledge agreements, stock powers or other such instruments of transfer or assignment duly executed in blank, stock certificates or other securities representing any of the Mortgaged Property, instruments (including any promissory notes held or acquired by the Mortgagor, duly endorsed and assigned to the Mortgagee) and conveyances as may reasonably be requested by the Mortgagee, and take or cause to be taken all such further action as may reasonably be requested by the Mortgagee to insure the attachment, perfection and first priority of, and the ability of the Mortgagee to enforce, the Mortgagee's Lien on and security interest in any or all of the Mortgaged Property. The Mortgagor will cause this Mortgage and any and all supplemental indentures of mortgage, mortgages and deeds of trust and every security agreement, financing statement, amendment thereto (including continuation statements) and every additional instrument which shall be executed pursuant to the foregoing provisions forthwith upon execution to be recorded and filed and re-recorded and re-filed as conveyances and mortgages and deeds of trust of and security interests in real and personal property in such manner and in such places as may be required by law or reasonably requested by the Mortgagee in order to insure the attachment, perfection and first priority of, and the ability of the Mortgagee to enforce, the Mortgagee's Lien on and security interest in any or all of the Mortgaged Property.

**Section 4.10. Application of Proceeds from Condemnation.** In the event that the Mortgaged Property or any part thereof shall be taken or sold under the power of eminent domain or like power, all proceeds and avails therefrom may be used to finance construction of facilities secured or to be secured by this Mortgage; provided, however, that in the event all or any material part of the facilities shall be taken or sold, the proceeds shall be used to prepay the Notes unless the Principal Mortgagees otherwise agree. 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 Mortgagees at the time of any such payment; and fourth, the balance shall be paid to Mortgagor or whoever shall be entitled thereto.

**Section 4.11. Compliance with Loan Agreements.** The Mortgagor will observe and perform all of the covenants, agreements, terms and conditions contained in each Loan Agreement entered into in connection with the issuance of any of the Notes, as from time to time amended (which terms shall be, notwithstanding any conflict, in addition to the terms hereof). The Mortgagor will send promptly to each Mortgagee notice of any default by the Mortgagor under any Loan Agreement.

**Section 4.12. Rights of Way, etc.** The Mortgagor will use its best efforts to obtain all such rights of way, easements from landowners and releases from Lien holders as shall be necessary or advisable in the conduct of its business, and, if requested by the Mortgagees, deliver to the Mortgagees evidence satisfactory to it that it has obtained such rights of way, easements or releases.

**Section 4.13. Mortgagor's Legal Status.** (a) The Mortgagor represents, warrants, covenants and agrees that: (i) the Mortgagor's exact legal name is that indicated on the signature page hereof, (ii) the Mortgagor is an organization of the type and organized in the jurisdiction set forth on the first page hereof, (iii) the cover page hereof accurately sets forth the Mortgagor's organizational identification number or accurately states that the Mortgagor has none and (iv) Section 7.04 hereof accurately sets forth the Mortgagor's place of business or, if more than one, its chief executive office as well as the Mortgagor's mailing address if different.

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

**Section 4.14. Authorization to File Financing Statements.** The Mortgagor hereby irrevocably authorizes any Mortgagee at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the 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 Uniform Commercial Code, or (ii) as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the applicable Uniform Commercial Code for the sufficiency or filing office

acceptance of any financing statement or amendment, including (i) whether the 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 any Mortgagee promptly upon request. The Mortgagor also ratifies its authorization for any Mortgagee to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

**Section 4.15. Other Actions Concerning Mortgaged Property.** The Mortgagor will take any other action reasonably requested by any of the Mortgagees to insure the attachment, perfection and first priority of, and the ability of the Mortgagees to enforce, the Mortgagee's Lien on and security interest in any and all of the Mortgaged Property, including, without limitation (a) complying with any provision of any statute, regulation or treaty of the United States as to any Mortgaged Property if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Mortgagee to enforce, the Mortgagee's security interest in such Mortgaged Property, (b) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on Mortgaged Property, (c) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Mortgagee and (d) taking all actions required by any earlier versions of the Uniform Commercial Code or by other law, as applicable in any relevant Uniform Commercial Code jurisdiction, or by other law as applicable in any foreign jurisdiction.

**Section 4.16. Opinion of Counsel.** The Mortgagor will furnish to each Mortgagee promptly after the execution and delivery of this Mortgage and of each other instrument of further assurance, an opinion of counsel stating that, in the opinion of such counsel, this Mortgage and all such 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 filed that are necessary fully to preserve and protect the rights of all of the Mortgagees hereunder, or stating that, in the opinion of such counsel, no such action is necessary to make the lien effective.

## ARTICLE V

### EVENTS OF DEFAULT AND REMEDIES OF THE MORTGAGEES

**Section 5.01. Events of Default:** Each of the following shall be an "Event of Default:"

- (a) **Payments.** Failure of Mortgagor to make any 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) **Other Mortgage Covenants.** Failure of Mortgagor to observe or perform any covenant, condition or agreement on the part of the Mortgagor, in this Mortgage, and such default shall continue for a period of thirty (30) days after written notice specifying such default shall have been given by any Mortgagee to the Mortgagor and each of the other Mortgagees;

(c) Bankruptcy. The Mortgagor shall: (1) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, custodian or other similar official for it or any material part of its property; (2) have commenced against it or any material part of its property any action or proceeding for the appointment of a trustee, receiver, custodian or other similar official and such action or proceeding is not dismissed within 60 days of the date thereof, or a trustee, receiver, or other custodian is appointed for all; (3) make an assignment for the benefit of creditors or commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction; (4) have any action or proceeding commenced against it under any reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction and such proceeding shall not be dismissed within sixty (60) days after the institution thereof or an order adverse to the Mortgagor shall be entered therein;

(d) Dissolution or Liquidation. Other than as provided in subsection (c) above, the dissolution or liquidation of the Mortgagor, or failure by the Mortgagor 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;

(e) Corporate Existence. 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) Final Judgment. A final judgment shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of sixty (60) days;

(g) Representations and Warranties. Any representation or warranty made by the Mortgagor herein, in any Loan Agreement or in any certificate or financial statement delivered hereunder or thereunder shall prove to be false or misleading in any material respect;

(h) Other Obligations. Default by the Mortgagor 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; or

(i) Cross Default. (1) Failure of Mortgagor to observe or perform any covenant, condition or agreement on the part of the Mortgagor in any of the Notes or any Loan Agreement, and such default shall continue for a period of thirty (30) days after written notice specifying such default shall have been given to the Mortgagor and each of the other Mortgagees by the Mortgagee that is a party to such Loan Agreement or payee of such Note; or (2) an "Event of Default" (as defined in any Loan Agreement) should occur.

## **Section 5.02. Acceleration of Maturity; Rescission and Annulment.**

(a) Defaults. If an Event of Default described in Section 5.01 shall have occurred and be continuing, any Mortgagee may declare the principal of, and any other amounts due on account of, its Notes secured hereunder to be due and payable immediately by a notice in writing to the Mortgagor and all other Mortgagees and upon such declaration, all unpaid principal (premium, if any) and accrued interest so declared

shall become due and payable immediately, anything contained herein or in any Note or Notes to the contrary notwithstanding. If any Mortgagee declares its Notes due and payable, any other Mortgagee may, at any time thereafter, declare its Notes due and payable.

(b) Rescission and Annulment. If at any time after the unpaid principal of (premium, if any) and accrued interest on any of the Notes shall have been so declared to be due and payable, all payments in respect of principal and interest which shall have become due and payable by the terms of such Note or Notes (other than amounts due as a result of the acceleration of the Notes) shall be paid to the respective Mortgagees, and all other defaults hereunder and under the Notes shall have been made good and secured to the satisfaction of each of the Mortgagees, then and in every such case, the Mortgagee or Mortgagees who have declared the principal of (and premium, if any) and accrued interest on Notes held by such Mortgagee or Mortgagees to be due and payable may, by written notice to the Mortgagor and the other Mortgagees, 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 5.03. Remedies of Mortgagees.** If one or more of the Events of Default shall occur and be continuing, any Principal Mortgagee and, upon occurrence of an Event of Default described in Section 5.01(a), any other Mortgagee with respect to which such Event of Default has occurred and which has accelerated its Notes, personally or by attorney, in its or their discretion, may (upon written notice to each other Mortgagee), to the fullest extent permitted by law:

(a) Possession; Collection. 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, profits and proceeds 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;

(b) Enforcement; Receiver. Proceed to protect and enforce the rights of each Mortgagee 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 any Loan Agreement 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 debt 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, such Mortgagee shall have the right to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues, profits and proceeds 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 ex parte; and

(c) **Foreclosure.** Immediately foreclose this Mortgage and, in any foreclosure proceeding the court shall, upon application, at once, and without notice to Mortgagor, or any party claiming under said Mortgagor, and without giving bond on such application (such notice and bond being hereby expressly waived) and also without reference to the then value of the Mortgaged Property, to the use of said Mortgaged Property as a homestead, or to the solvency or insolvency of any person liable for any of the Notes secured hereby, appoint a receiver for the benefit of the legal holder of the Notes secured hereby, to take possession of the Mortgaged Property, with power to collect rents, issues, and profits of the Mortgaged Property, then due or to become due, during the pendency of such foreclosure suit, and until the time to redeem the same shall expire (such rents, issues and profits being hereby expressly assigned and pledged as additional security for the payment of the Notes secured by this Mortgage); this provision for appointment of a receiver being expressly a condition upon which the loans evidenced by the Notes hereby secured was made; and Mortgagor hereby further consents that said receiver may, out of the said rents, pay prior or subordinate liens, the taxes, assessments, water rates and insurance on Mortgaged Property, then due or unpaid or accruing whether before or after the filing of such bill, and for any necessary repairs thereon, and management and rental fees and any other proper charges, and the amount of any deficiency decree; provided that, in case of any default or breach, as aforesaid, as a concurrent (and not alternative or exclusive) remedy and measure for making effective the terms provisions and purposes hereof, it shall be lawful for Mortgagee, its agent or attorney forthwith (either with or without process of law, forcibly or otherwise) to enter upon and take possession of said Mortgaged Property and to expel and remove any person, goods or chattels, occupying or upon the same, to collect and to receive all the rents, issues and profits therefrom, from time to time, to manage and control the same and make all necessary repairs, and lease the same or any part thereof at such rentals as in its sole discretion it may deem just and reasonable, and after deducting all reasonable attorneys' fees and all expenses incurred in the protection, care, repair and management of said Mortgaged Property, apply the remaining income upon the Notes hereby secured in the same manner as is hereafter provided upon the sale of said Mortgaged Property under foreclosure; and said Mortgagor hereby expressly releases and waives any and all right to possession, control or management of the Mortgaged Property, or to the rents, issues and profits therefrom, after any default or breach of the terms or provisions of this Mortgage and said Mortgagor hereby further expressly releases and waives any and all damages and claims for damages occasioned by such expulsion.

**Section 5.04. 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 (and premium, if any) 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; fourth, to the ratable payment of any premium or other amounts due under the Notes and the Loan Agreements, and the balance, if any, shall be paid to the Mortgagor or whosoever shall be lawfully entitled thereto.

**Section 5.05. Remedies Cumulative; No Election.** Every right or remedy herein conferred upon or reserved to the Mortgagees shall be cumulative and shall be in addition to every other right and remedy given hereunder or under any Loan Agreement 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 5.06. Waiver of Appraisal Rights.** 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, 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.

**Section 5.07. Notice of Default.** The Mortgagor covenants that it will give immediate written notice to each Mortgagee of the occurrence of an Event of Default.

## ARTICLE VI

### POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

**Section 6.01. 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, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

**Section 6.02. Defeasance.** If the Mortgagor shall pay or cause to be paid the whole amount of the principal of (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 and under the Loan Agreements, and shall keep and perform all covenants herein required to be kept and performed by it, then and in that case, provided no Mortgagee has any commitment to extend additional credit to the Mortgagor that is required to be secured hereunder, 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 Mortgagees shall thereupon cease, determine and become void and each 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 by the Mortgagor of all principal of (and premium, if any) and interest on all Notes held by such Mortgagee and the payment and discharge by the Mortgagor of all charges due to such Mortgagee hereunder or under all applicable Loan Agreements, shall execute and deliver to the Mortgagor such instruments of satisfaction, discharge or release of such Mortgagee's interest hereunder as shall be required by law in the circumstances, if any.

## ARTICLE VII

### MISCELLANEOUS

**Section 7.01. 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 or non-electric systems and 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 7.02. 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. 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 7.03. Headings.** The descriptive headings of the various articles of this Mortgage 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 7.04. Notices.** All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Mortgage 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, 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 Mortgage, 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:

As to the Mortgagor:

Sulphur Springs Valley Electric Cooperative, Inc.  
P.O. Box 820  
Willcox, Arizona 85644  
Attention: President/CEO  
Fax: (520) 515-3487

As to the Mortgagees:

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

CoBank: CoBank, ACB  
5500 South Quebec Street  
Greenwood Village, Colorado 80111  
Attention: Communications and Energy Banking Group  
Fax: (303) 224-2553

**Section 7.05. Severability.** The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Mortgage shall not affect the remaining portions hereof.

**Section 7.06 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 Uniform Commercial Code, this Mortgage is hereby deemed a "security agreement", a "financing statement" and a "fixture filing" under the Uniform Commercial Code. The Mortgagor herein is the "debtor" and the Mortgagees herein are "secured parties." The mailing addresses of the Mortgagor as debtor and of each Mortgagee as a secured party are as set forth in Section 7.04 hereof. 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 7.07. Governing Law.** The effect and meaning of this Mortgage, and the rights of all parties hereunder, shall be governed by, and construed according to, the laws of the State of Arizona, except to the extent governed by federal law.

**Section 7.08. Indemnification by Mortgagor of Mortgagees.** The Mortgagor agrees to indemnify, defend 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. The obligation of Mortgagor to reimburse and indemnify each Mortgagee hereunder shall be secured by 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 4.08 hereof.

**Section 7.09. Counterparts.** This Mortgage may be simultaneously executed in any number of counterparts, and all said counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

**Section 7.10. Costs and Expenses:** Mortgagor agrees to pay and be liable for any and all expenses, including, but not limited to reasonable attorney's fees, court costs, receiver's fees, costs of advertisement and agent's compensation, incurred by any Mortgagee in exercising or enforcing any of its rights hereunder. Such sums shall be secured hereby and shall be payable forthwith to the Mortgagee incurring the same, with interest thereon at the rate specified in Section 4.08 hereof.

**(signature pages follow)**

IN WITNESS WHEREOF, SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC., the Mortgagor, has caused this Amended and Restated Mortgage and Security Agreement Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, and COBANK, ACB, as Mortgagee, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

(SEAL)

By: \_\_\_\_\_

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

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

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

STATE OF ARIZONA )  
 )SS  
COUNTY OF \_\_\_\_\_ )

I, a Notary Public, in and for said County in the State aforesaid, do hereby certify that \_\_\_\_\_ personally known to me to be the \_\_\_\_\_ of \_\_\_\_\_, whose name is subscribed to the foregoing instrument, appeared before me this day in person and severally acknowledged that as such \_\_\_\_\_, he/she signed and delivered the said instrument of writing as \_\_\_\_\_ of said corporation, pursuant to authority given by the Board of Directors of said corporation as their free and voluntary act, and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and notarial seal this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Name:  
\_\_\_\_\_  
Notary Public  
\_\_\_\_\_

My Commission Expires:  
\_\_\_\_\_



**COBANK, ACB**

(SEAL)

By: \_\_\_\_\_

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

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

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

Executed by the Mortgagee  
in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Witnesses

STATE OF COLORADO            )  
  )    SS  
COUNTY OF \_\_\_\_\_        )

BEFORE ME, a Notary Public, in and for the State of Colorado, appeared in person \_\_\_\_\_, \_\_\_\_\_ of CoBank, ACB, a federally chartered instrumentality of the United States, to me personally known, and known to be the identical person who subscribed the name of said entity to the foregoing instrument, being by me duly sworn, and who stated that she/he is duly authorized to execute the foregoing instrument on behalf of said entity, and further stated and acknowledged that she/he executed the foregoing instrument as a free and voluntary act and deed of said entity for the consideration therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

(Notarial Seal)

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

My commission expires:

**Appendix A - Instruments Recital**

The Maximum Debt Limit referred to in Section 1.01 is \$350,000,000.00.

The instruments referred to in the preceding recitals are as follows:

1. "Original Mortgage:"

| Instrument                               | Mortgage Date    | Recorded In                                    | Mortgagee  |
|--|------------------|--|--|
| Restated Mortgage and Security Agreement | December 6, 2007 | Cochise, Santa Cruz, Graham, and Pima Counties | National Rural Utilities Cooperative Finance Corporation |

2. "Current CoBank Loan Agreement" shall mean the following loan agreements.

Master Loan Agreement No. RX0850 dated as of February <>, 2010.

Promissory Note and Supplement No. RX0850T1 dated as of February <>, 2010, in the principal amount of \$90,000,000.

3. "Current CoBank Notes"

| Loan Designation | Loan Amount     | Note Date |  | Maturity Date     |
|------------------|-----------------|-----------|--|-------------------|
| RX0850T1         | \$72,680,000.00 | <>, 2010  |  | December 20, 2042 |
|                  |                 |           |  |                   |

4. "Current CFC Notes"

| Loan Designation | Loan Amount  | Note Date |  | Maturity Date     |
|------------------|--------------|-----------|--|-------------------|
| <>               | \$72,680,000 | <>, 2010  |  | December 20, 2042 |

5. "Outstanding Loan Agreements" are those loan agreements dated as of:

|            |            |            |
|------------|------------|------------|
| 01/20/1975 | 04/16/1986 | 04/02/2001 |
| 01/13/1977 | 08/29/1986 | 09/10/2003 |
| 02/24/1978 | 04/18/1989 | 03/19/2004 |
| 01/17/1980 | 01/29/1992 | 09/08/2004 |
| 04/23/1982 | 01/19/1994 | 12/06/2007 |
| 03/15/1983 | 04/26/1995 | 12/21/2007 |
| 04/09/1984 | 07/01/1998 |            |

6. The outstanding indebtedness described in the second WHEREAS clause above as evidenced by the Original CFC Notes is as follows:

| CFC Loan Designation | Face Amount of Note | Note Date                               |  | Maturity Date |
|----------------------|---------------------|---|--|---------------|
| AZ014-A-9004         | \$ 820,000          | 05/13/1975 as substituted<br>09/18/1985 |  | 05/13/2010    |

|                        |              |   |  |            |
|------------------------|--------------|---|--|------------|
| AZ014-A-9007           | \$ 622,000   | 06/14/1977 as substituted<br>09/18/1986 |  | 06/14/2012 |
| AZ014-A-9010           | \$ 644,000   | 04/18/1978                              |  | 04/18/2013 |
| AZ014-A-9013           | \$ 2,171,000 | 05/20/1980                              |  | 05/20/2015 |
| AZ014-A-9016           | \$ 1,988,000 | 08/20/1982 as substituted<br>08/29/1983 |  | 08/20/2017 |
| AZ014-A-9017           | \$ 2,104,000 | 08/20/1984                              |  | 08/20/2019 |
| AZ014-A-9018           | \$ 3,520,833 | 11/18/1986                              |  | 11/18/2021 |
| AZ014-A-9019           | \$ 2,401,042 | 04/18/1989                              |  | 04/18/2024 |
| AZ014-A-9020           | \$ 1,781,250 | 01/29/1992                              |  | 01/29/2027 |
| AZ014-A-9021           | \$ 1,808,333 | 01/19/1994                              |  | 01/19/2029 |
| AZ014-A-9022           | \$ 1,705,000 | 04/26/1995                              |  | 04/26/2030 |
| AZ014-A-9023           | \$ 3,714,000 | 07/01/1998                              |  | 07/01/2033 |
| AZ014-A-9026           | \$18,281,000 | 04/02/2001 as substituted<br>03/25/2004 |  | 04/02/2036 |
| AZ014-A-9027           | \$ 2,878,000 | 04/02/2001 as substituted<br>03/25/2004 |  | 04/02/2036 |
| AZ014-A-9028           | \$ 9,270,000 | 03/19/2004                              |  | 03/19/2039 |
| AZ014-A-9029           | \$28,304,131 | 09/10/2003                              |  | 12/31/2028 |
| AZ014-V-9030           | \$46,364,000 | 09/08/2004                              |  | 09/08/2044 |
| AZ014-A-9031-<br>CB001 | \$ 840,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-V-9033           | \$70,780,000 | 12/06/2007                              |  | 12/06/2047 |
| AZ014-A-9034-<br>CB001 | \$ 560,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9035-<br>CB001 | \$ 840,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9036-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9037-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9038-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9039-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9040-<br>CB001 | \$ 840,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9041-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9042-<br>CB001 | \$ 560,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9043-<br>CB001 | \$ 840,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9044-<br>CB001 | \$ 560,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9045-<br>CB001 | \$ 280,000   | 12/21/2007                              |  | 12/01/2023 |
| AZ014-A-9046-          | \$ 2,520,000 | 12/21/2007                              |  | 12/01/2023 |

|                        |            |            |  |            |
|------------------------|------------|------------|--|------------|
| CB001                  |            |            |  |            |
| AZ014-A-9047-<br>CB001 | \$ 280,000 | 12/21/2007 |  | 12/01/2023 |
| AZ014-A-9048-<br>CB001 | \$ 560,000 | 12/21/2007 |  | 12/01/2023 |
| AZ014-A-9049-<br>CB001 | \$ 280,000 | 12/21/2007 |  | 12/01/2023 |
| AZ014-A-9050-<br>CB001 | \$ 280,000 | 12/21/2007 |  | 12/01/2023 |
| AZ014-A-9051-<br>CB001 | \$ 840,000 | 12/21/2007 |  | 12/01/2023 |

## Appendix B

1. A certain tract of land described in a certain deed, dated July 20, 1939, by First National Bank of Arizona, Phoenix, as trustee, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Book 74, Mortgages of Real Estate, page 282.
2. A certain tract of land described in a certain deed, dated January 25, 1944, by Southern Arizona Public Service Company, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Book 136, page 272. EXCEPT Lots 11, 12, 13, 14, 15 and 16, in Block 33, Willcox Townsite, Cochise County, Arizona; Lot 2, Block 2, Bryan's Addition to Benson, Cochise County, Arizona.
3. A certain tract of land described in a certain deed, dated November 16, 1944, recorded June 2, 1949, by Myron B. Davis, as trustee for Myron B. Davis, Katherine Davis, Eleanor Davis, R. L. Davis, Jr., Elizabeth Davis, and Edwin Davis, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 26, pages 275-276.
4. A certain tract of land described in a certain deed, dated September 16, 1950, by S. E. Evans and Ila Evans, his wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 54, pages 540-542.
5. A certain tract of land described in a certain deed (quit claim), dated August 13, 1953, by Charles S. Boll and Estelle M. Boll, his wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 105, pages 97-98.
6. A certain tract of land described in a certain deed, dated January 11, 1954, by John L. and Eva C. Stevens, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 96, pages 371-372.
7. A certain tract of land described in a certain deed, dated November 30, 1954, by Charles E. Morris and Norma E. Morris, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 111, pages 547-548.
8. A certain tract of land described in a certain deed, dated November 18, 1955, by the Willcox Board of Trustees No. 13, its grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 136, pages 121-122.
9. A certain tract of land described in a certain deed, dated October 9, 1956, by City Council of Willcox, Arizona, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 155, pages 450-452, No. 12175.
10. A certain tract of land described in a certain deed, dated March 21, 1957, by Phoenix Title and Trust, trustee for Margaret Z. Carmichael, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 166, pages 251-252.
11. A certain tract of land described in a certain deed, dated April 29, 1958, by G. W. Page, a single man, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 191, pages 176-177.

12. A certain tract of land described in a certain deed, dated May 21, 1958, by Allgood Land and Cattle, a corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 206, pages 58-59.
13. A certain tract of land described in a certain deed, dated March 4, 1959, by Bert N. Smith and Mildred L. Smith, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 210, page 294.
14. A certain tract of land described in a certain deed, dated January 22, 1960, by Cassie B. Cawood, a widow, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 236, pages 187-188.
15. A certain tract of land described in a certain deed, dated January 23, 1961, by Phoenix Title and Trust, as grantor, to mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona. in Docket 266, page 298.
16. A certain tract of land described in a certain deed, dated December 1, 1961, by Edward O. Loftus and Mona L. Loftus, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Santa Cruz County Recorder, State of Arizona, in Docket 42, pages 100-101.
17. A certain tract of land described in a certain deed, dated January 25, 1963, by Delia Davis, a widow, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona. in Docket 323, pages 449-450.
18. A certain tract of land described in a certain deed, dated June 25, 1964, by George V. Grosh and Mildred S. Grosh, his wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 359, pages 388.
19. A certain tract of land described in a certain deed, dated November 16, 1964, by M. C. Murrell, President of Sulphur Springs Development Company, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 369, page 252, Instrument No. 18873.
20. A certain tract of land described in a certain deed, dated March 12, 1965, by John Boyd and Mary Boyd, his wife, and Wayne Boyd and Eloise Boyd, his wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Graham County Recorder, State of Arizona, in Docket 101, page 337.
21. A certain tract of land described in a certain deed, dated January 24, 1968, by the Arizona Electric Power Cooperative, Inc., as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder; State of Arizona, in Docket 522, pages 361-362.
22. A certain tract of land described in a certain deed, dated July 24, 1969, by Kern County Land Company, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 598, pages 532-533.
23. A certain tract of land described in a certain deed, dated September 23, 1969, by Gifford-Hill and Company, a Delaware Corporation, as grantor, to the mortgagor. as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 610, pages 145-147.

24. A certain tract of land described in a certain deed, dated July 3, 1973, by Board of Trustees of School District No. 13, Willcox, Arizona, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 929, page 37.
25. A certain tract of land described in a certain deed, dated June 10, 1974, by Robley G. Gould and Hilda H. Gould, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 940, page 534.
26. A certain tract of land described in a certain deed, dated July 26, 1974, by Scott V. Swanson and Pauline U. Swanson, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 956, page 229.
27. A certain tract of land described in a certain deed, dated January 20, 1975, by H. Wayne Peterson and Nelda Louise Peterson, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 995, page 54.
28. A certain tract of land described in a certain deed, dated October 22, 1976, by William S. Yarbrough and Valta E. Yarbrough, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 1112, page 496.
29. A certain tract of land described in a certain deed, dated December 27, 1979, by Albert L. Blankenship, President, Blankenship Construction Co., Inc., an Arizona corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 1389, pages 25-26.
30. A certain tract of land described in a certain deed, dated January 29, 1982, by Joseph J. DeFrancesco, Esquire, Trustee, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 1568, pages 7-8.
31. A certain tract of land described in a certain deed, dated March 1, 1982, by Keith L. Hakes, Member, Board of Trustees of Sierra Vista United Methodist Church, an Arizona corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 1576, pages 66-67.
32. A certain tract of land described in a certain deed, dated May 28, 1982, by Samuel J. Fraizer and Ilene M. Fraizer, husband and wife, as grantors, to the mortgagor, as grantee, and recorded in the office of Santa Cruz County Recorder, State of Arizona, in Docket 327, pages 85-86.
33. A certain tract of land described in a certain deed, dated September 26, 1983, by Ted Johnson, President, Grain Co-op of Arizona, an Arizona corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, in Docket 1706, page 517.
34. A certain tract of land described in a certain deed, dated April 21, 1986, by Carl A. Naegle and Lena B. Naegle, as to an undivided ½ interest, and Raymond L. Naegle and Doris O. Naegle, as to an undivided ½ interest, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, as Fee #860408371.

35. A certain tract of land described in a certain deed, dated August 28, 1986, by James K. Kerley and Katherine M. Kerley, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, as Fee #860919128.
36. A certain tract of land described in a certain deed, dated March 8, 1994, by Judy F. Cocke, Jacqueline Elizabeth' Hooker Hughes, and M. R. Campbell and Linda O. Campbell, as grantors, to the mortgagor, as grantee, and recorded in the office of Cochise County Recorder, State of Arizona, as Fee #940306590.
37. A certain tract of land described in a certain deed, dated January 6, 1998, by Socorro Isabel D. Avila, also known as Isabel D Avila, as grantor, to the mortgagor, as 'grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee Number 980101776.
38. A certain tract of land described in a certain deed, dated May 19, 2003, by Eurofresh, Inc., an Arizona corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of the Graham County Recorder, State of Arizona, at Fee # 2003-03354.

TOGETHER WITH all plants, works, structures, erections, reservoirs, dams, buildings, fixtures and improvements now or hereafter located on any of the properties conveyed by any and all of the aforesaid deeds mentioned above, and all tenements, hereditaments and appurtenances now or hereafter thereunto belonging or in anywise appertaining.

The description of each of the properties conveyed by and through the provisions of the aforesaid deeds is by reference make a part hereof as though fully set forth at length herein.

39. A certain tract of land described in a certain deed dated April 28, 2004, by DMN Limited Partnership, an Arizona limited partnership, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #040514988.
40. A certain tract of land described in a certain deed dated December 13, 2004, by Pioneer Title Agency, Inc., an Arizona corporation, as Trustee, under Trust No. 00953330, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #050100417.
41. A certain tract of land described in a certain deed dated March 9, 2005, by Castle & Cooke Arizona, Inc., an Arizona Corporation formerly known as Arizona Newsub, Inc., an Arizona Corporation, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #050413790.
42. A certain tract of land described in a certain deed dated March 30, 2006, by Spilde Investments, L.L.C., an Arizona limited liability company, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #060312209.
43. A certain tract of land described in a certain deed dated April 6, 2006, by Leslie H. Jones and Mary D. Jones, as Trustees of the Leslie H. Jones and Mary D. Jones Revocable Trust, dated March 25, 1996, as grantors, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #060414227.
44. A certain tract of land described in a certain deed dated August 16, 2006, by the County of Cochise, a political subdivision, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #060831698.

45. A certain tract of land described in a certain deed dated July 2, 2007, by Linda Jo Langley, Trustee of the Angelita F. Spencer Irrevocable Trust, as grantor, to the mortgagor, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #070722303.

EXCEPTING therefrom, a certain tract of land described in a certain deed dated June 29, 2005, by the mortgagor, as grantor, to Castle & Cooke Arizona, Inc., an Arizona Corporation, as grantee, and recorded in the office of the Cochise County Recorder, State of Arizona, at Fee #050725599.

### **Appendix C -Excepted Property**

- (A) Those items of property acquired by Mortgagor pursuant to Smart Grid grant No. ~~XXXXX~~ and required to be exempt from prior liens by 10 CFC Section 600.321 et. seq.
- (B) The account maintained or to be established at CoBank by the Mortgagor into which the proceeds of one or more clean renewable energy bonds have been, or will be, deposited, all investments made with the funds in the account, and all proceeds thereof.
- (C) That certain Easement, by and between the U.S. Department of the Army as Grantor and Sulphur Springs Valley Electric Cooperative, Inc. as Grantee, over, across, in and upon certain lands located on the Fort Huachuca Military Reservation in Cochise County, Arizona, for the construction, operation, maintenance, repair and replacement of substations for electric power transmission lines and lines for electric power and transmission and distribution, including all right, title and interest in and to all appurtenances located thereon and memorialized in Docket Number 071033177, records of the Cochise County Recorder on 10/12/2007.

# **EXHIBIT D**

## LOAN AGREEMENT

**LOAN AGREEMENT** (this "Agreement") dated as of \_\_\_\_\_, 2010, between SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, 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 organized and existing under the laws of the District of Columbia.

### RECITALS

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

**WHEREAS**, the Borrower has agreed to execute one or more promissory notes to evidence an indebtedness in the aggregate principal amount of the CFC Commitment (as hereinafter defined).

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

### ARTICLE I

#### DEFINITIONS

**Section 1.01** For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and the plural form thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the 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 GAAP applicable to businesses similar to that of the Borrower.

**"Advance"** shall mean each advance of funds by CFC to the Borrower pursuant to the terms and conditions of this Agreement.

**"Alternate Lender(s)"** shall mean lender(s), other than CFC, making Alternate Loans.

**"Alternate Loan(s)"** shall mean credit facilities, by and between Borrower and Alternate Lender(s), secured by the Mortgage.

**"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.

**"Average DSC Ratio"** shall mean the average of the Borrower's two highest annual DSC Ratios during the most recent three calendar years.

**"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 institution CFC 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 for an Advance.

**"CFC Loan"** shall mean the credit facility established pursuant and subject to the terms of this Agreement.

**"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.

**"CREB Provisions"** shall mean the specific covenants relating to funds requisition, tax status of the CREBs and completion and termination certificates contained in any loan agreements related to a clean renewable energy project of the Borrower funded by proceeds of one or more series of clean renewable energy bonds issued by CFC.

**"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.

**"Conversion Request"** shall mean a written 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 ("DSC") Ratio"** shall mean the ratio determined as follows: for any calendar year add (i) Operating Margins, (ii) Non-Operating Margins--Interest, (iii) Interest Expense, (iv) Depreciation and Amortization Expense, and (v) 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 amount of Long-Term Debt has been refinanced during such year, the payments of Principal and Interest Expense required to be made during such year on account of such refinanced amount of Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced amount of 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.

**"Default Rate"** shall mean a rate per annum equal to the interest rate in effect for an Advance plus two hundred basis points.

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

**"Distributions"** shall mean, with respect to the Borrower, any dividend, patronage refund, patronage capital retirement or cash distribution to its members, 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.

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

**"Environmental Laws"** shall mean all laws, rules and regulations promulgated by any Governmental Authority, with which Borrower is required to comply, regarding the use, treatment, discharge, storage, management, handling, manufacture, generation, processing, recycling, distribution, transport, release of or exposure to any Hazardous Material.

**"Equity"** shall mean the aggregate of the Borrower's equities and margins computed pursuant to Accounting Requirements.

**"Event of Default"** shall have the meaning as described in Article VI hereof.

**"GAAP"** shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board.

**"Governmental Authority"** shall mean the government of the United States of America, any other nation or government, any state or other political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

**"Hazardous Material"** shall mean any (a) petroleum or petroleum products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls, lead and radon gas, and (b) any other substance designated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

**"Interest Expense"** shall mean an amount constituting the interest expense with respect to 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 2% of the Borrower's Equity.

**"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.

**"Letter Agreement"** shall mean such letter from CFC to Borrower as is countersigned by the Borrower as of even date herewith relating to fees to be paid by the Borrower hereunder.

**"Lien"** shall mean any statutory or common law consensual 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 Uniform Commercial Code.

**"Loan Documents"** shall mean this Agreement, the Note, the Letter Agreement, the Mortgage and all other documents or instruments executed, delivered or executed and delivered by the Borrower and evidencing, securing, governing or otherwise pertaining to the loan made by CFC to the Borrower, pursuant to this Agreement.

**"Long-Term Debt"** shall mean an amount constituting the long-term debt of the Borrower computed 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 have the meaning ascribed to it therein.

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

**"Mortgaged Property"** shall have the meaning ascribed to it in the Mortgage.

**"Non-Operating Margins--Interest"** shall mean the amount representing the interest component of non-operating margins of the 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.

**"Obligations"** shall mean any and all liabilities, obligations or indebtedness owing by the Borrower to CFC, of any kind or description, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

**"Operating Margins"** shall mean the amount of patronage capital and operating 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.

**"Permitted Encumbrances"** shall have the meaning ascribed to it in the Mortgage.

**"Person"** shall mean natural persons, cooperatives, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, associations, companies, trusts or other organizations, irrespective of whether they are legal entities, and Governmental Authorities.

**"Principal"** shall mean the amount of principal billed on account of Long-Term Debt of the Borrower computed pursuant to 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).

**"Subsidiary"** as to any Person, shall mean a corporation, partnership, limited partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

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

**"Total Utility Plant"** shall mean the amount constituting the total utility plant of the Borrower computed pursuant to Accounting Requirements.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

**Section 2.01** The Borrower represents and warrants to CFC that as of the date of this Agreement:

**A. Good Standing.** The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, 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. The Borrower is a member in good standing of CFC.

**B. Subsidiaries and Ownership.** Schedule 1 hereto sets forth a complete and accurate list of the Subsidiaries of the Borrower showing the percentage of the Borrower's ownership of the outstanding stock, membership interests or partnership interests, as applicable, of each Subsidiary.

**C. Authority; Validity.** The Borrower has the 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 action; and no consent or approval of any Person, including, as applicable and without limitation, members of the Borrower, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

Each of this Agreement, the Note and the Mortgage is, and when fully executed and delivered will be, legal, valid and binding upon the Borrower and enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity.

