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*Attorney for Flowell Electric Association, Inc.*

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Application of	)	Docket No.
Flowell Electric Association, Inc. for	)	Verified
Approval to Issue Securities in the	)	Application For
form of Revolving Credit Promissory	)	Approval to
Note	)	Issue Securities
	)	

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Flowell Electric Association, Inc. ("Flowell"), hereby applies to the Commission pursuant to *Utah Code Ann. § 54-4-31* for an Order authorizing Flowell to issue securities in the form of a revolving credit promissory note to COBANK, ACB, a federally-chartered instrumentality of the United States ("CoBank") in connection with a working capital Credit Agreement described below. The amount of the promissory note to be executed by Flowell is expected to be up to \$1,000,000.00, as set forth in Exhibit "A" to this Application. Proceeds of advances under the Credit Agreement will be used for working capital cash

needs as well as for any other permitted corporate purpose of Flowell.

Flowell anticipates and represents that this matter is expected to be unopposed and uncontested. Pursuant to R746-110-1, *Utah Administrative Code* ("Rules") Flowell hereby requests Informal Adjudication of this Application. This Application is supported by the sworn statements in this Verified Application and true and correct copies of the documents attached hereto, which documents are sufficient to establish the facts pertinent to this Application.

Pursuant to R746-110-2 of the *Rules*, and for good cause shown, Flowell respectfully requests entry of a final Commission order approving the Loan as soon as practicable, and within 30 days if feasible, in order to meet COBANK timing requirements. In light of its board's approval of the Loan at a duly-noticed public meeting, Flowell further asks the Commission to determine that no additional public notice of this proceeding is required under R746- 110-2 of the *Rules*.

In support of this Application, Flowell represents as follows:

#### **Background**

1. Flowell is a member-owned rural electrical distribution cooperative that provides retail electric services to member/owners in the State of Utah. Flowell is a public utility subject to the jurisdiction of this Commission.

2. Flowell has an existing working capital line of credit with the National Rural Utilities Cooperative Finance Corporation ("CFC") in the amount of \$1 million (the "Existing Credit Line"). Flowell has not drawn any amount(s) under the Existing Credit Line in recent years. The proposed additional line of credit from COBANK will augment, and not replace, the Existing Credit Line.

3. In order to provide Flowell ample potential source(s) of working capital liquidity and provide for any other cash requirements that may arise from time to time, Flowell and COBANK have negotiated a revolving Credit Agreement which allows for draws under the COBANK Revolving Credit Promissory Note during an initial period through October 31, 2018.

4. Flowell will utilize the available working capital loan from COBANK as a potential source of additional financing, although no plans exist at this time to draw any amount(s) under the COBANK Credit Agreement.

#### Working Capital Line of Credit Terms

7. Flowell and COBANK have negotiated the terms of the Line of Credit whereby Flowell will: (a) issue a Revolving Credit Promissory Note (the "2018 COBANK Line of Credit Note") (a copy of which in substantially final form is attached hereto as Exhibit "A"), in an amount not to exceed \$1 million; and (b) enter into a Credit Agreement with COBANK (the "2018 Line of Credit Agreement") (a copy of which in substantially final form is attached hereto as Exhibit "B"). A copy of Flowell's most recent audited financial statements dated as of December 31, 2016 is attached as Exhibit "C."

8. Pursuant to the terms of the 2018 Line of Credit Agreement, Flowell will repay any draws under the 2018 COBANK Line of Credit Note as follows:

a. Principal amounts of advances under the 2018 Line of Credit, together with unpaid interest accrued thereon, will become due and payable on the last day of the commitment period (October 31, 2018).

b. Interest payments on amounts of advances under the Extended Line of Credit are payable monthly in arrears by the 20th day of the following month or as otherwise required in writing by the Lender.

9. Interest on amounts advanced under the 2018 Line of

Credit will be computed as the rate of interest established by Lender on the first Business Day of each week.

10. All amounts due and owing for advances under the Amended and Extended Line of Credit will become due and payable in full in all events no later than October 31, 2018.

11. Amounts advanced under the 2018 Line of Credit may be repaid and/or prepaid at any time without penalty.

12. Amounts owed by Flowell to COBANK under the 2018 Line of Credit Note will be secured by a first priority lien and shared pro rata with CFC on all real and personal property of Flowell, whether now existing or hereafter acquired.

#### Public Interest

13. The 2018 Line of Credit was negotiated and structured to avoid any adverse impact on the positions, rights, remedies and risks of Flowell and/or Flowell's Members, and represents market rates, terms, and conditions for working capital lending arrangements of similar character for borrowers similar to Flowell. Flowell does not anticipate any changes to its member rates or charges as a consequence of the Amended and Extended Line of Credit.

14. Flowell is undertaking or will shortly undertake material upgrades and/or repair and replacement(s) to existing electric

distribution and sub-transmission facilities within the area which it serves. Although such projects will likely be financed largely through separate long-term financing arrangements yet to be finalized, increasing the amount of available working capital financing by entering into the 2018 Line of Credit Agreement and the 2018 COBANK Line of Credit Note will further ensure against any unforeseen short-term liquidity needs in light of these and other anticipated near-term capital projects.

15. The Flowell Board of Trustees has approved the terms of the 2018 Line of Credit Agreement and the 2018 COBANK Line of Credit Note.

16. Flowell has determined that the 2018 Line of Credit Agreement and the 2018 COBANK Line of Credit Note will add an increased level of certainty and stability to Flowell's financial position, will increase its ability to respond to potential working capital cash demands during the coming months, and will otherwise present opportunities to Flowell on terms that are advantageous to Flowell. The 2018 Line of Credit will help avoid and/or delay financing(s) as may become necessary from time to time in support of ongoing operations.

17. The 2018 Line of Credit Agreement and the 2018 COBANK Line of Credit Note is for lawful objects within Flowell's proper

corporate purposes, is compatible with the public interest, is necessary or appropriate for or consistent with the proper performance by Flowell of its services as a public utility, and will not impair Flowell's ability to provide or perform those services.

**Requested Timing of Approval**

18. Flowell requests expedited and informal consideration of this Application on the grounds that the terms and conditions of the 2018 Line of Credit Agreement have previously been reviewed by and approved by Flowell's governing board.

19. Flowell desires to minimize any period(s) during which Flowell has no access to advances under the 2018 Line of Credit Agreement, should a need arise for working capital cash. Accordingly, Flowell requests that a Report and Order be issued no later than February 5, 2018.

20. Pursuant to R746-110-2, Flowell requests waiver by the Commission of the 20-day tentative period for good cause, as shown above.


**Requested Action**

Wherefore, Flowell asks this Commission to issue an order approving and authorizing the issuance of securities by Flowell in the form of the 2018 COBANK Line of Credit Note to COBANK in

connection with the 2018 Line of Credit Agreement in the amounts  
and for the purposes specified herein.

DATED this 5<sup>th</sup> day of January, 2018.

David F. Crabtree

/s/   
\_\_\_\_\_  
Attorney for Flowell Electric  
Association, Inc.



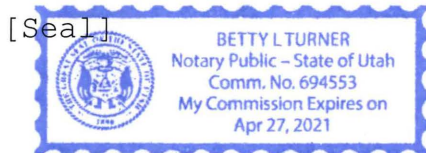
**VERIFICATION**

STATE OF UTAH                    )  
  : ss  
COUNTY OF Millard            )

The undersigned, Durand Robison, being first duly sworn upon oath, deposes and states that he is the Chief Executive Officer of Flowell Electric Association, Inc., the Applicant in this proceeding, that he has read the foregoing Application and is familiar with the transactions referred to herein and the documents attached hereto, and that, to the best of his knowledge, information and belief, the statements therein are all true and accurate.

/s/ Durand Robison  
Durand Robison

Subscribed and sworn to before me this 3<sup>rd</sup> day of January, 2018.



/s/ Betty L. Turner  
Notary Public

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was served by email this 5<sup>th</sup> day of January, 2018, upon the following:

Division of Public Utilities:

Patricia Schmid	pschmid@utah.gov
Chris Parker	chrisparker@utah.gov
Artie Powell	wpowell@utah.gov

Office of Consumer Services:

Rex Olsen	rolsen@utah.gov
Michele Beck	mbeck@utah.gov

/s/ Camm Reeder

**EXHIBIT "A"**

**2018 COBANK Line of Credit Note**

## REVOLVING CREDIT PROMISSORY NOTE

**THIS REVOLVING CREDIT PROMISSORY NOTE** (this “**Promissory Note**”) to the Credit Agreement dated October 31, 2017 (the “**Credit Agreement**”), is entered into as of October 31, 2017 between **COBANK, ACB**, a federally-chartered instrumentality of the United States (“**Lender**”) and **FLOWELL ELECTRIC ASSOCIATION, INC.**, Fillmore, Utah, a corporation (together with its permitted successors and assigns, the “**Borrower**”). Capitalized terms not otherwise defined in this Promissory Note will have the meanings set forth in the Credit Agreement.