**D. No Conflicting Agreements.** The execution and delivery of the Loan Documents and performance by the Borrower of the obligations thereunder, 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 the Borrower, or any indenture, contract, agreement,

mortgage, deed of trust or other instrument to which the 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 the Borrower.

The Borrower is not in default in any material respect under any agreement or instrument to which it is a party or by which it is bound and no event or condition exists which constitutes a default, or with the giving of notice or lapse of time, or both, would constitute a default under any such agreement or instrument.

**E. Taxes.** The Borrower, and each of its Subsidiaries, has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all federal, state and local taxes, assessments, and governmental charges and levies thereon, including interest and penalties to the extent that such taxes, assessments, and governmental charges and levies have become due, except for such taxes, assessments, and governmental charges and levies which the Borrower or any Subsidiary is contesting in good faith by appropriate proceedings for which adequate reserves have been set aside.

**F. Licenses and Permits.** The 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 Governmental Authorities 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, its Subsidiaries or any of their respective properties which, if adversely determined, either individually or collectively, would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries. The Borrower and its Subsidiaries are not, to the Borrower's knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority which would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries.

**H. Financial Statements.** The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, the statement of operations of the Borrower for the period ending on said date, and the interim financial statements of the Borrower, all 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 extraordinary 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. Required Approvals.** No license, consent or approval of any Governmental Authority is required to enable the Borrower to enter into this Agreement, the Note and the Mortgage, or to perform any of its Obligations provided for in such documents, including without limitation (and if applicable), that of any state public utilities commission, any state public service commission, and the Federal Energy Regulatory Commission, except as disclosed in Schedule 1 hereto, all of which the Borrower has obtained prior to the date hereof.

**K. Compliance With Laws.** The Borrower and each Subsidiary is in compliance, in all material respects, with all applicable requirements of law and all applicable rules and regulations of each Governmental Authority.

**L. Disclosure.** To the Borrower's knowledge, information and belief, neither this Agreement nor any document, certificate or financial statement furnished to CFC by or on behalf of the Borrower in connection herewith (all such documents, certificates and financial statements, taken as a whole) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained herein and therein not misleading.

**M. No Other Liens.** As to property which is presently included in the description of Mortgaged Property, the Borrower has not, without the prior written approval of CFC, executed or authenticated any security agreement or mortgage, or filed or authorized any financing statement to be filed with respect to assets owned by it, other than security agreements, mortgages and financing statements in favor of CFC, except as disclosed in writing to CFC prior to the date hereof or relating to Permitted Encumbrances.

**N. Environmental Matters.** Except as to matters which individually or in the aggregate would not have a material adverse effect upon the business or financial condition of the Borrower or its Subsidiaries, (i) Borrower is in compliance with all Environmental Laws (including, but not limited to, having any required permits and licenses), (ii) there have been no releases (other than releases remediated in compliance with Environmental Laws) from any underground or aboveground storage tanks (or piping associated therewith) that are or were present at the Mortgaged Property, (iii) Borrower has not received written notice or claim of any violation of any Environmental Law, (iv) there is no pending investigation of Borrower in regard to any Environmental Law, and (v) to the best of Borrower's knowledge, there has not been any release or contamination (other than releases or contamination remediated in compliance with Environmental Laws) resulting from the presence of Hazardous Materials on property owned, leased or operated by the Borrower.

### ARTICLE III

#### LOAN

**Section 3.01 Advances.** The Borrower shall submit its request for an Advance to CFC in writing (which may be submitted by facsimile) no later than 12:00 noon local time at CFC's offices in Herndon, Virginia on the Business Day prior to the Business Day the Borrower seeks to have funds advanced.

CFC may decline to advance funds requested if and to the extent that any such request for funds or advance thereof would cause the sum of the outstanding balance of the CFC Loan and the Alternate Loan(s) to exceed \$72,680,000.00. At the end of the Draw Period, CFC shall have no further obligation to make Advances. The obligation of the Borrower to repay the Advances shall be evidenced by one or more Notes.

**Section 3.02 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 that is not more than forty (40) years from the date hereof, *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 Advance, the Borrower shall elect, with respect to such Advance, (1) an amortization method for principal, or (2) not to amortize principal. If no election is made, then the Advance shall amortize over a period ending on the earlier of the date that is thirty-five (35) years from the date of such Advance and the Maturity Date.

(a) *Amortizing Advances:* Each Advance that the Borrower elects to amortize 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, the 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, the 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 the Borrower to CFC pursuant to the terms hereof.

(b) *Non-Amortizing Advances:* Each Advance that the Borrower elects not to amortize shall be repaid within thirty-five (35) years from the date of such Advance, or the Maturity Date, whichever is earlier. On each Payment Date, the Borrower shall promptly pay interest only until the final Payment Date corresponding to the term of such Advance, or the Maturity Date (whichever is applicable), upon which date all unpaid principal, interest accrued thereon and fees, if any, shall be due and payable. If the term of a non-amortizing Advance ends on a date that is not a Payment Date, then the repayment of such Advance shall be due and payable on the Payment Date immediately preceding such date.

(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 the 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 to the Obligations, first to any fees, costs, expenses or charges other than interest or principal, second to interest accrued, and the balance to principal.

**C. Selection 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 selects 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 3.03 Conversion of Interest Rates.**

**A. CFC Variable Rate to a CFC Fixed Rate.** The Borrower may 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 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 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 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 3.04 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 3.04. 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.

**Section 3.05 Mandatory Prepayment.** If there is a change in the Borrower's corporate structure (including without limitation by merger, consolidation, conversion or acquisition), then upon the effective date of such change, (a) the Borrower shall no longer have the ability to request, and CFC shall have no obligation to make, Advances hereunder and (b) the Borrower shall prepay the outstanding principal balance of all Obligations, together with any accrued but unpaid interest thereon, any unpaid costs or expenses provided for herein, and a prepayment premium as set forth in any agreement between the Borrower and CFC with respect to any such Obligation or, if not specified therein, as prescribed by CFC pursuant to its policies of general application in effect from time to time.

Notwithstanding the foregoing, if after giving effect to such change in Borrower's corporate structure, Borrower, or its successor in interest, is engaged in the furnishing of electric utility services to its members and patrons for their use as ultimate consumers and is organized as a cooperative, nonprofit corporation, public utility district, municipality, or other public governmental body, Borrower shall retain the ability to request, and CFC shall retain the obligation to make, Advances hereunder and no prepayment shall be required under this Section 3.05.

**Section 3.06 Default Rate.** If Borrower defaults on its obligation to make a payment due hereunder by the applicable Payment Date, and such default continues for thirty days thereafter, then beginning on the thirty-first day after the Payment Date and for so long as such default continues, Advances shall bear interest at the Default Rate.

**ARTICLE IV****CONDITIONS OF LENDING**

**Section 4.01** The obligation of CFC to make any Advance hereunder is subject to satisfaction of the following conditions in form and substance satisfactory to CFC:

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

**B. Documents.** CFC shall have been furnished with (i) the executed Loan Documents, (ii) certified copies of all such organizational documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require, (iii) an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require, and (iv) all other such documents as CFC may reasonably request.

**C. Government Approvals.** The Borrower shall have furnished to CFC true and correct copies of all certificates, authorizations, consents, permits and licenses from Governmental Authorities necessary for the execution or delivery of the Loan Documents or performance by the Borrower of the obligations thereunder.

**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 and no event which, with the lapse of time or the notice and lapse of time would become such an Event of Default, shall have occurred and be continuing or will have occurred after giving effect to each 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 perform its obligations hereunder.

**E. Mortgage Recordation.** The Mortgage (and any amendments, supplements or restatements as CFC may require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a lien, subject to Permitted Encumbrances, on all of the Borrower's real property, 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. UCC Filings.** Uniform Commercial Code financing statements (and any continuation statements and other amendments thereto that CFC shall require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a perfected security interest, subject to Permitted Encumbrances, in the Mortgaged Property which may be perfected by the filing of a financing statement, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

**G. Requisitions.** The Borrower will requisition each Advance by submitting its written requisition to CFC in the form attached as Exhibit A hereto. Requisitions for Advances shall be made only for the purposes set forth in Schedule 1 hereto.

**H. Other Information.** The 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, (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, the Borrower shall continue to achieve the DSC ratio set forth in Section 5.01.A 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, and (iii) any other information as CFC may reasonably request. CFC's obligation to make any Advance hereunder is conditioned upon prior receipt and approval of the Borrower's written requisition and other information and documentation, if any, as CFC may have requested pursuant to this paragraph.

**I. Special Conditions.** CFC shall be fully satisfied that the Borrower has complied with all special conditions identified in Schedule 1 hereto.

## ARTICLE V

### COVENANTS

**Section 5.01 Affirmative Covenants.** The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder:

**A. Financial Ratios; Design of Rates.** The Borrower shall achieve an Average DSC Ratio of not less than 1.35. The Borrower shall not decrease its rates for electric service if it has failed to achieve a DSC Ratio of 1.35 for the calendar year prior to such reduction subject only to an order from a Governmental Authority properly exercising jurisdiction over the Borrower.

**B. Loan Proceeds.** The Borrower shall use the proceeds of this loan solely for the purposes identified on Schedule 1 hereto.

**C. Notice.** The Borrower shall promptly notify CFC in writing of:

(i) any material adverse change in the business, operations, prospects, assets, liabilities or financial condition of the Borrower;

(ii) the institution or threat of any litigation or administrative proceeding of any nature involving the Borrower which could materially affect the business, operations, prospects, assets, liabilities or financial condition of the Borrower;

(iii) the occurrence of an Event of Default hereunder, or any event that, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

**D. Default Notices.** Upon receipt of any notices with respect to a default by the Borrower under the terms of any evidence of any indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto, the Borrower shall deliver copies of such notice to CFC.

**E. Annual Certificates.**

(i) Within one hundred twenty (120) days after the close of each calendar year, commencing with the year in which the initial Advance hereunder shall have been made, the 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, the 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.

(ii) The Borrower shall deliver to CFC within one hundred twenty (120) days after the close of each calendar year, a certification, in form and substance satisfactory to CFC, regarding the condition of the Mortgaged Property prepared by a professional engineer satisfactory to CFC. The Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

**F. Reserved.**

**G. 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 Accounting Requirements. 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. All of such reports shall be in such form and include such information as may be specified by CFC. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, the 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 the Borrower's fiscal years during the term hereof, the Borrower shall furnish to CFC a full and complete consolidated and consolidating 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, including without limitation a consolidated and consolidating balance sheet and the related consolidated and consolidating statements of income and cash flow. 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 anyway pertaining to its property or business.

**H. Notice of Additional Secured Debt.** The Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC or indebtedness otherwise provided for in the Mortgage.

**I. Funds Requisition.** The Borrower agrees (i) that CFC may rely conclusively upon the interest rate option, interest rate term and other written instructions submitted to CFC in the 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, and (iii) to request Advances only for the purposes set forth in Schedule 1 hereto.

**J. Compliance with Laws.** The Borrower and each Subsidiary shall remain in compliance, in all material respects, with all applicable requirements of law and applicable rules and regulations of each Governmental Authority.

**K. Taxes.** The Borrower shall pay, or cause to be paid all taxes, assessments or governmental charges lawfully levied or imposed on or against it and its properties prior to the time they become delinquent, except for any taxes, assessments or charges that are being contested in good faith and with respect to which adequate reserves as determined in good faith by the Borrower have been established and are being maintained.

**L. Further Assurances.** The Borrower shall execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or which CFC may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created thereby. The Borrower also agrees to provide to CFC, from time to time upon request, evidence reasonably satisfactory to CFC as to the perfection and priority of the Liens created or intended to be created by the Loan Documents.

**M. Environmental Covenants.** The Borrower shall:

(i) at its own cost, comply in all material respects with all applicable Environmental Laws, including, but not limited to, any required remediation; and

(ii) if it receives any written communication alleging Borrower's violation of any Environmental Law, provide CFC with a copy thereof within ten (10) Business Days after receipt, and promptly take appropriate action to remedy, cure, defend, or otherwise affirmatively respond to the matter.

**N. Limitations on Loans, Investments and Other Obligations.** The aggregate amount of all purchases, investments, loans, guarantees, commitments and other obligations described in Section 5.02.D(i) of this Agreement shall at all times be less than fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity, whichever is greater.

**O. Fees.** The CFC Commitment and Advances hereunder may be subject to certain fees. Any applicable fees will be set forth in the Letter Agreement.

**P. Special Covenants.** The Borrower agrees that it will comply with any special covenants identified in Schedule 1 hereto.

**Section 5.02 Negative Covenants.** The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower will not, directly or indirectly, without CFC's prior written consent:

**A. Limitations on Mergers.** Consolidate with, merge, or sell all or substantially all of its business or assets, or enter into an agreement for such consolidation, merger or sale, to another entity or person unless such action is either approved, as is evidenced by the prior written consent of CFC, or the purchaser, successor or resulting corporation is or becomes a member in good standing of CFC and assumes the due and punctual payment of the Note and the due and punctual performance of the covenants contained in the Mortgage and this Agreement.

**B. Limitations on Sale, Lease or Transfer of Capital Assets; Application of Proceeds.** Sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset, except in accordance with this Section 5.02.B. If no Event of Default (and no event which with notice or lapse of time and notice would become an Event of Default) shall have occurred and be continuing, the Borrower may, without the prior written consent of CFC, sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset in exchange for fair market value consideration paid to the Borrower if the value of such capital asset is less than five percent (5%) of Total Utility Plant and the aggregate value of capital assets sold, leased or transferred in any 12-month period is less than ten percent (10%) of Total Utility Plant. If the Borrower does sell, lease or transfer any capital assets, then the proceeds thereof (less ordinary and reasonable expenses incident to such transaction) shall immediately (i) be applied as a prepayment of the Note, to such installments as may be designated by CFC at the time of any such prepayment; (ii) in the case of dispositions of equipment, material or scrap, applied to the purchase of other property useful in the Borrower's business, although 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 other property or in reimbursement of the costs of such property.

**C. Limitation on Dividends, Patronage Refunds and Other Distributions.**

(i) Make any Distribution if an Event of Default under this Agreement has occurred and is continuing; or

(ii) Make a Distribution in any calendar year in an amount greater than thirty percent (30%) of the Borrower's total margins for the preceding calendar year, unless, after giving effect to the Distribution, the total Equity of the Borrower will be at least twenty percent (20%) of its Total Assets.

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

(i) (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, or enter into a commitment to make, any other investment, monetary or otherwise, in, (c) make, or enter into a commitment to make, any loan to, or (d) guarantee, assume, or otherwise become liable for, or enter into a commitment to guarantee, assume, or otherwise become liable for, any obligation of any Person if, after giving effect to such purchase, investment, loan, guarantee or commitment, the aggregate amount thereof would exceed the greater of fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity.

(ii) The following shall not be included in the limitation of purchases, investments, loans and guarantees in (i) above: (a) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States 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; (d) any deposit that is fully insured by the United States; (e) loans and grants made by any Governmental Authority to the Borrower under any rural economic development program, but only to the extent that such loans and grants are non-recourse to the Borrower; and (f) unretired patronage capital allocated to the Borrower by CFC, a cooperative from which the Borrower purchases electric power, or a statewide cooperative association of which Borrower is a member.

(iii) In no event may the Borrower take any action pursuant to subsection (i) if an Event of Default under this Agreement has occurred and is continuing,

**E. Organizational Change.** Change its type of organization or other legal structure, except as permitted by Section 5.02.A. hereof, in which case the Borrower shall provide at least 30 days prior written notice to CFC together with all documentation reflecting such change as CFC may reasonably require.

**F. Notice of Change in Borrower Information.** Change its (i) state of incorporation, (ii) legal name, (iii) mailing address, or (iv) organizational identification number, if it has one, unless the Borrower provides written notice to CFC at least thirty (30) days prior to the effective date of any such change together with all documentation reflecting any such change as CFC may reasonably require.

## ARTICLE VI

### EVENTS OF DEFAULT

**Section 6.01** The following shall be "Events of Default" under this Agreement:

**A. Representations and Warranties.** Any representation or warranty made by the Borrower herein, or in any of the other Loan Documents, or in any certificate or financial statement furnished to CFC hereunder or under any of the other Loan Documents shall prove to be false or misleading in any material respect.

**B. Payment.** The Borrower shall fail to pay (whether upon stated maturity, by acceleration, or otherwise) any principal, interest, premium (if any) or other amount payable under the Note and the Loan Documents within five (5) Business Days after the due date thereof.

**C. Other Covenants.**

**(i) No Grace Period.** Failure of the Borrower to observe or perform any covenant or agreement contained in Sections 5.01.A, 5.01.B, 5.01.D, 5.01.E, 5.01.G, 5.01.I, 5.01.N, 5.02 or Schedule 1 of this Agreement.

**(ii) Thirty Day Grace Period.** Failure of the Borrower to observe or perform any other covenant or agreement contained in this Agreement or any of the other Loan Documents, which shall remain unremedied for thirty (30) calendar days after written notice thereof shall have been given to the Borrower by CFC.

**D. Legal Existence, Permits and Licenses.** The Borrower shall forfeit or otherwise be deprived of (i) its authority to conduct business in the jurisdiction in which it is organized or in any other jurisdiction where such authority is required in order for the Borrower to conduct its business in such jurisdiction or (ii) permits, easements, consents or licenses required to carry on any material portion of its business.

**E. Other CFC Obligations.** The Borrower shall be in breach or default of any Obligation, which breach or default continues uncured beyond the expiration of any applicable grace period.

**F. Other Obligations.** The Borrower shall (i) fail to make any payment of any principal, premium or any other amount due or interest on any indebtedness with parties other than CFC which shall remain unpaid beyond the expiration of any applicable grace period, or (ii) be in breach or default with respect to any other term of any evidence of any other indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto which breach or default continues uncured beyond the expiration of any applicable grace period, if the effect of such failure, default or breach is to cause the holder or holders of that indebtedness to cause that indebtedness to become or be declared due prior to its stated maturity (upon the giving or receiving of notice, lapse of time, both or otherwise).

**G. Involuntary Bankruptcy.** An involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such involuntary case or other proceeding shall continue without dismissal or stay for a period of sixty (60) days; or an order for relief shall be entered against the Borrower under the federal bankruptcy laws or applicable state law as now or hereafter in effect.

**H. Insolvency.** The Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to, or be generally unable to, pay its debts as they become due, or shall take any action to authorize any of the foregoing.

**I. Dissolution or Liquidation.** Other than as provided in subsection H. above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions set forth in Section 5.02.A.

**J. Material Adverse Change.** Any material adverse change in the business or condition, financial or otherwise, of the Borrower.

**K. Monetary Judgment.** The Borrower shall suffer any money judgment not covered by insurance, writ or warrant of attachment or similar process involving an amount in excess of \$100,000 and shall not discharge, vacate, bond or stay the same within a period of sixty (60) days.

**L. Nonmonetary Judgment.** One or more nonmonetary judgments or orders (including, without limitation, injunctions, writs or warrants of attachment, garnishment, execution, distraint, replevin or similar process) shall be rendered against the Borrower that, either individually or in the aggregate, could reasonably be expected to have a material adverse

effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower.

## ARTICLE VII

### REMEDIES

**Section 7.01** 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 applicable grace periods specified therein, then CFC may:

- (i) Cease making Advances hereunder;
- (ii) 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;
- (iii) 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 the Note, including, but not limited to, patronage capital allocations and retirements, money due to Borrower from equity certificates purchased from CFC, and any membership or other fees that would otherwise be returned to Borrower. 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. The Borrower waives all rights of setoff, deduction, recoupment or counterclaim;
- (iv) Pursue all rights and remedies available to CFC that are contemplated by the Mortgage and the other Loan Documents in the manner, upon the conditions, and with the effect provided in the Mortgage and the other Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief or damages;
- (v) Pursue any other rights and remedies available to CFC at law or in equity.

Nothing herein shall limit the right of CFC to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default. 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 8.01 Notices.** All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. All such communications shall be deemed to have been duly given (i) when personally delivered including, without limitation, by overnight mail or courier service, (ii) in the case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (iii) in the case of notice by telecopy, upon transmission thereof, provided such transmission is promptly confirmed by either of the methods set forth in clauses (i) or (ii) above in each case given or addressed as provided for herein. The Address for Notices of each of the respective parties is as follows:

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

The Borrower:

The address set forth in  
Schedule 1 hereto

**Section 8.02 Expenses.** Borrower shall reimburse CFC for any reasonable costs and out-of-pocket expenses paid or incurred by CFC (including, without limitation, reasonable fees and expenses of outside attorneys, paralegals and consultants) for all actions CFC takes, (a) to enforce the payment of any Obligation, to effect collection of any Mortgaged Property, or in preparation for such enforcement or collection, (b) to institute, maintain, preserve, enforce and foreclose on CFC's security interest in or Lien on any of the Mortgaged Property, whether through judicial proceedings or otherwise, (c) to restructure any of the Obligations, (d) to review, approve or grant any consents or waivers hereunder, (e) to prepare, negotiate, execute, deliver, review, amend or modify this Agreement, and (f) to prepare, negotiate, execute, deliver, review, amend or modify any other agreements, documents and instruments deemed necessary or appropriate by CFC in connection with any of the foregoing.

The amount of all such expenses identified in this Section 8.02 shall be secured by the Mortgage and shall be payable upon demand, and if not paid, shall accrue interest at the then prevailing CFC Variable Rate plus two hundred basis points.

**Section 8.03 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, the Borrower will pay to CFC, in addition to all other amounts due under the terms of the Loan Documents, any late payment charge as may be fixed by CFC from time to time pursuant to its policies of general application as in effect from time to time.

**Section 8.04 Non-Business Day 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 8.05 Filing Fees.** To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the reasonable fees and expenses of its counsel) in connection with the filing, registration, recordation or perfection of the Mortgage and any other security instruments as may be required by CFC in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to execution, filing, registration or recordation of any document or instrument in connection herewith. The 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 under the Loan Documents.

**Section 8.06 Waiver; Modification.** No failure on the part of CFC to exercise, and no delay in exercising, any right or power hereunder or under the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise by CFC of any right hereunder, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement, the Note or the other Loan Documents and no consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent, and then such modification, waiver or consent shall be effective only in the specific instance and for the purpose for which given.

**SECTION 8.07 GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.**

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

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

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

**SECTION 8.08 INDEMNIFICATION.** THE BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS, AND DEFEND CFC AND ITS MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS AND REPRESENTATIVES (EACH AN "INDEMNITEE") FOR, FROM, AND AGAINST ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COSTS AND EXPENSES OF LITIGATION AND REASONABLE ATTORNEYS' FEES) ARISING FROM ANY CLAIM OR DEMAND IN RESPECT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, THE MORTGAGED PROPERTY, OR THE TRANSACTIONS DESCRIBED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ARISING AT ANY TIME, WHETHER BEFORE OR AFTER PAYMENT AND PERFORMANCE OF ALL OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS IN FULL, EXCEPTING ANY SUCH MATTERS ARISING SOLELY FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF CFC OR ANY INDEMNITEE. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN SECTION 8.10 HEREOF, THE OBLIGATIONS IMPOSED UPON THE BORROWER BY THIS SECTION SHALL SURVIVE THE REPAYMENT OF THE NOTE, THE TERMINATION OF THIS AGREEMENT AND THE TERMINATION OR RELEASE OF THE LIEN OF THE MORTGAGE.

**Section 8.09 Complete Agreement.** This Agreement, together with the schedules to this Agreement, the Note and the other Loan Documents, and the other agreements and matters referred to herein or by their terms referring hereto, is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement. In the event of any conflict in the terms and provisions of this Agreement and any other Loan Documents, the terms and provisions of this Agreement shall control.

**Section 8.10 Survival; Successors and Assigns.** All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall survive the execution and delivery to CFC of the Loan Documents and the making of the Loan hereunder and shall continue in full force and effect until all of the obligations under the Loan Documents have been paid in full. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall inure to the benefit of the successors and assigns of CFC. The Borrower shall not have the right to assign its rights or obligations under this Agreement without the prior written consent of CFC, except as provided in Section 5.02.A hereof.

**Section 8.11 Use of Terms.** The use of the singular herein shall also refer to the plural, and vice versa.

**Section 8.12 Headings.** The headings and sub-headings contained in this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

**Section 8.13 Severability.** If any term, provision or condition, or any part thereof, of this Agreement, the Note or the other Loan Documents shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note and the other Loan Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

**Section 8.14. 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, (b) the CREB Provisions, and (c) 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 8.14 shall be deemed to amend all Prior Loan Documents, and notwithstanding termination of this Agreement for any reason, this Section 8.14 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 8.14.

**Section 8.15 Binding Effect.** This Agreement shall become effective when it shall have been executed by both the Borrower and CFC and thereafter shall be binding upon and inure to the benefit of the Borrower and CFC and their respective successors and assigns.

**Section 8.16 Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to physically form one document.

**Section 8.18 Schedule 1.** Schedule 1 attached hereto is an integral part of this Agreement.

**[Signatures on following page]**

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

SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC.

(SEAL)

By: \_\_\_\_\_

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

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

NATIONAL RURAL UTILITIES  
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: \_\_\_\_\_  
Assistant Secretary-Treasurer

Attest: \_\_\_\_\_  
Assistant Secretary-Treasurer

### SCHEDULE 1

1. The Borrower shall use the proceeds of this loan to finance electric work plan and for such other purposes as CFC may approve from time to time
2. The aggregate CFC Commitment is up to \$72,680,000.00, subject to the limitations set forth in this Agreement. Within this aggregate amount, the 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. Draw Period shall mean the period of beginning on the date hereof and ending on the date that is four (4) years thereafter.
4. The Mortgage shall mean the Amended and Restated Real Estate Mortgage and Security Agreement, dated as of \_\_\_\_\_, 2010, between the Borrower, CFC and the Alternate Lender(s), as it may have been supplemented, amended, consolidated, or restated from time to time.
5. The Notes executed pursuant hereto and the amortization method for such Notes are as follows:

| LOAN NUMBER  | AMOUNT          | AMORTIZATION METHOD                 |
|--------------|-----------------|-------------------------------------|
| AZ014-V-9052 | \$72,680,000.00 | To be determined at time of Advance |

6. The Payment Date months are March, June, September and December.
7. The Subsidiaries of the Borrower referred to in Section 2.01.B are:

| <u>Name of Subsidiary</u> | <u>% of Borrower's ownership</u> |
|---------------------------|----------------------------------|
| None                      | N/A                              |
8. The date of the Borrower's balance sheet referred to in Section 2.01.H is June 30, 2009.
9. The Borrower's exact legal name is: Sulphur Springs Valley Electric Cooperative, Inc.
10. The Borrower's organizational type is: corporation.
11. The Borrower is organized under the laws of the state of: Arizona
12. The Borrower's organizational identification number is: 0038220-2
13. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.01.I is 311 East Wilcox, Sierra Vista, AZ 85635.
14. The Governmental Authority referred to in Section 2.01.J is: the Arizona Corporation Commission.
15. The special condition referred to in Section 4.01.I is:

**A. Fees.** Borrower shall have paid all fees described in the Letter Agreement, as and when due.

16. The special covenants referred to in Section 5.01.P are as follows:

**A. Request and Acceptance of Funds.** Borrower covenants and agrees that until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower shall neither request nor accept funds under the CFC Loan or the Alternate Loan if doing so would result in the sum of the outstanding balances of the CFC Loan and the Alternate Loan exceeding \$72,680,000.00.

**B. Requests for Quotes and Balance Certification for Quote.**

(i) Not less than twenty-four (24) hours prior to the time it desires a rate quote for a proposed Advance hereunder, or for a rate quote on an advance of funds under the Alternate Loan, Borrower shall submit to both CFC and Alternate Lender, and CFC may rely conclusively upon, a statement (the "Balance Certification for Quote" or "Certificate") in substantially the form attached hereto, signed by Borrower's Chief Financial Officer, specifying and certifying, as of the date of such Certificate, for each of the CFC Loan and the Alternate Loan, individually, the total outstanding balance, including the date and amount of any funds requested that are pending advance and, therefore, are not, as of the date of the Certificate, reflected in the outstanding balances. In addition to the foregoing, each Certificate will set forth the amount and purpose of the proposed Advance or advance of funds.

(ii) Using the Certificate submitted by the Borrower, CFC will provide Borrower and Alternate Lender, from CFC's records, the total outstanding balance for the CFC Loan, including the date and amount of any funds requested that are pending advance and, therefore, are not, as of the date of the Certificate, reflected in the outstanding balances ("CFC's Response"). Borrower will obtain from Alternate Lender and provide to CFC, or will ensure that Alternate Lender provides to CFC directly, corresponding information from Alternate Lender's records concerning the Alternate Loan ("Alternate Lender's Response"). Borrower agrees that CFC and Alternate Lender may, but shall not be obligated to, communicate with each other concerning the information set forth in Borrower's Certificate or the response of either party to same.

(iii) Within forty-eight (48) hours of CFC submitting the CFC Response, Borrower will use the Certificate, prior to requisitioning or accepting an Advance hereunder (or under the Alternate Loan) or requesting another quote, to notify CFC and Alternate Lender that it has determined (a) to accept a quote and to requisition an advance (identifying the lender and providing the amount of the advance to be requisitioned); or (b) not to accept any of the quotes provided. If Borrower elects not to accept any of the quotes, Borrower will not thereafter request or accept an advance without submitting an updated Certificate supporting a request for a quote on such an advance, whereupon the lenders will again respond and Borrower will use the Certificate as provided in the foregoing subparagraphs (ii) and (iii). Borrower agrees that it shall not, before the expiration of twenty-four (24) hours following CFC's receipt of the Alternate Lender's Response, request or make an election to request an advance under the Alternate Loan.

**C. Representations and Warranties in Certificate.** The Borrower represents, warrants, covenants and agrees that, unless Borrower has advised CFC to the contrary and CFC has acknowledged such advice in writing to Borrower, Borrower's statements made in any Certificate shall be true, accurate, correct and complete when made, and on and as of (i) the

date of any corresponding Funds Requisition Statement, and (ii) the date of any corresponding Advance, just as though such statements had been made on and as of the actual date of the Funds Requisition Statement and the actual date of the requisitioned Advance.

17. The address for notices to the Borrower referred to in Section 8.01 is 311 East Wilcox Sierra Vista, AZ 85635, Attention: General Manager, Fax: (520) 384-5223.



**SECURED PROMISSORY NOTE**

\$72,680,000.00

dated as of \_\_\_\_\_, 2010

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, 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 SEVENTY TWO MILLION SIX HUNDRED EIGHTY THOUSAND DOLLARS (\$72,680,000.00), 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 forty (40) 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 an Amended and Restated Real Estate Mortgage and Security Agreement dated as of \_\_\_\_\_, 2010 among the Borrower, the Payee and CoBank, ACB, 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.

SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC.

(SEAL)

By: \_\_\_\_\_

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

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

Secretary

AZ014-V-9052



## MASTER LOAN AGREEMENT

**THIS MASTER LOAN AGREEMENT** (this "Agreement") is entered into as of <>, 2010, between **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**, an Arizona electric cooperative corporation (the "Company"), and **CoBANK, ACB**, a federally chartered instrumentality of the United States ("CoBank").

### BACKGROUND

From time to time, CoBank may make loans and extend other types of credit to or for the account of the Company. In order to facilitate the making of such loans and other types of credit, the parties are entering into this Agreement.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

### ARTICLE 1 DEFINITIONS AND RULES OF INTERPRETATION

**SECTION 1.01. Definitions.** Capitalized terms used in this Agreement and defined in Exhibit A hereto shall have the meanings set forth in that Exhibit.

**SECTION 1.02. Rules of Interpretation.** The rules of interpretation set forth in Exhibit A hereto shall apply to this Agreement.

### ARTICLE 2 THE SUPPLEMENTS

**SECTION 2.01. Promissory Notes and Supplements.** In the event the Company desires to borrow from CoBank and CoBank is willing to lend to the Company, the parties will enter into a promissory note and supplement hereto (each a "Promissory Note and Supplement"). Each Promissory Note and Supplement will set forth CoBank's commitment to make a loan or loans to the Company, the amount of the loan(s), the purpose of the loan(s), the interest rate or interest rate options applicable to the loan(s), the Company's promise to repay the loan(s), and any other terms and conditions applicable to the particular loan(s). Each loan will be governed by the terms and conditions set forth in this Agreement and in the Promissory Note and Supplement relating to that loan. In the absence of a Promissory Note and Supplement hereto duly executed by CoBank, CoBank shall have no obligation to make a loan to the Company under this Agreement.

**SECTION 2.02. Notice and Manner of Borrowing New Loans.** Except as otherwise provided in a Promissory Note and Supplement: (A) loans will be made available on any Business Day upon the written or telephonic request of an authorized employee of the Company (which request, if made telephonically, shall be promptly confirmed in writing if required by CoBank); (B) requests for loans must be received by CoBank not later than 12:00 noon Company's local time on the date the loan is to be made; and (C) loans will be made available by wire transfer of immediately available funds to such account or accounts as may be authorized by the Company on forms supplied by CoBank.

**SECTION 2.03. Method of Payment.** The Company shall make all payments to CoBank under this Agreement, each Promissory Note and Supplement, and all other Loan Documents by wire transfer of immediately available funds, by check, or, if specified by separate agreement between the Company and CoBank, by automated clearing house or other similar cash handling processes. Wire transfers shall be made to the following account (or to such other account as CoBank may direct by notice to the Company):

CoBank, ACB  
ABA Routing No. 307088754  
Short Name: CoBank  
Beneficiary: Sulphur Springs Electric Cooperative, Inc.

The Company shall give CoBank telephonic notice not later than 12:00 noon Mountain Time of its intent to pay by wire, and funds received after 3:00 p.m. Company's local time shall be credited on the next Business Day. Checks shall be mailed to CoBANK, Department 167, Denver, Colorado 80291-0167 (or to such other place as CoBank may direct by notice to the Company). Credit for payment by check will not be given until the later of the next Business Day after receipt of the check or the Business Day on which CoBank receives immediately available funds.

**SECTION 2.04. Security.** The Company's obligations hereunder and under all other Loan Documents to which the Company is a party (whether executed contemporaneously herewith or at a later date) shall be secured by a statutory first priority Lien on all equity which the Company may now own or hereafter acquire or be allocated in CoBank and all proceeds thereof. In addition, except as otherwise provided in a Promissory Note and Supplement, the Company's obligations hereunder and under each Promissory Note and Supplement shall be secured by a first priority Lien (subject only to exceptions approved in writing by CoBank and shared pro rata with the National Rural Utilities Cooperative Finance Corporation ("CFC")) on all real and personal property of the Company, whether now existing or hereafter acquired. The Company agrees to take such steps (including the execution and recordation of such mortgages, deeds of trust, security agreements, financing statements, and other instruments and documents) as CoBank may from time to time require to enable CoBank to obtain, perfect, and maintain its Lien on such property.

### ARTICLE 3 CONDITIONS PRECEDENT

**SECTION 3.01. Conditions Precedent to the Initial Promissory Note and Supplement.** CoBank's obligation to make the initial loan under the initial Promissory Note and Supplement hereto, is subject to the following conditions precedent (which, in the case of instruments and documents, must be in form and content acceptable to CoBank and, except as provided below, originals):

(A) **This Agreement.** CoBank and the Company shall have duly executed and delivered this Agreement.

(B) **Secretary's Certificate.** CoBank shall have received a certificate of the Secretary of the Company dated as of the date hereof (or as of such other date as may be acceptable to CoBank in its sole discretion) attaching and certifying as to each of the following (which certificate and attachments must be in form and content acceptable to CoBank): (1) the articles of incorporation of the Company, as amended to the date hereof, certified within 30 days of the date hereof by the Secretary of State of Arizona; (2) a certificate issued by the Arizona Secretary of State dated within 30 days of the date hereof attesting to the due incorporation and good standing of the Company in the State of Arizona; (3)

the bylaws of the Company, as amended to the date hereof; and (4) all Wholesale Power Contracts which the Company is a party to on the date hereof.

(C) **CoBank Delegation and Wire Transfer Authorization Form.** CoBank shall have received a duly executed CoBank delegation and wire transfer authorization form.

**SECTION 3.02. Conditions to Each Supplement.** CoBank's obligation to make the initial loan under each Promissory Note and Supplement hereto (including the initial Promissory Note and Supplement hereto) is subject to the following conditions precedent (which in the case of instruments and documents, must be originals and in form and content acceptable to CoBank):

(A) **Supplement.** CoBank shall have received a duly executed Promissory Note and Supplement and all Loan Documents required by the Promissory Note and Supplement.

(B) **Evidence of Authority.** CoBank shall have received copies, certified by the Secretary or an Assistant Secretary of the Company as of the date of the Promissory Note and Supplement (or as of another date acceptable to CoBank), of such board resolutions, evidence of incumbency, and other evidence as CoBank may require that the Promissory Note and Supplement and all Loan Documents executed by the Company in connection therewith (including, in the case of the initial Promissory Note and Supplement, this Agreement) have been duly authorized, executed and delivered.

(C) **Consents and Approvals.** CoBank shall have received such evidence as CoBank may require that all consents and approvals required under Section 4.12 hereof, have been obtained and are in full force and effect.

(D) **Fees and Other Charges.** CoBank shall have received all fees or other charges to be paid to it provided for herein or in the Promissory Note and Supplement.

(E) **Application.** CoBank shall have received a duly executed and completed copy of an application for the credit.

(F) **Insurance.** CoBank shall have received such evidence as it may reasonably require that the Company is in compliance with Section 5.04 hereof.

(G) **Security.** CoBank shall have received such evidence as may be satisfactory to CoBank that: (1) all steps required by CoBank under Section 2.04 hereof (including the execution and recordation of such mortgages, deeds of trust, security agreements, financing statements, and other instruments and documents as CoBank may require) hereof have been taken; (2) CoBank has a duly perfected and recorded Lien on the collateral having the priority contemplated by the security documents; and (3) there are no other Liens on the collateral, except as permitted hereby.

(H) **Opinion of Counsel.** CoBank shall have received an opinion of counsel to the Company, which counsel (and opinion) must be acceptable to CoBank.

**SECTION 3.03. Conditions to Each Loan.** CoBank's obligation under each Promissory Note and Supplement (including the initial Promissory Note and Supplement hereto) to make any loan to the Company thereunder, including the initial loan, is subject to the conditions precedent that: (A) no Default or Event of Default shall have occurred and be continuing; (B) each of the representations and warranties of the Company set forth herein and in all other Loan Documents to which the Company is a party shall be true and correct as of the date of the loan (and each request for a loan shall constitute a

representation and warranty to that effect); and (C) the Company shall have satisfied all conditions and requirements set forth in the Promissory Note and Supplement relating to that loan.

#### **ARTICLE 4 REPRESENTATIONS AND WARRANTIES**

To induce CoBank to enter into each Promissory Note and Supplement hereto, the Company represents and warrants that, except as disclosed in any application submitted in connection with the Promissory Note and Supplement:

**SECTION 4.01. Organization, Etc.** The Company: (1) is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Arizona; (2) has the power and authority to own its assets and to transact the business in which it is engaged or proposes to engage; and (3) is duly qualified to do business in, and is in good standing under the Laws of, each jurisdiction in which such qualification is required.

**SECTION 4.02. Operation of Business.** The Company possesses all licenses, certificates, permits, authorizations, approvals, franchises, patents, copyrights, trademarks, trade names, rights thereto, or the like which are material to the operation of its business or required by Law, and the Company is not in violation of the rights of others with respect thereto.

**SECTION 4.03. Ownership of Company and Subsidiaries.** The Company: (A) is a rural electric cooperative association that is owned by its Members; and (B) has no Subsidiaries.

**SECTION 4.04. Corporate Power and Authority.** The execution, delivery, and performance by the Company of this Agreement and the other Loan Documents to which it is a party, have been, or in the case of instruments or Loan Documents to be executed or delivered after the date hereof will be, duly authorized by all necessary corporate action, and do not and will not: (A) require any consent or approval of the Members of the Company; (B) contravene the Company's Organizational Documents; (C) violate or contravene any provision of any Law, order, writ, injunction, decree, determination, or award presently in effect and having applicability to the Company; or (D) result in a breach of, or constitute a default under any Material Agreement.

**SECTION 4.05. Loan Documents.** This Agreement, the Promissory Note and Supplement, and all other Loan Documents to which the Company is a party: (1) have been, or in the case of instruments or Loan Documents to be executed or delivered after the date hereof will be, duly executed and delivered by the Company; and (2) create legal, valid and binding obligations of the Company which are enforceable in accordance with their terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency or similar Laws affecting creditors' rights generally.

**SECTION 4.06. Litigation.** There are no pending or threatened actions or proceedings against or affecting the Company before any court, governmental agency, mediator, arbitrator, or the like which could, in any one case or in the aggregate, if adversely decided, have a Material Adverse Effect.

**SECTION 4.07. Financial Statements.** The Financial Statements are complete and correct and fairly present the financial condition of the Company, and the results of its operations, as of the date and for the periods covered by such Financial Statements, all in accordance with GAAP. Since the date of the most recent annual Financial Statement, there has been no material adverse change in the condition, financial or otherwise, business or operations of the Company. There are no liabilities of the Company which are material but not reflected in the Financial Statements or in the notes thereto.

**SECTION 4.08. Ownership and Liens.** The Company has title to, or valid easement or leasehold interests in, all of its properties, real and personal, including the property and leasehold interests reflected in the Financial Statements (other than any property disposed of in the ordinary course of business), and none of the properties or leasehold interests of the Company are subject to any Lien, except such as may be permitted under Section 6.01 of this Agreement.

**SECTION 4.09. Compliance with Law.** All of the Company's properties and all of its operations, are in compliance in all material respects with all Laws (including all Laws relating to the environment) which, if not complied with, could have a Material Adverse Effect.

**SECTION 4.10. Environment.** (A) no property owned or leased by the Company is being used, or to its knowledge, has been used for the disposal, treatment, storage, processing or handling of hazardous waste or materials (as defined under any applicable environmental Law); (B) no investigation, claim, litigation, proceeding, order, judgment, decree, settlement, Lien or the like with respect to any environmental matter is proposed, threatened, anticipated or in existence with respect to the properties or operations of the Company; and (C) to its knowledge, no environmental contamination or condition currently exists on any property of the Company (or any adjoining property) which could materially delay the sale or other disposition of such property or could have, or already has had, a material adverse effect on the value of such property.

**SECTION 4.11. ERISA.** All plans ("ERISA Plans") of a type described in Section 3(3) of ERISA in respect of which Company is an "Employer", as defined in Section 3(5) of ERISA, are in substantial compliance with ERISA, and none of such ERISA Plans is insolvent or in reorganization, or has an accumulated or waived funding deficiency within the meaning of Section 412 of the Internal Revenue Code. The Company has not incurred any material liability (including any material contingent liability) to or on account of any such ERISA Plan pursuant to Sections 4062, 4063, 4064, 4201 or 4204 of ERISA. No proceedings have been instituted to terminate any such ERISA Plan.

**SECTION 4.12. Consents and Approvals.** Except for a consent from the Arizona Corporation Commission, no consent, permission, authorization, order or license of any governmental authority or of any party to any agreement to which the Company is a party or by which it or any of its property may be bound or affected (collectively, "Consents"), is necessary in connection with the execution, delivery, performance or enforcement of the Loan Documents. In addition, each request for a loan shall constitute a representation and warranty that all Consents which are necessary and are obtainable as of the date of such representation for the project, acquisition, or other activity being financed by the proceeds of such request have been obtained and are in full force and effect.

**SECTION 4.13. Conflicting Agreements.** None of the Loan Documents to which the Company is a party conflicts with, or constitutes (with or without the giving of notice and/or the passage of time and/or the occurrence of any other condition) a default under, any other agreement to which the Company is or expects to become a party or by which the Company or any of its properties may be bound or affected, and do not conflict with any provision of the articles of incorporation, bylaws, or other Organizational Documents of the Company.

**SECTION 4.14. Compliance and No Default.** The Company is operating its business in compliance with all of the terms of the Loan Documents to which it is a party, and no Default or Event of Default exists.

**SECTION 4.15. Application.** Each representation and warranty and all information set forth in the application submitted in connection with, or to induce CoBank to enter into, the Promissory Note and Supplement is correct in all material respects.

**SECTION 4.16. Budgets, Etc.** All budgets, projections, feasibility studies, and other documentation submitted by or on behalf of the Company to CoBank in connection with, or to induce CoBank to enter into, the Promissory Note and Supplement, are based upon assumptions that are reasonable and realistic, and no fact has come to light, and no event has occurred, which would cause any material assumption made therein to not be reasonable or realistic.

**SECTION 4.17. Material Contracts.** Except as described in Schedule 1 hereof: (A) all Material Contracts are in full force and effect; (B) the Company and, to the knowledge of the Company, each other Person that is a party thereto, is in compliance in all material respects with all Material Contracts; and (C) neither the Company nor the other party thereto has furnished notice that it or the other party is in default under a Material Agreement or intends to terminate a Material Agreement.

**SECTION 4.18. Facilities.** The Company's utility facilities: (A) are constructed in a good and professional manner; (B) are in good working order and condition, ordinary wear and tear excepted; and (C) comply in all material respects with all applicable Laws.

**SECTION 4.19. Rate and Other Matters.** Except as shown on Schedule 1 hereof: (A) the Company's rates have been approved by any and all necessary governmental authorities (including all regulatory authorities, public service commissions, or public utilities commissions) which may have jurisdiction over the operations and rates of the Company; and (B) there is no pending and, to the Company's knowledge, threatened action or proceeding before any court or governmental authority, the objective or result of which is or could be to: (1) reduce or otherwise adversely change any of the Company's rates; (2) limit or revoke any certificate, permit, license or the like needed to operate the Company's business; or (3) otherwise have a Material Adverse Effect.

**SECTION 4.20. Taxes.** The Company has filed all federal, state and local tax returns this it is required to file, has paid all taxes it require to pay to the extent due, and, to the extent such taxes are not due, has established reserves that are adequate for the payment thereof and are required by GAAP.

## **ARTICLE 5 AFFIRMATIVE COVENANTS**

Unless otherwise agreed to in writing by CoBank, while this Agreement is in effect, the Company agrees to do the following or cause the following to be done:

**SECTION 5.01. Maintenance of Existence, Etc.** Preserve and maintain its existence and good standing in the jurisdiction of its formation, qualify and remain qualified to transact business in all jurisdictions where such qualification is required, and obtain and maintain all licenses, permits, franchises, patents, copyrights, trademarks, trade names, or rights thereto which are material to the conduct of its business or required by Law.

**SECTION 5.02. Compliance With Laws.** Comply in all material respects with all applicable Laws (including all Laws relating to the environment), which, if not complied with, could have a Material Adverse Effect. In addition, the Company agrees to use reasonable efforts to cause all Persons occupying or present on any of its properties to comply in all material respects with all such Laws.

**SECTION 5.03. Property Maintenance.** Maintain all of its properties that are necessary to or useful in the proper conduct of its business in good repair, working order and condition, ordinary wear and tear excepted, and make all alterations, improvements and replacements thereto as may from time to time be reasonably necessary in order to ensure that its properties remain in good working order and condition.

**SECTION 5.04. Insurance.** Maintain insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same business and similarly situated. In the event any Promissory Note and Supplement provides for security, all policies insuring any collateral for the Company's obligations to CoBank shall have a lender loss payee clause in form and content reasonably acceptable to CoBank. The Company agrees to furnish to CoBank such proof of compliance with this Section as CoBank may from time to time reasonably require.

**SECTION 5.05. Books and Records.** Keep adequate records and books of account in which complete entries will be made in accordance with GAAP.

**SECTION 5.06. Reports and Notices.** Furnish to CoBank:

**(A) Annual Financial Statements.** As soon as available, but in no event more than 120 days after the end of each fiscal year of the Company occurring during the term hereof, annual consolidated and consolidating financial statements of the Company and its consolidated Subsidiaries, if any, prepared in accordance with GAAP consistently applied. Such financial statements shall: (a) be audited by a nationally or regionally recognized firm of independent certified public accountants selected by the Company; (b) be accompanied by a report of such accountants containing an opinion which is unqualified and not limited as to scope to the effect that the financial statements: (i) were audited in accordance with generally accepted auditing standards; and (ii) present fairly, in all material respects, the financial position of the Company and its consolidated Subsidiaries as at the end of the year and the results of their operations for the year then ended, in conformity with GAAP; (c) be prepared in reasonable detail, and in comparative form; and (d) include a balance sheet, a statement of income, a statement of retained earnings, a statement of cash flows, and all notes and schedules relating thereto.

**(B) Interim Financial Statements.** As soon as available, but in no event more than 60 days after the end of each calendar quarter occurring during the term hereof (other than the last calendar quarter of each calendar year) of the Company, a balance sheet of the Company as of the end of such calendar quarter, a statement of income for the Company for such period and for the period year-to-date, and such other interim statements as CoBank may specifically request, all prepared in reasonable detail and in comparative form in accordance with GAAP consistently applied (or the appropriate standards of the regulatory agency having jurisdiction over the Company); and, if required by written notice from CoBank, (a) on a consolidated and consolidating basis for the Company and its consolidated Subsidiaries, if any, in accordance with GAAP consistently applied (or the appropriate standards of the regulatory agency having jurisdiction over the Company), and/or (b) certified by an authorized officer or employee of the Company acceptable to CoBank.

**(C) Officer's Certificate.** Together with each set of financial statements furnished to CoBank under Section 5.06(A) hereof, a certificate of an officer of the Company acceptable to CoBank in the form attached as Exhibit "B" hereto: (A) certifying that no Default or Event of Default occurred during the period covered by such statement(s) or, if a Default or Event of Default occurred, a description

thereof and of all actions taken or to be taken to remedy same, and (B) setting forth calculations showing compliance with the financial covenants set forth in Article 7 hereof.

**(D) Notice of Litigation, Contracts, Etc.** Promptly after becoming aware thereof, notice of: (1) the commencement of any action, suit or proceeding before any court, governmental instrumentality, arbitrator, mediator or the like which, if adversely decided, could have a Material Adverse Effect; (2) the receipt of any notice, indictment, pleading, or other communication alleging a condition that: (a) may require the Company to undertake or to contribute to a clean-up or other response under any environmental Law, or which seeks penalties, damages, injunctive relief, or other relief as a result of an alleged violation of any such Law, or which claims personal injury or property damage as a result of environmental factors or conditions; and (b) if true or proven, could have a Material Adverse Effect or result in criminal sanctions; (3) the occurrence of any breach, repudiation, or termination of any Material Agreement; and (4) the occurrence of any other event or matter which could reasonably be expected to have a Material Adverse Effect, including the rendering of any order, judgment, or ruling.

**(E) Notice of Default.** Promptly after becoming aware thereof, notice of the occurrence of a Default or an Event of Default.

**(F) Notice of Certain Events.** Notice of each of the following at least 60 days prior thereto: (1) any change in the Company's name, structure, jurisdiction of organization, or organizational identification number (if any); or (2) any change in the principal place of business of the Company or the office where its records concerning its accounts are kept.

**(G) Annual Budgets.** As soon as available, but in no event more than 90 days after the end of each fiscal year of the Company and its consolidated subsidiaries, if any, occurring during the term hereof, copies of the Company's board approved annual budgets and forecasts of operations and capital expenditures.

**(H) Annual CFC Form 7.** As soon as available, but in any event within 90 days after the end of each calendar year occurring during the term hereof, a duly completed copy of CFC Form 7 for December 31 of such year.

**(I) Other Notices.** Such other notices as may be required by any Promissory Note and Supplement or any other Loan Document.

**(J) Other Information.** Such other information regarding the condition or operations, financial or otherwise, of the Company as CoBank may from time to time reasonably request, including, but not limited to, copies of all pleadings, notices and communications referred to in Section 5.06(D) hereof; provided, however, the Company shall not be required to provide information subject to a confidentiality agreement, or similar agreement, or otherwise protected pursuant to Law.

**SECTION 5.07. Capital.** Acquire equity in CoBank in such amounts and at such times as CoBank may from time to time require in accordance with its bylaws and capital plan (as each may be amended from time to time), except that the maximum amount of equity that the Company may be required to purchase in connection with a loan may not exceed the maximum amount permitted by CoBank's bylaws at the time the Promissory Note and Supplement relating to such loan is entered into or such loan is renewed or refinanced by CoBank. The rights and obligations of the parties with respect to such equity and any patronage or other distributions made by CoBank shall be governed by CoBank's bylaws.

**SECTION 5.08. Inspection.** Permit CoBank or its agents, upon reasonable notice, and during normal business hours or at such other times as the parties may agree, to examine the properties, books and records of the Company, and to discuss its affairs, finances and accounts with its officers, directors, and independent certified public accountants.

**ARTICLE 6  
NEGATIVE COVENANTS**

Unless otherwise agreed to in writing by CoBank, while this Agreement is in effect, the Company will not:

**SECTION 6.01. Debt.** Create, incur or assume or suffer to exist any Debt, except for: (A) Debt of the Company to CFC or another party that is secured by any mortgage to which CoBank is a party (a "Mortgage"); (B) Debt of the Company to CoBank; (C) accounts payable to trade creditors incurred in the ordinary course of business; (D) current operating liabilities (other than for borrowed money) incurred in the ordinary course of business; (E) Capital Leases in an aggregate amount not to exceed, at any one time, 5% of the Company's Equity; (F) unsecured Debt; provided, however, that if Company's Equity to Assets Ratio is less than 30%, the maximum amount of unsecured Debt from all sources (including CoBank) that the Company may have outstanding at any one time shall be limited to 15% of Net Utility Plant.

**SECTION 6.02. Liens.** Create, incur, assume, or suffer to exist any Lien on any of its properties, except for CoBank's statutory first Lien on all equity in CoBank, the Lien of any Mortgage, and any Lien permitted by the Mortgage ("Permitted Encumbrances").

**SECTION 6.03. Mergers, Acquisitions, Etc.** Merge or consolidate with any other Person or acquire all or a substantial part of the assets of any other Person.

**SECTION 6.04. Sale, Transfer or Lease of Assets.** Sell, transfer, lease or otherwise dispose of any of its assets except for: (A) the sale of energy, capacity and ancillary services in the ordinary course of business; and (B) the sale or other disposition in the ordinary course of business of assets which are obsolete, worn-out or no longer necessary for, or useful in, the operation of its business. For purposes hereof, a sale or other disposition occasioned by the discontinuance of any part of its business shall be deemed outside the ordinary course of business.

**SECTION 6.05. Distributions.** Declare or pay any Distribution if: (A) a Default or Event of Default exists; and (B) after giving effect thereto, the Company will not be in compliance with Section 7.02 hereof.

**SECTION 6.06. Loans, Investments, and Contingent Obligations.** Make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any person or entity, except: (1) securities or deposits issued, guaranteed or fully insured as to payment by the United States of America or any agency thereof; (2) existing investments in generation and transmission cooperatives and investments in CoBank and other lenders organized on a cooperative basis; and (3) such other loans, guaranties, deposits, advances, investments, and obligations as may from time to time be made, purchased or undertaken by the Company; provided, however, that the aggregate cost of such other investments, plus the total unpaid principal amount of such other loans, guaranties, deposits, advances and obligations shall not at any time exceed 15% of the Company's Total Utility Plant.

**SECTION 6.07. Change in Business.** Engage in any business activities or operations substantially different from or unrelated to its present business activities or operations or enter into any contract for the operation or maintenance of all or any material part of the properties of the Company.

**SECTION 6.08. Transactions with Affiliates.** Enter into any transaction with an Affiliate except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to the Company than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate.

**SECTION 6.09. Contracts.** (A) Terminate any Material Contract or breach or otherwise default in its obligations thereunder; or (B) amend or waive any provision of a Material Contract if the effect thereof could reasonably be expected to have a Material Adverse Effect..

#### **ARTICLE 7 FINANCIAL COVENANTS**

While this Agreement is in effect:

**SECTION 7.01. Debt Service Coverage Ratio.** The Company and its consolidated Subsidiaries, if any, will have at the end of each fiscal year of the Company, a Debt Service Coverage Ratio of not less than 1.35 to 1.00.

**SECTION 7.02. Equity to Total Assets Ratio.** The Company and its consolidated Subsidiaries, if any, will have at all times, an Equity to Total Assets Ratio of not less than .20 to 1.00.

**SECTION 7.03. Total Debt to EBITDA Ratio.** The Company and its consolidated Subsidiaries, if any, will have at the end of each fiscal year of the Company, a ratio of Total Debt at the end of the year to EBITDA for such year of not greater than 10.00 to 1.00.

**SECTION 7.04. Fiscal Year.** The Company will not change its fiscal year.

#### **ARTICLE 8 EVENTS OF DEFAULT**

Each of the following shall constitute an "Event of Default" hereunder:

**SECTION 8.01. Payment Default.** The Company should fail to make when due any payment to CoBank hereunder, under any Promissory Note and Supplement, or under any other Loan Document and such failure shall continue for five days.

**SECTION 8.02. Representations and Warranties.** Any officer's certificate, opinion of counsel, or other document furnished to CoBank by or on behalf of the Company, or any representation or warranty made or deemed made by the Company herein or in any other Loan Document, shall prove to have been false or misleading in any material respect on or as of the date furnished, made or deemed made.

**SECTION 8.03. Default Notice; Use of Proceeds.** The Company should fail to perform or comply with Section 5.06(E) hereof, or should use the proceeds of any loan for any unauthorized purpose.

**SECTION 8.04. Other Covenants.** The Company should fail to perform or comply with any other covenant or agreement contained herein or in any Promissory Note and Supplement, and, if such failure can be cured, such failure continues for 30 days after written notice thereof shall have been delivered to the Company by CoBank.

**SECTION 8.05. Cross Default.** The Company should, after any applicable grace period, breach or be in default under the terms of any other Loan Document (including any security instrument or document) or any other agreement between the Company and CoBank or between the Company and any affiliate of CoBank, including without limitation Farm Credit Leasing Services Corporation.

**SECTION 8.06. Other Indebtedness. Other Indebtedness.** The Company should fail to pay when due any Debt, or any installment of interest or principal thereon, to any other Person, or any other event occurs which, under any agreement or instrument relating to such Debt, has the effect of accelerating or permitting the acceleration of such Debt, whether or not such Debt is actually accelerated or the right to accelerate is conditioned on the giving of notice, the passage of time, or otherwise.

**SECTION 8.07. Judgments.** A judgment, decree, or order for the payment of money shall have been rendered against the Company and either (1) enforcement proceedings shall have been commenced; (2) a Lien prohibited by this Agreement, any security instrument or document, or any other Loan Document, shall have been; or (3) such judgment, decree, or order shall continue unsatisfied and in effect for a period of thirty (30) consecutive days without being vacated, discharged, satisfied, bonded off, or stayed pending appeal.

**SECTION 8.08. Insolvency, Etc.** The Company shall: (A) become insolvent or shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or (B) suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (C) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property; or (D) have commenced against it any action or proceeding for the appointment of a trustee, receiver, or other custodian and such action or proceeding is not dismissed within 60 days of the date thereof or a trustee, receiver, or other custodian is appointed for all or any part of its property; or (E) receive notice from any regulatory or governmental authority to the effect that such authority intends to replace the management of the Company or assume control over the Company; or (F) commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction; or (G) have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation Law of any jurisdiction and such proceeding is not dismissed within 60 days of the date thereof or an order is entered against the Company in any such proceeding.

**SECTION 8.09. Casualty or Condemnation.** All or a material portion of the assets of the Company: (1) are destroyed in a casualty or like event (regardless of the cause); or (2) are taken in a condemnation action or proceeding or in a like proceeding or are sold or otherwise transferred in lieu thereof or pursuant to any right of any governmental authority to direct the sale or transfer thereof.

**SECTION 8.10. Ownership.** The Company ceases to be a rural electric distribution cooperative.

**SECTION 8.11. Material Adverse Change.** Any material adverse change occurs, as reasonably determined by CoBank, in the condition, financial or otherwise, operations, business or

properties of the Company or in its ability to perform its obligations hereunder, under any security instrument or document, or under any other Loan Document.

## **ARTICLE 9 REMEDIES UPON DEFAULT**

**SECTION 9.01. Remedies.** Upon the occurrence and during the continuance of a Default or Event of Default, CoBank shall have no obligation to make any loan or extend other credit to or for the account of the Company, and may discontinue doing so at any time without prior notice. In addition, upon the occurrence and during the continuance of an Event of Default, CoBank may, upon written notice to the Company:

(A) **Termination and Acceleration.** Terminate any commitment and declare the unpaid principal balance of the loans, all accrued interest thereon, and all other amounts payable under this Agreement, the Promissory Notes and Supplements, and all other Loan Documents to which the Company is a party to be immediately due and payable; provided, however, that upon the occurrence of an Event of Default under Section 8.08(F), any commitments shall automatically be terminated and all such amounts shall automatically become due and payable. Upon such a declaration (or automatically, as provided above), the unpaid principal balance of the loans and all such other amounts shall become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by the Company.

(B) **Enforcement.** Proceed to protect, exercise, and enforce such rights and remedies as may be provided by this Agreement, any other Loan Document, or under Law. Each and every one of such rights and remedies shall be cumulative and may be exercised from time to time, and no failure on the part of CoBank to exercise, and no delay in exercising, any right or remedy shall operate as a waiver thereof, and no single or partial exercise of any right or remedy shall preclude any future or other exercise thereof, or the exercise of any other right. Without limiting the foregoing, CoBank may hold and/or set off and apply against the Company's obligations to CoBank the proceeds of any equity in CoBank, any cash collateral held by CoBank, or any other balances held by CoBank for the Company's account (whether or not such balances are then due).

(C) **Application of Funds.** Apply all payments received by it to the Company's obligations to CoBank in such order and manner as CoBank may elect in its sole discretion.

In addition to the rights and remedies set forth above and notwithstanding the terms of any Promissory Note and Supplement, upon the occurrence and during the continuance of an Event of Default, at CoBank's option in each instance (and automatically following an acceleration), the unpaid principal balance of the loans (and all overdue payments of interest and fees) shall, if permitted by Law, bear interest at the Default Rate. All such interest, together with all overdue amounts, shall be payable on demand.

## **ARTICLE 10 MISCELLANEOUS**

**SECTION 10.01. Broken Funding Surcharge.** Notwithstanding the terms of any Promissory Note and Supplement, the Company agrees to pay to CoBank a broken funding surcharge in the amount set forth below in the event the Company: (1) repays any fixed rate balance prior to the last day of its fixed rate period (whether such payment is made voluntarily, as a result of an acceleration, or otherwise); (2) converts any fixed rate balance to another fixed rate or to a variable rate prior to the last day of the

fixed rate period applicable to such balance; or (3) fails to borrow any fixed rate balance on the date scheduled therefor. The surcharge shall be in an amount equal to the greater of (i) the sum of: (a) the present value of any funding losses imputed by CoBank to have been incurred as a result of such payment, conversion or failure; plus (b) a per annum yield of 1/2 of 1% of the amount repaid, converted or not borrowed for the period such amount was scheduled to have been outstanding at such fixed rate, or (ii) \$300.00. Such surcharge shall be determined and calculated in accordance with methodology established by CoBank, a copy of which will be made available upon request. Notwithstanding the foregoing: (A) in the event of a conflict between the provisions of this Section and of the broken funding charge section of a forward fix agreement between CoBank and the Company, the provisions of the forward fix agreement shall control; and (B) no surcharge shall be applicable to any balance bearing interest at a variable rate.

**SECTION 10.02. Complete Agreement, Amendments, Etc.** THE LOAN DOCUMENTS TO WHICH THE COMPANY IS A PARTY ARE INTENDED BY THE PARTIES TO BE A COMPLETE AND FINAL EXPRESSION OF THEIR AGREEMENT. NO AMENDMENT, MODIFICATION, OR WAIVER OF ANY PROVISION OF THE LOAN DOCUMENTS TO WHICH THE COMPANY IS A PARTY, AND NO CONSENT TO ANY DEPARTURE BY THE COMPANY HEREFROM OR THEREFROM, SHALL BE EFFECTIVE UNLESS APPROVED BY COBANK AND THE COMPANY AND CONTAINED IN A WRITING SIGNED BY OR ON BEHALF OF COBANK AND THE COMPANY, AND THEN SUCH WAIVER OR CONSENT SHALL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH GIVEN. In the event this Agreement is amended or restated, each such amendment or restatement shall be applicable to all Promissory Notes and Supplements hereto. Each Promissory Note and Supplement shall be deemed to incorporate all of the terms and conditions of this Agreement as if fully set forth therein. Without limiting the foregoing, any capitalized term utilized in any Promissory Note and Supplement (or in any amendment to this Agreement or Promissory Note and Supplement) and not otherwise defined in the Promissory Note and Supplement (or amendment) shall have the meaning set forth herein.

**SECTION 10.03. Applicable Law, Jurisdiction.** Without giving effect to the principles of conflict of laws and except to the extent governed by federal Law, the Laws of the State of Colorado shall govern: (1) this Agreement, (2) each Note and Supplement; (3) any other Loan Document for which Colorado is specified as the applicable Law; (4) all disputes and matters between the parties to this Agreement, including all disputes and matters whatsoever arising under, in connection with or incident to the lending and/or leasing or other business relationship between the parties; and (5) the rights and obligations of the parties to this Agreement or any other Loan Document by and between the parties for which Colorado is specified as the applicable Law. The Company agrees to submit to the non-exclusive jurisdiction of any federal or state court sitting in Colorado for the adjudication of any dispute arising hereunder or under the other Loan Documents.

**SECTION 10.04. Notices.** All notices hereunder shall be in writing and shall be deemed to have been duly given upon delivery if personally delivered or sent by overnight mail or by facsimile or similar transmission, or three (3) days after mailing if sent by express, certified or registered mail, to the parties at the following addresses (or such other address as either party may specify by like notice):

If to CoBank, as follows:  
CoBank, ACB  
5500 South Quebec Street  
Greenwood Village, Colorado 80111  
Facsimile: (303) 740-4002  
Attention: Energy Banking Group

If to the Company, as follows:  
Sulphur Springs Valley Electric Cooperative, Inc.  
P.O. Box 820  
Willcox, Arizona  
Facsimile: (520) 515-3487  
Attention: Chief Financial Officer

**SECTION 10.05. Costs, Expenses, and Taxes.** To the extent allowed by Law, the Company agrees to pay all reasonable out-of-pocket costs and expenses (including the fees and expenses of counsel retained or employed by CoBank) incurred by CoBank in connection with the origination, administration, interpretation, collection, and enforcement of this Agreement and the other Loan Documents, including all costs and expenses incurred in perfecting, maintaining, determining the priority of, and releasing any security for the Company's obligations to CoBank, and any stamp, intangible, transfer or like tax incurred in connection with this Agreement or any other Loan Document or the recording hereof or thereof.

**SECTION 10.06. Effectiveness and Severability.** This Agreement shall continue in effect until: (A) all indebtedness and obligations of the Company under this Agreement and the other Loan Documents to which the Company is a party shall have been paid or satisfied; (B) CoBank has no commitment to extend credit to or for the account of the Company under any Promissory Note and Supplement; (C) all Promissory Notes and Supplements shall have been terminated; and (D) either party sends written notice to the other party terminating this Agreement. Any provision of this Agreement or any other Loan Document which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof.

**SECTION 10.07. Successors and Assigns.** This Agreement and the other Loan Documents to which the Company is a party shall be binding upon and inure to the benefit of the Company and CoBank and their respective successors and assigns, except that the Company may not assign or transfer its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of CoBank.

**SECTION 10.08. Participations, Etc.** From time to time, CoBank may sell to one or more banks, financial institutions or other lenders a participation in one or more of the loans or other extensions of credit made pursuant to this Agreement. However, no such participation shall relieve CoBank of any commitment made to the Company hereunder. In connection with the foregoing, CoBank may disclose information concerning the Company and its Subsidiaries, if any, to any participant or prospective participant, provided that such participant or prospective participant agrees (subject to normal qualifications) to keep such information confidential or is otherwise subject to the same statutory or regulatory restrictions as CoBank. Patronage distributions in the event of a sale of a participation interest shall be governed by CoBank's Bylaws and Capital Plan (as each may be amended from time to time). A sale of a participation interest may include certain voting rights of the participants regarding the loans hereunder (including without limitation the administration, servicing and enforcement thereof). CoBank agrees to give written notification to the Company of any sale of a participation interest.

**SECTION 10.09. Other Types of Credit.** From time to time, CoBank may issue letters of credit or extend other types of credit to or for the account of the Company. In the event the parties desire to do so under the terms of this Agreement, then the agreement of the parties with respect thereto may be set forth in a Promissory Note and Supplement to this Agreement and this Agreement shall be applicable thereto as if such letters of credit or other types of credit were loans.

**SECTION 10.10. Promissory Notes and Supplements.** In lieu of having a Promissory Note and Supplement hereunder, the parties may elect to have a separate supplement and a separate promissory note. In such case, all references herein to a "Promissory Note and Supplement" shall be to supplement and promissory note together.

**IN WITNESS WHEREOF,** the parties have caused this Agreement to be executed by their duly authorized officers as of the date shown above.

**CoBANK, ACB**

**SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## EXHIBIT A

### DEFINITIONS AND RULES OF INTERPRETATION

**SECTION 1.01 Definitions.** As used in the Agreement, or in any Promissory Note and Supplement, the following terms shall have the following meanings:

**Accounting Principles** shall mean the accounting principles of the regulatory agency having jurisdiction over the Company or, in the absence thereof, GAAP consistently applied.

**Affiliate** shall mean a Member and any Person: (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Company; (2) which directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of, or other interests in, the Company or any Member of the Company; or (3) five percent (5%) or more of the voting stock of, or other interest in, which is directly or indirectly beneficially owned or held by the Company. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

**Agreement** shall mean this Master Loan Agreement, as it may be amended or modified from time to time.

**Business Day** means any day other than a Saturday, Sunday, or other day on which CoBank is or the Federal Reserve Banks are closed for business.

**Capital Lease** shall mean a lease would should be capitalized on the books of the lessee in accordance with GAAP.

**CoBank** shall mean CoBank, ACB and its successors and assigns.

**CoBank Base Rate** shall mean the rate of interest announced by CoBank from time to time as the "CoBank Base Rate", which rate is intended by CoBank to be a reference rate and not its lowest rate.

**Company** shall mean Sulphur Springs Valley Electric Cooperative, Inc. and its permitted successors and assigns.

**Debt Service Coverage Ratio** shall mean the ratio of: (1) net income (after taxes and after eliminating any gain or loss on sale of assets or other extraordinary gain or loss), plus depreciation expense, amortization expense, and interest expense; minus non-cash patronage and non-cash income from Subsidiaries and/or joint ventures; to (2) all principal payments due within the period on all Long-Term Debt plus interest expense (all as calculated on a consolidated basis in accordance with Accounting Principles). Such ratio shall be determined by averaging the two (2) highest annual ratios achieved by the Company during the most recent three (3) fiscal years of the Company.

**Debt** shall mean: (1) indebtedness or liability for borrowed money, whether short-term or long-term, and whether issued, assumed, or guaranteed; (2) obligations which are evidenced by notes, bonds, debentures or similar instruments; (3) Capital Leases and other agreements and obligations representing the deferred purchase price of property or services; (4) obligations relating to letters of credit; and (5) other obligations, whether or not assumed or guaranteed, secured by Liens on, or payable out of the proceeds or products of, property now or hereafter owned or acquired.

**Default** shall mean the occurrence of any event which with the giving of notice or the passage of time or the occurrence of any other condition would become an Event of Default under the Agreement or under any other Loan Document.

**Default Rate** shall mean 4% per annum in excess of the rate or rates that would otherwise be in effect under the terms of the Promissory Note and Supplement, except that in the case of overdue interest, fees, and, prior to the final maturity of a loan (whether as a result of acceleration or otherwise) principal, the term Default Rate shall mean 4% per annum in excess of any variable rate option provided in the Promissory Note and Supplement, or, in the event no such option is provided, 4% per annum in excess of the rate established by CoBank from time to time during that period as the CoBank Base Rate.

**Distribution** shall mean: (1) the payment of any dividend or distribution of any kind, whether in cash, assets, obligations or otherwise; (2) the acquisition or retirement of any stock, membership or other interest in the Company; and (3) any rebate or reduction in rates that has the same effect.

The sign "\$" shall mean lawful money of the United States of America.

**EBITDA** shall mean operating revenues minus operating expenses, plus depreciation expense and amortization expense (all as calculated for the fiscal year on a consolidated basis in accordance with Accounting Principles).

**Equity** shall mean margins and equities as determined in accordance with Accounting Principles.

**Equity to Total Assets Ratio** shall mean a ratio of Equity to consolidated total assets, as determined in accordance with Accounting Principles.

**ERISA** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereof.

**ERISA Plans** shall have the meaning set forth in Section 4.11 hereof.

**Event of Default** shall mean any of the events specified in Article 8 of the Agreement and any event specified in any Promissory Note and Supplement or other Loan Document as an Event of Default.