**SECTION 1. REVOLVING CREDIT COMMITMENT.** On the terms and conditions set forth in the Credit Agreement and this Promissory Note, Lender agrees to make loans to the Borrower during the period set forth below in an aggregate principal amount not to exceed \$1,000,000.00, at any one time outstanding (the “**Commitment**”). Within the limits of the Commitment, the Borrower may borrow, repay and re-borrow.

**SECTION 2. PURPOSE.** The purpose of the Commitment is to finance general operating needs and interim capital expenditures.

**SECTION 3. TERM.** The term of the Commitment will be from the date hereof, up to and including October 31, 2018, or such later date as Lender may, in its sole discretion, authorize in writing (the “**Term Expiration Date**”). Notwithstanding the foregoing, the Commitment will be renewed for an additional year only if, on or before the Term Expiration Date, Lender provides to the Borrower a written notice of renewal for an additional year (a “**Renewal Notice**”). If on or before the Term Expiration Date, Lender grants a short-term extension of the Commitment, the Commitment will be renewed for an additional year only if Lender provides to the Borrower a Renewal Notice on or before such extended expiration date. All annual renewals will be measured from, and effective as of, the same day as the Term Expiration Date in any year.

**SECTION 4. LIMITS ON ADVANCES, AVAILABILITY, ETC.** The loans will be made available as provided in Article 2 of the Credit Agreement.

**SECTION 5. INTEREST.** The Borrower agrees to pay interest on the unpaid balance of the loan(s) in accordance with the following interest rate option(s):

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

Interest will be calculated on the actual number of days each loan is outstanding on the basis of a year consisting of 360 days and will be payable monthly in arrears by the 20th day of the following month or on such other day as Lender will require in a written notice to the Borrower (“**Interest Payment Date**”).

**SECTION 6. PROMISSORY NOTE.** The Borrower promises to repay the unpaid principal balance of the loans on the Term Expiration Date, as the term may be extended from time to time.

In addition to the above, the Borrower promises to pay interest on the unpaid principal balance of the loans at the times and in accordance with the provisions set forth herein.

**SECTION 7. SECURITY.** Except for Lender's lien on the Borrower's equity in Lender, the Borrower's obligations hereunder and, to the extent related hereto, under the Credit Agreement, will be unsecured.

**SECTION 8. FEES. INTENTIONALLY OMITTED.**

**SECTION 9. LETTERS OF CREDIT.** If agreeable to Lender in its sole discretion in each instance, in addition to loans, the Borrower may utilize the Commitment to open irrevocable letters of credit for its account. Each letter of credit will be issued within a reasonable period of time after Lender's receipt of a duly completed and executed copy of Lender's then current form of Application and Reimbursement Agreement or, if applicable, in accordance with the terms of any CoTrade Agreement between the parties, and will reduce the amount available under the Commitment by the maximum amount capable of being drawn under such letter of credit. The Borrower agrees to pay to Lender any fees, administrative expenses, and other customary charges that Lender may charge or incur from time to time in connection with the issuance, maintenance, amendment (if any), assignment or transfer (if any), negotiation, and administration of the letter of credit. Any draw under any letter of credit issued hereunder will be deemed a loan under the Commitment and will be repaid in accordance with this Promissory Note. Each letter of credit must be in form and content acceptable to Lender and must expire no later than the maturity date of the Commitment.

**SIGNATURE PAGE FOLLOWS**

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
Fillmore, Utah  
Promissory Note No. 00110896S01

**SIGNATURE PAGE TO PROMISSORY NOTE**

**IN WITNESS WHEREOF**, the parties have caused this Promissory Note to the Credit Agreement to be executed by their duly authorized officer(s).

**FLOWELL ELECTRIC ASSOCIATION, INC.**

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

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

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

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
Fillmore, Utah  
Promissory Note No. 00110896S01

**SIGNATURE PAGE TO PROMISSORY NOTE**

**IN WITNESS WHEREOF**, the parties have caused this Promissory Note to the Credit Agreement to be executed by their duly authorized officer(s).

**COBANK, ACB**

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

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

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

**EXHIBIT "B"**

**2018 Line of Credit Agreement**



## CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement"), dated as of October 31, 2017 is entered into by and between FLOWELL ELECTRIC ASSOCIATION, INC., Fillmore, Utah, a corporation (the "Borrower"), and COBANK, ACB, a federally-chartered instrumentality of the United States ("Lender").

### RECITALS

In consideration of the agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Lender agree as follows:

**ARTICLE 1 Defined Terms; Accounting Principles.** Certain capitalized terms used in this Agreement bear the definitions given to them in this Agreement. References to accounting standards are to United States generally accepted accounting principles, consistently applied, or the system of accounts established by the Rural Utilities Service ("RUS"), or such other commission or body as may be agreeable to Lender (the "Accounting Standards").

### ARTICLE 2 The Facilities.

**2.1 Promissory Note.** In the event the Borrower desires to borrow from Lender and Lender is willing to lend to the Borrower, or in the event the parties desire to consolidate any existing loans hereunder, the parties will enter into a promissory note (a "Promissory Note"). Each Promissory Note will set forth Lender's commitment to make a loan or loans to the Borrower, the amount of the loan(s), the purpose of the loan(s), the interest rate or rate options applicable to the loan(s), the repayment terms of the loan(s), and any other terms and conditions applicable to the particular loan(s). Each Promissory Note will also contain the Borrower's promise to make payments of interest on the unpaid principal balance of the loan(s), and fees and premiums, if any, and to repay the principal balance of the loan(s). Each loan will be governed by the terms and conditions contained in this Agreement and in the Promissory Note relating to that loan.

**2.2 Availability.** Loans will be made available on any day on which Lender and the Federal Reserve Banks are open for business (a "Business Day") upon the telephonic or written request of an authorized employee of the Borrower. Requests for loans must be received by 12:00 p.m. Denver, Colorado time on the date the loan is desired. Loans will be made available by wire transfer of immediately available funds. Wire transfers will be made to such account or accounts as may be authorized by the Borrower.

**2.3 Security.** The Borrower's obligations under this Agreement and each Promissory Note will be secured by a statutory first lien on all equity that the Borrower may now own or hereafter acquire or be allocated in Lender. In addition, except as otherwise provided in a Promissory Note or in a closing instruction letter signed by the parties (an "Instruction Letter"), the Borrower's obligations hereunder and under each Promissory Note will be:

(a) secured by a first priority lien (subject only to exceptions approved in writing by Lender) and shared pro rata with the National Rural Utilities Cooperative Finance Corporation ("CFC") on all real and personal property of the Borrower, whether now existing or hereafter acquired. The Borrower agrees

to take such steps, including, without limitation, the execution and recordation or filing, as applicable, of mortgages, deeds of trust, security agreements, intercreditor or parity agreements, pledge agreements, control agreements, financing statements, and amendments to any of the foregoing, and such other instruments and documents as Lender may require to enable Lender to obtain, perfect, and maintain a lien on such property, and the payment of any applicable mortgage recording, documentary stamp, or intangible taxes; and

(b) Intentionally Omitted.

**2.4 Payments Generally.** The Borrower's obligation to repay each loan will be evidenced by a Promissory Note. Lender will maintain a record of all loans, the interest accrued thereon, and all payments made with respect thereto, and such record will, absent proof of manifest error, be conclusive evidence of the outstanding principal and interest on the loans. Payments under each Promissory Note will be made by wire transfer of immediately available funds, by check, or by automated clearing house (ACH) or other similar cash handling processes as specified by separate agreement between the Borrower and Lender. Wire transfers will be made to ABA No. 307088754 for advice to and credit of "CoBANK" (or to such other account as Lender may direct by notice). The Borrower will give Lender telephonic notice no later than 12:00 p.m. Denver, Colorado time on the day the Borrower intends to pay by wire of such intent, and funds received after 3:00 p.m. Denver, Colorado time will be credited on the next Business Day. Checks will be mailed to CoBANK, Department 167, Denver, Colorado 80291-0167 (or to such other place as Lender may direct by notice). Credit for payment by check will not be given until the later of the next Business Day after receipt of the check or the day on which Lender receives immediately available funds. If any installment of principal or interest is due on a date that is not a Business Day, then such installment will be due and payable on the next Business Day.

**2.5 Broken Funding Surcharge.** Notwithstanding the terms of any Promissory Note giving the Borrower the right to repay any loan prior to the date it would otherwise be due and payable, the Borrower agrees to provide three Business Days' prior written notice for any prepayment of a fixed rate balance and to pay to Lender a broken funding surcharge in the amount set forth below in the event the Borrower: (a) 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); (b) 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 (c) fails to borrow any fixed rate balance on the date scheduled therefor. The surcharge will be in an amount equal to the greater of (1) the sum of: (i) the present value of any funding losses imputed by Lender to have been incurred as a result of such payment, conversion or failure; plus (ii) a per annum yield of 0.50% of the amount repaid, converted or not borrowed for the period such amount was scheduled to have been outstanding at such fixed rate, or (2) \$300.00. Any surcharge will be determined and calculated in accordance with methodology established by Lender, a copy of which will be made available upon request. Notwithstanding the foregoing, 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 Lender and the Borrower, the provisions of the forward fix agreement will control.