**Financial Statements** shall mean: (1) in the case of the initial Promissory Note(s) and Supplement(s) to the Agreement, the annual financial statements for the Company for the fiscal year ending on December 31, 2008, together with the interim financial statements as at and for the period ending on June 30, 2009; and (2) in the case of each other Promissory Note and Supplement to the Agreement, the most recent annual and, if more recent than the latest annual, the most recent quarterly financial statement furnished to CoBank pursuant to Sections 5.06(A) and (B) of the Agreement prior to the date of such Promissory Note and Supplement.

**GAAP** shall mean generally accepted accounting principles in the United States.

**Laws** shall mean all laws, rules, regulations, codes, and orders.

**Lien** shall mean any mortgage, deed of trust, pledge, security interest, hypothecation, assignment for security purposes, encumbrance, lien (statutory or other), or other security agreement, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement).

**Loan Documents** shall mean this Agreement, all Promissory Notes and Supplements hereto, and all instruments or documents relating to this Agreement or the Promissory Notes and Supplements, including, without limitation, all applications, certificates, opinions of counsel, mortgages, deeds of trust, security agreements, guaranties, and pledge agreements.

**Long-Term Debt** shall mean the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP, in each case having a maturity of more than one year from the date of its creation or having a maturity within one year from such date but that is renewable or extendible, at the Company's option, to a date more than one year from such date or that arises under a revolving credit or similar agreement that obligates the lender(s) to extend credit during a period of more than one year from such date, including all current maturities in respect of such indebtedness whether or not required to be paid within one year from the date of its creation.

**Material Adverse Effect** shall mean a material adverse effect on the condition, financial or otherwise, operations, properties, margins or business of the Company or any Subsidiary or on the ability of the Company or any Subsidiary to perform its obligations under the Loan Documents.

**Material Agreement** shall mean an agreement to which the Company is a party which is material to the business or operations of the Company or which, if terminated, could reasonably be expected to have a Material Adverse Effect.

**Member** shall mean a Person who has been admitted to membership in the Company.

**Mortgage** shall have the meaning set forth in Section 6.01 hereof.

**Net Utility Plant** shall have the meaning set forth in, and shall be determined in accordance with, the RUS System of Accounts or the system of accounts of such other commission or body as may be agreeable to CoBank.

**Organizational Documents** shall mean the documents under which the Company has been organized or is run, including (as may be relevant) articles of incorporation or formation, bylaws, partnership agreements, shareholder agreements, and the like.

**Permitted Encumbrances** shall have the meaning set forth in Section 6.02 hereof.

**Person** shall mean an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority, or other entity of whatever nature.

**Promissory Note and Supplement** shall have the meaning set forth in Section 2.01 of the Agreement.

**RUS** shall mean the Rural Utilities Service of the US Department of Agriculture or any successor thereto.

**RUS System of Accounts** shall mean the system of accounts prescribed by RUS.

**Subsidiary** shall mean, as to the Company, a corporation, partnership, limited liability company, joint venture, or other Person of which shares of stock or other equity interests having ordinary voting power to elect a majority of the board of directors or other managers of such corporation, partnership, limited liability company, joint venture, or other Person are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, or both, by the Company.

**Total Assets** shall mean total assets of the Company as computed in accordance with Accounting Principles.

**Total Debt** shall mean, for the Company and its consolidated Subsidiaries, if any, the sum of (a) all indebtedness for borrowed money, (b) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (c) that portion of obligations with respect to Capital Leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or which are treated as operating leases under regulations applicable to them but which otherwise would be required to be capitalized under GAAP

**Total Utility Plant** shall have the meaning set forth in, and shall be determined in accordance with, the RUS System of Accounts or the system of accounts of such other commission or body as may be agreeable to CoBank.

**Wholesale Power Contracts** shall mean those certain agreements between the Company and its Members entitled Amended and Restated Wholesale Power Contracts, each of which are dated May 27, 2004, as each has been or may be amended, supplemented, or restated from time to time.

**SECTION 1.02 Rules of Interpretation.** The following rules of interpretation shall apply to the Agreement, all Promissory Notes and Supplements, and all amendments to either of the foregoing:

**Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with Accounting Principles, and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.

**Number.** All terms stated in the singular shall include the plural, and all terms stated in the plural shall include the singular.

**Including.** The term "including" shall mean including, but not limited to.

**Default.** The expression "while any Default or Event of Default shall have occurred and be continuing" (or like expression) shall be deemed to include the period following any acceleration of the loan(s) (unless such acceleration is rescinded).

**Headings.** Captions and headings used in this Agreement are for reference and convenience of the parties only, and shall not constitute a part of this Agreement.

**EXHIBIT B**

**OFFICER'S CERTIFICATE**

**TO:** COBANK, ACB  
**FROM:** SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.  
**DATE:** \_\_\_\_\_, 20\_\_\_\_  
**SUBJECT:** COMPLIANCE CERTIFICATE FOR FISCAL YEAR ENDING ON \_\_\_\_\_, 20\_\_\_\_.

Reference is hereby made to that certain Master Loan Agreement dated as of  $\diamond$ , 2010 (the "Credit Agreement"), between **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.** (the "Company") and **COBANK, ACB** ("Lender"). Capitalized terms used in this certificate and not defined herein shall have the meanings given to those terms in the Credit Agreement.

I am the \_\_\_\_\_ of the Company and am furnishing this Certificate to you pursuant to Section 5.06(C) of the Credit Agreement.

Attached hereto are the annual financial statements required by Section 5.06(A) of the Credit Agreement. The undersigned hereby certifies that the annual financial statements present fairly, in all material respects, the financial conditions and results of operations of the Company and its consolidated subsidiaries (if any) in accordance with GAAP consistently applied.

In addition to the above, attached hereto is a certificate calculating the financial covenants set forth in Article 7 of the Credit Agreement. The undersigned hereby certifies that the financial covenants were calculated in a manner consistent with the requirements of the Credit Agreement.

I hereby certify that a review in reasonable detail of the activities of Company during the period covered by the financial statements attached hereto has been made or caused to be made under my supervision and that *[please check one of the following boxes and, if the second box is checked, complete the information required thereunder]*:

Such review has not disclosed the existence during or at the end of the period covered by the financial statements of any condition or event which constitutes a Default or an Event of Default;

Such review has disclosed the existence of the following Default(s) and/or Event(s) of Default *[specify the nature and period of existence thereof and what action the Company has taken, is taking and proposes to take with respect thereto]*: \_\_\_\_\_.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

Chief Financial Officer  
(Title)

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**FINANCIAL COVENANT CERTIFICATE**

For fiscal year ending on \_\_\_\_\_

The undersigned hereby certifies to COBANK, ACB that set forth below are: (1) the financial ratios that the Company was required to achieve for the fiscal year end covered by this Certificate; and (2) the actual results achieved by the Company:

| RATIO  | Required                       | Achieved |
|--|--------------------------------|----------|
| <p>Debt Service Coverage Ratio For Fiscal Year Ending on the Date Shown Above:</p> <ul style="list-style-type: none"> <li>• net income (after taxes and after eliminating any gain or loss on sale of assets or other extraordinary gain or loss): \$ _____</li> <li>• plus depreciation expense: \$ _____</li> <li>• plus amortization expense: \$ _____</li> <li>• plus interest expense: \$ _____</li> <li>• minus non-cash income from subsidiaries and/or joint ventures: (\$ _____)</li> <li>• divided by the sum of: all principal payments due within the period on all Long-Term Debt \$ _____ plus interest expense: \$ _____</li> </ul> <p>Debt Service Coverage Ratio for 20__ : ____ to 1.00<br/>                     Debt Service Coverage Ratio for 20__ : ____ to 1.00</p> <p>Calculate the average of two highest of the three most recent fiscal years and insert result in column to the far right.</p> | 1.35 to 1.00                   |          |
| <p>Total Debt to EBITDA Ratio:</p> <ul style="list-style-type: none"> <li>• Total Debt at end of year: \$ _____</li> <li>• EBITDA for at end of year:                             <ul style="list-style-type: none"> <li>• operating revenues: \$ _____</li> <li>• operating expenses: (\$ _____)</li> <li>• depreciation expense: \$ _____</li> <li>• amortization expense: \$ _____</li> <li>TOTAL: \$ _____</li> </ul> </li> </ul>  | Not less than<br>10.00 to 1.00 |          |
| <p>Equity to Total Assets Ratio:</p> <ul style="list-style-type: none"> <li>• Equity: \$ _____</li> <li>• Total Assets: \$ _____</li> </ul>  | Not less than<br>.20 to 1.00   |          |

All of the above ratios were calculated in accordance with the terms of the Master Loan Agreement.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**SCHEDULE 1**

**(1) Section 4.17 Disclosures (Material Contracts):**

**(2) Section 4.19 Disclosures (Rates):**



**PROMISSORY NOTE AND SUPPLEMENT  
(Multiple Advance Term Loan)**

**THIS PROMISSORY NOTE AND SUPPLEMENT** (this "Promissory Note and Supplement") is entered into as of < >, 2010, between **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**, an Arizona electric cooperative corporation (the "Company"), and **COBANK, ACB**, a federally chartered instrumentality of the United States ("CoBank"), and supplements the Master Loan Agreement between the parties dated as of < >, 2010 (as amended or restated from time to time, the "MLA"). Capitalized terms used herein and not defined herein shall have the meanings given to those terms in the MLA.

**SECTION 1. Term Loan Commitment.**

(A) **Commitment.** On the terms and conditions set forth in this Promissory Note and Supplement and the MLA, CoBank agrees to make loans (the "Loans") to the Company during the period set forth below in an aggregate principal amount not to exceed \$72,680,000 (the "Commitment"). Under the Commitment, amounts borrowed and later repaid may not be reborrowed.

(B) **Reduction of Commitment.** Notwithstanding the foregoing, the maximum principal amount that may be outstanding hereunder may not exceed \$72,680,000 less the aggregate principal amount borrowed by the Company from CFC under the "CFC Facility" (as hereinafter defined). For purposes hereof, the "CFC Facility" shall mean the \$72,680,000 credit facility provided by CFC to the Company under that certain Loan Agreement dated as of February < >, 2010, between the Company and CFC, as same may be amended or restated from time to time.

**SECTION 2. Purpose.** The purpose of the Commitment is to finance the Company's 2010-2012 construction workplan or such other purposes as may from time to time be approved by CoBank in writing.

**SECTION 3. Term.** The term of the Commitment shall be from the date hereof up to and including December 31, 2013.

**SECTION 4. Interest Rate Options.** The Company agrees to pay interest on the unpaid principal balance of the loans in accordance with one or more of the following interest rate options, as selected by the Company in accordance with the terms hereof:

(1) **Weekly Quoted Variable Rate.** At a rate per annum equal at all times to the rate of interest established by CoBank on the first Business Day of each week (the "Variable Rate Option"). The rate established by CoBank shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

(2) **Quoted Fixed Rate Option.** At a fixed rate per annum to be quoted by CoBank in its sole discretion in each instance (the "Quoted Fixed Rate Option"). Under this option, rates may be fixed on such balances and for such periods (each a "Quoted Fixed Rate Period") as may be agreeable to CoBank in its sole discretion in each instance; provided, however, that: (1) rates may not be fixed for periods of less than 180 days; (2) rates may only be fixed on balances or multiples of \$500,000; and (3) the maximum number of balances that may be subject to this option at any one time shall be twenty (20).

Subject to the limitations set forth above, the Company shall select the applicable rate option or options at the time it requests each loan hereunder and may, on any Business Day, elect to convert balances bearing interest at the Variable Rate Option to the Fixed Rate Option. Upon the expiration of any fixed rate period, interest shall automatically accrue at the Variable Rate Option unless the amount fixed is repaid or fixed for an additional period in accordance with the terms hereof. Notwithstanding the foregoing, rates may not be fixed in such a manner as to cause the Company to have to break any fixed rate balance prior to the last day of the fixed rate period in order to pay any installment of principal. All elections provided for herein shall be made telephonically or in writing and must be received by 12:00 Noon Company's local time. Interest shall be: (1) calculated quarterly in arrears as of the last day of each February, May, August, and November and on the final maturity date of the loans; and (2) due and payable by the 20th day of each March, June, September, and December, and on the final maturity date of the Loans.

**SECTION 5. Availability.** Notwithstanding Section 2.02 of the MLA, the loans will be made available in accordance with the following procedures:

(A) **Request for Quote.** In the event the Company desires to borrow under the Commitment or the CFC Facility, it shall have a duly authorized officer or employee of the Company: (1) complete and execute Part A of Exhibit A hereto (each a "Request for Quote and Loan"); and (2) furnish a copy thereof to CoBank and CFC not later than 12:00 Noon, Mountain time on the Business Day preceding the Day on which the Loan is desired.

(B) **Rate Quotes.** By 9:00 AM on the date of the proposed Loan, CoBank will notify the Company by telephone or electronic means of the rate(s) CoBank would charge for the designated Quoted Fixed Rate Period(s).

(C) **Acceptance and Notification.** In the event the Company desires to accept one or more of the quotes from CoBank or CFC, it shall: (1) complete Part B of the Request for Quote/Loan; and (2) furnish a copy thereof to both CoBank and CFC by 12:00 Noon Mountain time.

**SECTION 6. Promissory Note.** The Company promises to repay:

(A) **Loans Made Before On or Before December 31, 2010.** The loans made on or before December 31, 2010, in 128 consecutive, quarterly, installments, each due on the 20<sup>th</sup> day of each March, June, September, and December, with the first installment due on March 20, 2011, and the last such installment due on December 20, 2042. The amount of each installment shall be the same principal amount that would be required to be repaid if such loans were scheduled to be repaid in 128 level installments of principal and interest and such schedule was calculated utilizing the CoBank Base Rate on the date hereof as the rate of interest accruing on the loans.

(B) **Loans Made After December 31, 2010 But On or Before December 31, 2011.** The Loans made after December 31, 2010 but on or before December 31, 2011, in 124 consecutive, quarterly, installments, each due on the 20<sup>th</sup> day of each March, June, September, and December, with the first such installment due on March 20, 2012, and the last such installment due on December 20, 2042. The amount of each installment shall be the same principal amount that would be required to be repaid if such loans were scheduled to be repaid in 124 level installments of principal and interest and such schedule was calculated utilizing the CoBank Base Rate on the date hereof as the rate of interest accruing on the loans.

(C) **Loans Made After December 31, 2011 But On Or Before December 31, 2012.** The Loans made after December 31, 2011 but on or before December 31, 2012, in 120 consecutive,

quarterly, installments, each due on the 20<sup>th</sup> day of each March, June, September, and December, with the first such installment due on March 20, 2013, and the last such installment due on December 20, 2042. The amount of each installment shall be the same principal amount that would be required to be repaid if such loans were scheduled to be repaid in 120 level installments of principal and interest and such schedule was calculated utilizing the CoBank Base Rate on the date hereof as the rate of interest accruing on the loans.

**(D) Loans Made After December 31, 2012.** The Loans made after December 31, 2012, in 116 consecutive, quarterly, installments, each due on the 20<sup>th</sup> day of each March, June, September, and December, with the first such installment due on March 20, 2014, and the last such installment due on December 20, 2042. The amount of each installment shall be the same principal amount that would be required to be repaid if such loans were scheduled to be repaid in 116 level installments of principal and interest and such schedule was calculated utilizing the CoBank Base Rate on the date hereof as the rate of interest accruing on the loans.

For ease of reference, each grouping of Loans provided for in Subsections (A), (B), (C) and (D) above shall hereinafter be referred to as "Tranche". In addition to the above, the Company promises to pay interest on the unpaid principal balance of the Loans at the rates and at the times provided above. If any day on which principal or interest is due is not a Business Day, then such payment shall be made on the next Business Day and, in the case of principal, interest shall continue to accrue on the amount thereof.

**SECTION 7. Prepayment.** Subject to Section 10.01 of the MLA, the Company may prepay all or any portion of the Loans in any given Tranche. Unless otherwise agreed, all prepayments will be applied to principal installments on the Loans in the Tranche being prepaid in the inverse order of their maturity and to such balances, fixed or variable, outstanding on the Loans in that Tranche as CoBank shall specify.

**SECTION 8. Security.** The Company's obligations hereunder and, to the extent related hereto, the MLA, shall be secured as provided in Section 2.04 of the MLA. Without limiting the foregoing, the Company's obligations under this Promissory Note and Supplement, and, to the extent related hereto, the MLA, shall be secured by that certain Restated Mortgage And Security Agreement dated as of < >, 2010, by and among the Company, CFC, and CoBank, as same may be amended, supplemented or restated from time to time (the "Mortgage").

**SECTION 9 Additional Conditions Precedent.** In addition to the conditions precedent set forth in the MLA, CoBank's obligation to make each Loan hereunder is subject to the conditions precedent that CoBank receive the notices contemplated in Section 5 hereof.

**IN WITNESS WHEREOF,** the parties have caused this Promissory Note and Supplement to be entered into by their duly authorized officers.

**CoBANK, ACB**

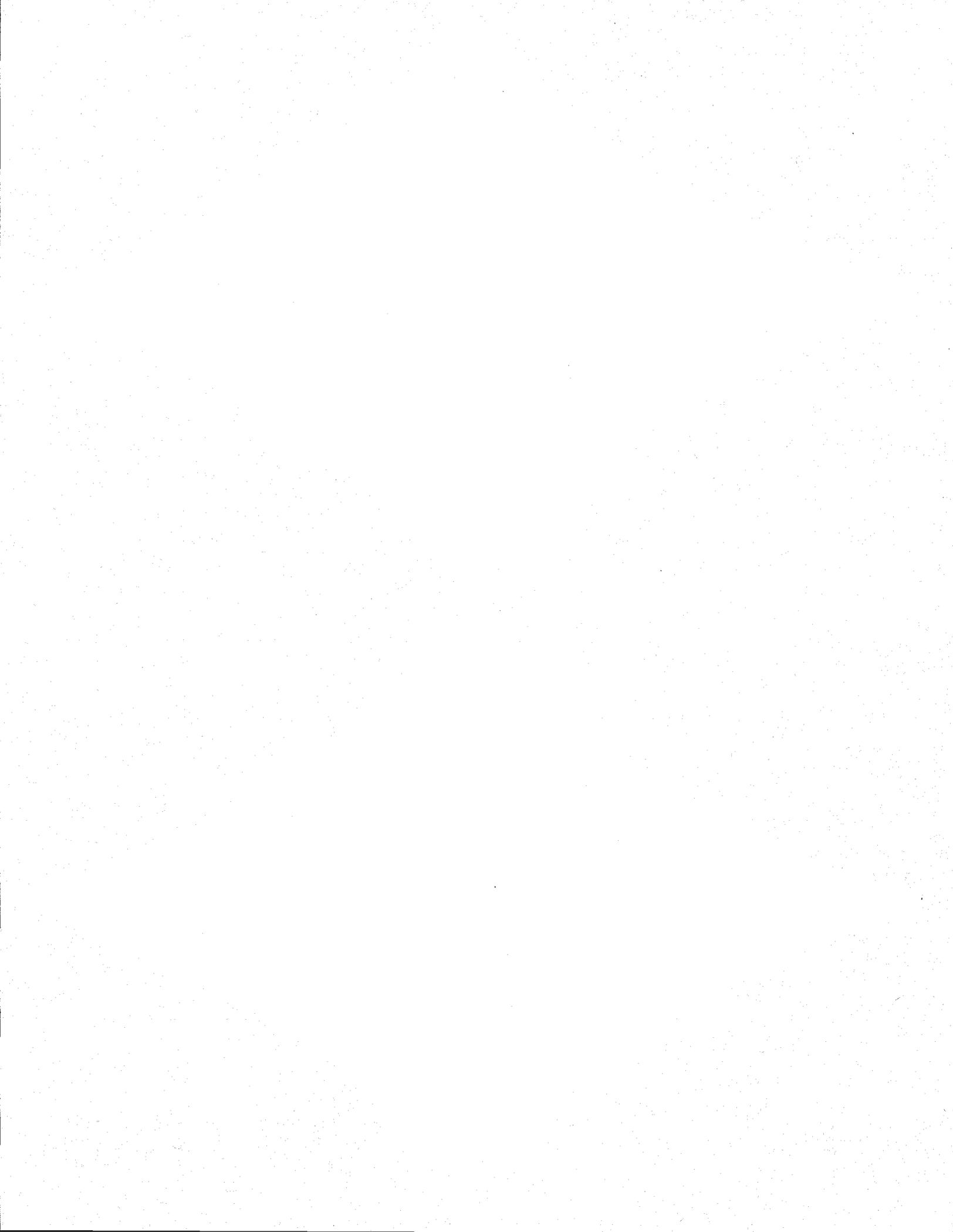
**SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC.**

By: \_\_\_\_\_

By: \_\_\_\_\_

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

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



**SUPPLEMENT**  
**(New Clean Renewable Energy Bond)**

**THIS SUPPLEMENT** (this "Supplement") is entered into as of  $\diamond$ , 2010, between **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**, an Arizona electric cooperative corporation (the "Company"), and **COBANK, ACB**, a federally chartered instrumentality of the United States ("CoBank"), and supplements the Master Loan Agreement between the parties dated as of  $\diamond$ , 2010 (as amended or restated from time to time, the "MLA").

**SECTION 1. Term Loan Commitment.** On the terms and conditions set forth in this Supplement and the MLA, CoBank agrees to make a loan (the "Loan") to the Company in an amount not to exceed \$6,000,000 (the "Commitment"). Under the Commitment, amounts borrowed and later repaid may not be reborrowed.

**SECTION 2. Purpose.** The purpose of the Commitment is to provide long-term financing for the purchase and installation of <insert description of project> (the "Project"). The Company agrees to utilize the proceeds of the Loan for that purpose and no other.

**SECTION 3. Availability.** Notwithstanding Section 2 of the MLA, the Loan will be made available: (2) upon the written request of the Company in the form attached hereto as Exhibit A (the "Request for Loan"); and (B) by remitting the proceeds thereof to an account of the Company maintained at CoBank (the "Account").

**SECTION 4. New Clean Renewable Energy Bond.** The Company's obligation to repay the Loan shall be evidenced by, and the Loan shall be repaid in accordance with the terms of, a new clean renewable energy bond (the "Bond") issued under Sections 54A and 54C of the Internal Revenue Code of 1986, as amended (the "Code"). The Bond shall: (A) be in form and content acceptable to CoBank; (B) bear interest as provided in Section 5 hereof; (C) be dated as of the date hereof; and (D) be payable in [17] equal, consecutive annual installments, each due on  $\diamond$  of each year, with the first installment due on  $\diamond$ , 2011, and the last installment due on  $\diamond$ , 2027. [DRAFTING NOTE: The length of amortization may change depending on what is permitted by Treasury on closing date.]

**SECTION 5. Interest.**

(A) **Interest Rate.** The Company agrees to pay interest on the unpaid principal of the Bond at \_\_\_\_\_% per annum. [DRAFTING NOTE: Rate to be determined at closing based tax credits on closing date and market conditions]

(B) **Calculation and Payment.** Interest shall be calculated on the actual number of days the Loan is outstanding on the basis of a year consisting of 360 days. Interest shall be: (1) calculated quarterly in arrears as of the last day of each January, April, July and October and on the final maturity date of the Loan; and (2) due and payable on the 20<sup>th</sup> day of each February, May, August, and November and on the final maturity date of the Loan.

**SECTION 6. Prepayment.**

(A) **Voluntary Prepayment.** Subject to Sections 6(B) and 6(C) below, unless CoBank otherwise agrees in its sole discretion, the Company may not prepay the Bond in whole or in part.

**(B) Mandatory Prepayment on Loss of New CREBs Status.** The Company shall prepay the Bond in the event that the Company takes any action within its control which would cause the Bond to fail to be a "new clean renewable energy bond" (as defined in Section 54C(a) of the Code), or if the Bond fails to be a new clean renewable energy bond for any reason whatsoever, which mandatory prepayment shall be applied, based on the advice of competent counsel with a nationally recognized expertise in matters affecting exclusion of interest on municipal bonds from gross income ("Bond Counsel"), to a remedial action and as may be specifically set forth in any temporary and proposed regulations issued by the Treasury Department and the Internal Revenue Service (the "IRS") under Section 54A or 54C of the Code (the "Temporary Regulations").

**(C) Mandatory Prepayment from Unexpended Proceeds.** In the event that the Available Project Proceeds (as defined below) of the Bond have not been spent for Qualified Purpose Costs (as defined below) within three years of the date of issue of the Bond or, if the IRS grants an extension of the three-year period, the last day of the extended expenditure period, the Company shall prepay a principal amount of the Bond equal to the amount of Available Project Proceeds not actually spent for Qualified Purpose Costs at the end of the three-year period or last day of the extended expenditure period. The prepayment date shall be a date not later than 90 days following the three-year period or last day of the extended expenditure period. Such prepayment shall be from the proceeds of the Bond on deposit in Account and funds of the Company to the extent necessary to satisfy any minimum denomination requirement of the Bond. The term "Available Project Proceeds" means (A) the excess of (i) the proceeds of the Bond, over (ii) the issuance costs financed by the Bond (to the extent that such costs do not exceed 2% of such proceeds), and (B) the proceeds from any investment of the excess described in clause (A). "Qualified Purpose Costs" means capital expenditures incurred by the Company for the Project.

**(D) Prepayment Premium.** Notwithstanding the MLA, in the event the Bond is prepaid in whole or part (whether as a result of a permitted voluntary prepayment, a mandatory prepayment, or otherwise) then on the date thereof the Company shall pay to CoBank an amount equal to all losses, costs and expenses (including, but not limited to, lost yield) incurred by CoBank as a result thereof. Such surcharge shall be calculated in accordance with methodology established by CoBank, a copy of which will be made available upon request.

**(E) Partial Prepayments.** All partial prepayments shall be applied to such principal installment or installments as CoBank shall prescribe in its sole discretion.

**SECTION 7. Security.** The Company's obligations hereunder, under the Bond, and, to the extent related hereto and thereto, the MLA, shall be secured as provided in Section 2.04 of the MLA. Without limiting the foregoing, such obligations shall be secured by that certain Restated Mortgage And Security Agreement dated as of <>, 2010, by and among the Company, CFC, and CoBank, as same may be amended, supplemented or restated from time to time (the "Mortgage"). In addition to the foregoing, the Company's obligations hereunder, under the Bond, and, to the extent related hereto and thereto, the MLA, shall be secured by a first priority Lien on the Account, all investments made therein, and all proceeds thereof. The Company hereby grants to CoBank a Lien on and control over the Account as security for all such obligations.

**SECTION 8. Conditions Precedent.** In addition to the conditions precedent set forth in the MLA, CoBank's obligation to make the Loan is subject to the conditions precedent that:

**(A) New Clean Renewable Energy Bond.** CoBank shall have received a duly executed and authenticated Bond in form and content acceptable to CoBank.

**(B) Request for Loan.** CoBank shall have received a duly executed and completed Request for Loan and each of the representations and warranties set forth in the Request for Loan shall be true and correct on the date of the Loan.

**(C) Application.** CoBank shall have received a copy of the application or applications furnished to the Internal Revenue Service under Section 54C of the Code.

**(D) Allocation and Assignment.** CoBank shall have received such evidence as it may reasonably require that the Internal Revenue Service has awarded an allocation or allocations from the Department of the Treasury to issue new clean renewable energy bonds in an amount greater than or equal to the face amount of the Bond for the purpose of financing the Project (the "Allocation Letter").

**(E) Account.** The Company shall have established the Account.

**(F) Project Agreements.** (1) CoBank shall have received a copy of and approved all contracts relating to the ownership, operation, and construction of the Project; and (2) CoBank shall have received and approved all agreements permitting the Company to utilize the Project site for the Project and related facilities.

**SECTION 9. Representations and Warranties.** In addition to the representations and warranties set forth in the MLA, to induce CoBank to enter into this Supplement and make the Loan hereunder, the Company represents and warrants as follows, which representations and warranties shall also be for the purpose of establishing the reasonable expectations of the Company as to future events relating to the Bond pursuant to the Code and the Treasury Regulations promulgated thereunder, and to the extent applicable, any subsequent amendments to such regulations or any successor regulations, including the Temporary Regulations (together, the "Regulations"), as specifically required by Regulation Section 1.148-2(b), and also for the purpose of evidencing compliance with and setting forth procedures which are designed to comply with certain provisions of the Code and the Regulations:

**(A)** The undersigned officer of the Company is one of the officers of the Company delegated the responsibility for execution and delivery of the Bond, and is familiar with the proceedings of the Company taken preliminary to and in connection with the execution and delivery of this Supplement and the Bond, including the resolution of the Company designating the Bond as a new clean renewable energy bond in accordance with the Code.

**(B)** The Company is a mutual or cooperative electric company described in Section 501(c)(12) or Section 1381(a)(2)(C) of the Code and a "qualified issuer" for purposes of Section 54C of the Code.

**(C)** The Company has received an allocation or allocations to issue new clean renewable energy bonds from the Department of the Treasury in an amount greater than or equal to the face amount of the Bond.

**(D)** 100% of the Available Project Proceeds are to be used for Qualified Purposes Costs incurred by the Company for the Project. Proceeds of the Bond used to pay legal, accounting and financing expenses, including any compensation paid to CoBank, incurred and to be incurred, in connection with the issuance of the Bond (collectively, the "Costs of Issuance") will not be treated as expended on Qualified Purposes Costs. The Company will not use more than 2% of the proceeds derived from the sale of the Bond to pay Costs of Issuance. Any Costs of Issuance in excess of such 2% limit will be paid by Company with other funds.

(E) The Project is a "qualified renewable energy facility" as defined in Section 54C(d)(1) of the Code and will at all times while the Bond is outstanding be owned by the Company.

(F) The Bond has been designated by the Company as a new clean renewable energy bond in accordance with Section 54C(a)(3) of the Code.

(G) As of the date hereof, the Company reasonably expects that:

(1) at least 100% of the Available Project Proceeds will be spent for the Project within the 3-year period beginning on the date hereof;

(2) it will enter into a binding commitment with a third party to spend at least 10% of the Available Project Proceeds within the 6-month period beginning on the date hereof; and

(3) the Project will be completed with due diligence and the Available Project Proceeds will be spent with due diligence.

(H) CoBank or the registered owner of the Bond shall be entitled to claim a credit against taxes in accordance with Sections 54A and 54C of the Code for the principal amounts coming due in each calendar year at the "Tax Credit Allowance Rate" (as hereinafter defined) on the Bond. For purposes hereof, the "Tax Credit Allowance Rate" shall mean 70% of the rate published by the Bureau of Public Debt on its website on the date that CoBank executes this Supplement as the tax credit rate for qualified tax credit bonds for the term of the Bond

(I) As defined in Section 54A(e)(1) of the Code, the "credit allowance date" is each March 15, June 15, September 15 and December 15 and the last day the Bond is outstanding.

(J) The final maturity date of the Bond shall be \_\_\_\_\_, 20\_\_, and the face amount of the Bond shall be \$\_\_\_\_\_. Such final maturity date is not greater than the maximum term published by the Bureau of Public Debt on the internet site for qualified tax credit bonds, and determined in accordance with Section 54A(d)(5) of the Code.

(K) None of the proceeds received from the issuance of the Bond will be used to refund or refinance any indebtedness or other obligation. For purposes of this subsection (K), the repayment of a draw made on a line of credit or similar advance with the proceeds of the Bond shall not be deemed a refunding or refinancing, and shall instead be subject to subsection (L) below.

(L) To the extent that the Company is reimbursing itself from proceeds of the Bond for amounts previously paid by the Company with respect to the Project (an "Original Expenditure"):

(1) prior to the payment of the Original Expenditure, the Company declared its intent to reimburse such expenditure with the proceeds of a new clean renewable energy bond in the manner and form prescribed by Regulation Section 1.150-2;

(2) not later than 60 days after payment of the Original Expenditure, the Company adopted an official intent to reimburse the Original Expenditure with such proceeds in the manner and form prescribed by Regulation Section 1.150-2;

(3) the reimbursement being made from the proceeds of the Bond is being made not later than 18 months after the date the Original Expenditure was paid;

(4) the Original Expenditures were incurred after the date of the Allocation Letter; and

(5) the Original Expenditures being reimbursed are shown on Exhibit B hereto.

(M) The Company certifies that (A) applicable state and local law requirements governing conflicts of interest are satisfied with respect to the Bond, and (B) to the extent the Secretary of the Treasury prescribes additional conflicts of interest rules governing the appropriate members of Congress, federal, state and local officials and their spouses, such additional rules will be satisfied with respect to the Bond.

(N) The Company acknowledges that Section 1601 of the American Recovery and Reinvestment Act of 2009 states that the prevailing wage requirement of Subchapter IV of Chapter 31 of Title 40 of the U.S. Code (the "Federal Prevailing Wage Requirement") applies to projects financed with the proceeds of new clean renewable energy bonds, as defined in Section 54C of the Code. Accordingly, the Company represents that the projects financed and to be financed with the proceeds of the Bond will comply with the Federal Prevailing Wage Requirement.

**SECTION 10. Additional Covenants.** In addition to the covenants set forth in the MLA, the Company agrees that:

(A) **Qualification as New Clean Renewable Energy Bond.** The Company will not take any action or omit to take any action with respect to the Bond, the proceeds thereof, any funds reasonably expected to be used to pay the principal or interest on the Bond, any other funds of the Company, or the Project if such action or omission (i) would cause the Bond to fail to be a new clean renewable energy bond, or (ii) would affect the ability of CoBank or any other taxpayer holding the Bond to claim a credit against taxes with respect to the Bond under Section 54A of the Code. The Company further covenants and agrees that it will comply with the procedures set forth herein, in the Code, and in the Regulations to the extent necessary to maintain the status of the Bond as a new clean renewable energy bond and the ability of CoBank or any other taxpayer holding the Bond to claim a credit against taxes with respect to the Bond under Section 54A of the Code. The foregoing covenant shall remain in full force and effect notwithstanding the payment in full of the Bond until the date on which all obligations of the Company in fulfilling the above covenant under the Code and the Regulations have been met.

(B) **Arbitrage Compliance.** The Company will satisfy the arbitrage requirements of Section 148 of the Code and Regulation Sections 1.148-1 to 1.148-11, inclusive, including but not limited to the arbitrage investment restrictions, the yield restrictions and the arbitrage rebate requirements contained therein, with respect to proceeds of the Bond, as such requirements may be modified by Sections 54A and 54C of the Code and the Temporary Regulations, and shall pay to the United States Government all rebate payments required under Section 148(f) of the Code. In order to ensure such compliance, the Company shall appoint a firm of independent accountants or Bond Counsel or another entity experienced in calculating rebate payments required by Section 148(f) of the Code (a "Rebate Analyst") and give written notice thereof to CoBank. The Company shall give written notice to CoBank of any resignation, removal or replacement of the Rebate Analyst and the appointment of a successor Rebate Analyst. The charges and fees for such Rebate Analyst shall be paid by the Company. The foregoing covenant shall remain in full force and effect notwithstanding the payment in full of the Bond

until the date on which all obligations of the Company in fulfilling the above covenant under the Code and the Regulations have been met.

**(C) Indemnification.** If and to the extent that the Bond fails for any reason to be a new clean renewable energy bond, or CoBank or any other taxpayer holding the Bond, for any period of time or in any manner whatsoever, is prevented from claiming or is disallowed the credit against taxes with respect to the Bond under Section 54A of the Code, then, in addition to any amounts required to be paid under Section 6(C) hereof (but without duplication of amounts owing thereunder), the Company shall pay upon demand to CoBank or the taxpayer entitled to such credit an amount equal to all losses, costs and expenses (including, but not limited to, lost yield) incurred by CoBank or such taxpayer as a result thereof.

**(D) Maintenance of Records.** The Company will maintain records relating to the use of the proceeds of the Bond, the use and operation of the Project financed with the proceeds of the Bond, and any opinions, calculations, determinations, directions or advice of the Rebate Analyst for a period of six years after the later of (i) payment in full of the Bond or (ii) payment in full of any bonds or other obligations issued to refund the Bond. The Company shall provide CoBank access to or copies of such records and information upon reasonable notice.

**(E) Temporary Regulations.** If and to the extent that the Temporary Regulations or any other regulations, rulings, announcements or notices validly promulgated under the Code contain requirements which differ from those set forth herein or in the existing Regulations and which must be satisfied for the Bond to be a new clean renewable energy bond or in order to avoid the imposition of penalties under Section 148 of the Code or otherwise, the Company shall take such steps as are necessary to comply with such requirements. To the extent necessary, the Company agrees that it will seek the advice of Bond Counsel in fulfilling its obligations under the Code and the Regulations to take all steps as are necessary to maintain the status of the Bond as a clean renewable energy bond.

**(F) Reporting to IRS.** The Company will file or cause to be filed with the IRS an information return on Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, at the same time and in the same manner as required under Section 149(e) of the Code. Part II of Form 8038 shall be completed by checking the box on Line 20(c) (Other) and writing "New CREBs" in the space provided for the bond description.

**(G) Annual Compliance Certificate.** Annually, on each anniversary of the date hereof (or on such other date as may be agreeable to CoBank), the Company will furnish to CoBank a certificate in form and content, and from an officer of the Company, acceptable to CoBank certifying that the Company is in compliance with all of the terms of this Supplement.

**(H) Contracts and Status Reports.** The Company will: (1) comply with all of its obligations under the Contracts and will not breach or terminate any Contract or accept any breach or termination thereof by the contractor; (2) promptly after receipt thereof by the Company, furnish CoBank with a copy of any notice from a contractor that the Company has breached or is in default under a Contract; and (3) from time to time upon the request of CoBank, furnish to CoBank such reports on the status of the Project as CoBank may reasonably request.

**(I) Construction.** (1) Obtain and maintain all permits necessary to own and operate the Project; and (2) cause the Project to be constructed in a good and workmanlike manner and in material compliance with all applicable laws, rules, regulations, and ordinances.

**SECTION 11. Registrar.** The Company agrees to keep at its principal executive office a register for the registration of the Bond (the "Register"). The name and address of CoBank, as holder of the Bond, and of any transferee of the Bond, shall be registered in the Register. Prior to due presentment for registration of transfer, the principal and interest on the Bond shall be payable as provided herein and in the Bond to the registered owner thereof as shown on the registration books kept by the Company (in such capacity, the "Registrar"). Presentation of the Bond is not required in order to receive payment and, as long as CoBank is the holder of the Bond, payments shall be made as provided in the MLA. The Bond shall not be valid or obligatory for any purpose unless the certificate of authentication, substantially in the form hereinafter provided, has been duly manually executed by the Registrar. By its execution of this Supplement and authentication of the Bond, the Company agrees to perform the duties and responsibilities as Registrar of the Bond, including keeping books for the registration, ownership, transfer and exchange of the Bond.

**SECTION 12. Miscellaneous.** This Supplement and the Bond have been issued under the MLA and are subject in all respects to the MLA as if they were a "Promissory Note and Supplement" (as such term is defined in the MLA). To the extent inconsistent herewith, the MLA is hereby deemed amended.

**SECTION 13. Non-Patronage.** Notwithstanding any provision of the MLA, the Company will not be required to purchase capital in CoBank in connection with the Loan. Hence, the Loan will not be eligible for, or entitled to, patronage from CoBank.

**IN WITNESS WHEREOF,** the parties have caused this Supplement to be entered into by their duly authorized officers.

**CoBANK, ACB**

**SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC.**

By: \_\_\_\_\_

By: \_\_\_\_\_

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

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

REQUEST FOR LOAN

**TO:** COBANK, ACB  
**FROM:** SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC  
**DATE:** <>, 2010  
**SUBJECT:** NEW CLEAN RENEWABLE ENERGY BOND

Reference is hereby made to that certain Supplement dated as of <>, 2010 (the "Supplement"), between CoBank, ACB ("CoBank") and **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC** (the "Company"). Capitalized terms used herein shall have the meanings given to those terms in the Supplement.

Pursuant to Section 3 of the Supplement, the Company hereby requests that on December 17, 2009, CoBank make the Loan to the Company in the amount of \$\_\_\_\_\_.

To induce CoBank to make the Loan, the Company hereby represents and warrants that all conditions precedent set forth in the Supplement to CoBank's obligation to make the Loan have been satisfied. Without limiting the foregoing, the Company hereby represents and warrants that: (1) the Bond was executed and acknowledged by one or more of the officers of the Company delegated the responsibility for execution and delivery of the Bond; and (2) each of the representations and warranties set forth in the Supplement and the MLA are true and correct and will be true and correct on the date hereof.

As contemplated in the Supplement, please remit the funds to the Account. The authorization provided for herein shall be deemed to be a Special Wire and Electronic Transfer Authorization Form within the meaning of the Company's Delegation And Wire And Electronic Transfer Authorization form.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC**

By: \_\_\_\_\_

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

(Must be signed by an authorized employee or officer)

**EXHIBIT B**

**LIST OF ORIGINAL EXPENDITURES**

| <u>Item Being Reimbursed</u> | <u>Date Expenditure Paid</u> | <u>Amount</u> |
|------------------------------|------------------------------|---------------|
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
|                              |                              |               |
| <b>TOTAL</b>                 |                              |               |

NEW CLEAN RENEWABLE ENERGY BOND

\$ \_\_\_\_\_

\_\_\_\_\_, 2010  
Denver, Colorado

**REGISTERED OWNER: COBANK, ACB**

**FOR VALUE RECEIVED**, the undersigned, **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**, an Arizona cooperative corporation (the "Issuer") **HEREBY PROMISES TO PAY** to the order of the registered owner specified above, **COBANK, ACB** (the "Bank"), in lawful money of the United States and in immediately available funds, the principal amount of **SIX MILLION DOLLARS (\$6,000,000)** in [17] equal, consecutive, annual installments, each due on the \_\_\_\_ day of each \_\_\_\_\_, with the first installment due on \_\_\_\_\_, 2011, and the last installment due on \_\_\_\_\_, 2027; provided, however, that the last installment shall be in the amount necessary to repay in full the unpaid principal amount of this Bond. In addition, the undersigned hereby promises to pay interest on the unpaid principal balance hereof in accordance with the provisions set forth below.

The principal on the Bond shall be payable to the registered owner thereof as shown on the registration books kept by the Issuer, as Bond registrar (the "Registrar"). This Bond shall not be valid or obligatory for any purpose until the Registrar shall have manually signed the certificate of authentication herein.

The registered owner of this Bond shall be entitled to claim a credit against taxes in accordance with Sections 54A and 54C of the Internal Revenue Code of 1986, as amended (the "Code"), for the principal amounts specified above coming due in each calendar year at 70% of the credit rates specified in the Bureau of Public Debt website (<https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDDate.htm>) for qualified tax credit bonds as of the date hereof. The credit allowance dates, as defined in Section 54A(e)(1) of the Internal Revenue Code, for this Bond are each March 15, June 15, September 15, and December 15 and the last day this Bond is outstanding.

This Issuer agrees to pay interest on the unpaid principal balance of this Bond at \_\_\_\_% per annum. Interest shall be calculated on the actual number of days the Bond is outstanding on the basis of a year consisting of 360 days. Interest shall be: (1) calculated quarterly in arrears as of the last day of each January, April, July and October and on the final maturity date of the Bond; and (2) due and payable on the 20<sup>th</sup> day of each February, May, August, and November and on the final maturity date of the Bond.

If any principal or interest payment due date is not a CoBank business day, then such payment shall be due and payable on the next CoBank business day and, in the case of principal, interest shall continue to accrue on the amount thereof.

This Bond is given to evidence the Issuer's obligation to repay a loan made by the Bank to the Issuer under the terms of the "Supplement" and the "Master Loan Agreement" (both as hereinafter defined), and is entitled to the benefits of the Supplement and the Master Loan Agreement. Reference to the Supplement and the Master Loan Agreement should be made for a complete statement of the rights of the Bank. The Supplement and the Master Loan Agreement contain, among other things, the right to accelerate the maturity of this Bond upon the happening of certain stated events, and also for mandatory prepayments prior to the maturity of this Bond upon the terms and conditions specified in the Supplement and the Master Loan Agreement. This Bond is secured by the Amended and Restated Mortgage and Security Agreement dated as of March 3, 2003, as supplemented, among the Issuer, the National Rural Utilities Cooperative Finance Corporation, the United States of America, and the Bank, as same has been and may be amended or restated from time to time (the "Mortgage"), reference to which is hereby made for a description of the collateral provided for under the Mortgage and the rights of the Issuer and the Bank in respect to such collateral. For purposes hereof, the term: (1) "Master Loan Agreement" shall mean the Master Loan Agreement between the Issuer and the Bank dated as of December 17, 2009, as same may be amended or restated from time to time; and "Supplement" shall mean that Supplement dated

as of December 17, 2009, between the Company and the Bank, as same may be amended or restated from time to time, all of the terms and provisions of which are hereby incorporated by reference. To the extent not defined herein, terms used in this Bond are as defined in the Supplement or the Master Loan Agreement.

In addition to the registration books maintained by the Registrar, the Bank shall also keep a record of the amount of the loan made by the Bank to the Issuer, all interest accrued thereon, and all payments of principal and interest made by the Issuer, which books and records (and all print-outs thereof) shall, in the absence of manifest error, be conclusive as to the outstanding principal and interest owing on this Bond if such books and records are in conflict with the books and records maintained by the Registrar.

This Bond has been designated by the Issuer as a new clean renewable energy bond in compliance with the provisions of Section 54C of the Code and as set forth in the resolution of the Issuer approving this Bond.

Except to the extent governed by federal law, this Bond shall be governed by laws of the State of Colorado.

**IN WITNESS WHEREOF**, the Issuer has caused this Bond to be signed and executed on behalf of the Issuer by the manual signature of the authorized officer specified below.

**SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

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

**CERTIFICATE OF AUTHENTICATION**

Date of authentication and registration: \_\_\_\_\_

This is the Bond described in the within-mentioned Supplement, and this bond has been duly registered on the registration books kept by the undersigned as Registrar for such Bond.

**SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC., as Registrar**

By: \_\_\_\_\_

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

# **EXHIBIT E**

**[BORROWER'S LETTERHEAD]  
Balance Certification for Quote\***

|   |                     |                           |
|---|---------------------|---------------------------|
| <b>Borrower Name</b>                        | <b>CFC Loan No.</b> | <b>Alternate Loan No.</b> |
| Sulphur Springs Valley Electric Cooperative | AZ014-              |                           |

In accordance with the loan agreements referenced above, I hereby certify, as of the date of my signature below, that: (1) I am duly authorized to make this certification on behalf of Borrower; (2) the following truly, accurately and completely sets forth the specified information:

| <b>Outstanding Balance<br/>CFC Loan</b> | <b>Outstanding Balance<br/>Alternate Loan</b> | <b>Amount of Proposed<br/>Advance</b> | <b>Total</b> |
|---|---|---------------------------------------|--------------|
|   |   |                                       |              |
| <b>Purpose of Proposed Advance</b>      |   |                                       |              |
|   |   |                                       |              |

I further certify that the advance of funds proposed herein will not result in the sum of the outstanding balances of the CFC Loan and the Alternate Loan exceeding \$72,680,000.00.

Certified By: \_\_\_\_\_  
Signature Date Title of Authorized Officer

**»LENDERS PLEASE QUOTE BASED ON THE FOLLOWING:**

|  |
|--|
|  |
|  |

**»BORROWER PLEASE FAX or EMAIL COMPLETED FORM TO BOTH LENDERS:**

|   |   |   |
|---|---|---|
| <b>CFC at: 703-709-6776</b><br>Attn.: Marianne Dusold<br>AVP, MSG Electric<br>Marianne.dusold@nrucfc.coop | <b>Alternate Lender at:</b> _____<br>Attn.: _____<br>(Title)<br>(Email) | <b>Borrower at:</b> _____<br>Attn.: _____<br>(Title)<br>(Email) |
|---|---|---|

**FOR LENDERS' USE ONLY**

(Lenders: Complete each cell; return form to the Borrower and the other lender via fax or email; DO NOT SEND YOUR QUOTE TO THE OTHER LENDER)

| <b>CFC Records</b>              | <small>(Write amount of outstanding balance)</small> | <small>(Write amount of any funds requested that do not yet show in outstanding balance, excluding the proposed advance)</small> | <small>(Write date(s) of any requested amounts referenced in prior columns)</small> | <b>COMPLETED BY (INITIALS)</b> |
|---------------------------------|--|--|---|--------------------------------|
| As of:<br>(Date)                |  |  |   |                                |
| <b>Alternate Lender Records</b> | <small>(Write amount of outstanding balance)</small> | <small>(Amount of any funds requested that do not yet show in outstanding balance, excluding the proposed advance)</small>       | <small>(Write date(s) of previous request(s), if any)</small>                       | <b>COMPLETED BY (INITIALS)</b> |
| As of:<br>(Date)                |  |  |   |                                |

**BORROWER'S RESPONSE TO QUOTES**

Borrower, as of this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, having received quotes for the proposed advance referenced herein, has determined:

- to request an advance of \$\_\_\_\_\_ from  CFC  Alternate Lender; or  
 not to request an advance at this time.

Borrower will submit a new Balance Certification for Quote when and if it desires to obtain new quotes or desires to request an advance.

Certified By: \_\_\_\_\_  
Signature Date Title of Authorized Officer

\* This form to be completed and submitted by Borrower to both lenders not less than 24 hours in advance of requesting a quote.

CFC LOANAG  
AZ014-V-9052 (OCONNET)  
138072-4





**[BORROWER'S LETTERHEAD]  
PART A**

**Balance Certification for Quote\***

|   |                     |                        |
|---|---------------------|------------------------|
| <b>Borrower Name</b>                        | <b>CFC Loan No.</b> | <b>CoBank Loan No.</b> |
| Sulphur Springs Valley Electric Cooperative | AZ014- -            | RX0850S1               |

In accordance with the loan agreements referenced above, I hereby certify, as of the date of my signature below, that: (1) I am duly authorized to make this certification on behalf of Borrower; (2) the following truly, accurately and completely sets forth the specified information:

| <b>Outstanding Balance CFC Loan</b> | <b>Outstanding Balance CoBank Loan</b> | <b>Amount of Proposed Advance</b> | <b>Total</b> |
|-------------------------------------|--|-----------------------------------|--------------|
|                                     |  |                                   |              |
| <b>Purpose of Proposed Advance</b>  |  |                                   |              |
|                                     |  |                                   |              |
|                                     |  |                                   |              |

I further certify that the advance of funds proposed herein will not result in the sum of the outstanding balances of the CFC Loan and the CoBank Loan exceeding \$72,680,000.

Certified By: \_\_\_\_\_  
Signature
Date
Title of Authorized Officer

**»LENDERS PLEASE QUOTE BASED ON THE FOLLOWING:**

|  |
|--|
|  |
|  |

**»BORROWER PLEASE FAX or EMAIL COMPLETED FORM TO BOTH LENDERS:**

|   |   |   |
|---|---|---|
| <b>CFC at: 703-709-6776</b><br>Attn.: Marianne Dusold<br>AVP, MSG Electric<br>Marianne.dusold@nrucfc.coop | <b>CoBank at: _____</b><br>Attn.: _____<br>(Title)<br>(Email) | <b>Borrower at: _____</b><br>Attn.: _____<br>(Title)<br>(Email) |
|---|---|---|

**FOR LENDERS' USE ONLY**

(Lenders: Complete each cell; return form to the Borrower and the other lender via fax or email; DO NOT SEND YOUR QUOTE TO THE OTHER LENDER)

| <b>CFC Records</b>           | <small>(Write amount of outstanding balance)</small> | <small>(Write amount of any funds requested that do not yet show in outstanding balance, excluding the proposed advance)</small> | <small>(Write date(s) of any requested amounts referenced in prior column)</small> | <b>COMPLETED BY (INITIALS)</b> |
|------------------------------|--|--|--|--------------------------------|
| As of:<br>(Date)             |  |  |  |                                |
| <b>CoBank Lender Records</b> | <small>(Write amount of outstanding balance)</small> | <small>(Amount of any funds requested that do not yet show in outstanding balance, including the proposed advance)</small>       | <small>(Write date(s) of previous request(s), if any)</small>                      | <b>COMPLETED BY (INITIALS)</b> |
| As of:<br>(Date)             |  |  |  |                                |

**PART B**

\* This form to be completed and submitted by Borrower to both lenders not less than 24 hours in advance of requesting a quote.

**BORROWER'S RESPONSE TO QUOTES**

Borrower, as of this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, having received quotes for the proposed advance referenced herein, has determined:

- to request an advance of \$ \_\_\_\_\_ from  CFC  CoBank Lender; or
- not to request an advance at this time.

Borrower will submit a new Balance Certification for Quote when and if it desires to obtain new quotes or desires to request an advance.

Certified By: \_\_\_\_\_  
Signature Date Title of Authorized Officer

# **EXHIBIT F**

**ARIZONA 14 COCHISE**

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**WILLCOX, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**ARIZONA 14 COCHISE  
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.  
WILLCOX, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Sulphur Springs Valley Electric Cooperative, Inc.  
Willcox, Arizona

We have audited the accompanying balance sheet of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2009 and 2008, and the related statements of income and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

September 14, 2009

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEET  
JUNE 30, 2009 AND 2008

ASSETS

|   | June 30,                        |                       |
|---|---------------------------------|-----------------------|
|   | 2009                            | 2008                  |
| UTILITY PLANT AT COST   |                                 |                       |
| Electric Plant in Service   | \$ 245,933,272                  | \$ 226,620,622        |
| Construction Work in Progress   | 29,835,321                      | 24,942,047            |
|   | <u>\$ 275,768,593</u>           | <u>\$ 251,562,669</u> |
| Less: Accumulated Provision for Depreciation and Amortization   | 80,655,914                      | 75,221,268            |
|   | <u>\$ 195,112,679</u>           | <u>\$ 176,341,401</u> |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE  |                                 |                       |
| Non-Utility Property  | \$ 5,174,063                    | \$ 115,029            |
| Investments in Associated Organizations   | 26,559,569                      | 13,345,486            |
| Other Investments   | 506,869                         | 545,961               |
|   | <u>\$ 32,240,501</u>            | <u>\$ 14,006,476</u>  |
| CURRENT ASSETS  |                                 |                       |
| Cash  | \$ 628,432                      | \$ 866,095            |
| Temporary Cash Investments  | 130,000                         |                       |
| Underbilled Power Cost  |                                 | 2,585,156             |
| Accounts and Notes Receivable (Less allowance for uncollectibles<br>of \$695,125 in 2009 and \$326,200 in 2008) | 8,222,907                       | 8,323,330             |
| Materials and Supplies  | 3,297,803                       | 2,835,563             |
| Other Current and Accrued Assets  | 2,532,533                       | 1,963,739             |
|   | <u>\$ 14,811,675</u>            | <u>\$ 16,573,883</u>  |
| DEFERRED CHARGES  | <u>\$ 1,537,723</u>             | <u>\$ 1,689,183</u>   |
| TOTAL ASSETS  | <u>\$ 243,702,578</u>           | <u>\$ 208,610,943</u> |
|   | <b>EQUITIES AND LIABILITIES</b> |                       |
| EQUITIES  |                                 |                       |
| Memberships   | \$ 193,035                      | \$ 191,480            |
| Patronage Capital   | 59,803,347                      | 51,275,039            |
| Other Equities  | (545,897)                       | (829,951)             |
| Other Comprehensive Loss  | (148,700)                       | (157,400)             |
|   | <u>\$ 59,301,785</u>            | <u>\$ 50,479,168</u>  |
| LONG-TERM DEBT  |                                 |                       |
| CFC Mortgage Notes Less Current Maturities  | \$ 132,683,019                  | \$ 108,530,463        |
| Notes Payable - Fort Huachuca   | 1,437,330                       | 1,520,024             |
|   | <u>\$ 134,120,349</u>           | <u>\$ 110,050,487</u> |
| OTHER LONG-TERM LIABILITIES   |                                 |                       |
| Deferred Compensation   | \$ 336,702                      | \$ 327,405            |
| ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS   |                                 |                       |
| Post-Retirement Benefits  | \$ 772,988                      | \$ 748,604            |
| CURRENT LIABILITIES   |                                 |                       |
| Notes Payable   | \$ 10,795,377                   | \$ 8,900,000          |
| Current Maturities of Long-Term Debt  | 4,852,695                       | 4,212,310             |
| Accounts Payable - Purchased Power  | 5,217,647                       | 5,788,198             |
| Accounts Payable - Other  | 2,944,793                       | 6,794,078             |
| Overbilled Power Cost   | 3,314,689                       |                       |
| Consumer Deposits   | 2,376,134                       | 1,843,584             |
| Accrued Taxes   | 1,898,667                       | 1,700,511             |
| Accrued Interest  | 46,043                          | 37,808                |
| Accrued Payroll   | 290,737                         | 223,663               |
| Accrued Employee Compensated Absences   | 2,354,586                       | 2,076,977             |
| Other Current and Accrued Liabilities   | 66,206                          | 171,889               |
|   | <u>\$ 34,157,574</u>            | <u>\$ 31,749,018</u>  |
| DEFERRED CREDITS  | <u>\$ 15,013,180</u>            | <u>\$ 15,256,261</u>  |
| TOAL EQUITIES AND LIABILITIES   | <u>\$ 243,702,578</u>           | <u>\$ 208,610,943</u> |

See accompanying notes to the financial statements.

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENT OF INCOME AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

|   | Years Ended June 30,  |              |                      |              | Increase<br>(Decrease) |
|---|-----------------------|--------------|----------------------|--------------|------------------------|
|   | 2009                  |              | 2008                 |              |                        |
|   | Amount                | %            | Amount               | %            |                        |
| <b>OPERATING REVENUES</b>   |                       |              |                      |              |                        |
| Residential   | \$ 48,814,339         | 47.2         | \$ 43,703,106        | 43.9         | \$ 5,111,233           |
| Irrigation  | 16,245,092            | 15.8         | 14,545,467           | 14.6         | 1,699,625              |
| Commercial and Industrial   | 39,144,053            | 38.0         | 33,215,629           | 33.4         | 5,928,424              |
| Public Buildings and Other Authorities                            | 2,886,435             | 2.8          | 4,395,643            | 4.4          | (1,509,208)            |
| Power Cost Adjustments  | (5,899,845)           | (5.7)        | 1,860,413            | 1.9          | (7,760,258)            |
| Rent from Electric Property                                       | 703,219               | 0.7          | 880,106              | 0.9          | (176,887)              |
| Other Operating Revenues  | 1,240,482             | 1.2          | 901,680              | 0.9          | 338,802                |
| Total Operating Revenues  | <u>\$ 103,133,775</u> | <u>100.0</u> | <u>\$ 99,502,044</u> | <u>100.0</u> | <u>\$ 3,631,731</u>    |
| <b>OPERATING EXPENSES</b>   |                       |              |                      |              |                        |
| Purchased Power   | \$ 67,663,290         | 65.6         | \$ 63,192,101        | 63.5         | \$ 4,471,189           |
| Transmission  | 522,760               | 0.5          | 316,195              | 0.3          | 206,565                |
| Distribution - Operation  | 8,412,360             | 8.2          | 8,288,980            | 8.3          | 123,380                |
| Distribution - Maintenance  | 2,737,996             | 2.7          | 2,445,527            | 2.5          | 292,469                |
| Consumer Accounts   | 3,769,653             | 3.7          | 2,886,551            | 2.9          | 883,102                |
| Customer Service and Information                                  | 776,674               | 0.8          | 706,045              | 0.7          | 70,629                 |
| Sales Expenses  | 1,084,476             | 1.1          | 564,923              | 0.6          | 519,553                |
| Administrative and General  | 3,737,437             | 3.6          | 3,719,348            | 3.7          | 18,089                 |
| Depreciation and Amortization                                     | 8,373,955             | 8.1          | 7,514,978            | 7.6          | 858,977                |
| Taxes   | 1,218,684             | 1.2          | 1,014,000            | 1.0          | 204,684                |
| Other Interest  | 294,480               | 0.3          | 401,766              | 0.4          | (107,286)              |
| Other Deductions  | 210,508               | 0.2          | 178,518              | 0.2          | 31,990                 |
| Total Operating Expenses  | <u>\$ 98,802,273</u>  | <u>96.0</u>  | <u>\$ 91,228,932</u> | <u>91.7</u>  | <u>\$ 7,573,341</u>    |
| <b>OPERATING MARGINS - Before<br/>Fixed Charges</b>               |                       |              |                      |              |                        |
|   | \$ 4,331,502          | 4.0          | \$ 8,273,112         | 8.3          | \$ (3,941,610)         |
| <b>FIXED CHARGES</b>  |                       |              |                      |              |                        |
| Interest on Long-Term Debt  | 6,889,939             | 6.7          | 6,008,787            | 6.0          | 881,152                |
| <b>OPERATING MARGINS (DEFICIT)- After Fixed Charges</b>           |                       |              |                      |              |                        |
|   | \$ (2,558,437)        | (2.7)        | \$ 2,264,325         | 2.3          | \$ (4,822,762)         |
| Capital Credits   | 11,238,715            | 10.9         | 3,118,697            | 3.1          | 8,120,018              |
| <b>NET OPERATING MARGINS</b>                                      |                       |              |                      |              |                        |
|   | <u>\$ 8,680,278</u>   | <u>8.2</u>   | <u>\$ 5,383,022</u>  | <u>5.4</u>   | <u>\$ 3,297,256</u>    |
| <b>NON-OPERATING MARGINS</b>                                      |                       |              |                      |              |                        |
| Interest Income and Dividend Income                               | \$ 105,319            | 0.1          | \$ 106,058           | 0.1          | \$ (739)               |
| Other Non-Operating Margin  | 280,337               | 0.3          | 166,529              | 0.2          | 113,808                |
|   | <u>\$ 385,656</u>     | <u>0.4</u>   | <u>\$ 272,587</u>    | <u>0.3</u>   | <u>\$ 113,069</u>      |
| <b>NET MARGINS</b>  |                       |              |                      |              |                        |
|   | \$ 9,065,934          | 8.6          | \$ 5,655,609         | 5.7          | 3,410,325              |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                          |                       |              |                      |              |                        |
| Post-Retirement Benefit Liability Adjustment                      | 8,700                 |              | (157,400)            |              |                        |
| <b>COMPREHENSIVE INCOME</b>                                       |                       |              |                      |              |                        |
|   | \$ 9,074,634          |              | \$ 5,498,209         |              |                        |
| Post-Retirement Benefit Liability Adjustment                      | (8,700)               |              | 157,400              |              |                        |
| <b>PATRONAGE CAPITAL - Beginning of Year</b>                      | 51,275,039            |              | 45,883,749           |              |                        |
| <b>NONOPERATING MARGINS TRANSFERRED TO<br/>PRIOR YEAR DEFICIT</b> | (279,994)             |              |                      |              |                        |
| <b>PATRONAGE CAPITAL RETIRED</b>                                  | (257,632)             |              | (264,319)            |              |                        |
| <b>PATRONAGE CAPITAL - End of Year</b>                            | <u>\$ 59,803,347</u>  |              | <u>\$ 51,275,039</u> |              |                        |

See accompanying notes to the financial statements.

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

|  | June 30,                 |                          |
|--|--------------------------|--------------------------|
|  | <u>2009</u>              | <u>2008</u>              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                          |                          |
| Net Margins  | \$ 9,065,934             | \$ 5,655,609             |
| Adjustments to Reconcile Net Margins to Net Cash Provided<br>by Operating Activities |                          |                          |
| Depreciation and Amortization  | 9,669,525                | 8,765,597                |
| Capital Credits - Noncash  | (10,818,339)             | (2,728,078)              |
| Accrued Post-Retirement Benefits (Net of Other Comprehensive Loss)                   | 70,600                   | 85,650                   |
| Deferred Charges   | 151,460                  | (1,105,559)              |
| Deferred Credits   | (243,081)                | 7,843,053                |
| Accounts Receivable  | 100,423                  | 687,710                  |
| Overbilled (Underbilled) Power Cost  | 5,899,845                | (1,860,412)              |
| Inventories and Other Current Assets   | (1,031,034)              | (1,725,286)              |
| Accounts Payable and Other Accrued Liabilities                                       | (3,441,894)              | 4,358,688                |
| Net Cash Provided by Operating Activities  | <u>\$ 9,423,439</u>      | <u>\$ 19,976,972</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                          |                          |
| Additions to Utility Plant   | \$ (27,916,048)          | \$ (32,828,845)          |
| Plant Removal Costs in Excess of Salvage   | (524,755)                | (418,835)                |
| Other Property and Investments - Net of Noncash Capital Credits                      | (7,406,389)              | (314,749)                |
| Net Cash Used in Investing Activities  | <u>\$ (35,847,192)</u>   | <u>\$ (33,562,429)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                          |                          |
| Net Advances on CFC Short-Term Line of Credit  | \$ 1,895,377             | \$ 1,810,000             |
| Advances from CFC  | 29,478,783               | 17,167,444               |
| Payments on Long-Term Debt to CFC  | (4,694,235)              | (4,315,417)              |
| Payments on Notes Payable to Fort Huachuca   | (74,302)                 | (66,761)                 |
| Payments on Post-Retirement Benefits   | (37,516)                 | (53,070)                 |
| Retirement of Patronage Capital  | (257,632)                | (264,319)                |
| Other Equities   | 4,060                    | 7,765                    |
| Memberships - Net  | 1,555                    | 910                      |
| Net Cash Provided by Financing Activities  | <u>\$ 26,316,090</u>     | <u>\$ 14,286,552</u>     |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <u>\$ (107,663)</u>      | <u>\$ 701,095</u>        |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>                                 | <u>866,095</u>           | <u>165,000</u>           |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                                       | <u><u>\$ 758,432</u></u> | <u><u>\$ 866,095</u></u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                              |                          |                          |
| Cash Paid During the Year for:   |                          |                          |
| Interest   | \$ 6,889,939             | \$ 6,378,998             |
| Income Taxes   | <u>\$ 0</u>              | <u>\$ 0</u>              |

## SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION:

The Cooperative adopted the recognition and disclosure provisions of SFAS No. 158 for the year ending June 30, 2008 and the measurement provisions for the year ending June 30, 2009. The adjustment for the application of this statement increased (decreased) the accrued postretirement benefit liability by (\$8,700) and \$157,400 and changed equities by the same amount for 2009 and 2008, respectively.

See accompanying notes to the financial statements.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Sulphur Springs Valley Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. The majority of the power delivered at retail is purchased wholesale from Arizona Electric Power Cooperative, Inc., of which the Cooperative is a member. The remainder of the power is purchased wholesale on the market. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

**System of Accounts**

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

**Electric Plant, Maintenance, and Depreciation**

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average vintage cost of such property as determined from the continuing property records is credited to electric plant, and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Inventories**

Materials and supplies inventories are valued at average unit cost.

**Electric Revenues**

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission.

As of June 30, 2009 and 2008, the Cooperative has delivered power for usage which has not yet been billed. It is estimated that this unbilled revenue amounts to \$5,446,377 and \$4,010,576 at June 30, 2009 and 2008, respectively.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The Cooperative's tariffs for electric service include wholesale power cost adjustment clauses under which electric rates charged to customers are adjusted to reflect changes in the cost of power. Annual changes in these amounts appear as over and under billed revenue on the statement of income.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Cooperative considers cash and temporary cash investments to be cash equivalents.

**Group Concentration of Credit Risk**

The Cooperative's headquarters facility is located in Willcox, Arizona. The service area includes members located in a multi-county area of southeastern Arizona. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from its members upon connection which is applied to unpaid bills in the event of default. The deposit accrues interest and is returned along with accrued interest after one year of prompt payments. As of June 30, 2009 and 2008, deposits on hand were \$2,376,134 and \$1,843,584, respectively.

Effective October 14, 2008, the Federal Deposit Insurance Corporation (FDIC) passed the temporary asset guarantee program. Under the program, the Cooperative's cash balances are fully insured on non-interest bearing accounts and insured up to \$250,000 on interest bearing accounts until December 31, 2009. The Cooperative maintains non-interest accounts at FDIC insured institutions.

**Use of Estimates in Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comparative Financial Information**

Certain amounts in the prior period financial statements have been reclassified in order to conform to current period presentation.

**2. Assets Pledged**

Substantially all assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

3. Electric Plant

The major classes of electric plant are as follows:

|  | June 30,       |                |
|--|----------------|----------------|
|  | 2009           | 2008           |
| Intangible Plant                           | \$ 46,500      | \$ 46,500      |
| Transmission Plant                         | 11,753,730     | 10,378,335     |
| Distribution Plant                         | 215,383,654    | 195,330,065    |
| General Plant                              | 33,266,977     | 29,731,528     |
| Net Aid to Plant Investment - Ft. Huachuca | (14,517,589)   | (8,865,806)    |
| Total Electric Plant in Service            | \$ 245,933,272 | \$ 226,620,622 |
| Construction Work in Progress              | 29,835,321     | 24,942,047     |
| Total Electric Plant                       | \$ 275,768,593 | \$ 251,562,669 |

Provision for depreciation of electric plant is computed using straight-line rates as follows:

|                                      |       |
|--------------------------------------|-------|
| Transmission Plant                   |       |
| Station Equipment                    | 2.75% |
| Poles, Towers, and Fixtures          | 2.75% |
| Overhead Conductors and Devices      | 2.75% |
| Distribution Plant                   |       |
| Station Equipment                    | 3.20% |
| Poles, Towers, and Fixtures          | 4.00% |
| Overhead Conductors and Devices      | 2.80% |
| Underground Conduit                  | 2.30% |
| Underground Conductors and Devices   | 5.90% |
| Line Transformers                    | 3.10% |
| Services                             | 3.60% |
| Meters                               | 3.40% |
| Installations on Consumers' Premises | 4.40% |
| Street Lighting and Signal Systems   | 4.30% |

The Cooperative computes depreciation on transmission and distribution plant by applying the above rates to the individual plant accounts. This is done to provide necessary detail information to the Arizona Corporation Commission.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

General plant depreciation rates have been applied on a straight-line basis and are as follows:

|                                   |                   |
|-----------------------------------|-------------------|
| Structures and Improvements       | 3.00%             |
| Office Furniture and Fixtures     | 6.00%             |
| Computer Equipment                | 12.50% and 16.00% |
| Transportation Equipment          | 20.00%            |
| Store Equipment                   | 6.00%             |
| Power Operated Equipment          | 12.00%            |
| Communication Equipment           | 6.00%             |
| Miscellaneous Equipment           | 6.00%             |
| Tools, Shop, and Garage Equipment | 6.00%             |

Depreciation and amortization for the years ended June 30, 2009 and 2008, was \$9,669,525 and \$8,765,597, respectively, of which \$8,373,955 and \$7,514,978 was charged to depreciation and amortization expense, and \$1,295,570 and \$1,090,193 allocated to other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following as of June 30, 2009 and 2008:

|  | June 30,             |                      |
|--|----------------------|----------------------|
|  | 2009                 | 2008                 |
| CFC                                      |                      |                      |
| Capital Term Certificates                | \$ 3,982,032         | \$ 3,540,955         |
| Member Capital Securities                | 2,000,000            |                      |
| Patronage Capital                        | 952,705              | 822,335              |
| Membership                               | 1,000                | 1,000                |
|  | <u>\$ 6,935,737</u>  | <u>\$ 4,364,290</u>  |
| Arizona Electric Power Cooperative, Inc. |                      |                      |
| Patronage Capital                        | \$ 19,361,357        | \$ 8,743,615         |
| Other                                    | 262,475              | 237,581              |
|  | <u>\$ 26,559,569</u> | <u>\$ 13,345,486</u> |

5. Other Investments

|                                       | June 30,          |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | 2009              | 2008              |
| Member Loans                          | \$ 170,167        | \$ 218,556        |
| Homestead Funds, Inc. - At Fair Value | 336,702           | 327,405           |
|                                       | <u>\$ 506,869</u> | <u>\$ 545,961</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Inventories – At Average Cost

Inventories consist of:

|                        | June 30,            |                     |
|------------------------|---------------------|---------------------|
|                        | 2009                | 2008                |
| Materials and Supplies | \$ 3,268,836        | \$ 2,814,832        |
| Resale Material        | 28,967              | 20,731              |
|                        | <u>\$ 3,297,803</u> | <u>\$ 2,835,563</u> |

7. Deferred Charges

Deferred charges consist of:

|                                      | June 30,            |                     |
|--------------------------------------|---------------------|---------------------|
|                                      | 2009                | 2008                |
| Work Plan                            | \$ 219,092          | \$ 78,801           |
| Unamortized Bond Expense             | 851,373             | 910,087             |
| Cost of Service Study                | 330,800             | 97,713              |
| Clearing - Stores Expense            | 22,158              | 40,212              |
| Deferred Income - All Electric Homes |                     | 349,472             |
| Other Deferred Charges               | 114,300             | 212,898             |
|                                      | <u>\$ 1,537,723</u> | <u>\$ 1,689,183</u> |

Unamortized bond expense represents a payment to CFC associated with the clean renewable energy bond program in the amount of \$939,444 so that the Cooperative can draw down low interest loan funds in order to pursue energy efficiency projects. The Cooperative is amortizing the initial bond purchase over 16 years. The amount recognized as expense for the year ended 2009 and 2008 is \$58,714 and \$14,678, respectively.