**2.6 Taxes; Change in Law.** Any payment by the Borrower to Lender will be made net of any taxes (other than income and similar taxes imposed on or measured by Lender's overall net income). If any change in any law, rule, regulation, code, ordinance, order or the like to which the Borrower is subject, including, without limitation, all laws relating to environmental protection, and taxes (collectively, "Laws"), increases the cost of making or maintaining any loan (or any associated commitment to lend), or reduces the amount received or receivable by Lender hereunder then, upon

request, the Borrower will pay to Lender such additional amount as will compensate Lender for such additional costs incurred or reduction suffered.

### **ARTICLE 3 Conditions Precedent.**

**3.1 Conditions to Initial Promissory Note.** Lender's obligation to extend credit under the initial Promissory Note hereunder is subject to the condition precedent that Lender receive, in form and substance satisfactory to Lender, each of the following, except as otherwise provided in the Promissory Note or in an Instruction Letter:

(a) **This Agreement.** A duly executed copy of this Agreement, the other Loan Documents (as defined below), the Instruction Letter accompanying this Agreement, and all instruments and documents contemplated hereby and thereby.

(b) **Banking Service Agreements.** A duly completed and executed copy of any banking service agreement, including any agreement relating to the provision by Lender of cash management services, required by Lender from time to time. Lender will be entitled to rely on (and will incur no liability to the Borrower in acting on) any request or direction furnished in accordance with the terms thereof.

**3.2 Conditions to Each Promissory Note.** Lender's obligations to extend credit under each Promissory Note hereunder, including the initial Promissory Note, is subject to the condition precedent that Lender receive, in form and substance satisfactory to Lender, each of the following, except as otherwise provided in the Promissory Note or in an Instruction Letter:

(a) **Promissory Note.** A duly executed copy of the Promissory Note and all instruments and documents contemplated by the Promissory Note.

(b) **Instruction Letter.** Any and all items or requirements detailed in an Instruction Letter.

(c) **Evidence of Perfection.** Such evidence as Lender may require that it has duly perfected liens as required under this Agreement.

(d) **Evidence of Authority.** Such certified board resolutions, certificates of incumbency, and other evidence that Lender may require that the Promissory Note, all instruments and documents executed in connection therewith, and, in the case of the initial Promissory Note hereto, this Agreement, the other Loan Documents (as defined below) and all instruments and documents executed in connection herewith and therewith, including any security documents, have been duly authorized and executed.

(e) **Fees and Other Charges.** Any fees or other charges provided for herein, in the Promissory Note or in any invoice provided by Lender.

(f) **Insurance.** Such evidence as Lender may require that the Borrower is in compliance with Section 5.4 below.

(g) **Consents and Approvals.** Evidence as Lender may require that all regulatory and other consents and approvals referred to in Section 4.6 below have been obtained and are in full force and effect.

(h) **Opinion of Counsel.** An opinion of counsel to the Borrower (which counsel must be acceptable to Lender).

**3.3 Conditions to Each Loan.** Lender's obligation under each Promissory Note to make any loan to the Borrower thereunder is subject to the condition that no "Event of Default" (as defined in Section 8.1 below) or event that, 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 (a "Potential Default") will have occurred and be continuing or would be caused by the making of such loan.

**ARTICLE 4 Representations and Warranties.** The execution by the Borrower of this Agreement and each Promissory Note hereunder, or any renewal or extension by Lender of any Promissory Note hereunder, will constitute a representation and warranty by the Borrower that:

**4.1 Instruction Letter; Loan Documents.** Each representation and warranty and all information set forth in any Instruction Letter and/or any of the Loan Documents (as defined below) and/or any other document submitted in connection with, or to induce Lender to enter into, such Promissory Note is correct in all material respects as of the date of such Promissory Note.

**4.2 Compliance; Legal Proceedings.** The Borrower and its subsidiaries and all property owned or leased or proposed to be acquired with the proceeds of any Promissory Note hereunder by the Borrower and/or its subsidiaries and all of its/their operations are in compliance with all applicable Laws and the terms of the Loan Documents and no Event of Default or Potential Default exists or is continuing. In addition, there are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower or any subsidiary is a party or to which any of its or any subsidiaries' property is subject which, if adversely determined, might have a material adverse effect on the financial condition, operations, properties, profits, or business of the Borrower or any subsidiary, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated.

**4.3 Organization; Good Standing.** The Borrower (a) is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, (b) has the lawful power to own or lease its properties and to engage in the business it conducts or proposes to conduct, and (c) is duly qualified and in good standing in each jurisdiction where the property owned or leased by it or the nature of the business transacted by it makes such qualification necessary.

**4.4 Binding Agreement.** The Loan Documents constitute legal, valid, and binding obligations of the Borrower that are enforceable in accordance with their terms.

**4.5 Conflicting Agreements.** Neither this Agreement nor any Promissory Note, or other instrument or document securing or otherwise relating hereto or to any Promissory Note (each a "Loan Document" and collectively, at any time, the "Loan Documents") 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 Borrower is a party or by which it or any of its property may be bound or affected, and does not conflict with any provision of its bylaws, articles of incorporation or other organizational documents.

**4.6 Consents and Approvals.** No consent, permission, authorization, order or license of any governmental authority or of any party to any agreement to which the Borrower is a party or by which it or any of its property may be bound or affected, is necessary in connection with the project, acquisition or

other activity being financed by such Promissory Note, or the execution, delivery, performance or enforcement of any Loan Document, except as have been obtained and are in full force and effect.

**4.7 Budgets; Full Disclosure.** All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to Lender in connection with, or to induce Lender to enter into, such Promissory Note are based upon assumptions that are reasonable and realistic, and as of the date of such Promissory Note, no fact has come to light, and no event has occurred, that would cause any assumption made therein to not be reasonable or realistic. No Loan Document or other certificate, statement, agreement, or document furnished to Lender in connection with this Agreement or any other Loan Document (a) contains any untrue statement of a material fact, or (b) fails to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. The Borrower is not aware of any Material Adverse Change that has not been disclosed in writing to Lender. A “**Material Adverse Change**” means any material adverse change, as reasonably determined by Lender, in the condition, financial or otherwise, operations, business, liabilities (actual or contingent) or properties of the Borrower or in its ability to perform its obligations hereunder, under any security instrument or document, or under any other Loan Document.

**4.8 Accurate Financial Information.** Each submission of financial information or documents relating to the Borrower will constitute a representation and warranty by the Borrower that such information and documents (a) are true and accurate in all material respects, and (b) do not fail to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

**4.9 ERISA.** The Borrower and its subsidiaries are in compliance in all material respects with the applicable provisions of the Employee Retirement Income Security Act of 1974, and the regulations and published interpretations thereunder from time to time (“**ERISA**”).

**4.10 Margin Stock.** No Borrower is engaged or intends to engage principally, or as one of its important activities, in the business of extending credit for the purpose, immediately, incidentally or ultimately, of purchasing or carrying margin stock (within the meaning of Regulation U, T or X as promulgated by the Board of Governors of the Federal Reserve System of the United States of America (the “**Board**”)). No part of the proceeds of any loan made by Lender to the Borrower has been or will be used, immediately, incidentally or ultimately, to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or in any way that is inconsistent with the provisions of the regulations of the Board. No Borrower or any subsidiary, if any, of any Borrower holds or intends to hold margin stock in such amounts that more than 25% of the reasonable value of the assets of any Borrower or subsidiary, if any, of any Borrower are or will be represented by margin stock.

**ARTICLE 5 Affirmative Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, the Borrower agrees to, and with respect to Sections 5.3, 5.4, 5.5, and 5.8, agrees to cause each subsidiary, if any, to:

**5.1 Reports and Notices.** Furnish to Lender:

(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 Borrower occurring during the term hereof, annual consolidated and consolidating financial statements of the Borrower and its consolidated subsidiaries, if any, prepared in accordance with the Accounting Standards. Such financial statements will: (1) be audited by

independent certified public accountants selected by the Borrower and acceptable to Lender; (2) be accompanied by a report of such accountants containing an opinion thereon acceptable to Lender; (3) be prepared in reasonable detail and in comparative form; and (4) 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 fiscal quarter of the Borrower (other than the last quarter in each fiscal year of the Borrower), a balance sheet of the Borrower as of the end of such fiscal quarter, a statement of income for the Borrower for such period and for the period year to date, and such other interim statements as Lender may specifically request, all prepared in reasonable detail and in comparative form in accordance with the Accounting Standards; and, if required by written notice from Lender, (1) on a consolidated and consolidating basis for the Borrower and its consolidated subsidiaries, if any, in accordance with the Accounting Standards, and/or (2) certified by an authorized officer or employee of the Borrower acceptable to Lender.

(c) **Notice of Default.** Promptly after becoming aware thereof, notice of the occurrence of an Event of Default or a Potential Default, including, without limitation, any error in the Borrower's financial information previously provided to Lender and the occurrence of any breach, default, event of default or event that, with the giving of notice and/or the passage of time and/or the occurrence of any other condition, would become a breach, default or event of default under any loan agreement, indenture, mortgage, or other credit or security agreement or instrument to which the Borrower is a party or by which it or any of its property may be bound or affected.