During 2006, the Cooperative began providing rebates for those members that have all electric homes and water heaters. The amount of the rebates is being written off over a three year period. The Cooperative expensed \$349,472 and \$214,694, in 2009 and 2008, respectively.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 20.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 30.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 24.40% of the total assets as of June 30, 2009. Patronage capital totaling \$257,632 and \$264,319 was retired during the years ended June 30, 2009 and 2008, respectively, and was within the guidelines set by CFC for the return of capital.

9. Patronage Capital

|               | June 30,             |                      |
|---------------|----------------------|----------------------|
|               | 2009                 | 2008                 |
| Assigned      | \$ 62,536,396        | \$ 58,137,467        |
| Assignable    | 10,257,750           | 5,870,738            |
|               | \$ 72,794,146        | \$ 64,008,205        |
| Less: Retired | 12,990,799           | 12,733,166           |
|               | <u>\$ 59,803,347</u> | <u>\$ 51,275,039</u> |

10. Other Equities

|                          | June 30,            |                     |
|--------------------------|---------------------|---------------------|
|                          | 2009                | 2008                |
| Capital Gains and Losses | \$ (22,969)         | \$ (22,969)         |
| Donated Capital          | 12,812              | 8,751               |
| Non-Operating Margins    | (535,740)           | (815,733)           |
|                          | <u>\$ (545,897)</u> | <u>\$ (829,951)</u> |

Future year's non-operating margins will be applied to the non-operating deficit until it is fully absorbed.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC and maturing at various times from 2009 to 2044.

|  | June 30,       |                |
|--|----------------|----------------|
|  | 2009           | 2008           |
| Fixed Rate Notes:                                      |                |                |
| 2008 - Interest Rates 4.20% to 7.35%                   | \$             | \$ 111,859,777 |
| 2009 - Interest Rates 4.40% to 7.35%                   | 131,183,042    |                |
| Clean Renewable Energy Bonds (CREBS)<br>0.00% to 0.40% | 6,841,427      | 1,134,468      |
| Clean Renewable Energy Bond Deposit                    | (571,450)      | (325,774)      |
|  | \$ 137,453,019 | \$ 112,668,471 |
| Less: Current Maturities                               | 4,770,000      | 4,138,008      |
|  | \$ 132,683,019 | \$ 108,530,463 |

Principal and interest installments on the above notes are due quarterly. As of June 30, 2009, annual maturities of long-term debt due CFC for the next five years are as follows:

|      |    |           |
|------|----|-----------|
| 2010 | \$ | 4,770,000 |
| 2011 |    | 4,690,000 |
| 2012 |    | 4,670,000 |
| 2013 |    | 4,630,000 |
| 2014 |    | 4,620,000 |

The Cooperative has \$42,477,773 of unadvanced loan funds available.

In 2008, the Cooperative elected to participate in the clean renewable energy bond (CREBS) program with CFC. The CREBS program allows the Cooperative to finance funds over 16 years to pursue energy efficiency projects at low interest rates. Currently the Cooperative is using the loan funds to place solar panels on schools in the Cooperative's service area.

12. Notes Payable – Fort Huachuca

In conjunction with the contract to provide distribution maintenance and operation services for Fort Huachuca, the Cooperative agreed to purchase the existing facilities on the Fort. The agreed upon price of \$1,799,830 is being financed by the Fort over 15 years at a fixed interest rate of 10.75%. Monthly payments total \$20,175.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2009, annual maturities of long-term debt due Fort Huachuca for the next five years are as follows:

|      |    |         |
|------|----|---------|
| 2010 | \$ | 82,695  |
| 2011 |    | 92,036  |
| 2012 |    | 102,432 |
| 2013 |    | 114,003 |
| 2014 |    | 126,880 |

**13. Short-Term Borrowing**

The Cooperative has a \$12,750,000 line of credit for short-term financing with CFC at an interest rate of 4.95% and 4.75% for the years ended June 30, 2009 and 2008, respectively. The Cooperative had an outstanding amount of \$10,795,377 and \$8,900,000 under such agreement at June 30, 2009 and 2008, respectively. The agreement expires April, 2010.

**14. Deferred Credits**

Deferred credits consist of:

|   | June 30,             |                      |
|---|----------------------|----------------------|
|   | 2009                 | 2008                 |
| Consumer Advances for Construction      | \$ 5,468,142         | \$ 5,111,851         |
| Undelivered Patronage Capital Refunds   | 320,471              | 300,577              |
| Renewable Energy Project                | 237,372              | 1,499,628            |
| Fort Huachuca - Deferred Reimbursements | 8,263,008            | 7,377,367            |
| Inventory Adjustment                    | 126,119              | 386,223              |
| Other Deferred Credits                  | 598,068              | 580,615              |
|   | <u>\$ 15,013,180</u> | <u>\$ 15,256,261</u> |

Consumer Advances for Construction represents refundable aid to construction on line extensions and subdivision construction contracts. Any amounts remaining after five years are forfeited to the Cooperative and charged against construction work in progress.

Undeliverable Patronage Capital Refunds represents uncashed capital credit checks to members. Periodically, the Cooperative will transfer unclaimed capital credits due to members to the foundation.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Renewable Energy Project represents collections from members to be used in the installation of solar panels through the Cooperative's service area. The Cooperative is in the process of obtaining permission from the Commission to pursue projects related to other renewable energy sources.

Fort Huachuca – Deferred Reimbursements represents the amount billed per the contract with Fort Huachuca for renewals and replacements, and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs as incurred.

**15. Pension Benefits**

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement & Security program, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employer. The Retirement and Security Program has periodically been under moratorium due to the plan reaching full funding limitation. Due to funding limitations imposed by federal law, the plan at times must put a moratorium on contributions. The resulting pension cost to the Cooperative for the years ended June 30, 2009 and 2008, was \$1,932,102 and \$1,609,517, respectively.

The Cooperative is also a participant in the NRECA 401(k) savings plan, a defined contribution plan. The cost to the Cooperative under this plan for the years ended June 30, 2009 and 2008, was \$260,359 and \$210,752, respectively.

**16. Other Long-Term Liabilities**

The Cooperative has provided a deferred compensation plan for certain employees under benefit programs. The liability resulting from these programs is as follows:

|  | June 30,          |                   |
|--|-------------------|-------------------|
|  | <u>2009</u>       | <u>2008</u>       |
| Employee Deferred Compensation Program | \$ <u>336,702</u> | \$ <u>327,405</u> |

**17. Post-Retirement Benefits**

The Cooperative provides post-retirement benefits for eligible employees through a plan with NRECA.

For any employee that retires after December 31, 2001, the retiree pays the full pre-65 premium and the premium for an individual Medicare Supplement Policy. For employees that retired on or before December 31, 2001, the Cooperative pays \$1,250 per year toward the pre-65 premium.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 5.75%. The assumed health care cost trend rate is 9.50% in 2009, declining to an ultimate level of 5.00% in 2017.

Amounts recognized in the Cooperative's June 30, 2009 and 2008, financial statements and funded status of the plan is as follows:

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | <u>2009</u>         | <u>2008</u>         |
| I) Net Post-Retirement Benefit Cost   |                     |                     |
| Interest Cost   | \$ 38,300           | \$ 39,100           |
| Service Cost  | 32,100              | 32,400              |
| Actuarial Loss  | 8,700               | 8,500               |
| Prior Service Cost  |                     | <u>(2,850)</u>      |
|   | <u>\$ 79,100</u>    | <u>\$ 77,150</u>    |
| II) Accumulated Post-Retirement Benefit Obligation<br>(APBO) Reconciliation |                     |                     |
| APBO Balance at Beginning of Year   | \$ (582,704)        | \$ (558,624)        |
| Actuarial Loss  | (148,700)           | (165,900)           |
| Interest Cost   | (38,300)            | (39,100)            |
| Service Cost  | (32,100)            | (32,400)            |
| Prior Service Cost  |                     | 2,850               |
| Amortization of Actuarial Loss  | (8,700)             | (8,500)             |
| Benefits Paid   | 37,516              | <u>53,070</u>       |
| Net Post-Retirement Benefit Liability<br>at End of Year                     | <u>\$ (772,988)</u> | <u>\$ (748,604)</u> |
| (III) Funded Status   |                     |                     |
| Accumulated Post-Retirement Benefit Obligation                              | \$ (772,988)        | \$ (748,604)        |
| Unrecognized Net Losses   |                     |                     |
| Accrued Post-Retirement Benefit Cost  | <u>\$ (772,988)</u> | <u>\$ (748,604)</u> |
| (IV) Accumulated Other Comprehensive Loss                                   |                     |                     |
| Actuarial Loss - Beginning of Year  | \$ (157,400)        | (165,900)           |
| Amortization of Loss  | 8,700               | 8,500               |
| Other Comprehensive Loss  | <u>\$ (148,700)</u> | <u>(157,400)</u>    |

The Cooperative has not funded plan assets as of June 30, 2009.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

On September 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

SFAS No. 158 requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan. The Cooperative adopted the recognition and disclosure provisions of SFAS No. 158 for the fiscal year ending June 30, 2008, and will be required to adopt the measurement date provision for the fiscal year ending June 30, 2009. The Cooperative does not anticipate adopting the provisions of SFAS No. 158 prior to those periods.

Estimated future benefit payments for the next five years are as follows:

|           |    |         |
|-----------|----|---------|
| 2010      | \$ | 65,400  |
| 2011      |    | 72,600  |
| 2012      |    | 80,500  |
| 2013      |    | 73,900  |
| 2014-2019 |    | 365,300 |

**18. Litigation and Commitments**

The Cooperative is included in civil litigation cases instituted by the Cooperative for the purpose of collecting delinquent accounts receivable from certain members/owners.

During the 2008 fiscal year, the Cooperative negotiated with AEPCO to become a partial requirements customer. This agreement allows the Cooperative to purchase a portion of its power on the market from other power suppliers. The contract is effective through December 31, 2035.

The Cooperative with other Class "A" members of AEPCO has guaranteed to provide its share of power to Salt River Project in the event that AEPCO cannot perform under its firm power agreement.

**19. Related Party Transactions**

The Cooperative is represented on the Board of Directors of AEPCO and purchases part of its electric power from AEPCO. Margins earned by AEPCO have been allocated to the Cooperative and are reflected under investment in associated organizations on the balance sheet. During the years ended June 30, 2009 and 2008, the Cooperative purchased electric power from AEPCO of \$54,225,577 and \$55,068,700, respectively. Amounts payable to AEPCO as of June 30, 2009 and 2008, from the Cooperative amounted to \$4,258,846 and \$4,546,470, respectively. Allocations of patronage capital to the Cooperative from AEPCO are reflected as investments in associated organizations on the Cooperative's balance sheet. AEPCO allocated capital credits of \$10,617,743 and \$2,592,402 to the Cooperative for the periods ended June 30, 2009 and 2008, respectively.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The Cooperative through common board oversight and management provides various accounting and management support and services to two individual non-profit organizations: Sulphur Springs Valley Electric Cooperative, Inc. Charitable Trust and Sulphur Springs Valley Electric Cooperative Foundation.

Sulphur Springs Valley Electric Cooperative, Inc. Charitable Trust (the Trust) is a non-profit organization, tax exempt under Internal Revenue Code 501(c)3, and organized to provide necessary assistance to individuals, families, organizations and agencies in need, within the Cooperative's service area. Under the Cooperative's Operation Roundup Program, certain members of the Cooperative have elected to have their power bill rounded up to the next whole dollar. All proceeds from this program are transferred to the Trust and represent the main source of income to the Trust.

Sulphur Springs Valley Electric Cooperative Foundation (the Foundation) is a non-profit organization, tax exempt under Internal Revenue Code section 501(c)3, and organized primarily to fund the Washington Youth Tour, Youth Energy Science (YES) Fair, educational scholarships and other qualified programs. The Foundation is primarily funded through retired and unclaimed capital credits of the Cooperative as defined by the by-laws of the Cooperative and the laws of the State of Arizona.

**20. Operating Leases**

The Cooperative executed an operating lease on May, 2008, in which the Cooperative leases the Benson warehouse to KBS Electrical Distributors. The Cooperative recognized \$16,250 and \$2,500 as lease revenue for the years ended June 30, 2009 and 2008, respectively.

**21. Fair Value of Financial Instruments**

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments. Many of the Cooperative's financial instruments lack an available market as characterized by a normal exchange between a willing buyer and a willing seller. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

The following assumptions were used to estimate fair value of each class of financial instrument for which estimation is practicable.

*Patronage Capital from Associated Organization* – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered a financial instrument.

*CFC Capital Term Certificates* – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

*Cash and Temporary Cash Investments* – Carrying value, given the short period to maturity.

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Long-Term Debt Variable Rate – Carrying value, since these notes reprice frequently at market rates.

Long-Term Debt Fixed Rate – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year end CFC fixed interest rate for long-term debt available for notes with the same term remaining was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Cooperative that have a difference in Fair Value and Carrying Value. The carrying value of the Cooperative's fixed rate debt is \$139,544,493. The estimated fair value was calculated to be \$118,052,478.

**22. Subsequent Event**

Subsequent to June 30, 2009, the Arizona Corporation Commission approved an 8.19% rate increase for the Cooperative. The Cooperative expects to implement the rate increase October 1, 2009.

The Cooperative's management has evaluated subsequent events through September 14, 2009, the date which the financial statements were available for issue.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON INFORMATION  
ACCOMPANYING THE BASIC FINANCIAL STATEMENTS**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 19 through 26 is presented for purposes of additional analysis. Such information, except for that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion the information, except for that portion marked "Unaudited", is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

September 14, 2009

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

ELECTRIC PLANT  
FOR THE YEAR ENDED JUNE 30, 2009

|   | Balance<br>7/1/2008   | Additions<br>and<br>Reclassi-<br>fications | Retirements         | Balance<br>6/30/2009  |
|---|-----------------------|--|---------------------|-----------------------|
| <b>CLASSIFIED ELECTRIC PLANT IN SERVICE</b> |                       |  |                     |                       |
| Intangible Plant                            | \$ 46,500             | \$   | \$                  | \$ 46,500             |
| Transmission Plant                          |                       |  |                     |                       |
| Land and Land Rights                        | \$ 643,768            | \$ 35,833                                  | \$                  | \$ 679,601            |
| Station Equipment                           | 933,201               | 605,686                                    |                     | 1,538,887             |
| Poles, Towers, and Fixtures                 | 2,908,412             | 282,007                                    | 14,421              | 3,175,998             |
| Overhead Conductors and Devices             | 5,892,954             | 469,138                                    | 2,848               | 6,359,244             |
| Total                                       | <u>\$ 10,378,335</u>  | <u>\$ 1,392,664</u>                        | <u>\$ 17,269</u>    | <u>\$ 11,753,730</u>  |
| Distribution Plant                          |                       |  |                     |                       |
| Land and Land Rights                        | \$ 124,707            | \$   | \$                  | \$ 124,707            |
| Structures and Improvements                 | 5,191                 |  |                     | 5,191                 |
| Station Equipment                           | 18,033,473            | 673,375                                    | 19,612              | 18,687,236            |
| Poles, Towers, and Fixtures                 | 36,900,571            | 5,365,039                                  | 1,046,147           | 41,219,463            |
| Overhead Conductors and Devices             | 25,027,101            | 3,539,085                                  | 436,864             | 28,129,322            |
| Underground Conduit                         | 19,100,592            | 2,300,312                                  | 59,866              | 21,341,038            |
| Underground Conductors and Devices          | 30,421,252            | 4,284,562                                  | 230,570             | 34,475,244            |
| Line Transformers                           | 43,783,054            | 4,769,579                                  | 678,941             | 47,873,692            |
| Services                                    | 8,744,273             | 603,188                                    | 99,062              | 9,248,399             |
| Meters                                      | 9,331,595             | 646,975                                    | 518,028             | 9,460,542             |
| Installations on Consumers' Premises        | 1,375,129             | 163,102                                    | 13,195              | 1,525,036             |
| Street Light and Signal Systems             | 2,483,127             | 885,025                                    | 74,368              | 3,293,784             |
| Total                                       | <u>\$ 195,330,065</u> | <u>\$ 23,230,242</u>                       | <u>\$ 3,176,653</u> | <u>\$ 215,383,654</u> |
| General Plant                               |                       |  |                     |                       |
| Land and Land Rights                        | \$ 806,591            | \$   | \$                  | \$ 806,591            |
| Structures and Improvements                 | 10,425,430            | 528,538                                    | 6,722               | 10,947,246            |
| Office Furniture and Equipment              | 3,445,886             | 197,622                                    | 14,303              | 3,629,205             |
| Transportation Equipment                    | 4,367,400             | 196,391                                    | 257,865             | 4,305,926             |
| Store Equipment                             | 297,177               |  | 18,112              | 279,065               |
| Tools, Shop, and Garage Equipment           | 1,462,599             | 134,619                                    |                     | 1,597,218             |
| Laboratory Equipment                        | 808,600               | 25,574                                     |                     | 834,174               |
| Power Operated Equipment                    | 7,087,109             | 2,942,347                                  | 219,200             | 9,810,256             |
| Communication Equipment                     | 903,184               | 10,939                                     |                     | 914,123               |
| Miscellaneous Equipment                     | 127,552               | 15,621                                     |                     | 143,173               |
| Total                                       | <u>\$ 29,731,528</u>  | <u>\$ 4,051,651</u>                        | <u>\$ 516,202</u>   | <u>\$ 33,266,977</u>  |
| Net Aid to Plant Investment - Ft. Huachuca  | \$ (8,865,806)        | \$ (5,651,783)                             | \$                  | \$ (14,517,589)       |
| Total Classified Electric Plant In Service  | \$ 226,620,622        | \$ 23,022,774                              | \$ 3,710,124        | \$ 245,933,272        |
| Construction Work in Progress               | <u>24,942,047</u>     | <u>4,893,274</u>                           | <u></u>             | <u>29,835,321</u>     |
| Total Utility Plant                         | <u>\$ 251,562,669</u> | <u>\$ 27,916,048</u>                       | <u>\$ 3,710,124</u> | <u>\$ 275,768,593</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION  
FOR THE YEAR ENDED JUNE 30, 2009

|  | Balance<br>7/1/2008  | Depreciation<br>Accruals | Retirements         | Balance<br>6/30/2009 |
|--|----------------------|--------------------------|---------------------|----------------------|
| Intangible Plant                           | \$ 46,500            | \$                       | \$                  | \$ 46,500            |
| Transmission Plant                         | \$ 5,086,501         | \$ 290,407               | \$                  | \$ 5,376,908         |
| Distribution Plant                         | \$ 56,208,471        | \$ 7,553,086             | \$ 3,511,968        | \$ 60,249,589        |
| General Plant                              |                      |                          |                     |                      |
| Structures and Improvements                | \$ 2,817,592         | \$ 378,202               | \$ 6,722            | \$ 3,189,072         |
| Office Furniture and Equipment             | 2,161,307            | 184,309                  | 14,303              | 2,331,313            |
| Transportation Equipment                   | 3,030,683            | 468,675                  | 241,927             | 3,257,431            |
| Store Equipment                            | 187,412              | 9,647                    | 14,813              | 182,246              |
| Tools, Shop, and Garage Equipment          | 839,471              | 56,841                   |                     | 896,312              |
| Laboratory Equipment                       | 463,069              | 31,396                   |                     | 494,465              |
| Power Operated Equipment                   | 4,051,652            | 646,084                  | 197,370             | 4,500,366            |
| Communications Equipment                   | 491,496              | 45,408                   |                     | 536,904              |
| Miscellaneous Equipment                    | 58,340               | 5,470                    | (999)               | 64,809               |
| Total General Plant                        | <u>\$ 14,101,022</u> | <u>\$ 1,826,032</u>      | <u>\$ 474,136</u>   | <u>\$ 15,452,918</u> |
| Total Classified Electric Plant in Service | \$ 75,442,494        | \$ 9,669,525             | \$ 3,986,104        | \$ 81,125,915        |
| Retirement Work in Progress                | <u>(221,226)</u>     | <u></u>                  | <u>248,775</u>      | <u>(470,001)</u>     |
| Total                                      | <u>\$ 75,221,268</u> | <u>\$ 9,669,525</u>      | <u>\$ 4,234,879</u> | <u>\$ 80,655,914</u> |

(1)

(2)

|  |                     |
|--|---------------------|
| (1) Charged to Depreciation and Amortization Expense | \$ 8,373,955        |
| Charged to Clearing and Other Accounts               | <u>1,295,570</u>    |
|  | <u>\$ 9,669,525</u> |

|                                    |                     |
|------------------------------------|---------------------|
| (2) Cost of Units Retired and Sold | \$ 3,710,124        |
| Add: Cost of Removal               | 788,163             |
| Less: Salvage and Other Credits    | <u>263,408</u>      |
| Loss Due to Retirement             | <u>\$ 4,234,879</u> |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS  
JUNE 30, 2009 AND 2008

|  | June 30,      |               |
|--|---------------|---------------|
|  | 2009          | 2008          |
| <b>NON-UTILITY PROPERTY</b>                              |               |               |
| Solar Plant (Net of Amortization of \$988,179)           | \$ 5,059,034  | \$            |
| Land Held for Future Substation Sites                    | 115,029       | 115,029       |
| Total Non-Utility Property                               | \$ 5,174,063  | \$ 115,029    |
| <b>INVESTMENTS IN ASSOCIATED ORGANIZATIONS</b>           |               |               |
| Memberships  |               |               |
| National Rural Utilities Cooperative Finance Corporation | \$ 1,000      | \$ 1,000      |
| Other  | 10            | 10            |
| Patronage Capital  |               |               |
| National Rural Utilities Cooperative Finance Corporation | 952,705       | 822,335       |
| Arizona Electric Power Cooperative, Inc.                 | 19,361,357    | 8,743,615     |
| National Rural Telecommunications Cooperative            | 38,388        | 35,314        |
| Federated Rural Electric Insurance Exchange              | 207,098       | 191,850       |
| National Information Systems Cooperative                 | 4,209         | 2,799         |
| Cooperative Response Center                              | 12,261        | 7,608         |
| Other  | 509           |               |
| Member Capital Securities                                |               |               |
| National Rural Utilities Cooperative Finance Corporation | 2,000,000     |               |
| Capital Term Certificates                                |               |               |
| National Rural Utilities Cooperative Finance Corporation | 3,982,032     | 3,540,955     |
| Total Investments in Associated Organizations            | \$ 26,559,569 | \$ 13,345,486 |
| <b>OTHER INVESTMENTS</b>                                 |               |               |
| Member Loans Receivable                                  | \$ 170,167    | \$ 218,556    |
| Homestead Funds, Inc.                                    | 336,702       | 327,405       |
| Total Other Investments                                  | \$ 506,869    | \$ 545,961    |
| Total Other Property and Investments                     | \$ 32,240,501 | \$ 14,006,476 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL  
JUNE 30, 2009

| Year            | Assignable |            | Assigned     |           | Retired      | Balance    |
|-----------------|------------|------------|--------------|-----------|--------------|------------|
|                 | SSVEC      | AEPCO      | SSVEC        | AEPCO     |              |            |
| 1960 +          | \$         | \$         | \$ 1,962,967 | \$        | \$ 1,962,967 | \$         |
| 1963            |            |            |              | 20,147    | 20,147       |            |
| 1964            |            |            | 38,601       | 38,390    | 76,991       |            |
| 1965            |            |            | 164,927      |           | 164,927      |            |
| 1970            |            |            | 6,888        | 107,978   | 114,866      |            |
| 1971            |            |            |              | 110,214   | 110,214      |            |
| 1972            |            |            | 316,026      | 131,655   | 447,681      |            |
| 1973            |            |            | 552,047      | 228,668   | 780,715      |            |
| 1974            |            |            | 351,822      |           | 351,822      |            |
| 1975            |            |            | 187,983      |           | 187,983      |            |
| 1976            |            |            | 43,754       |           | 43,754       |            |
| 1977            |            |            | 373,156      |           | 373,156      |            |
| 1978            |            |            | 427,875      |           | 427,875      |            |
| 1979            |            |            | 557,380      |           | 557,380      |            |
| 1980            |            |            | 1,861,471    |           | 1,861,471    |            |
| 1981            |            |            | 1,221,186    |           | 1,221,186    |            |
| 1982            |            |            | 631,366      |           | 631,366      |            |
| 1983            |            |            | 396,749      |           | 396,749      |            |
| 1984            |            |            | 534,630      |           | 534,630      |            |
| 1985            |            |            | 542,575      |           | 542,575      |            |
| 1986            |            |            | 913,573      |           | 375,983      | 537,590    |
| 1987            |            |            | 717,893      |           | 993          | 716,900    |
| 1988            |            |            | 429,716      |           | 543          | 429,173    |
| 1989            |            |            | 2,097,639    |           | 2,111        | 2,095,528  |
| 1990            |            |            | 1,536,891    |           | 1,567        | 1,535,324  |
| 1991            |            |            | 1,056,601    |           | 1,138        | 1,055,463  |
| 1992            |            |            | 636,830      |           | 673          | 636,157    |
| 1993            |            |            | 1,747,920    |           | 1,787        | 1,746,133  |
| 1994            |            |            | 2,297,104    |           | 288,833      | 2,008,271  |
| 1995            |            |            | 1,559,057    |           | 196,062      | 1,362,995  |
| 1996            |            |            | 1,514,534    |           | 190,509      | 1,324,025  |
| 1997            |            |            | 1,561,900    |           | 196,469      | 1,365,431  |
| 1999            |            |            | 2,557,142    |           | 1,080        | 2,556,062  |
| 2000            |            |            | 3,262,510    |           | 1,371        | 3,261,139  |
| 2001            |            |            | 2,772,943    | 1,916,729 | 1,612        | 4,688,060  |
| 2002            |            |            | 2,585,107    | 2,931,416 | 544,097      | 4,972,426  |
| 2003            |            |            | 2,383,110    | 1,303,017 | 995          | 3,685,132  |
| 2004            |            |            | 3,591,167    |           | 250,637      | 3,340,530  |
| 2005            |            |            | 4,571,696    |           | 605          | 4,571,091  |
| 2006            |            |            | 3,384,374    |           | 239          | 3,384,135  |
| 2007            |            |            | 1,806,527    | 2,592,402 | 125,040      | 4,273,889  |
| 2008            |            | 628,154    |              |           |              | 11,245,897 |
| 2009 (6 months) |            | (988,147)  |              |           |              | (988,147)  |
| Adjustments     |            |            | 143          |           |              | 143        |
|                 | \$         | \$         | \$           | \$        | \$           | \$         |
|                 | (359,993)  | 10,617,743 | 53,155,780   | 9,380,616 | 12,990,799   | 59,803,347 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 5

CFC MORTGAGE NOTES  
JUNE 30, 2009

| Note Number      | Date of Note | Interest Rate | Principal Amount      | Amount Unadvanced    | Principal Repayments | Net Obligations       |
|------------------|--------------|---------------|-----------------------|----------------------|----------------------|-----------------------|
| 9004             | 05-13-75     | 7.35%         | \$ 820,000            | \$                   | \$ 772,627           | \$ 47,373             |
| 9007             | 03-13-77     | 7.35%         | 622,000               |                      | 502,888              | 119,112               |
| 9010             | 03-31-78     | 6.05%         | 644,000               |                      | 477,617              | 166,383               |
| 9013             | 03-31-80     | 6.55%         | 2,171,000             |                      | 1,357,244            | 813,756               |
| 9016             | 05-31-82     | 5.80%         | 1,988,000             |                      | 1,029,270            | 958,730               |
| 9017             | 08-20-84     | 6.05%         | 2,104,000             |                      | 965,182              | 1,138,818             |
| 9018             | 09-30-86     | 6.55%         | 3,520,833             |                      | 1,368,802            | 2,152,031             |
| 9019             | 03-31-89     | 6.05%         | 2,401,042             |                      | 724,051              | 1,676,991             |
| 9020             | 01-29-93     | 6.05%         | 1,781,250             |                      | 497,311              | 1,283,939             |
| 9021             | 01-19-94     | 6.05%         | 1,808,333             |                      | 443,560              | 1,364,773             |
| 9022             | 04-26-95     | 6.05%         | 1,705,000             |                      | 315,265              | 1,389,735             |
| 9023             | 07-01-98     | 6.55%         | 3,714,000             |                      | 413,401              | 3,300,599             |
| 9026             | 03-31-02     | Various (1)   | 18,281,000            |                      | 1,469,235            | 16,811,765            |
| 9027             | 03-31-02     | 4.90%         | 2,878,000             |                      | 310,925              | 2,567,075             |
| 9028             | 03-19-04     | 6.75%         | 9,270,000             |                      | 520,997              | 8,749,003             |
| 9029             | 12-31-03     | Various (2)   | 28,304,131            |                      | 16,546,278           | 11,757,853            |
| 9030             |              | Various (3)   | 46,364,000            | 4,864,000            | 1,559,858            | 39,940,142            |
| 9031             | 03-03-08 *   | Various (4)   | 840,000               | 356,260              | 33,219               | 450,521               |
| 9033             |              | Various (5)   | 70,780,000            | 33,480,000           | 355,036              | 36,944,964            |
| 9034             | 03-03-08 *   | Various (4)   | 560,000               | 99,173               | 31,071               | 429,756               |
| 9035             | 03-03-08 *   | Various (4)   | 840,000               | 356,260              | 33,219               | 450,521               |
| 9036             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9037             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9038             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9039             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9040             | 03-03-08 *   | Various (4)   | 840,000               | 346,260              | 35,497               | 458,243               |
| 9041             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9042             | 03-03-08 *   | Various (4)   | 560,000               | 99,173               | 31,071               | 429,756               |
| 9043             | 03-03-08 *   | Various (4)   | 840,000               | 356,260              | 33,219               | 450,521               |
| 9044             | 03-03-08 *   | Various (4)   | 560,000               | 184,173              | 25,587               | 350,240               |
| 9045             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9046             | 03-03-08 *   | Various (4)   | 2,520,000             | 1,880,781            | 49,021               | 590,198               |
| 9047             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9048             | 03-03-08 *   | Various (4)   | 560,000               | 99,173               | 31,071               | 429,756               |
| 9049             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9050             | 03-03-08 *   | Various (4)   | 280,000               |                      | 18,734               | 261,266               |
| 9051             | 03-03-08 *   | Various (4)   | 840,000               | 356,260              | 33,219               | 450,521               |
| <b>Total CFC</b> |              |               | <b>\$ 210,636,589</b> | <b>\$ 42,477,773</b> | <b>\$ 30,134,347</b> | <b>\$ 138,024,469</b> |

(1) - Interest rates range from 4.60% to 5.30%.

(2) - Interest rates range from 4.50% to 5.65%.

(3) - Interest rates range from 4.90% to 6.95%.

(4) - Interest rates range from 0.00% to 0.40%.

(5) - Interest rates range from 4.40% to 5.80%.

Net obligation includes \$4,770,000 due CFC payable within one year and classified as current liabilities on the balance sheet.

\* Clean Renewable Energy Bonds

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 6

ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

|  | June 30,            |                     | Increase<br>(Decrease) |
|--|---------------------|---------------------|------------------------|
|  | 2009                | 2008                |                        |
| Administrative and General Salaries      | \$ 1,150,684        | \$ 1,803,550        | \$ (652,866)           |
| Office Supplies and Expense              | 501,243             | 408,802             | 92,441                 |
| Outside Services Employed                | 1,138,564           | 511,121             | 627,443                |
| Injuries and Damages                     | 100,310             | 90,228              | 10,082                 |
| Directors' Fees and Mileage              | 253,849             | 262,154             | (8,305)                |
| Dues Paid Associated Organizations       | 159,839             | 135,473             | 24,366                 |
| Fort Huachuca Administrative and General | 102,077             | 103,703             | (1,626)                |
| Miscellaneous General Expenses           | 300,975             | 366,661             | (65,686)               |
| Capital Credits                          | 1,093               | 16,176              | (15,083)               |
| Maintenance of General Property          | <u>28,803</u>       | <u>21,480</u>       | <u>7,323</u>           |
| Total                                    | <u>\$ 3,737,437</u> | <u>\$ 3,719,348</u> | <u>\$ 18,089</u>       |

## SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

## FIVE YEAR COMPARATIVE DATA

|  | Years Ended June 30, |               |               |               |               |
|--|----------------------|---------------|---------------|---------------|---------------|
|  | 2009                 | 2008          | 2007          | 2006          | 2005          |
| <b>OPERATING REVENUES</b>                                |                      |               |               |               |               |
| Residential  | \$ 48,814,339        | \$ 43,703,106 | \$ 41,438,393 | \$ 36,620,450 | \$ 33,189,865 |
| Irrigation   | 16,245,092           | 14,545,467    | 10,992,547    | 9,419,697     | 6,270,281     |
| Commercial and Industrial                                | 39,144,053           | 33,215,629    | 30,805,165    | 27,042,668    | 24,622,173    |
| Public Buildings and Other Authorities                   | 2,886,435            | 4,395,643     | 2,915,219     | 2,216,057     | 348,298       |
| Power Adjustment (Over) Underbilled                      | (5,899,845)          | 1,860,413     | (176,949)     | 560,148       | (1,759,682)   |
| Rent from Electric Property                              | 703,219              | 880,106       | 514,796       | 1,424,642     | 510,683       |
| Other Operating Revenues                                 | 1,240,482            | 901,680       | 741,243       | 689,150       | 648,028       |
| Total Operating Revenues                                 | \$ 103,133,775       | \$ 99,502,044 | \$ 87,230,414 | \$ 77,972,812 | \$ 63,829,646 |
| <b>OPERATING EXPENSES</b>                                |                      |               |               |               |               |
| Purchased Power  | \$ 67,663,290        | \$ 63,192,101 | \$ 54,337,168 | \$ 45,111,247 | \$ 36,208,652 |
| Transmission   | 522,760              | 316,195       | 173,915       | 490,086       | 202,377       |
| Distribution - Operation                                 | 8,412,360            | 8,288,980     | 8,236,856     | 7,829,911     | 6,736,977     |
| Distribution - Maintenance                               | 2,737,996            | 2,445,527     | 2,449,845     | 2,188,134     | 1,736,525     |
| Customer Accounts  | 3,769,653            | 2,886,551     | 2,756,080     | 2,542,412     | 2,600,468     |
| Customer Service and Information                         | 776,674              | 706,045       | 649,513       | 657,004       | 599,813       |
| Sales Expense  | 1,084,476            | 564,923       | 553,096       | 501,857       | 317,628       |
| Administrative and General                               | 3,737,437            | 3,719,348     | 3,341,882     | 3,212,261     | 2,663,899     |
| Depreciation and Amortization                            | 8,373,955            | 7,514,978     | 6,709,189     | 5,728,457     | 5,320,877     |
| Taxes  | 1,218,684            | 1,014,000     | 926,564       | 702,087       | 627,592       |
| Other Interest   | 294,480              | 401,766       | 303,874       | 156,140       | 90,909        |
| Other Deductions   | 210,508              | 178,518       | 174,306       | 138,638       | 84,397        |
| Total Operating Expenses                                 | \$ 98,802,273        | \$ 91,228,932 | \$ 80,612,288 | \$ 69,258,234 | \$ 57,190,114 |
| <b>OPERATING MARGINS - Before Fixed Charges</b>          |                      |               |               |               |               |
|  | \$ 4,331,502         | \$ 8,273,112  | \$ 6,618,126  | \$ 8,714,578  | \$ 6,639,532  |
| <b>FIXED CHARGES</b>                                     |                      |               |               |               |               |
| Interest on Long-Term Debt                               | 6,889,939            | 6,008,787     | 5,188,780     | 4,460,641     | 3,705,354     |
| Amortization of Conversion Fees                          |                      |               |               | 82,712        | 82,712        |
|  | \$ 6,889,939         | \$ 6,008,787  | \$ 5,188,780  | \$ 4,543,353  | \$ 3,788,066  |
| <b>OPERATING MARGINS (DEFICIT) - After Fixed Charges</b> |                      |               |               |               |               |
|  | \$ (2,558,437)       | \$ 2,264,325  | \$ 1,429,346  | \$ 4,171,225  | \$ 2,851,466  |
| Other Capital Credits                                    | 11,238,715           | 3,118,697     | 405,203       | 289,097       | 203,690       |
| <b>NET OPERATING MARGINS</b>                             | \$ 8,680,278         | \$ 5,383,022  | \$ 1,834,549  | \$ 4,460,322  | \$ 3,055,156  |
| <b>NON-OPERATING MARGINS</b>                             |                      |               |               |               |               |
| Interest Income  | \$ 105,319           | \$ 106,058    | \$ 120,778    | \$ 111,895    | \$ 111,874    |
| Other Non-Operating Income (Expense)                     | 280,337              | 166,529       | (233,244)     | 310,201       | 742,846       |
|  | \$ 385,656           | \$ 272,587    | \$ (112,466)  | \$ 422,096    | \$ 854,720    |
| <b>NET MARGINS</b>                                       | \$ 9,065,934         | \$ 5,655,609  | \$ 1,722,083  | \$ 4,882,418  | \$ 3,909,876  |
| <b>Miscellaneous Statistics</b>                          |                      |               |               |               |               |
| MWH Sales  | 811,002              | 817,004       | 754,001       | 735,010       | 661,688       |
| Times Interest Earned Ratio                              | 2.32                 | 1.94          | 1.33          | 2.09          | 2.06          |
| Debt Service Coverage                                    | 2.09                 | 1.78          | 1.38          | 1.73          | 1.66          |
| Equity to Total Assets                                   | 24.4                 | 24.3          | 25.6          | 28.5          | 28.1          |
| Equity to Total Capitalization                           | 30.0                 | 30.6          | 30.0          | 34.2          | 32.8          |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 8

STATEMENT OF INCOME AND PATRONAGE CAPITAL  
FOR THE CALENDAR YEARS 2008 AND 2007  
(UNAUDITED)

|   | December 31,                |                            |
|---|-----------------------------|----------------------------|
|   | <u>2008</u>                 | <u>2007</u>                |
| OPERATING REVENUES                                | \$ <u>105,006,419</u>       | \$ <u>92,912,966</u>       |
| OPERATING EXPENSES                                |                             |                            |
| Cost of Power                                     | \$ 68,593,249               | \$ 58,128,432              |
| Transmission Expense                              | 403,777                     | 251,567                    |
| Distribution - Operation                          | 8,273,135                   | 8,290,615                  |
| Distribution - Maintenance                        | 2,645,186                   | 2,402,560                  |
| Consumer Accounts                                 | 3,523,730                   | 2,832,290                  |
| Customer Service, Information, and Sales          | 1,895,452                   | 1,199,311                  |
| Administrative and General                        | 3,979,763                   | 3,952,703                  |
| Depreciation and Amortization                     | 7,935,876                   | 7,192,109                  |
| Taxes   | 1,158,303                   | 1,037,818                  |
| Other Deductions                                  | 565,399                     | 538,213                    |
| Total Operating Expenses                          | \$ <u>98,973,870</u>        | \$ <u>85,825,618</u>       |
| OPERATING MARGINS - Before Fixed Charges          | \$ 6,032,549                | \$ 7,087,348               |
| FIXED CHARGES                                     |                             |                            |
| Interest on Long-Term Debt                        | <u>6,314,868</u>            | <u>5,800,108</u>           |
| OPERATING MARGINS (DEFICIT) - After Fixed Charges | \$ (282,319)                | \$ 1,287,240               |
| Capital Credits                                   | <u>11,251,162</u>           | <u>3,110,504</u>           |
| Net Operating Margins                             | \$ <u>10,968,843</u>        | \$ <u>4,397,744</u>        |
| NON-OPERATING MARGINS                             |                             |                            |
| Interest Income                                   | \$ 103,146                  | \$ 117,448                 |
| Other Non-Operating Income                        | 173,908                     | 163,730                    |
| Total   | \$ <u>277,054</u>           | \$ <u>281,178</u>          |
| NET MARGINS                                       | \$ <u><u>11,245,897</u></u> | \$ <u><u>4,678,922</u></u> |

**COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES  
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors  
Sulphur Springs Valley Electric Cooperative, Inc.  
Willcox, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2009 and 2008, and the related statements of income and patronage capital and cash flows for the years then ended, and have issued our report thereon dated September 14, 2009.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Sulphur Springs Valley Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

September 14, 2009

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

September 14, 2009

Board of Directors  
Sulphur Springs Valley Electric Cooperative, Inc.  
Willcox, Arizona

We have audited the financial statements of Sulphur Springs Valley Electric Cooperative, Inc. for the year ended June 30, 2009, and have issued our report thereon dated September 14, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 31, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Sulphur Springs Valley Electric Cooperative, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sulphur Springs Valley Electric Cooperative, Inc. are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009.