(d) **Notice of Litigation, Environmental Matters, Etc.** Promptly after becoming aware thereof, notice of: (1) the commencement of any action, suit or proceeding before any court, arbitrator or governmental department, commission, board, bureau, agency, or instrumentality having jurisdiction over the Borrower, that, if adversely decided, could result in a Material Adverse Change; (2) the receipt of any notice, indictment, pleading or other communication alleging a condition that may require the Borrower to undertake or to contribute to a clean-up or other response under any environmental Law, or that seeks penalties, damages, injunctive relief, criminal sanctions or other relief as a result of an alleged violation of any such Law, or that claims personal injury or property damage as a result of environmental factors or conditions; and (3) any matter that could have a material adverse effect on the Borrower, including any decision of any regulatory authority or commission.

(e) **Notice of Certain Events.** (1) Notice at least 30 days prior thereto, of any change in the Borrower's name or corporate structure; (2) notice at least 30 days prior thereto, of any change in the Borrower's organizational documents which changes must be approved in writing by Lender in its reasonable discretion; (3) notice at least 30 days prior thereto, of any change in the principal place of business of the Borrower or the office where its records concerning its accounts are kept; and (4) as soon as available after any changes thereto, copies of the Borrower's organizational documents certified by the Borrower's Secretary or equivalent officer acceptable to Lender.

(f) **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.

**5.2 Instruction Letter.** Comply with any and all requirements detailed in an Instruction Letter.

**5.3 Corporate Existence, Etc.** Preserve and keep in full force and effect its existence and good standing in the jurisdiction of its incorporation or formation, qualify and remain qualified to transact business in all jurisdictions where such qualification is required, and obtain and maintain all licenses, certificates, permits, authorizations, approvals, and the like that are material to the conduct of its business or required by any Law.

**5.4 Insurance.** Maintain insurance with reputable and financially sound insurance companies or associations, including self-insurance to the extent customary, acceptable to Lender in such amounts and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender may reasonably request. All such policies insuring any collateral for the Borrower's obligations to Lender will have additional insured, mortgagee and lender's loss payee clauses or endorsements, as applicable, in form and substance satisfactory to Lender. At Lender's request, the Borrower agrees to deliver to Lender such proof of compliance with this section as Lender may require.

**5.5 Property Maintenance.** Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and make all alterations, replacements, and improvements thereto as may from time to time be necessary in order to ensure that its properties remain in good working order and condition. The Borrower agrees that at Lender's request, which request may not be made more than once a year, the Borrower will furnish to Lender a report on the condition of the Borrower's property prepared by a professional engineer satisfactory to Lender.

**5.6 Inspection.** Permit Lender or its agents, upon reasonable notice and during normal business hours or at such other times as the parties may agree, to inspect and visit any of its properties, examine and make excerpts from its books and records, and to discuss its business affairs, finances and accounts with its officers, directors, employees, and independent certified public accountants and to conduct reviews of any collateral.

**5.7 Books and Records.** Maintain and keep proper books and records of account in which full, true and correct entries of all its dealings, business and financial affairs will be made in accordance with the Accounting Standards.

**5.8 Compliance With Laws.** Comply in all material respects with all Laws and any patron or member investment program applicable to the Borrower. In addition, the Borrower agrees to cause all persons occupying or present on any of its properties to comply in all material respects with all Laws relating to such properties.

**5.9 Further Assurances and Other Information.** From time to time and at its expense, execute and deliver such documents and do such other acts and things as Lender in its sole discretion may deem necessary or advisable from time to time in order to more fully carry out the provisions and purpose of the Loan Documents, including delivery of such other information regarding the condition or operations, financial or otherwise, of the Borrower as Lender may from time to time reasonably request, including, but not limited to, copies of all pleadings, notices and communications referred to in Section 5.1(d) above.

**5.10 Capital.** Maintain its status as an entity eligible to borrow from Lender and acquire equity in Lender in such amounts and at such times as Lender 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 Borrower may be required to purchase in connection with a loan may not exceed the maximum amount permitted by the Bylaws at the time the Promissory Note relating to such loan is entered into or such loan is renewed or refinanced by Lender. The rights and obligations of the parties with respect to such equity and any patronage or other distributions made by Lender will be governed by Lender's Bylaws and Capital Plan (as each may be amended from time to time).

**5.11 Delivery of Original Loan Documents.** If copies of any executed Loan Documents are delivered to Lender as provided in Article 3 above, immediately deliver to Lender the original executed versions of such Loan Documents.

**5.12 Indemnity for Taxes.** At all times indemnify and hold and save Lender harmless from and against any and all actions or causes of action, claims, demands, liabilities, loss, damage or expense of whatsoever kind and nature incurred by Lender as a result of the non-payment of any documentary stamp tax, intangible tax, interest or penalties associated therewith or any other local, state or federal assessment required to be paid, but not paid in conjunction with the indebtedness evidenced by the Loan Documents. The Borrower agrees to pay to Lender, its successors and assigns, all sums of money requested by Lender hereunder within ten days of such request, which Lender will or may advance, pay or cause to be paid, or become liable to pay, on account of or in connection with failure to pay as required by the regulations of the governmental authority so imposing said payment. Lender will be entitled to charge for any and all disbursements made by it in good faith, under the reasonable belief that it or the Borrower is or was liable for the amount so assessed. Any default by the Borrower in making any payments required under this covenant will constitute a payment Event of Default under the Loan Documents and Lender may, at its option, declare the entire amount of principal plus accrued interest thereon due and payable without notice or demand.

**5.13 ERISA.** The Borrower and its subsidiaries, for so long as this Agreement remains outstanding, will remain in compliance in all material respects with the applicable provisions of ERISA, the failure to comply with which has or may have a material adverse effect on the Borrower.

**ARTICLE 6 Negative Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, the Borrower will not:

**6.1 Other Indebtedness.** Create, incur, assume or allow to exist, directly or indirectly, any indebtedness or liability for borrowed money (including trade or bankers' acceptances), letters of credit, or for the deferred purchase price of property or services (including leases that should be capitalized on the books of the lessee in accordance with the Accounting Standards), except for:

- (a) debt to Lender.
- (b) accounts payable to trade creditors incurred in the ordinary course of business.
- (c) current operating liabilities (other than for borrowed money) incurred in the ordinary course of business.
- (d) (1) capitalized leases in an aggregate amount not to exceed 5% of the Borrower's equity at any one time; (2) unsecured indebtedness to Lender and other lenders; provided, however, that such



debt will be limited to 15% of “**Net Utility Plant**” (as determined in accordance with the system of accounts established by RUS (the “**RUS System of Accounts**”), or such other commission or body as may be agreeable to Lender) if, after giving effect thereto, the Borrower’s equity will be less than 30% of its total assets; (3) purchase money indebtedness incurred with respect to non-utility property and secured by a lien on the property being financed; and (4) secured debt to CFC and any other lender(s) that are parties to the CFC mortgage.

**6.2 Contingent Liabilities.** Assume, guarantee, become liable as a surety, indorse, contingently agree to purchase, or otherwise be or become liable, directly or indirectly (including, but not limited to, by means of a maintenance agreement, an asset or stock purchase agreement, or any other agreement designed to ensure any creditor against loss), for or on account of the obligation of any person or entity except for such guaranties as may from time to time be made, purchased or undertaken by the Borrower; provided, however, that the aggregate cost of such other investments, plus the total unpaid principal amount of such guaranties together with the loans and investments detailed in Section 6.5(c) below will not exceed 15% of the Borrower’s “**Total Utility Plant**” (as determined in accordance with the Accounting Standards).

**6.3 Liens.** Create, incur, assume, or allow to exist any mortgage, deed of trust, pledge, lien (including the lien of an attachment, judgment, or execution), security interest, or other encumbrance of any kind upon any of its property, real or personal (collectively, “**Liens**”). The foregoing restrictions will not apply to:

- (a) Liens in favor of Lender or CFC and any mortgagees under the CFC mortgage.
- (b) Permitted Encumbrances (as defined in the CFC mortgage).

**6.4 Transactions with Affiliates.** Enter into any transaction with any 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 it than it would obtain in a comparable arm’s-length transaction with a person or entity that was not an affiliate.

**6.5 Loans and Investments.** Make any loan or advance to, or make any investment in, or make any capital contribution to, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of any person or entity, except for:

- (a) securities or deposits issued, guaranteed or fully insured as to payment by the United States of America or any agency thereof.
- (b) equity in, or obligation of, Lender.
- (c) (1) existing investments in generation and transmission cooperatives and investments in Lender and other lenders organized on a cooperative basis, and (2) such other loans, deposits, advances, investments, and obligations as may from time to time be made, purchased or undertaken by the Borrower; provided, however, that the aggregate cost of such other investments, plus the total unpaid principal amount of such other loans, deposits, advances and obligations, and the guarantees detailed in Section 6.2 above will not exceed 15% of the Borrower’s “**Total Utility Plant**” (as determined in accordance with the Accounting Standards).