We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the allowance for doubtful accounts and lives used to calculate depreciation on plant in service. Management's estimate for the allowance for doubtful accounts is based on an evaluation of past due accounts. Management's estimate of the depreciation life used is based on industry accepted guidelines and the lives selected are within those guidelines. We evaluated the key factors and assumptions used to develop accumulated depreciation and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Attached to this letter are all of the adjustments corrected by management.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 14, 2009.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to

Board of Directors  
Sulphur Springs Valley Electric Cooperative, Inc.  
September 14, 2009  
Page 3

determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of Sulphur Springs Valley Electric Cooperative, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Client: 79650 - Sulphur Springs Valley Electric Cooperative, Inc.  
 Engagement: 2009 SSVCEC  
 Period Ending: 6/30/2009  
 Trial Balance: 017 - Trial Balance Database  
 Workpaper: 017 - Adjusting Journal Entry Report

| Account   | Description                    | W/P Ref | Debit             | Credit            |
|---|--------------------------------|---------|-------------------|-------------------|
| <b>Adjusting Journal Entry JE # 1</b>           |                                |         |                   |                   |
| To Reclassify CREBS Payments                    |                                | 122     |                   |                   |
| 451.000   | REVENUE-MISC SERVICE CHARGES   |         | 988,178.60        |                   |
| 122.000   | AMORTIZATION OF SOLAR PLANT    |         |                   | 988,178.60        |
| <b>Total</b>                                    |                                |         | <u>988,178.60</u> | <u>988,178.60</u> |
| <b>Adjusting Journal Entry JE # 2</b>           |                                |         |                   |                   |
| To Correct Errors on Depreciation Recalculation |                                | 108's   |                   |                   |
| 403.500   | DEPR. DIST. PLANT              |         | 116,191.58        |                   |
| 108.670   | PROV. DPR. DIST. PLANT SERVICE |         |                   | 24,323.54         |
| 108.680   | PROV. DPR. DIST. PLANT METERS  |         |                   | 91,868.04         |
| <b>Total</b>                                    |                                |         | <u>116,191.58</u> | <u>116,191.58</u> |
| <b>Adjusting Journal Entry JE # 3</b>           |                                |         |                   |                   |
| To Retire Forklift Traded in and not Retired    |                                | 393     |                   |                   |
| 108.720   | PROV. DPR. GEN. PLANT TRANS. E |         | 3,300.00          |                   |
| 108.790   | PROV. DPR. GEN. PLANT STORES E |         | 14,812.50         |                   |
| 393.000   | STORES EQUIPMENT               |         |                   | 18,112.50         |
| <b>Total</b>                                    |                                |         | <u>18,112.50</u>  | <u>18,112.50</u>  |
| <b>Adjusting Journal Entry JE # 4</b>           |                                |         |                   |                   |
| To Record Retainage Payable as of June 30, 2009 |                                | 107.24  |                   |                   |
| 107.240   | CONSTR. WORK IN PROGRESS FORCE |         | 174,391.81        |                   |
| 232.500   | ACCOUNTS PAYABLE CONTINGENT    |         |                   | 174,391.81        |
| <b>Total</b>                                    |                                |         | <u>174,391.81</u> | <u>174,391.81</u> |
| <b>Adjusting Journal Entry JE # 5</b>           |                                |         |                   |                   |
| To True Up Current Maturities on Long Term Debt |                                | 224's   |                   |                   |
| 224.120   | OTHER LONG TERM DEBT CFC       |         | 673,369.38        |                   |
| 231.970   | NOTES PAYABLE- FORT HUACHUCA   |         | 82,695.10         |                   |
| 225.130   | CURRENT PORTION LT DEBT CFC    |         |                   | 756,064.48        |
| <b>Total</b>                                    |                                |         | <u>756,064.48</u> | <u>756,064.48</u> |
| <b>Adjusting Journal Entry JE # 6</b>           |                                |         |                   |                   |
| To Correct Interest on Customer Deposits        |                                | 237.20  |                   |                   |
| 237.200   | INTEREST ACCRUED CONSUMER DEPO |         | 143,355.00        |                   |
| 431.100   | INTEREST ON CONSUMER DEPOSITS  |         |                   | 143,355.00        |
| <b>Total</b>                                    |                                |         | <u>143,355.00</u> | <u>143,355.00</u> |

Client: 79650 - Sulphur Springs Valley Electric Cooperative, Inc.  
 Engagement: 2009 SSVEC  
 Period Ending: 6/30/2009  
 Trial Balance: 017 - Trial Balance Database  
 Workpaper: 017 - Adjusting Journal Entry Report

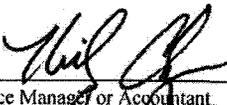
| Account  | Description                    | W/P Ref | Debit            | Credit           |
|--|--------------------------------|---------|------------------|------------------|
| <b>Adjusting Journal Entry JE # 7</b>                    |                                | 228.30  |                  |                  |
| To Correct FAS 158 Liability for Overaccrual of Benefits |                                |         |                  |                  |
| 228.300  | ACCUM. PROV.-PENSIONS & BENEFI |         |                  |                  |
| 107.240  | CONSTR. WORK IN PROGRESS FORCE |         | 72,000.08        |                  |
| 107.270  | CONST WORK IN PROG FORCE - FT  |         |                  | 17,586.03        |
| 108.800  | RETIREMENT WORK IN PROGRESS    |         |                  | 2,255.50         |
| 163.000  | STORES EXPENSE                 |         |                  | 2,336.73         |
| 184.200  | POWER OPERATED EQUIPMENT CLEAR |         |                  | 2,506.95         |
| 184.400  | GARAGE/VEHICLE OVERHEAD EXPS   |         |                  | 676.26           |
| 209.000  | ACC. OTHER COMPREHENSIVE INCOM |         |                  | 662.61           |
| 580.000  | OPERATION SUPERVISION & ENG.   |         |                  | 8,700.00         |
| 581.000  | DISTRIBUTION AUTOMATION        |         |                  | 1,261.59         |
| 583.000  | EXP. O/H LINE                  |         |                  | 978.58           |
| 583.970  | FT HUACHUCA-DISTRIBUTION EXPEN |         |                  | 5,769.78         |
| 586.000  | EXP. METER                     |         |                  | 1,034.59         |
| 588.000  | EXP. MISC. DISTRIBUTION        |         |                  | 2,374.50         |
| 593.000  | MAINT. OF O/H/LINES            |         |                  | 3,555.34         |
| 594.000  | MAINT. OF UNDERGROUND LINES    |         |                  | 2,856.01         |
| 902.000  | METER READING EXPENSE          |         |                  | 732.76           |
| 903.000  | CUST. RECORDS & COLLECTION EXP |         |                  | 1,171.09         |
| 903.250  | COLLECTIONS                    |         |                  | 4,425.22         |
| 908.000  | CONSUMER ASSISTANCE EXP.       |         |                  | 704.31           |
| 920.000  | ADMIN & GENERAL EXPENSES       |         |                  | 1,171.48         |
| <b>Total</b>   |                                |         | <u>72,000.08</u> | <u>11,240.75</u> |
|  |                                |         |                  | <u>72,000.08</u> |

# **EXHIBIT G**

|   |   |
|---|---|
| <b>NATIONAL RURAL UTILITIES<br/>COOPERATIVE FINANCE CORPORATION</b><br><b>FINANCIAL AND STATISTICAL REPORT</b><br>Submit one electronic copy and one signed hard copy<br>to CFC. Round all numbers to the nearest dollar. | <b>BORROWER DESIGNATION</b><br>AZ014                              |
|   | <b>BORROWER NAME</b><br>Sulphur Springs Valley Electric COOP, INC |
|   | <b>ENDING DATE</b><br>12/31/2009                                  |

**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.


 Signature of Office Manager or Accountant 3/2/10  
 Date


 Signature of Manager 3/2/10  
 Date

**NEW AUTHORIZATION CHOICES**

A. NRECA uses rural electric system data for legislative, regulatory and other purposes. May we provide this report from your system to NRECA?

NRECA  YES  NO

B. Will you authorize CFC to share your data with other cooperatives?

YES  NO

**PART A. STATEMENT OF OPERATIONS**

| ITEM   | YEAR-TO-DATE     |                  |               |                   |
|--|------------------|------------------|---------------|-------------------|
|  | LAST YEAR<br>(a) | THIS YEAR<br>(b) | BUDGET<br>(c) | THIS MONTH<br>(d) |
| 1. Operating Revenue and Patronage Capital             | 105,006,419      | 100,563,899      | 110,629,000   | 7,627,058         |
| 2. Power Production Expense                            | 0                | 0                | 0             | 0                 |
| 3. Cost of Purchased Power                             | 68,593,249       | 63,941,366       | 73,407,000    | 4,589,620         |
| 4. Transmission Expense                                | 403,777          | 546,791          | 360,000       | 71,339            |
| 5. Distribution Expense - Operation                    | 8,273,135        | 8,406,142        | 9,729,000     | 864,399           |
| 6. Distribution Expense - Maintenance                  | 2,645,186        | 2,955,133        | 2,785,000     | 348,853           |
| 7. Consumer Accounts Expense                           | 3,523,730        | 3,428,272        | 3,297,000     | 365,899           |
| 8. Customer Service and Informational Expense          | 818,283          | 666,435          | 724,000       | 51,551            |
| 9. Sales Expense                                       | 1,077,169        | 540,200          | 697,000       | 36,719            |
| 10. Administrative and General Expense                 | 3,979,763        | 3,641,659        | 3,049,000     | 1,126,929         |
| 11. Total Operation & Maintenance Expense (2 thru 10)  | 89,314,292       | 84,125,998       | 94,048,001    | 7,455,309         |
| 12. Depreciation & Amortization Expense                | 7,935,876        | 8,480,907        | 8,853,000     | 713,601           |
| 13. Tax Expense - Property & Gross Receipts            | 0                | 0                | 0             | 0                 |
| 14. Tax Expense - Other                                | 1,158,303        | 1,182,596        | 1,062,000     | 79,995            |
| 15. Interest on Long-Term Debt                         | 6,314,868        | 7,293,749        | 7,336,000     | 587,137           |
| 16. Interest Charged to Construction (Credit)          | 0                | 0                | 0             | 0                 |
| 17. Interest Expense - Other                           | 358,996          | 255,652          | 380,000       | 11,254            |
| 18. Other Deductions                                   | 206,492          | 246,370          | 180,000       | 9,633             |
| 19. Total Cost of Electric Service (11 thru 18)        | 105,288,826      | 101,585,271      | 111,859,001   | 8,856,929         |
| 20. Patronage Capital & Operating Margins (1 minus 19) | (282,408)        | (1,021,372)      | (1,230,001)   | (1,229,871)       |
| 21. Non Operating Margins - Interest                   | 103,146          | 169,252          | 105,000       | 9,318             |
| 22. Allowance for Funds Used During Construction       | 0                | 0                | 0             | 0                 |
| 23. Income (Loss) from Equity Investments              | 0                | 0                | 0             | 0                 |
| 24. Non Operating Margins - Other                      | 173,996          | 205,236          | 216,000       | 7,234             |
| 25. Generation & Transmission Capital Credits          | 10,617,743       | 5,974,967        | 4,362,000     | 5,974,967         |
| 26. Other Capital Credits & Patronage Dividends        | 633,419          | 558,358          | 654,000       | 48                |
| 27. Extraordinary Items                                | 0                | 0                | 0             | 0                 |
| 28. Patronage Capital or Margins (20 thru 27)          | 11,245,896       | 5,886,441        | 4,106,999     | 4,761,696         |

**PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

| ITEM                                | YEAR-TO-DATE     |                  | ITEM                              | YEAR-TO-DATE     |                  |
|-------------------------------------|------------------|------------------|-----------------------------------|------------------|------------------|
|                                     | LAST YEAR<br>(a) | THIS YEAR<br>(b) |                                   | LAST YEAR<br>(a) | THIS YEAR<br>(b) |
| 1. New Services Connected           | 458              | 391              | 5. Miles Transmission             | 286              | 286              |
| 2. Services Retired                 | 324              | 320              | 6. Miles Distribution Overhead    | 3,008            | 3,019            |
| 3. Total Services in Place          | 51,849           | 52,887           | 7. Miles Distribution Underground | 718              | 734              |
| 4. Idle Services (Exclude Seasonal) | 1,489            | 2,260            | 8. Total Miles Energized (5+6+7)  | 4,012            | 4,039            |

| CFC<br>FINANCIAL AND STATISTICAL REPORT  |             | BORROWER DESIGNATION<br>AZ01a                                       |                   |
|--|-------------|---|-------------------|
|  |             | YEAR ENDING<br>12/31/2008   |                   |
| PART C. BALANCE SHEET  |             |   |                   |
| ASSETS AND OTHER DEBITS  |             | LIABILITIES AND OTHER CREDITS                                       |                   |
| 1. Total Utility Plant in Service  | 252,621,074 | 28. Memberships   | 193,480           |
| 2. Construction Work in Progress   | 33,594,584  | 29. Patronage Capital   | 62,360,169        |
| 3. Total Utility Plant (1+2)   | 286,215,658 | 30. Operating Margins - Prior Years                                 | 0                 |
| 4. Accum. Provision for Depreciation and Amort   | 84,149,545  | 31. Operating Margins - Current Year                                | 5,511,952         |
| 5. Net Utility Plant (3-4)   | 202,066,113 | 32. Non-Operating Margins   | 374,488           |
| 6. Nonutility Property - Net   | 4,934,834   | 33. Other Margins & Equities  | (2,522,561)       |
| 7. Investment in Subsidiary Companies  | 0           | 34. Total Margins & Equities (28 thru 33)                           | 65,917,528        |
| 8. Invest. in Assoc. Org. - Patronage Capital  | 26,807,187  | 35. Long-Term Debt CFC (Net)  | 134,946,486       |
| 9. Invest. in Assoc. Org. - Other - General Funds  | 2,001,010   | (Payments-Unapplied (\$ _____))                                     |                   |
| 10. Invest. in Assoc. Org. - Other - Nongeneral Funds  | 4,194,536   | 36. Long-Term Debt - Other (Net)                                    | 0                 |
| 11. Investments in Economic Development Projects   | 0           | (Payments-Unapplied (\$ _____))                                     |                   |
| 12. Other Investments  | 205,092     | 37. Total Long-Term Debt (35+36)                                    | 134,946,486       |
| 13. Special Funds  | 401,615     | 38. Obligations Under Capital Leases - Non current                  | 0                 |
| 14. Total Other Property & Investments (6 thru 13)   | 38,544,274  | 39. Accumulated Operating Provisions - Asset Retirement Obligations | 1,208,475         |
| 15. Cash-General Funds   | 1,120,557   | 40. Total Other Noncurrent Liabilities (38+39)                      | 1,208,475         |
| 16. Cash-Construction Funds-Trustee  | 0           | 41. Notes Payable   | 9,950,159         |
| 17. Special Deposits   | 61,720      | 42. Accounts Payable  | 6,315,258         |
| 18. Temporary Investments  | 0           | 43. Consumers Deposits  | 2,463,283         |
| 19. Notes Receivable - Net   | 0           | 44. Current Maturities Long-Term Debt                               | 4,236,737         |
| 20. Accounts Receivable - Net Sales of Energy  | 4,261,232   | 45. Current Maturities Long-Term Debt-Economic Development          |                   |
| 21. Accounts Receivable - Net Other  | 1,124,181   | 46. Current Maturities Capital Leases                               |                   |
| 22. Materials & Supplies - Electric and Other  | 4,368,303   | 47. Other Current & Accrued Liabilities                             | 5,032,191         |
| 23. Prepayments  | 666,147     | 48. Total Current & Accrued Liabilities (41 thru 47)                | 27,997,628        |
| 24. Other Current & Accrued Assets   | 44,015      | 49. Deferred Credits  | 23,368,713        |
| 25. Total Current & Accrued Assets (15 thru 24)  | 11,646,154  | 50. Total Liabilities & Other Credits (34+37+40+48+49)              | 253,438,830       |
| 26. Deferred Debits  | 1,182,289   |   |                   |
| 27. Total Assets & Other Debits (5+14+25+26)   | 253,438,830 |   |                   |
|  |             | <b>ESTIMATED CONTRIBUTION IN-AID-OF-CONSTRUCTION, ETC.</b>          |                   |
|  |             | Balance Beginning of Year   | 17,726,868        |
|  |             | Amounts Received This Year (Net)                                    | 2,438,273         |
|  |             | <b>TOTAL Contributions-In-Aid-Of-Construction</b>                   | <b>20,165,141</b> |
| <b>PART D. THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.</b> |             |   |                   |
| Estimated unbilled revenue not included Part C line 20   | 3,561,743   | Deferred debts-unamortized bond expense CREB's                      | 822,017           |
| Prepayments long-term right of way leases amortized 10 years   | 421,458     | Long Term Debt CFC (line 35) includes CREB's Bonds                  | 10,596,745        |
| Deferred credit-lump sum ISAC payments amortized over 25 years   | 213,884     | Deferred credit-demand side management                              | 125,675           |
| Deferred credit-patronage capital uncashed checks  | 426,112     |   |                   |
| Deferred credit-fuel adjustment balance  | 6,182,255   |   |                   |
| Deferred credit-solar energy government programs   | 18,101      |   |                   |
| Deferred credit-consumer advances for construction   | 5,293,133   |   |                   |
| Deferred credit-joint use rent amortized over terms of lease   | 267,302     |   |                   |
| Deferred credit-cost of removal  | 42,812      |   |                   |
| Deferred credit-Fort Huachuca  | 10,943,214  |   |                   |
| AR, Other (line 21) includes Fort Huachuca AR  | 679,236     |   |                   |
| CWIP (line 2) includes Ft Huachuca CWIP  | 7,867,604   |   |                   |
| Cash from retirement G & T plus other capital credits  | 277,113     |   |                   |
| Prepayments-prepaid power supply   | 95,857      |   |                   |

|   |                        |
|---|------------------------|
| CFC<br>FINANCIAL AND STATISTICAL REPORT | BORROWER DESIGNATION   |
|   | YEAR ENDING 12/31/2009 |

Much of Part E has been consolidated. Enter only the total of "Distribution Plant" (that includes such items as Land and Land Rights, Structures and Improvements and Station Equipment), the total of "General Plant" (items such as Office Furniture, Transportation Equipment) the total of "Transmission Plant" (items such as Land and Land Rights, Roads and Trails), Steam, Nuclear, Hydro, Other Production Plants and "All Other Utility Plant"

| PART E. CHANGES IN UTILITY PLANT |                                      |                    |                   |                   |                          |                     |
|----------------------------------|--------------------------------------|--------------------|-------------------|-------------------|--------------------------|---------------------|
|                                  | PLANT ITEM                           | BALANCE            | ADDITIONS         | RETIREMENTS       | ADJUSTMENTS AND TRANSFER | BALANCE END OF YEAR |
|                                  |                                      | BEGINNING OF YEAR  |                   |                   |                          |                     |
|                                  |                                      | (a)                | (b)               | (c)               | (d)                      | (e)                 |
| 1.                               | Distribution Plant Subtotal          | 204,072,694        | 25,094,391        | 8,792,111         | 0                        | 220,374,974         |
| 2.                               | General Plant Subtotal               | 18,961,517         | 5,386,590         | 1,544,027         | 0                        | 22,804,080          |
| 3.                               | Headquarters Plant                   | 11,732,913         | 224,800           | 145,682           | 0                        | 11,832,031          |
| 4.                               | Intangibles                          | 46,500             | 0                 | 0                 | 0                        | 46,500              |
| 5.                               | Transmission Plant Subtotal          | 11,053,773         | 1,171,955         | 310,068           | 0                        | 11,915,660          |
| 6.                               | Production Plant - Steam             | 0                  | 0                 | 0                 | 0                        | 0                   |
| 7.                               | Production Plant - Nuclear           | 0                  | 0                 | 0                 | 0                        | 0                   |
| 8.                               | Production Plant - Hydro             | 0                  | 0                 | 0                 | 0                        | 0                   |
| 9.                               | Production Plant - Other             | 0                  | 0                 | 0                 | 0                        | 0                   |
| 10.                              | All Other Utility Plant              | (4,069,399)        | 1,491,236         | 11,774,017        | 0                        | (14,352,171)        |
| 11.                              | <b>SUBTOTAL: (1 thru 10)</b>         | <b>241,818,007</b> | <b>33,368,972</b> | <b>22,565,905</b> | <b>0</b>                 | <b>252,621,074</b>  |
| 12.                              | Construction Work in Progress        | 25,649,664         | 7,944,920         |                   |                          | 33,594,584          |
| 13.                              | <b>TOTAL UTILITY PLANT (11 + 12)</b> | <b>267,467,671</b> | <b>41,313,892</b> | <b>22,565,905</b> | <b>0</b>                 | <b>286,215,658</b>  |

CFC NO LONGER REQUIRES SECTIONS "F", "G", "N" AND "P" DATA  
 Those sections refer to data on "Analysis of Accumulated Provision for Depreciation" (F),  
 "Materials and Supplies" (G), "Annual Meeting and Board Data" (N), and "Conservation Data" (P).

| PART F. SERVICE INTERRUPTIONS |                   |                                    |                                    |                                    |                                    |        |
|-------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--------|
|                               | ITEM              | Avg. Minutes per Consumer by Cause | TOTAL  |
|                               |                   | Power Supplier (a)                 | Major Event (b)                    | Planned (c)                        | All Other (d)                      |        |
| 1.                            | Present Year      | 2.19                               | 94.45                              | 3.01                               | 39.1                               | 138.75 |
| 2.                            | Five-Year Average | 19.94                              | 18.89                              | 3.02                               | 81.9                               | 123.75 |

| PART G. EMPLOYEE - HOUR AND PAYROLL STATISTICS |  |         |                          |           |
|--|--|---------|--------------------------|-----------|
| 1.   | Number of Full Time Employees          | 194     | 4. Payroll - Expensed    | 7,183,198 |
| 2.   | Employee - Hours Worked - Regular Time | 426,880 | 5. Payroll - Capitalized | 3,706,819 |
| 3.   | Employee - Hours Worked - Overtime     | 23,543  | 6. Payroll - Other       | 2,402,655 |

| PART J. PATRONAGE CAPITAL   |               |                | PART K. DUE FROM CONSUMERS FOR ELECTRIC SERVICE |  |
|---|---------------|----------------|---|--|
| ITEM  | THIS YEAR (a) | CUMULATIVE (b) |   |  |
| 1. General Retirement   | 250,007       | 11,432,686     | 1. Amount Due Over 60 Days:<br>1,138,249        |  |
| 2. Special Retirements  | 7,472         | 27,661         | 2. Amount Written Off During Year:<br>138,166   |  |
| 3. Total Retirements (1+2)  | 257,479       | 11,460,347     |   |  |
| 4. Cash Received from Retirement of Patronage Capital by Suppliers of Electric Power                        | 0             |                |   |  |
| 5. Cash Received from Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System | 261,576       |                |   |  |
| 6. Total Cash Received (4+5)  | 261,576       |                |   |  |

| PART L. KWH PURCHASED AND TOTAL COST |                                |                   |                |                                  |                          |   |
|--------------------------------------|--------------------------------|-------------------|----------------|----------------------------------|--------------------------|---|
| NAME OF SUPPLIER (a)                 | CFC USE ONLY SUPPLIER CODE (b) | KWH PURCHASED (c) | TOTAL COST (d) | AVERAGE COST PER KWH (cents) (e) | INCLUDED IN TOTAL COST   |   |
|                                      |                                |                   |                |                                  | FUEL COST ADJUSTMENT (f) | WHEELING & OTHER CHARGES (or Credits) (g) |
| 1. AEP/CO/SWT                        |                                | 645,862,000       | 52,488,194     | 8.13                             | 13,115,270               | 7,756,633                                 |
| 2. WAPA                              |                                | 155,527,000       | 6,881,207      | 4.42                             | 0                        | 924,995                                   |
| 3. Powerex                           |                                | 97,644,000        | 4,571,965      | 4.68                             | 0                        | 0   |
| 4.                                   |                                | 0                 | 0              | 0.00                             | 0                        | 0   |
| 5. TOTALS                            |                                | 899,033,000       | 63,941,366     | 7.11                             | 13,115,270               | 8,681,628                                 |

|   |                        |
|---|------------------------|
| CFC<br>FINANCIAL AND STATISTICAL REPORT | BORROWER DESIGNATION   |
|   | AZ014                  |
|   | YEAR ENDING 12/31/2009 |

**PART M. LONG-TERM LEASES** (If additional space is needed, use separate sheet)

LIST BELOW ALL "RESTRICTED PROPERTY" \*\* HELD UNDER "LONG TERM" LEASE. (If none, State "NONE")

|              | NAME OF LESSOR | TYPE OF PROPERTY | RENTAL THIS YEAR |
|--------------|----------------|------------------|------------------|
| 1.           | None           |                  | \$0              |
| 2.           |                |                  |                  |
| 3.           |                |                  |                  |
| <b>TOTAL</b> |                |                  | <b>\$0</b>       |

\*\* "RESTRICTED PROPERTY" means all properties other than automobiles, trucks, tractors, other vehicles (including without limitation aircraft and ships), office and warehouse space and office equipment (including without limitation computers). "LONG TERM" means leases having unexpired terms in excess of 3 years and covering property having an initial cost in excess of \$250,000.

**PART O. LONG-TERM DEBT SERVICE REQUIREMENTS**

|     | NAME OF LENDER   | BALANCE END OF YEAR | BILLED THIS YEAR |               |              | CFC USE ONLY (d) |
|-----|--|---------------------|------------------|---------------|--------------|------------------|
|     |  |                     | INTEREST (a)     | PRINCIPAL (b) | TOTAL (c)    |                  |
| 1.  | National Rural Utilities Cooperative Finance Corporation | 134,946,486         | 7,130,034        | 4,059,342     | 11,189,376   |                  |
| 2.  |  | 0                   | 0                | 0             | 0            |                  |
| 3.  |  | 0                   | 0                | 0             | 0            |                  |
| 4.  |  | 0                   | 0                | 0             | 0            |                  |
| 5.  |  | 0                   | 0                | 0             | 0            |                  |
| 6.  |  | 0                   | 0                | 0             | 0            |                  |
| 7.  |  | 0                   | 0                | 0             | 0            |                  |
| 8.  |  | 0                   | 0                | 0             | 0            |                  |
| 9.  |  | 0                   | 0                | 0             | 0            |                  |
| 10. | TOTAL (Sum of 1 thru 9)                                  | \$134,946,486       | \$7,130,034      | \$4,059,342   | \$11,189,376 |                  |

7,293,749

**CFC  
FINANCIAL AND STATISTICAL REPORT**

**BORROWER DESIGNATION**

AZ014

**YEAR ENDING** 12/31/2009

**PART R - POWER REQUIREMENTS DATA BASE**

| CLASSIFICATION  | CONSUMER, SALES, AND REVENUE DATA | JANUARY          | DECEMBER         | AVERAGE          | TOTAL KWH SALES    |
|---|-----------------------------------|------------------|------------------|------------------|--------------------|
|   |                                   | CONSUMERS<br>(a) | CONSUMERS<br>(b) | CONSUMERS<br>(c) | AND REVENUE<br>(d) |
| 1. Residential Sales<br>(excluding seasonal)  | a. No. Consumers Served           | 40,708           | 41,054           | 40,881           |                    |
|   | b. KWH Sold                       |                  |                  |                  | 353,786,864        |
|   | c. Revenue                        |                  |                  |                  | 45,547,619         |
| 2. Residential Sales -<br>Seasonal  | a. No. Consumers Served           | 0                | 0                | 0                |                    |
|   | b. KWH Sold                       |                  |                  |                  | 0                  |
|   | c. Revenue                        |                  |                  |                  | 0                  |
| 3. Irrigation Sales   | a. No. Consumers Served           | 797              | 690              | 744              |                    |
|   | b. KWH Sold                       |                  |                  |                  | 161,416,118        |
|   | c. Revenue                        |                  |                  |                  | 14,826,585         |
| 4. Comm. and Ind.<br>1000 KVA or Less   | a. No. Consumers Served           | 8,805            | 8,833            | 8,819            |                    |
|   | b. KWH Sold                       |                  |                  |                  | 253,097,115        |
|   | c. Revenue                        |                  |                  |                  | 29,578,398         |
| 5. Comm. and Ind.<br>Over 1000 KVA  | a. No. Consumers Served           | 4                | 4                | 4                |                    |
|   | b. KWH Sold                       |                  |                  |                  | 58,011,660         |
|   | c. Revenue                        |                  |                  |                  | 6,135,725          |
| 6. Public Street & Highway<br>Lighting  | a. No. Consumers Served           | 46               | 46               | 46               |                    |
|   | b. KWH Sold                       |                  |                  |                  | 2,387,658          |
|   | c. Revenue                        |                  |                  |                  | 449,975            |
| 7. Other Sales to Public<br>Authority   | a. No. Consumers Served           | 0                | 0                | 0                |                    |
|   | b. KWH Sold                       |                  |                  |                  | 0                  |
|   | c. Revenue                        |                  |                  |                  | 0                  |
| 8. Sales for Resales-RUS<br>Borrowers   | a. No. Consumers Served           | 0                | 0                | 0                |                    |
|   | b. KWH Sold                       |                  |                  |                  | 0                  |
|   | c. Revenue                        |                  |                  |                  | 0                  |
| 9. Sales for Resales-Other  | a. No. Consumers Served           | 5                | 4                | 5                |                    |
|   | b. KWH Sold                       |                  |                  |                  | 5,420,000          |
|   | c. Revenue                        |                  |                  |                  | 58,963             |
| 10. TOTAL No. of Consumers (lines 1a thru 9a)   |                                   | 50,365           | 50,631           | 50,498           |                    |
| 11. TOTAL KWH Sold (lines 1b thru 9b)   |                                   |                  |                  |                  | 834,119,415        |
| 12. TOTAL Revenue Received From Sales of Electric<br>Energy (line 1c thru 9c)           |                                   |                  |                  |                  | 96,597,266         |
| 13. Other Electric Revenue  |                                   |                  |                  |                  | 3,966,633          |
| 14. KWH - Own Use   |                                   |                  |                  |                  | 1,240,340          |
| 15. TOTAL KWH Purchased   |                                   |                  |                  |                  | 899,033,000        |
| 16. TOTAL KWH Generated   |                                   |                  |                  |                  | 0                  |
| 17. Cost of Purchases and Generation  |                                   |                  |                  |                  | 63,941,366         |
| 18. Interchange - KWH - Net   |                                   |                  |                  |                  | 0                  |
| 19. Peak - Sum All KW Input (Metered)<br>Non-coincident                      Coincident |                                   |                  |                  |                  | 201,528            |

| CFC<br>INVESTMENTS, LOAN GUARANTEES<br>AND LOANS - DISTRIBUTION<br><small>(All investments refer to your most recent CFC Loan Agreement)</small> |                      | BORROWER DESIGNATION<br><small>ASPIA</small>                             |                       |
|--|----------------------|--|-----------------------|
| Submit an electronic copy and a signed hard copy<br>to CFC. Round all amounts to the nearest dollar.   |                      | BORROWER NAME<br><small>Sierra Springs Valley Electric COOP, INC</small> |                       |
|  |                      | MONTH ENDING<br><small>12/31/2009</small>                                |                       |
| PART I - INVESTMENTS   |                      |  |                       |
| DESCRIPTION<br>(a)   | INCLUDED (\$)<br>(b) | EXCLUDED (\$)<br>(c)   | INCOME OR LOSS<br>(d) |
| <b>2. INVESTMENTS IN ASSOCIATED ORGANIZATIONS</b>  |                      |  |                       |
| 5 Patronage Capital CFC  | 0                    | 1,214,281  | 0                     |
| 6 Patronage Capital G & T Supplier   | 0                    | 25,336,324   | 0                     |
| 7 Patronage Capital Other-Federated, NISC, NRTC, CRC   | 0                    | 256,581  | 0                     |
| 8 Investment in CTC's and Cap at NRUCFC & NRUCFC Membership-Cobank   | 0                    | 2,291,631  | 0                     |
| Subtotal (Line 5 thru 8)   | 0                    | 29,098,818   | 0                     |
| <b>3. INVESTMENTS IN ECONOMIC DEVELOPMENT PROJECTS</b>   |                      |  |                       |
| 9  | 0                    | 0  | 0                     |
| 10   | 0                    | 0  | 0                     |
| 11   | 0                    | 0  | 0                     |
| 12   | 0                    | 0  | 0                     |
| Subtotal (Line 9 thru 12)  | 0                    | 0  | 0                     |
| <b>4. OTHER INVESTMENTS</b>  |                      |  |                       |
| 13 ERC Loans Receivable  | 204,092              | 0  | 0                     |
| 14   | 0                    | 0  | 0                     |
| 15   | 0                    | 0  | 0                     |
| 16   | 0                    | 0  | 0                     |
| Subtotal (Line 13 thru 16)   | 204,092              | 0  | 0                     |
| <b>5. SPECIAL FUNDS</b>  |                      |  |                       |
| 17 Deferred Compensation Employee  | 0                    | 401,615  | 0                     |
| 18   | 0                    | 0  | 0                     |
| 19   | 0                    | 0  | 0                     |
| 20   | 0                    | 0  | 0                     |
| Subtotal (Line 17 thru 20)   | 0                    | 401,615  | 0                     |
| <b>6. CASH - GENERAL</b>   |                      |  |                       |
| 21 General Funds-Bank of America, Chase, Wells Fargo   | 1,087,842            | 200,000  | 0                     |
| 22 CBA Medical   | 0                    | 6,594  | 0                     |
| 23   | 0                    | 0  | 0                     |
| 24   | 0                    | 0  | 0                     |
| Subtotal (Line 21 thru 24)   | 1,087,842            | 206,594  | 0                     |
| <b>7. SPECIAL DEPOSITS</b>   |                      |  |                       |
| 25 Other Utilities, UPS, US Postmaster   | 15,983               | 0  | 0                     |
| 26 State Fund Insurance  | 10,132               | 0  | 0                     |
| 27 Bella Vista Water   | 105                  | 0  | 0                     |
| 28 City of Sierra Vista, Pueblo del Sol  | 35,500               | 0  | 0                     |
| Subtotal (Line 25 thru 28)   | 61,720               | 0  | 0                     |
| <b>8. TEMPORARY INVESTMENTS</b>  |                      |  |                       |
| 29   | 0                    | 0  | 0                     |
| 30   | 0                    | 0  | 0                     |
| 31   | 0                    | 0  | 0                     |
| 32   | 0                    | 0  | 0                     |
| Subtotal (Line 29 thru 32)   | 0                    | 0  | 0                     |
| <b>9. ACCOUNT &amp; NOTES RECEIVABLE - NET</b>   |                      |  |                       |
| 33   | 0                    | 0  | 0                     |
| 34   | 0                    | 0  | 0                     |
| 35   | 0                    | 0  | 0                     |
| 36   | 0                    | 0  | 0                     |
| Subtotal (Line 33 thru 36)   | 0                    | 0  | 0                     |
| <b>10. COMMITMENTS TO INVEST WITHIN 12 MONTHS BUT NOT ACTUALLY PURCHASED</b>   |                      |  |                       |
| 37   | 0                    | 0  | 0                     |
| 38   | 0                    | 0  | 0                     |
| 39   | 0                    | 0  | 0                     |
| 40   | 0                    | 0  | 0                     |
| Subtotal (Line 37 thru 40)   | 0                    | 0  | 0                     |
| <b>Total</b>   |                      | <b>1,353,653</b>   | <b>29,707,027</b>     |

| CFC<br>INVESTMENTS, LOAN GUARANTEES<br>AND LOANS - DISTRIBUTION                                   |   | BORROWER DESIGNATION                                       |                          |   |   |
|---|---|--|--------------------------|---|---|
| (All investments refer to your most recent CFC Loan Agreement)                                    |   | A2014  |                          |   |   |
| Submit an electronic copy and a signed hard copy to CFC. Round all amounts to the nearest dollar. |   | BORROWER NAME<br>Sulphur Springs Valley Electric COOP, INC |                          |   |   |
|   |   | MONTH ENDING<br>12/31/2009                                 |                          |   |   |
| 7 - PART II - LOAN GUARANTEES   |   |  |                          |   |   |
| Line No.  | Organization & Guarantee Beneficiary (a)  | Maturity Date of Guarantee Obligation (b)                  | Original Amount (\$) (c) | Performance Guarantee Exposure or Loan Balance (\$) (d) | Available Loans (Covered by Guarantees) (e) |
| 1   |   |  | 0                        | 0   | 0   |
| 2   |   |  | 0                        | 0   | 0   |
| 3   |   |  | 0                        | 0   | 0   |
| 4   |   |  | 0                        | 0   | 0   |
| 5   |   |  | 0                        | 0   | 0   |
| TOTALS (Line 1 thru 5)  |   |  | 0                        | 0   | 0   |
| 7 - PART III - LOANS  |   |  |                          |   |   |
| Line No.  | Name of Organization (a)  | Maturity Date (b)  | Original Amount (\$) (c) | Loan Balance (\$) (d)                                   | Available Loans (e)                         |
| 1   |   |  | 0                        | 0   | 0   |
| 2   |   |  | 0                        | 0   | 0   |
| 3   |   |  | 0                        | 0   | 0   |
| 4   |   |  | 0                        | 0   | 0   |
| 5   |   |  | 0                        | 0   | 0   |
| TOTALS (Line 1 thru 5)  |   |  | 0                        | 0   | 0   |
| 7 - PART IV - TOTAL INVESTMENTS AND LOAN GUARANTEES   |   |  |                          |   |   |
| 1   | TOTAL (Part I, Total - Column b + Part II, Totals - Column d + Column e + Part III, Totals - Column d + Column e) |  |                          |   | 1,353,653                                   |
| 2   | LARGER OF (a) OR (b)  |  |                          |   | 42,932,349                                  |
|   | a. 15 percent of Total Utility Plant (CFC Form 7, Part C, Line 3)   |  |                          |   | 42,932,349                                  |
|   | b. 50 percent of Total Equity (CFC Form 7, Part C, Line 34)   |  |                          |   | 32,958,764                                  |