**6.6 Dividends and Distributions.** Declare or pay any dividends or patronage refunds, or declare or grant any general cancellation or abatement of charges for electric energy or services furnished by the Borrower, or purchase, retire, or redeem any patronage or other capital, or make any other distribution of any kind (whether in cash or property) to its members, stockholders or consumers (collectively, “Distributions”), except that the Borrower may, in any fiscal year, make Distributions provided that, both before and after giving effect thereto, the Borrower will be in compliance with its Equity to Total Assets Ratio under Article 7 below.

**6.7 Mergers, Acquisitions, Etc.** Merge or consolidate with any other entity or acquire all or a material part of the assets of any other person or entity, or form or create any new subsidiary, or commence operations under any other name, organization, or entity, including any joint venture.

**6.8 Transfer of Assets.** Sell, transfer, lease, or otherwise dispose of any of its assets, except: (a) in the ordinary course of business; and (b) the sale, transfer or disposal of any obsolete or worn-out assets that are no longer necessary or required in the conduct of the Borrower’s business.

**6.9 Change in Business.** Engage in any business activities or operations substantially different from or unrelated to the Borrower’s present business activities or operations.

**6.10 Use of Proceeds.** Use the proceeds of any loan made by Lender to the Borrower, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

**ARTICLE 7 Financial Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect:

**7.1 Debt Service Coverage Ratio.** The Borrower and its consolidated subsidiaries, if any, will have at the end of each fiscal year of the Borrower, a Debt Service Coverage Ratio (as defined below) for such year of not less than 1.35 to 1.00. Such ratio will be determined by averaging the two highest annual ratios achieved by the Borrower during the most recent three fiscal years. For purposes hereof, the term “Debt Service Coverage Ratio” means the ratio of: (a) 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 (b) all principal payments due within the period on all Long-Term Debt (as defined below) plus interest expense (all as calculated on a consolidated basis for the applicable period in accordance with the Accounting Standards). For purposes hereof, “Long-Term Debt” means, for the Borrower, on a consolidated basis, the sum of (1) all indebtedness for borrowed money, (2) obligations that are evidenced by notes, bonds, debentures or similar instruments, and (3) 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 Accounting Standards or that are treated as operating leases under regulations applicable to them but that otherwise would be required to be capitalized under Accounting Standards, 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 Borrower’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.

**7.2 Equity to Total Assets.** The Borrower and its consolidated subsidiaries, if any, will have at the end of each fiscal quarter of the Borrower, a ratio of consolidated total equity to consolidated total assets (both as determined in accordance with the Accounting Standards) of not less than 0.40 to 1.00.

## **ARTICLE 8 Default.**

**8.1** Each of the following will constitute an "Event of Default" hereunder:

- (a) **Payment Default.** The Borrower should fail to make any payment to Lender when due.
- (b) **Representations and Warranties.** Any representation, warranty, certification or statement of fact made at any time by the Borrower, herein or in any other Loan Document, or in any certificate, other instrument or statement furnished to Lender by or on behalf of the Borrower, will have been false or misleading in any material respect as of the time it was made or furnished.
- (c) **Covenants.** The Borrower will default in the observance or performance of any covenant set forth in Article 5 (other than Sections 5.1(c), 5.1(d), 5.1(e)(1), and 5.1(e)(2) above), and such default continues for 30 days after written notice thereof will have been delivered to the Borrower by Lender.
- (d) **Other Covenants and Agreements.** The Borrower will default in the observance or performance of Sections 5.1(c), 5.1(d), 5.1(e)(1), and 5.1(e)(2) or any other covenant or agreement contained herein or in any other Loan Document if Borrower uses the proceeds of any loan for any unauthorized purpose.
- (e) **Cross Default.** The Borrower should, after any applicable grace period, breach or be in default under the terms of any other Loan Document (including, without limitation, any security instrument or document) or any other agreement between the Borrower and Lender, or between the Borrower and any affiliate of Lender, including without limitation Farm Credit Leasing Services Corporation.
- (f) **Other Indebtedness.** The Borrower should fail to pay when due any indebtedness to any other person or entity for borrowed money or any long-term obligation for the deferred purchase price of property (including any capitalized lease), or any other event occurs that, under any agreement or instrument relating to such indebtedness or obligation, has the effect of accelerating or permitting the acceleration of such indebtedness or obligation, whether or not such indebtedness or obligation is actually accelerated or the right to accelerate is conditioned on the giving of notice, the passage of time, or otherwise.
- (g) **Judgments.** A judgment, decree, or order for the payment of money will have been rendered against the Borrower and either: (1) enforcement proceedings will have been commenced; (2) a Lien prohibited by this Agreement, any security instrument, or any other Loan Document, will have been obtained; or (3) such judgment, decree, or order will continue unsatisfied and in effect for a period of 30 consecutive days without being vacated, discharged, satisfied, bonded, or stayed pending appeal.

(h) **Loan Document Unenforceable.** Any of the Loan Documents ceases to be a legal, valid, and binding agreement enforceable against the Borrower or any Guarantor, if any or is in any way terminated (except in accordance with its terms) or becomes or is declared ineffective or inoperative.

(i) **Revocation of Guaranty.** Intentionally Omitted.

(j) **Insolvency, Etc.** The Borrower will: (1) become insolvent or will generally not, or will be unable to, or will admit in writing its inability to, pay its debts as they become due; or (2) suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (3) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property; or (4) 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 30 days of the date thereof, or a trustee, receiver, or other custodian is appointed for all or any part of its property; or (5) receive notice from any regulatory or governmental authority to the effect that such authority intends to replace the management of the Borrower or assume control over the Borrower; or (6) commence or have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction.

(k) **Material Adverse Change.** Any Material Adverse Change occurs, as reasonably determined by Lender.

**8.2 Remedies.** Upon the occurrence and during the continuance of an Event of Default or Potential Default, Lender will have no obligation to extend or continue to extend credit to the Borrower and may discontinue doing so at any time without prior notice or other limitation. In addition, upon the occurrence and during the continuance of any Event of Default, Lender may, upon notice to the Borrower:

(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, each Promissory Note, and all other Loan Documents to be immediately due and payable. Upon such a declaration, the unpaid principal balance of the loans and all such other amounts will become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by the Borrower.

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

(c) **Application of Funds.** Lender may apply all payments received by it to the Borrower's obligations to Lender in such order and manner as Lender may elect in its sole discretion.

(d) In addition to the rights and remedies set forth above and notwithstanding any Promissory Note: (1) upon the occurrence and during the continuance of an Event of Default, at Lender's

option in each instance, the entire indebtedness outstanding hereunder and under each Promissory Note will bear interest from the date of such Event of Default until such Event of Default will have been waived or cured in a manner satisfactory to Lender at 4.00% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan under the terms of the applicable Promissory Note; and (2) after the maturity of any loan (whether as a result of acceleration or otherwise), the unpaid principal balance of such loan (including without limitation, principal, interest, fees and expenses) will automatically bear interest at 4.00% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan under the terms of the Promissory Note. All interest provided for herein will be payable on demand and will be calculated on the basis of a year consisting of 360 days.

#### **ARTICLE 9 Miscellaneous.**

**9.1 Amendments; Waivers; Etc.** No amendment, modification, or waiver of any provision of this Agreement or the other Loan Documents, and no consent to any departure by the Borrower herefrom or therefrom, will be effective unless approved by Lender and contained in a writing signed by or on behalf of Lender, and then such waiver or consent will 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 will be applicable to all Promissory Notes hereto.

#### **ARTICLE 10 Expenses; Indemnification; Damage Waiver.**

**10.1 Costs and Expenses.** To the extent allowed by Law, the Borrower agrees to pay all reasonable out-of-pocket costs and expenses (including the fees and expenses of counsel retained or employed by Lender) incurred by Lender and any participants of Lender in connection with the origination, administration, collection and enforcement of this Agreement and the other Loan Documents, including, without limitation, all costs and expenses incurred in obtaining, perfecting, maintaining, determining the priority of, and releasing any security for the Borrower's obligations to Lender, 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.

**10.2 Indemnification.** The Borrower indemnifies Lender, its affiliates and its and their respective officers, directors, employees, agents and advisors (each an "**Indemnitee**") against, and holds each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including fees and expenses of employed or retained counsel) incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of or as a result of (a) the execution or delivery of any Loan Document, the performance or nonperformance by the Borrower of its obligations under any Loan Document or the consummation of the transactions contemplated thereby, including the use of the proceeds therefrom, (b) breach of representations, warranties or covenants of the Borrower under any Loan Document, or (c) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, including any such items or losses relating to or arising under environmental Laws or pertaining to environmental matters, regardless whether any Indemnitee is a party thereto; provided that such indemnity will not, as to an Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

**10.3 Waiver of Consequential Damages.** To the fullest extent permitted by applicable Law, the Borrower will not assert, and hereby waives, any claim against any Indemnitee, on any theory of

FLOWELL ELECTRIC ASSOCIATION, INC.  
Fillmore, Utah  
Agreement No. 00110896SLA

liability, for special, indirect, consequential or punitive damages arising out of, in connection with, or as a result of, any Loan Document, the transactions contemplated thereby or the use of the proceeds thereof.

**10.4 Notices.** All notices hereunder will be in writing and will be deemed to have been duly given when addressed to the party intended to receive the same at the address of such party set forth below (or such other address either party may specify by like notice), (a) upon delivery if personally delivered to a party at such address, (b) three days after the same is deposited in the United States mail as first class, certified mail, return receipt requested, postage paid, (c) one business day after the same has been deposited with Federal Express or another nationally recognized overnight courier service if designated for next-day delivery, and (d) upon delivery if sent by facsimile or electronic mail with confirmation of delivery of the same:

If to Lender, as follows:

For general correspondence purposes:  
P.O. Box 5110  
Denver, Colorado 80217-5110

For direct delivery purposes, when desired:  
6340 South Fiddlers Green Circle  
Greenwood Village, Colorado 80111-1914

Attention: Credit Information Services  
Fax No.: (303) 224-6101

If to the Borrower, as follows:

Flowell Electric Association, Inc.  
495 North 3200 West  
Fillmore, Utah 84631

495 North 3200 West  
Fillmore, Utah 84631

Attention: CEO  
Fax No.: (435) 743-5722

**10.5 Effectiveness and Severability.** This Agreement will continue in effect until: (a) all indebtedness and obligations of the Borrower under this Agreement and the other Loan Documents have been paid or satisfied; (b) Lender has no commitment to extend credit to or for the account of the Borrower under any Promissory Note; and (c) either party sends written notice to the other party terminating this Agreement. Any provision of this Agreement or any other Loan Document that is prohibited or unenforceable in any jurisdiction will be ineffective to the extent of such prohibition or unenforceable without invalidating the remaining provisions hereof or thereof.

**10.6 Successors and Assigns.**

(a) **Successors and Assigns Generally.** This Agreement and the other Loan Documents will be binding upon and inure to the benefit of the Borrower and Lender and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of Lender.

(b) **Participations, Etc.** From time to time, Lender 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 will relieve Lender of any commitment made to the Borrower hereunder. In connection with the foregoing, Lender may disclose information concerning the Borrower and its subsidiaries, if any, to any participant or prospective participant, provided that such participant or prospective participant agrees to keep such information confidential. Patronage distributions in the event of a sale of a participation interest will be governed by Lender'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). Lender agrees to give written notification to the Borrower of any sale of a participation interest.

**10.7 Integration; Other Types of Credit; Counterparts.**

(a) **Integration.** The Loan Documents are intended by the parties to be a complete and final expression of their agreement. Each Promissory Note will 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 (or in any amendment to this Agreement or Promissory Note) and not otherwise defined in the Promissory Note (or amendment) will have the meaning set forth herein or, if applicable, in the Accounting Standards. In the event the Accounting Standards are changed after the date hereof, then all such changes will be applicable hereto, unless Lender otherwise specifies in writing.

(b) **Other Types of Credit.** From time to time, Lender may issue letters of credit or extend other types of credit to or for the account of the Borrower. 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 this Agreement will be applicable thereto.

(c) **Counterparts.** This Agreement, each Promissory Note and any other Loan Document may be executed in counterparts, each of which will constitute an original, but all of which when taken together will constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement, each Promissory Note and any other Loan Document by facsimile or other electronic means will be as effective as delivery of a manually executed counterpart of each such agreement.

**10.8 Applicable Law; Submission to Jurisdiction; Service of Process; Waiver of Venue; Waiver of Jury Trial.**

(a) **Applicable Law.** 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, without reference to choice of law doctrine, will govern this Agreement, each Promissory Note and any other Loan Document for which Colorado is specified as the applicable law, and 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 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.

(b) **Submission to Jurisdiction; Service of Process.** The Borrower hereby irrevocably consents to the nonexclusive jurisdiction of any state or federal court in Denver, Colorado, and consents that Lender may effect any service of process in the manner and at the Borrower's address set forth herein for providing notice or demand; provided that nothing contained in this Agreement will prevent Lender from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any collateral or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction.

(c) **Waiver of Venue.** The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for the Borrower and Lender. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

(d) **Waiver of Jury Trial.** The Borrower and Lender each hereby irrevocably waives any right it may have to a trial by jury in connection with any action directly or indirectly arising out of or relating to this Agreement or any other Loan Document. Each party hereto (1) certifies that no representative, administrative agent or attorney of any other person has represented, expressly or otherwise, that such other person would not, in the event of litigation, seek to enforce the foregoing waiver and (2) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and other Loan Documents by, among other things, the mutual waivers and certifications in this section.

**10.9 USA Patriot Act Notice.** Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify, and record information that identifies the Borrower in accordance with the USA Patriot Act. The Borrower covenants and agrees it will not, and agrees to cause each of its subsidiaries not to, at any time, directly or indirectly be (a) a person with whom Lender is restricted from doing business under any Anti-Terrorism Law, (b) engaged in any business involved in making or receiving any contribution of funds, goods or services to or for the benefit of such a person or in any transaction that evades or avoids, or has the purpose of evading or avoiding, the prohibitions set forth in any Anti-Terrorism Law, or (c) otherwise in violation of any Anti-Terrorism Law (the Borrower will and will cause each of its subsidiaries to provide to Lender any certifications or information that Lender requests to confirm compliance by the Borrower and its subsidiaries with any Anti-Terrorism Law). “**Anti-Terrorism Law**” means any Law relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by the United States Treasury Department’s Office of Foreign Asset Control, as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced.

**SIGNATURE PAGE FOLLOWS**



FLOWELL ELECTRIC ASSOCIATION, INC.  
Fillmore, Utah  
Agreement No. 00110896SLA

**SIGNATURE PAGE TO CREDIT AGREEMENT**

**IN WITNESS WHEREOF**, the parties hereto, by their duly authorized officers, have executed this Agreement.

**FLOWELL ELECTRIC ASSOCIATION, INC.**

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

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

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

FLOWELL ELECTRIC ASSOCIATION, INC.  
Fillmore, Utah  
Agreement No. 00110896SLA

**SIGNATURE PAGE TO CREDIT AGREEMENT**

**IN WITNESS WHEREOF**, the parties hereto, by their duly authorized officers, have executed this Agreement.

**COBANK, ACB**

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

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

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

**EXHIBIT "C"**

**Audited Financial Statements**

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**WITH REPORT OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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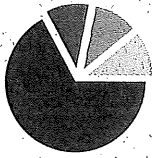
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# HINTONBURDICK

## CPAs & ADVISORS

MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA  
MORRIS J. PEACOCK, CPA

PHILLIP S. PEINE, CPA  
STEVEN D. PALMER, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA  
MICHAEL J. TORGERSON, CPA

### Independent Auditors' Report

To the Board of Directors  
Flowell Electric Association, Inc.  
Flowell, Utah

We have audited the accompanying financial statements of Flowell Electric Association, Inc. (a Utah non-profit corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flowell Electric Association, Inc. as of December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
St. George, UT  
April 28, 2017

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**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Balance Sheets**  
**December 31, 2016 and 2015**

Assets	2016	2015
<b>Utility plant - at cost</b>		
Electric plant in service	\$ 6,495,440	\$ 6,515,543
Under construction	100,557	-
Total	6,595,997	6,515,543
Less: Accumulated depreciation and amortization	(2,630,584)	(2,540,922)
Utility plant - net	3,965,413	3,974,621
<b>Other assets and investments</b>		
Investments in CFC and others - at cost	137,473	134,496
Deferred loan fees	318,217	333,981
Total other assets and investments	455,690	468,477
<b>Current assets</b>		
Cash and cash equivalents	404,830	313,706
Temporary cash investments	9,943	9,938
Other assets	65,714	66,730
Patronage capital credit and rebate receivable - DG&T	225,000	225,000
Accounts receivable - principally customers (less allowance for doubtful accounts of \$18,813 in 2016 and \$18,813 in 2015)	480,499	135,427
Total current assets	1,185,986	750,801
Total assets	\$ 5,607,089	\$ 5,193,899

The accompanying notes are an integral part of the financial statements.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Balance Sheets, Continued**  
**December 31, 2016 and 2015**

<b>Equity and Liabilities</b>		
	<b>2016</b>	<b>2015</b>
<b>Members' equity</b>		
Memberships	\$ 855	\$ 855
Patronage capital	70,714	188,420
Other equity	2,787,905	2,497,751
<b>Total equity and margins</b>	<b>2,859,474</b>	<b>2,687,026</b>
<b>Long-term debt (less amount due within one year included below)</b>	<b>1,328,818</b>	<b>1,368,496</b>
<b>Current liabilities</b>		
Accounts payable	592,365	382,045
Customer deposits	3,090	2,824
Accrued expenses	12,875	13,869
Accrued personal leave	29,285	29,285
Long-term debt due within one year	39,678	37,720
Unclaimed capital credits	85,334	88,578
<b>Total current liabilities</b>	<b>762,627</b>	<b>554,321</b>
<b>Deferred interest payable</b>	319,531	335,295
<b>Deferred revenue - impact fees</b>	174,281	145,557
<b>Deferred revenue - grants</b>	162,358	103,204
<b>Total equity and liabilities</b>	<b>\$ 5,607,089</b>	<b>\$ 5,193,899</b>