**PRELIMINARY FINANCIAL & STATISTICAL RATIOS**

These preliminary ratios can be used to evaluate your system's performance and used as an error checking device.  
 MDSC and DSC will be "estimated" values. Your system's prior year's "Investment in Associated Orgs -- Patronage Capital" must be entered as a part of the calculation for MDSC.

| ITEM DESCRIPTION  | ENTER DATA  | RATIO NO. | RATIO DESCRIPTION   | ESTIMATED RATIO VALUE |
|---|-------------|-----------|---|-----------------------|
| Invest. In Assoc. Org. - Pat Cap (for 2008)                     | 20,560,195  | 1         | Average Total Consumers Served  | 50,498.00             |
| Billed Debt Services (2009)                                     | 11,189,376  | 2         | Total KWH Sold (1,000)  | 834,119.00            |
| Total KWH Sold (for 2008)                                       | 819,071,877 | 3         | Total Utility Plant (1,000)   | 286,215.66            |
| Avg. Total Number of Consumers (for 2008)                       | 50,097      | 4         | Total Number of Employees (Full Time Only)                              | 194.00                |
| Total Utility Plant (for 2008)                                  | 267,467,671 | 5         | Total Miles of Line   | 4,039.00              |
| Total Margins and Equities (for 2007)                           | 4,678,921   | 6         | TIER (estimated)  | 1.81                  |
| Total Margins and Equities (for 2008)                           | 11,245,897  | 7         | TIER (2 of 3 year High Average)   | 2.29                  |
| Total Long-Term Debt (for 2007)                                 | 97,760,014  | 8         | OTIER   | 0.90                  |
| Total Long-Term Debt (for 2008)                                 | 125,311,087 | 9         | OTIER (2 of 3 year High Average)  | 1.16                  |
| Total Margins and Equities (for 2004)                           | 3,681,763   | 10        | MDSC (estimated)  | 1.36                  |
| Total Long-Term Debt (for 2004)                                 | 70,888,639  | 11        | MDSC (2 of 3 year High Average)   | 1.44                  |
| Current Maturities Long-Term Debt - Economic Development (2008) | -           | 12        | Debt Service Coverage - DSC (estimated)                                 | 1.94                  |
| Current Maturities Long-Term Debt (2008)                        | 10,446,205  | 13        | DSC (2 of 3 year High Average)  | 2.19                  |
| TIER (2007)   | 1.81        | 14        | ODSC  | 1.34                  |
| TIER (2008)   | 2.78        | 15        | ODSC (2 of 3 year high average)   | 1.43                  |
| TIER (2009)   | 1.81        | 16        | Equity As A % of Assets   | 26.01                 |
|   |             | 17        | Distribution Equity (excludes equity in Assoc. Org's Patronage Capital) | 17.26                 |
| OTIER (2007)  | 1.29        | 18        | Equity As A % of Total Capitalization                                   | 32.82                 |
| OTIER (2008)  | 1.03        | 19        | Long Term Debt As A % of Total Assets                                   | 53.25                 |
| OTIER (2009)  | 0.90        | 20        | Long Term Debt Per KWH Sold (Mills)                                     | 161.78                |
|   |             | 21        | Long Term Debt Per Consumer (\$)  | 2,672.31              |
| MDSC (2007)   | 1.50        | 22        | Non-Government Debt As % of Total Long-Term Debt                        | 100.00                |
| MDSC (2008)   | 1.39        | 23        | Blended Interest Rate (%)   | 5.31                  |
| MDSC (2009)   | 1.36        | 24        | Annual Capital Credits Retired Per Total Equity (%)                     | 0.39                  |
|   |             | 25        | Long-Term Interest As A % of Revenue                                    | 7.25                  |
| DSC (2007)  | 1.79        | 26        | Cumulative Patronage Capital Retired As A % of Total Patronage Capital  | 14.81                 |
| DSC (2008)  | 2.44        | 27        | Rate of Return on Equity (%)  | 8.93                  |
| DSC (2009)  | 1.94        | 28        | Rate of Return on Total Capitalization (%)                              | 6.56                  |
|   |             | 29        | Current Ratio   | 0.42                  |
| ODSC (2007)   | 1.48        | 30        | General Funds Per TUP (%)   | 3.03                  |
| ODSC (2008)   | 1.38        | 31        | Plant Revenue Ratio (PPR) One Year                                      | 7.93                  |
| ODSC (2009)   | 1.34        | 32        | Investment in Subsidiaries to Total Assets (%)                          | -                     |
| 2% of Total Margins & Equity                                    | 1,318,351   | 33        | Total Operating Revenue Per KWH Sold (Mills)                            | 120.56                |
| Total Long-Term Leases  | -           | 34        | Total Operating Revenue Per TUP Investment (Cents)                      | 35.14                 |
| 1/3 of the Lease portion  | (439,450)   | 35        | Total Operating Revenue Per Consumer (\$)                               | 1,991.44              |
| Pat Cap (Cash) portion  | 286,333     | 36        | Electric Revenue Per KWH Sold (Mills)                                   | 115.81                |
|   |             | 37        | Electric Revenue Per Consumer (\$)                                      | 1,912.89              |
|   |             | 38        | Residential Revenue Per KWH Sold (Mills)                                | 128.74                |
|   |             | 39        | Non-Residential Revenue Per KWH Sold (Mills)                            | 106.28                |
|   |             | 40        | Seasonal Revenue Per KWH Sold (Mills)                                   | #DIV/0!               |

**PRELIMINARY FINANCIAL & STATISTICAL RATIOS**

These preliminary ratios can be used to evaluate your system's performance and used as an error checking device.  
 MDSC and DSC will be "estimated" values. Your system's prior year's "Investment in Associated Orgs --  
 Patronage Capital" must be entered as a part of the calculation for MDSC.

| RATIO NO. | RATIO DESCRIPTION  | ESTIMATED RATIO VALUE | RATIO NO. | RATIO DESCRIPTION  | ESTIMATED RATIO VALUE |
|-----------|--|-----------------------|-----------|--|-----------------------|
| 41        | Irrigation Revenue Per KWH Sold (Mills)                        | 91.85                 | 81        | Consumer Accounting Expenses per Consumer (\$)                       | 67.89                 |
| 42        | Small Commercial Revenue Per KWH Sold (Mills)                  | 116.87                | 82        | Customer Sales and Service Per Total KWH Sold (Mills)                | 1.45                  |
| 43        | Large Commercial Revenue Per KWH Sold (Mills)                  | 105.77                | 83        | Consumer Sales and Service Per Consumer (\$)                         | 23.89                 |
| 44        | Sale for Resale Revenue Per KWH Sold (Mills)                   | 10.88                 | 84        | A & G Expenses Per Total KWH Sold (Mills)                            | 4.37                  |
| 45        | Street & Highway Lighting Revenue Per KWH Sold (Mills)         | 188.46                | 85        | A & G Expenses Per Consumer (\$)                                     | 72.11                 |
| 46        | Other Sales to Public Authorities Revenue Per KWH Sold (Mills) | #DIV/0!               | 86        | Total Controllable Expenses Per Total KWH Sold (Mills)               | 23.54                 |
| 47        | Operating Margins Per KWH Sold (Mills)                         | (1.22)                | 87        | Total Controllable Expenses Per Consumer (\$)                        | 388.88                |
| 48        | Operating Margins Per Consumer \$                              | (20.23)               | 88        | Power Cost Per KWH Purchased (Mills)                                 | 71.73                 |
| 49        | Non-Operating Margins Per KWH Sold (Mills)                     | 0.45                  | 89        | Power Cost Per Total KWH Sold (Mills)                                | 77.31                 |
| 50        | Non-Operating Margins Per Consumer \$                          | 7.42                  | 90        | Power Cost As A % of Revenue   | 64.13                 |
| 51        | Total Margins Less Allocations Per KWH Sold (Mills)            | (0.78)                | 91        | Long-Term Interest Cost Per Total KWH Sold (Mills)                   | 8.74                  |
| 52        | Total Margins Less Allocations Per Consumer \$                 | (12.81)               | 92        | Long-Term Interest Cost As A % of TUP                                | 2.55                  |
| 53        | Income (Loss) from Equity Investments Per Consumer \$          | -                     | 93        | Long-Term Interest Cost Per Consumer (\$)                            | 144.44                |
| 54        | Associated Organization's Capital Credits Per KWH Sold (Mills) | 7.83                  | 94        | Depreciation Expense Per Total KWH Sold (Mills)                      | 10.17                 |
| 55        | Associated Organization's Capital Credits Per Consumer (\$)    | 129.38                | 95        | Depreciation Expense As A % of TUP                                   | 2.96                  |
| 56        | Total Margins Per KWH Sold (Mills)                             | 7.06                  | 96        | Depreciation Expense Per Consumer (\$)                               | 167.95                |
| 57        | Total Margins Per Consumer \$                                  | 116.57                | 97        | Accumulative Depreciation As A % of Plant in Service                 | 33.31                 |
| 58        | A/R Over 60 Days As A % of Operating Revenue                   | 1.13                  | 98        | Total Tax Expense Per Total KWH Sold (Mills)                         | 1.42                  |
| 59        | Amount Write-Off As A % of Operating Revenue                   | 0.14                  | 99        | Total Tax Expense As A % of TUP                                      | 0.41                  |
| 60        | Total MWH Sold Per Mile of Line                                | 206.52                | 100       | Total Tax Expense Per Consumer                                       | 23.42                 |
| 61        | Average Residential KWH Usage Per Month                        | 721.17                | 101       | Total Fixed Expenses Per Total KWH Sold (Mills)                      | 98.24                 |
| 62        | Average Seasonal KWH Usage Per Month                           | #DIV/0!               | 102       | Total Fixed Expenses Per Consumer (\$)                               | 1,622.79              |
| 63        | Average Irrigation KWH Usage Per Month                         | 18,091.92             | 103       | Total Operating Expenses Per Total KWH Sold (Mills)                  | 23.54                 |
| 64        | Average Small Commercial KWH Usage Per Month                   | 2,391.59              | 104       | Total Operating Expenses Per Consumer (\$)                           | 388.88                |
| 65        | Average Large Commercial KWH Usage Per Month                   | 1,208,576.25          | 105       | Total Cost of Service (Minus Power Costs) Per Total KWH Sold (Mills) | 44.47                 |
| 66        | Average Street & Highway Lighting KWH Usage Per Month          | 4,325.47              | 106       | Total Cost of Electric Service Per Total KWH Sold (Mills)            | 121.79                |
| 67        | Average Sales for Resale KWH Usage Per Month                   | 100,370.37            | 107       | Total Cost of Electric Service Per Consumer (\$)                     | 2,011.67              |
| 68        | Average Sales to Public Authorities KWH Usage Per Month        | #DIV/0!               | 108       | Average Wage Rate Per Hour (\$)                                      | 29.51                 |
| 69        | Residential KWH Sold Per Total KWH Sold (%)                    | 42.41                 | 109       | Total Wages Per Total KWH Sold (Mills)                               | 15.94                 |
| 70        | Seasonal KWH Sold Per Total KWH Sold (%)                       | -                     | 110       | Total Wages Per Consumer (\$)  | 263.23                |
| 71        | Irrigation KWH Sold Per Total KWH Sold (%)                     | 19.35                 | 111       | Overtime Hours/Total Hours (%)                                       | 5.23                  |
| 72        | Small Commercial KWH Sold Per Total KWH Sold (%)               | 30.34                 | 112       | Capitalized Payroll/Total Payroll (%)                                | 27.89                 |
| 73        | Large Commercial KWH Sold Per Total KWH Sold (%)               | 6.95                  | 113       | Average Consumers Per Employee                                       | 260.30                |
| 74        | Street & Highway Lighting KWH Sold Per Total KWH Sold (%)      | 0.29                  | 114       | Annual Growth in KWH Sold (%)  | 1.84                  |
| 75        | Sales for Resale KWH Sold Per Total KWH Sold (%)               | 0.65                  | 115       | Annual Growth in Number of Consumers (%)                             | 0.80                  |
| 76        | Sales to Public Authorities KWH Sold Per Total KWH Sold (%)    | -                     | 116       | Annual Growth in TUP Dollars (%)                                     | 7.01                  |
| 77        | O & M Expenses Per Total KWH Sold (Mills)                      | 13.62                 | 117       | Const. W.I.P. to Plant Additions (%)                                 | 100.68                |
| 78        | O & M Expenses Per Dollars of TUP (Mills)                      | 39.69                 | 118       | Net New Services to Total Services (%)                               | 0.13                  |
| 79        | O & M Expenses Per Consumer (\$)                               | 224.98                | 119       | Annual Growth in Total Capitalization (%)                            | 47.09                 |
| 80        | Consumer Accounting Expenses Per Total KWH Sold (Mills)        | 4.11                  | 120       | 2 Yr. Compound Growth in Total Capitalization (%)                    | 40.03                 |

**PRELIMINARY FINANCIAL & STATISTICAL RATIOS**

These preliminary ratios can be used to evaluate your system's Performance and used as an error checking device.  
 MDSC and DSC will be "estimated" values. Your system's prior year's "Investment in Associated Orgs - Patronage Capital" must be entered as a part of the calculation for MDSC.

| RATIO NO. | RATIO DESCRIPTION  | ESTIMATED RATIO VALUE |
|-----------|--|-----------------------|
| 121       | 5 Yr. Compound Growth in Total Capitalization (%)                          | 21.92                 |
| 122       | TUP Investment Per Total KWH Sold (Cents)                                  | 34.31                 |
| 123       | TUP Investment Per Consumer (\$)   | 5,667.86              |
| 124       | TUP Investment Per Mile of Line (\$)                                       | 70,863.00             |
| 125       | Average Consumers Per Mile   | 12.50                 |
| 126       | Distribution Plant Per Total KWH Sold (Mills)                              | 264.20                |
| 127       | Distribution Plant Per Consumer (\$)                                       | 4,364.03              |
| 128       | Distribution Plant Per Employee (\$)                                       | 1,135,953.47          |
| 129       | General Plant Per Total KWH Sold (Mills)                                   | 27.34                 |
| 130       | General Plant Per Consumer (\$)  | 451.58                |
| 131       | General Plant Per Employee (\$)  | 117,546.80            |
| 132       | Headquarters Plant Per Total KWH Sold (Mills)                              | 14.19                 |
| 133       | Headquarters Plant Per Consumer (\$)                                       | 234.31                |
| 134       | Headquarters Plant Per Employee (\$)                                       | 60,989.85             |
| 135       | Transmission Plant Per Total KWH Sold (Mills)                              | 14.29                 |
| 136       | Transmission Plant Per Consumer (\$)                                       | 235.96                |
| 137       | Transmission Plant Per Employee (\$)                                       | 61,420.93             |
| 138       | Idle Services to Total Service (%)   | 4.27                  |
| 139       | Line Loss (%)  | 7.08                  |
| 140       | System Avg. Interruption Duration Index (SAIDI) - Power Supplier (Minutes) | 2.19                  |
| 141       | System Avg. Interruption Duration Index (SAIDI) - Major Event (Minutes)    | 94.45                 |
| 142       | System Avg. Interruption Duration Index (SAIDI) - Planned (Minutes)        | 3.01                  |
| 143       | System Avg. Interruption Duration Index (SAIDI) - All Other (Minutes)      | 39.10                 |
| 144       | System Avg. Interruption Duration Index (SAIDI) - Total (Minutes)          | 138.75                |
| 145       | Avg. Service Availability Index (SAI) - Total (%)                          | 99.97                 |

**CFC SHORT FORM 7 DATA ERROR AND WARNING CHECKS**

**DATA ERROR CHECKS**

**PART A. STATEMENT OF OPERATIONS**

**LINE ITEM#**

1 0 Variance/Difference

RECHECK YOUR DATA. PART A, LINE 1 OPERATING REVENUE IS NOT EQUAL TO PART R, LINES 12 TOTAL REVENUE RECEIVED FROM SALES TO ELECTRIC ENERGY + 13 OTHER ELECTRIC REVENUE.

**PART C. BALANCE SHEET**

**LINE ITEM#**

3 0 Variance/Difference

FIGURES MATCHED! PART C, LINE 3 TOTAL UTILITY PLANT IS EQUAL TO PART E, LINE 13(e) TOTAL UTILITY PLANT.

37 0

FIGURES MATCHED! PART C, LINE 37 TOTAL LONG-TERM DEBT IS EQUAL TO PART O, LINE 10 TOTAL BALANCE END OF YEAR.

50 0 Variance/Difference

FIGURES MATCHED! PART C, LINE 27 TOTAL ASSETS & OTHER DEBITS IS EQUAL TO PART C, LINE 50 TOTAL LIABILITIES & OTHER CREDITS.

**PART L. KWH PURCHASED AND TOTAL COST**

**LINE ITEM#**

5 0 Variance/Difference

FIGURES MATCHED! PART L, LINE 5 KWH PURCHASED IS EQUAL TO PART R, LINE 15 TOTAL KWH PURCHASED.

**WARNING CHECKS**

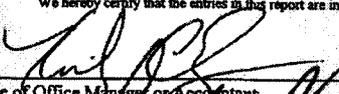
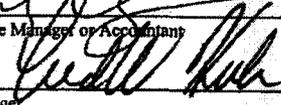
Form 7 lines items that should not equal zero.

**PART A. STATEMENT OF OPERATIONS**

**LINE ITEM#**

- 1 Line 1 is greater than ZERO.
- 3 Line 3 is greater than ZERO.
- 5 Line 5 is greater than ZERO.
- 6 Line 6 is greater than ZERO.
- 7 Line 7 is greater than ZERO.
- 8 Line 8 is greater than ZERO.
- 10 Line 10 is greater than ZERO.
- 11 Line 11 is greater than ZERO.
- 12 Line 12 is greater than ZERO.
- 15 Line 15 is greater than ZERO.
- 19 Line 19 is greater than ZERO.
- 28 Line 28 is a NON-ZERO value.

# **EXHIBIT H**

|   |   |
|---|---|
| <b>NATIONAL RURAL UTILITIES<br/>COOPERATIVE FINANCE CORPORATION</b>   | <b>BORROWER DESIGNATION</b><br>AZ014                                      |
| <b>FINANCIAL AND STATISTICAL REPORT</b>   | <b>BORROWER NAME</b><br>Sulphur Springs Valley Electric Cooperative, Inc. |
| Submit one electronic copy and one signed hard copy to CFC. Round all numbers to the nearest dollar.  | <b>ENDING DATE</b><br>May 2010  |
| <b>CERTIFICATION</b>  |   |
| We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief. |   |
| <br>Signature of Office Manager or Accountant  | 6/22/10<br>Date   |
| <br>Signature of Manager   | 6/23/10<br>Date   |

**PART A: STATEMENT OF OPERATIONS**

| ITEM   | YEAR-TO-DATE     |                  |               | THIS MONTH<br>(d) |
|--|------------------|------------------|---------------|-------------------|
|  | LAST YEAR<br>(a) | THIS YEAR<br>(b) | BUDGET<br>(c) |                   |
| 1. Operating Revenue and Patronage Capital             | 39,191,888       | 38,907,989       | 46,365,200    | 8,438,538         |
| 2. Power Production Expense                            |                  |                  |               |                   |
| 3. Cost of Purchased Power                             | 25,248,753       | 22,364,721       | 30,019,050    | 5,053,813         |
| 4. Transmission Expense                                | 223,666          | 231,846          | 239,066       | 39,667            |
| 5. Distribution Expense - Operation                    | 3,276,063        | 3,763,880        | 3,963,765     | 726,306           |
| 6. Distribution Expense - Maintenance                  | 1,142,204        | 1,450,284        | 1,292,132     | 273,850           |
| 7. Consumer Accounts Expense                           | 1,393,565        | 1,761,841        | 1,368,913     | 258,396           |
| 8. Customer Service and Informational Expense          | 296,807          | 222,198          | 267,820       | 30,752            |
| 9. Sales Expense                                       | 252,116          | 106,883          | 164,392       | 17,024            |
| 10. Administrative and General Expense                 | 1,203,910        | 1,358,066        | 1,178,380     | 266,274           |
| 11. Total Operation & Maintenance Expense (2 thru 10)  | 33,037,083       | 31,259,717       | 38,493,517    | 6,666,082         |
| 12. Depreciation & Amortization Expense                | 3,475,166        | 3,493,907        | 4,355,012     | 747,407           |
| 13. Tax Expense - Property                             | 0                | 0                | 0             | 0                 |
| 14. Tax Expense - Other                                | 417,114          | 439,047          | 523,000       | 92,765            |
| 15. Interest on Long-Term Debt                         | 3,008,333        | 3,011,639        | 4,282,682     | 618,372           |
| 16. Interest Charged to Construction (Credit)          | 0                | 0                | 0             | 0                 |
| 17. Interest Expense - Other                           | 114,214          | 101,267          | 132,640       | 15,511            |
| 18. Other Deductions                                   | 85,066           | 128,658          | 84,385        | 40,155            |
| 19. Total Cost of Electric Service (11 thru 18)        | 40,136,976       | 38,434,236       | 47,871,436    | 8,180,291         |
| 20. Patronage Capital & Operating Margins (1 minus 19) | (945,088)        | 473,753          | (1,506,236)   | 258,246           |
| 21. Non Operating Margins - Interest                   | 45,305           | 130,801          | 49,165        | 22,169            |
| 22. Allowance for Funds Used During Construction       | 0                | 0                | 0             | 0                 |
| 23. Income (Loss) from Equity Investments              | 0                | 0                | 0             | 0                 |
| 24. Non Operating Margins - Other                      | 160,337          | 154,839          | 136,473       | 36,921            |
| 25. Generation & Transmission Capital Credits          | 0                | (94,535)         | 0             | (94,535)          |
| 26. Other Capital Credits & Patronage Dividends        | 22,922           | 38,621           | 25,545        | 0                 |
| 27. Extraordinary Items                                | 0                | 0                | 0             | 0                 |
| 28. Patronage Capital or Margins (20 thru 27)          | (716,525)        | 703,480          | (1,295,053)   | 222,802           |

**PART B: DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

| ITEM                                | YEAR-TO-DATE     |                  | ITEM                              | YEAR-TO-DATE     |                  |
|-------------------------------------|------------------|------------------|-----------------------------------|------------------|------------------|
|                                     | LAST YEAR<br>(a) | THIS YEAR<br>(b) |                                   | LAST YEAR<br>(a) | THIS YEAR<br>(b) |
| 1. New Services Connected           | 266              | 199              | 5. Miles Transmission             | 286              | 294              |
| 2. Services Retired                 | 155              | 83               | 6. Miles Distribution Overhead    | 3,015            | 3,024            |
| 3. Total Services In Place          | 52,251           | 52,142           | 7. Miles Distribution Underground | 723              | 736              |
| 4. Idle Services (Exclude Seasonal) | 1,750            | 1,219            | 8. Total Miles Energized (5+6+7)  | 4,024            | 4,054            |

| CFC<br>FINANCIAL AND STATISTICAL REPORT   |             | BORROWER DESIGNATION<br>AZ014                              |             |
|---|-------------|--|-------------|
|   |             | MONTH ENDING<br>May 2010                                   |             |
| PART C. BALANCE SHEET   |             |  |             |
| ASSETS AND OTHER DEBITS   |             | LIABILITIES AND OTHER CREDITS                              |             |
| 1. Total Utility Plant in Service   | 263,235,746 | 28. Memberships  | 193,915     |
| 2. Construction Work in Progress  | 21,067,162  | 29. Patronage Capital                                      | 68,244,737  |
| 3. Total Utility Plant (1+2)  | 284,302,909 | 30. Operating Margins - Prior Years                        | 0           |
| 4. Accum. Provision for Depreciation and Amort  | 83,933,822  | 31. Operating Margins - Current Year                       | 417,839     |
| 5. Net Utility Plant (3-4)  | 200,369,087 | 32. Non-Operating Margins                                  | 285,640     |
| 6. Nonutility Property - Net  | 9,949,354   | 33. Other Margins & Equities                               | (2,521,507) |
| 7. Investment in Subsidiary Companies   | 0           | 34. Total Margins & Equities (28 thru 33)                  | 66,620,624  |
| 8. Invest. in Assoc. Org. - Patronage Capital   | 26,739,767  | 35. Long-Term Debt CFC (Net)                               | 145,985,403 |
| 9. Invest. in Assoc. Org. - Other - General Funds   | 2,001,010   | (Payments-Unapplied (\$ ))                                 |             |
| 10. Invest in Assoc. Org. - Other - Nongeneral Funds  | 4,286,593   | 36. Long-Term Debt - Other (Net)                           | 0           |
| 11. Investments in Economic Development Projects  | 0           | (Payments-Unapplied (\$ ))                                 |             |
| 12. Other Investments   | 208,555     | 37. Total Long-Term Debt (35+36)                           | 145,985,403 |
| 13. Special Funds   | 474,910     | 38. Obligations Under Capital Leases                       | 0           |
| 14. Total Other Property & Investments (6 thru 13)  | 43,660,188  | 39. Accumulated Operating Provisions                       | 1,278,231   |
| 15. Cash-General Funds  | 498,236     | 40. Total Other Noncurrent Liabilities (38+39)             | 1,278,231   |
| 16. Cash-Construction Funds-Trustee   | 0           | 41. Notes Payable  | 6,179,563   |
| 17. Special Deposits  | 61,720      | 42. Accounts Payable                                       | 5,394,526   |
| 18. Temporary Investments   | 85,000      | 43. Consumers Deposits                                     | 2,541,943   |
| 19. Notes Receivable - Net  | 0           | 44. Current Maturities Long-Term Debt                      |             |
| 20. Accounts Receivable - Net Sales of Energy   | 5,243,485   | 45. Current Maturities Long-Term Debt-Economic Development |             |
| 21. Accounts Receivable - Net Other   | 1,151,028   | 46. Current Maturities Capital Leases                      |             |
| 22. Materials & Supplies - Electric and Other   | 2,970,696   | 47. Other Current & Accrued Liabilities                    | 6,960,436   |
| 23. Prepayments   | 872,542     | 48. Total Current & Accrued Liabilities (41 thru 47)       | 21,076,468  |
| 24. Other Current & Accrued Assets  | 438,540     | 49. Deferred Credits                                       | 22,346,337  |
| 25. Total Current & Accrued Assets (15 thru 24)   | 11,321,247  | 50. Total Liabilities & Other Credits (34+37+40+48+49)     | 257,307,063 |
| 26. Deferred Debits   | 1,956,541   | ESTIMATED CONTRIBUTION-IN-AID-OF-CONSTRUCTION              |             |
| 27. Total Assets & Other Debits (5+14+25+26)  | 257,307,063 | Balance Beginning of Year                                  | 20,165,141  |
|   |             | Amounts Received This Year (Net)                           | 1,694,173   |
|   |             | TOTAL Contributions-In-Aid-Of-Construction                 | 21,859,314  |
| PART D. NOTES TO FINANCIAL STATEMENTS   |             |  |             |
| THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. |             |  |             |

| PART D. CONSUMER SALES AND REVENUE DATA |                           |              |            |                       |                             |                         |                       |
|---|---------------------------|--------------|------------|-----------------------|-----------------------------|-------------------------|-----------------------|
| CLASS OF SERVICE                        | THIS MONTH                |              |            | YEAR-TO-DATE          |                             |                         |                       |
|   | No. Receiving Service (a) | kwh Sold (b) | Amount (c) | No. Minimum Bills (d) | Avg. No. Receiving Ser. (e) | kwh Sold Cumulative (f) | Amount Cumulative (g) |
| Residential Sales(excl seas.)           | 41,281                    | 24,067,848   | 3,286,124  | 1,113                 | 41,288                      | 144,765,080             | 19,410,048            |
| 2. Revenue Adjustment                   | 0                         | 0            | 230,313    | 0                     | 0                           | 0                       | 182,164               |
| 3. Irrigation Sales                     | 756                       | 17,945,001   | 1,789,310  | 68                    | 754                         | 37,330,332              | 3,717,928             |
| 4. Comm. & Ind.-50 kva or less          | 8,481                     | 8,096,363    | 1,154,765  | 819                   | 8,477                       | 41,171,203              | 5,938,651             |
| 5. Comm. & Ind. over 50 kva             | 359                       | 17,259,541   | 1,635,445  | 11                    | 359                         | 82,933,556              | 7,548,952             |
| 6. Public St. & Highway Lightng.        | 46                        | 199,945      | 48,004     | 0                     | 46                          | 1,000,004               | 229,994               |
| 7. Non-Member Sales                     |                           | 0            | 2          |                       |                             | 577,000                 | 25,914                |
| 8. Total Sales of Electric              |                           |              |            |                       |                             |                         |                       |
| Energy (1 thru 8)                       | 50,923                    | 67,568,698   | 8,141,964  | 2,011                 | 50,923                      | 307,777,175             | 37,053,649            |
| 9. Other Electric Revenue               |                           |              | 296,574    |                       |                             |                         | 1,854,339             |
| 10. Total (8 + 9)                       |                           |              | 8,438,538  |                       |                             |                         | 38,907,989            |

| PART E. kwh AND kw STATISTICS |                |                  |   |                |                  |
|-------------------------------|----------------|------------------|---|----------------|------------------|
| ITEM                          | THIS MONTH (a) | YEAR-TO-DATE (b) | ITEM                                    | THIS MONTH (a) | YEAR-TO-DATE (b) |
| 1. Net kwh Generated          |                |                  | 6. Office Use                           | 87,651         | 591,614          |
| 2. Kwh Purchased              | 77,639,000     | 329,942,000      | 7. Total Unaccounted For (4 Less 5 & 6) | 9,982,651      | 21,573,211       |
| 3. Sm. Power Production       |                |                  | 8. Percent System Loss(7/4)x100         | 12.86%         | 6.54%            |
| 4. Total kwh (1 thru 3)       | 77,639,000     | 329,942,000      | 9. Maximum Demand (KW)                  | 151,018        | 151,018          |
| 5. Total kwh - Sold           | 67,568,698     | 307,777,175      | 10. Month When Maximum Demand Occured   |                | 5                |

REA Form 7

(Rev. 12-93) This is a computer generated facsimile.

PAGE 2 OF 7 PAGES

\*Part E, Line 9, column (a) and (b)(YTD)

We have been using AEPCO's peak demand figure on the form 7. We will now be using SSVEC's figure for peak demand, however, we will show both figures on this section. AEPCO uses the coincidental demand, SSVEC uses non-coincidental demand for engineering report purposes.

AEPCO Coincidental Demand 81,660  
 SSVEC Non-Coincidental Demand 86,659

# **EXHIBIT I**

**PUBLIC NOTICE  
OF  
AN APPLICATION BY SULPHUR SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC. FOR AN ORDER  
AUTHORIZING IT TO INCUR DEBT TO FINANCE ITS 2010-2012  
CONSTRUCTION WORK PLAN AND FOR RELATED APPROVALS**

Sulphur Springs Valley Electric Cooperative, Inc. ("Applicant") has filed an application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to borrow from the National Rural Utilities Cooperative Finance Corporation and/or CoBank, ACB, up to \$78,676,664 to finance its 2010 – 2012 Construction Work Plan associated with its construction activities and for related approvals. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and at the Applicant's offices located in Willcox, and Sierra Vista, Arizona.

Intervention in the Commission's proceedings in the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to the Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on or before the 15th day after publication of this notice.