The accompanying notes are an integral part of the financial statements.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Statements of Operations**  
**For the Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Operating revenues</b>	\$ 2,606,641	\$ 2,611,673
<b>Operating expenses</b>		
Operation and maintenance:		
Power purchased	1,213,478	1,251,480
Distribution - operation	433,991	427,057
Distribution - maintenance	92,422	73,408
Consumer accounts	19,449	16,540
Administrative and general	279,249	261,692
Total operation and maintenance	2,038,589	2,030,177
Depreciation and amortization	171,089	149,083
Property taxes	40,114	38,983
<b>Total operating expenses</b>	2,249,792	2,218,243
Operating margins before interest charges	356,849	393,430
Interest charges - principally long-term debt	83,737	83,203
<b>Operating margins</b>	273,112	310,227
<b>Non-operating margins</b>		
Interest income	2,754	2,735
Patronage capital credits	14,288	13,733
<b>Total non-operating margins</b>	17,042	16,468
<b>Net margins</b>	\$ 290,154	\$ 326,695

The accompanying notes are an integral part of the financial statements.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Statements of Members' Equity**  
**For the Years Ended December 31, 2016 and 2015**

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Equity</u>	<u>Total</u>
<b>Balances, December 31, 2014</b>	\$ 855	\$ 188,420	\$ 2,171,056	\$ 2,360,331
<b>Allocation of 2014 margins:</b>				
Operating	-	-	310,227	310,227
Non-operating	-	-	16,468	16,468
<b>Balances, December 31, 2015</b>	<u>855</u>	<u>188,420</u>	<u>2,497,751</u>	<u>2,687,026</u>
<b>Allocation of 2015 margins:</b>				
Operating	-	-	273,112	273,112
Non-operating	-	-	17,042	17,042
<b>Retirement of capital credits</b>	<u>-</u>	<u>(117,706)</u>	<u>-</u>	<u>(117,706)</u>
<b>Balances, December 31, 2016</b>	<u>\$ 855</u>	<u>\$ 70,714</u>	<u>\$ 2,787,905</u>	<u>\$ 2,859,474</u>

The accompanying notes are an integral part of the financial statements.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net margin	\$ 290,154	\$ 326,695
Adjustments to reconcile net margin to net cash flows from operating activities:		
Depreciation and amortization	171,089	149,083
Accretion of deferred revenue	(10,076)	(8,620)
Changes in assets and liabilities:		
(Increase) decrease in CFC investment	(2,977)	(3,159)
(Increase) decrease in accounts receivable	(345,072)	(25,271)
(Increase) decrease in other assets	1,016	(2,709)
Increase (decrease) in accounts payable	210,320	122,304
Increase (decrease) in customer deposits	266	734
Increase (decrease) in accrued expenses	(994)	1,756
Increase (decrease) in unclaimed capital credits	(3,244)	(3,760)
<b>Net cash flows from operating activities</b>	<b>310,482</b>	<b>557,053</b>
<b>Cash flows from investing activities:</b>		
Purchase/construction of utility plant	(463,461)	(312,135)
Proceeds from the sale of fixed assets	301,580	-
<b>Net cash flows from investing activities</b>	<b>(161,881)</b>	<b>(312,135)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	(37,720)	(35,859)
Customer advances of impact fees	38,800	17,799
Proceeds from grant	59,154	-
Refund of capital credits	(117,706)	-
<b>Net cash flows from financing activities</b>	<b>(57,472)</b>	<b>(18,060)</b>
<b>Net change in cash and cash equivalents:</b>	91,129	226,858
<b>Cash and cash equivalents at beginning of year</b>	<b>323,644</b>	<b>96,786</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 414,773</b>	<b>\$ 323,644</b>

**Supplemental Schedule of Interest Paid and Non Cash Investing and Financing Activities**

Interest paid during the year amounted to \$84,066 and \$83,163 in 2016 and 2015 respectively.

The accompanying notes are an integral part of the financial statements.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

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**Note 1. Summary of Significant Accounting Policies**

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**ORGANIZATION**

Flowell Electric Association, Inc. is a non-profit, cooperative association organized in 1943. Membership is available to individuals and organizations as provided in the Association by-laws.

**REGULATION**

The Association is subject to Federal accounting regulation and, until March 8, 1979, was subject to State rate regulation. Subsequent to March 8, 1979, the Association's rates are determined by the Board of Directors, subject to certain restrictions. The Association's accounting practices and policies are generally consistent with regulatory authorities and the accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

**UTILITY PLANT AND DEPRECIATION**

Utility plant in service and under construction is stated at original cost less certain contributions received from customers, as described below. Costs include labor, materials, and related indirect costs such as engineering, supervision, transportation, etc. The cost of units of property replaced or renewed plus removal cost, less salvage, is charged to accumulated depreciation. Maintenance and repairs of utility property are charged to operating expenses. The Association provides for depreciation on the straight-line basis for all property over the estimated useful lives of the related assets as follows:

	<u>Annual Depreciation Range</u>
Distribution Plant	2.8% - 4.0%
General Plant	3 yrs. - 50 yrs.

These rates are within the guidelines of RUS Bulletin 183-1.

**REVENUES**

Revenues are recognized as customers are billed. The Association does not accrue revenues for energy delivered after the billing date.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand, cash in banks and cash temporarily invested in money market accounts.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

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**Note 1. Summary of Significant Accounting Policies - Continued**

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**ACCOUNTS RECEIVABLE**

Accounts receivable consist primarily of charges to customers for power and services. Management periodically reviews outstanding accounts receivable and records an allowance for doubtful accounts for amounts considered unlikely to be collected. Once known with certainty that an outstanding accounts receivable amount will not be collected both the accounts receivable and allowance for doubtful accounts are adjusted accordingly.

**MATERIALS AND SUPPLIES**

Materials and supplies are stated generally at average cost which is not in excess of market.

**DEFERRED DEBITS**

The Association periodically incurs expense in the development of future electrical facilities. Deferred costs include, principally, engineering and feasibility study expenditures. Such costs will be charged to operations over an estimated recovery period commencing upon completion of the facilities, or when management determines them to be of no future benefit.

**ADVERTISING COSTS**

The Association incurred advertising costs related to nondirect-response advertising. These costs are expensed the first time the advertising takes place. Advertising costs expensed for 2016 and 2015 were \$2,010 and \$1,195 respectively.

**ALLOCATION OF MARGINS**

In accordance with the Association's bylaws, operating margins are allocated to the patrons of the Association in proportion to their patronage. Non-operating margins are used to reduce prior years' losses and thereafter, may be allocated to patrons at the discretion of the Association's Board of Directors.

**TAXES ON INCOME**

No amounts have been paid or accrued for income taxes as the Association is a nonprofit organization exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

The Association's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

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**Note 1. Summary of Significant Accounting Policies - Continued**

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**ESTIMATES**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates, and there is a reasonable possibility that estimates might change within the near term. The more significant estimates used by management in the preparation of the accompanying financial statements include the estimated useful lives of property, plant and equipment and the estimate used to calculate the allowance for doubtful accounts. In the opinion of management the allowance for doubtful accounts is sufficient to cover any accounts or notes receivable that may be uncollectible based on historic percentages and known circumstances.

**DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 28, 2017, the date the financial statements were available to be issued.

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**Note 2. Utility Plant**

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Utility plant in service is summarized by major classification as follows:

	Balance at 12/31/16	Balance at 12/31/15
	<u>                    </u>	<u>                    </u>
Distribution plant	\$ 6,035,160	\$ 6,078,156
General plant	460,280	437,387
Under construction	100,557	-
Subtotal	<u>6,595,997</u>	<u>6,515,543</u>
Accumulated depreciation and amortization	<u>(2,630,584)</u>	<u>(2,540,922)</u>
Net utility plant assets	<u>\$ 3,965,413</u>	<u>\$ 3,974,621</u>



**FLOWELL ELECTRIC ASSOCIATION, INC.**

**Notes to the Financial Statements**

**December 31, 2016 and 2015**

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**Note 3. Cash**

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At various times throughout the years ended December 31, 2016 and 2015, cash balances in bank accounts exceeded the amount insured by the FDIC. As of December 31, 2016, \$186,022 of the bank balance of \$445,666 was uninsured or uncollateralized. As of December 31, 2015, \$91,042 of the bank balance of \$350,685 was uninsured or uncollateralized.

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**Note 4. Investments in Associated Organizations**

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To join NRUCFC and establish eligibility to borrow, the Association has executed an irrevocable agreement to subscribe for subscription certificates and loan certificates. The subscription certificates mature in 2070, 2075, and 2080, and bear interest at 3% for the first fifteen years, 4% for the next seven years and 5% thereafter. The loan certificates mature and will be returned when the loans are paid off.

Investments in associated organizations consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
NRUCFC subscription certificates	\$ 59,832	\$ 56,855
NRUCFC loan certificates	25,419	25,419
CFC patronage capital certificates	<u>52,222</u>	<u>52,222</u>
	<u>\$ 137,473</u>	<u>\$ 134,496</u>

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**Note 5. Deferred Revenue – Impact Fees**

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In recent years the Association has charged an impact fee for new hookups to offset some of the cost of improving the system to accommodate growth in the service area. The monies are to be used to offset the cost of new system construction or improvement. The Association records the impact fees as deferred revenues as they are collected and then recognizes them as nonoperating revenue over a period of 20 years, which approximates the estimated life of the plant constructed. The revenue recognized for the years ended December 31, 2016 and 2015 was \$10,076 and \$8,620 respectively.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

**Note 6. Long-Term Debt**

The following is a summary of long term debt activity for 2016:

	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016	Current Portion
NRUCFC loans payable	\$ 1,406,216	\$ -	\$ 37,720	\$ 1,368,496	\$ 39,678
Total long-term debt	<u>\$ 1,406,216</u>	<u>\$ -</u>	<u>\$ 37,720</u>	<u>\$ 1,368,496</u>	<u>\$ 39,678</u>

The following is a summary of long term debt activity for 2015:

	Balance 12/31/2014	Additions	Retirements	Balance 12/31/2015	Current Portion
NRUCFC loans payable	\$ 1,442,075	\$ -	\$ 35,859	\$ 1,406,216	\$ 37,720
Total long-term debt	<u>\$ 1,442,075</u>	<u>\$ -</u>	<u>\$ 35,859</u>	<u>\$ 1,406,216</u>	<u>\$ 37,720</u>

Maturities of long term debt are as follows:

Year Ended	2016		2015	
	Principal	Interest	Principal	Interest
2016	\$ -	\$ -	\$ 37,720	\$ 55,230
2017	39,678	55,230	39,678	53,689
2018	41,737	53,689	41,737	52,068
2019	43,903	52,068	43,903	50,363
2020	46,182	50,363	46,182	48,570
2021	48,579	48,570	48,579	46,684
Thereafter	<u>1,148,417</u>	<u>385,108</u>	<u>1,148,417</u>	<u>393,654</u>
Totals	<u>\$ 1,368,496</u>	<u>\$ 645,028</u>	<u>\$ 1,406,216</u>	<u>\$ 700,258</u>

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

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**Note 6. Long-Term Debt - Continued**

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Long-term debt consists of the following:

	2016	2015
Loan payable to National Rural Utilities Cooperative Finance Corporation, due in quarterly installments bearing interest at 5.05%, maturing August 31, 2036.	\$ 211,386	\$ 217,493
Loan payable to National Rural Utilities Cooperative Finance Corporation, due in quarterly installments bearing interest at 5.10%, maturing February 28, 2036.	854,983	878,579
Loan payable to National Rural Utilities Cooperative Finance Corporation, due in quarterly installments bearing interest at 5.10%, maturing August 31, 2037.	302,127	310,144
Total long term debt	1,368,496	1,406,216
Less amounts due within one year	(39,678)	(37,720)
Long term debt, net of current portion	\$ 1,328,818	\$ 1,368,496

Under the terms of the mortgage, all assets of the Association are pledged as security. In addition, the mortgage provides, among other things, for the maintenance of certain financial ratios, restrictions related to expanding, refunding patronage capital, incurring indebtedness, making investments, and merging.

Based on the borrowing rates currently available to the Corporation for loans with similar terms and average maturities, the stated amount of long-term debt at December 31, 2016 and at December 31, 2015 closely approximated current fair value.

**Debt Modification**

In 2014, the association agreed to a modification of the terms of the loans payable to CFC to obtain lower interest rates. The modification decreased the interest rates from 7.15%, 7.10% and 7.00% to 5.05%, 5.10% and 5.10%. As part of the agreement, the association is to pay a conversion fee of \$358,941. The fee will be paid in quarterly installments, along with payments of the loans. During 2016 and 2015, \$15,764 and \$15,764 was paid to CFC on the loan fees, leaving a balance of \$319,531 and \$335,295 at December 31, 2016 and 2015. The loan fee of \$358,941 is also being amortized over the remaining life of the loans and recognized as interest expense. In 2016 and 2015, there was \$15,764 and \$15,764 recognized as interest expense, leaving a balance of \$318,217 and \$333,981 at December 31, 2016 and 2015.

**Lines of Credit**

As of December 31, 2016 and 2015, the association maintains a \$1,000,000 perpetual line of credit with NRUCFC. The line of credit bears interest at the prime rate plus 1%, which was 2.5% and 2.9% at December 31, 2016 and 2015 respectively. The line of credit renews each year unless either party terminates the agreement by providing written notice. The outstanding balance on this line of credit at December 31, 2016 and 2015 was \$0 and \$0 respectively.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

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**Note 7. Members' Equity**

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The Association has discontinued a policy requiring payment of initial membership fees. Under current policy, no membership fee is required and members are admitted subject to approval of the Board of Directors. All of the 2016 and 2015 margins were classified as other equity.

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**Note 8. Employee Benefits**

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Pension benefits for all employees of the Association with one year of service who have attained age 21 are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Defined Benefit Pension Plan. In addition, \$2,454 and \$2,360 in contributions were made by the Association, and the employee contributed \$10,600 and \$10,272 to the 401K savings plan in 2016 and 2015 respectively.

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

**Plan Information**

The Association's contributions to the RS Plan in 2016 and in 2015 represented less than 5 percent of the total contributions made to the RS plan by all participating employers. The Association made contributions to the RS Plan of \$21,264 in 2016 and \$19,583 in 2015.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2016 and over 80 percent funded on January 1, 2015 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

**FLOWELL ELECTRIC ASSOCIATION, INC.**

**Notes to the Financial Statements**

**December 31, 2016 and 2015**

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**Note 9. Compensated Absences**

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In accordance with the personal leave policy, each current full time employee of Flowell Electric Association earns 160 hours of annual leave and 96 hours of sick leave per year. Starting in November 2015, the maximum accrued hours that may accumulate in any one employee's account by year end is 1,050 hours of personal leave, which includes both annual and sick leave. The liability for accrued personal leave amounted to \$29,285 and \$29,285 at December 31, 2016 and 2015 respectively.

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**Note 10. Commitments and Contingencies**

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**Power Purchases**

The Association has signed a contract to purchase power from the Western Area Power Administration which is a Colorado River Storage (CRSP) allocation. Monthly power needs in excess of this allocation are purchased from Deseret G&T. The Association is committed to purchase power from Deseret G&T in excess of its CRSP allocation. Additional power beyond that provided by these two sources would be purchased under a contract with the Intermountain Power Project. This contract, termed a lay off contract, provides that power not needed or used by the Association will be allocated to the City of Los Angeles, but made available to the Association as needed.

During the year ended December 31, 2000, Flowell Electric Association, Inc. signed a new agreement with the Bureau of Reclamation concerning the hydroelectric power from the Colorado River Storage Project (CRSP) which at present is a low cost source of power available to municipalities and cooperatives having long term contracts with CRSP. The agreement is a new fifteen year agreement that began in the year 2004.

Flowell Electric Association is one of six member/owners of Deseret Generation and Transmission, a Utah generating and transmitting electrical co-operative. Deseret G&T owns and operates the Bonanza power plant in eastern Utah. The Association has signed an all requirements wholesale power purchase contract with Deseret which is in force until 2025.

**Dixie Escalante Rural Electric Association**

Effective January 1, 1999, all but the manager of Flowell Electric, consisting of seven employees, became employees of Dixie Escalante Rural Electric Association, and Flowell's inventory and other general fixed assets were transferred to Dixie Escalante. Dixie Escalante agreed to provide Flowell Electric with customer billing and plant maintenance services and Flowell will be paid annually to maintain relations with the various communities for which Dixie Escalante is providing plant maintenance services. Under the agreement, Flowell will provide a shop and yard for the Dixie Escalante equipment and inventory. Flowell is being treated by Dixie Escalante as a contract customer.

**FLOWELL ELECTRIC ASSOCIATION, INC.**  
**Notes to the Financial Statements**  
**December 31, 2016 and 2015**

**Note 11. Recognition of Capital Credits from Deseret G&T**

During 1999 the board of directors adopted the policy of only recognizing capital credits from Deseret Generation and Transmission when the credits are actually paid. Deseret has no obligation to rotate capital credits and even though capital credits are being allocated by Deseret to its members there is no present expectation that all of those credits will be rotated by payments to the members.

During 2016 Deseret G&T declared a rebate of power costs in the amount of \$225,000 which was paid in 2017. That rebate has been recorded as a receivable at December 31, 2016. During 2015 Deseret G&T declared a rebate of power costs in the amount of \$225,000 that was paid in 2016. That rebate had been recorded as a receivable at December 31, 2015.

Deseret Generation and Transmission rotated and paid the Association the following capital credits and has informed the management of the following tax basis allocations of the remaining capital credits which may someday be retired.

Year	Balance 12/31/2014	2015 - 2016 Rotation	Balance 12/31/2016
1980	\$ 1,327	\$ -	\$ 1,327
1983	2,975	-	2,975
1984	8,669	-	8,669
1986	10,496	-	10,496
1997	179,638	-	179,638
1998	46,843	13,007	33,836
1999 - 2009	-	-	-
Total	<u>\$ 249,948</u>	<u>\$ 13,007</u>	<u>\$ 236,941</u>

Rotation of capital credits recognized as revenues in 2016 and 2015 totaled \$7,352 and \$5,655 respectively.