

Resolution 270

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTE

I, the undersigned, being the duly qualified and acting recording officer of the Town of Stevensville, Montana (the "Town"), hereby certify that the attached resolution is a true copy of Resolution No. 270, entitled: "RESOLUTION RELATING TO \$2,173,000 WATER SYSTEM REVENUE BOND, SERIES 20__ AND A \$2,173,000 WATER SYSTEM REVENUE BOND ANTICIPATION NOTE TO BE ISSUED IN ANTICIPATION THEREOF; AUTHORIZING THE ISSUANCE AND FIXING THE TERMS AND CONDITIONS THEREOF AND CREATING SPECIAL FUNDS AND ACCOUNTS AND PLEDGING CERTAIN REVENUES AS SECURITY THEREFOR" (the "Resolution"), on file in the original records of the Town in my legal custody; that the Resolution was duly adopted by the Town Council of the Town at a regular meeting on March 14, 2011, and that the meeting was duly held by the Town Council and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

I further certify that, upon vote being taken on the Resolution at said meeting, the following Council members voted in favor thereof: Robin Holcomb,
Pat Groninger, Desera Towle ; voted against the same:
N/A ; abstained from voting
thereon: N/A ; or were absent: (1)
Dan Mollan

WITNESS my hand officially this 15th day of March, 2011.

Suzanne J. Gulon
Interim Town Clerk-Treasurer

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(For convenience only and not a part of the Resolution)

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RESOLUTION NO. 270

RESOLUTION RELATING TO \$2,173,000 WATER SYSTEM REVENUE BOND, SERIES 20__ AND A \$2,173,000 WATER SYSTEM REVENUE BOND ANTICIPATION NOTE TO BE ISSUED IN ANTICIPATION THEREOF; AUTHORIZING THE ISSUANCE AND FIXING THE TERMS AND CONDITIONS THEREOF AND CREATING SPECIAL FUNDS AND ACCOUNTS AND PLEDGING CERTAIN REVENUES AS SECURITY THEREFOR

BE IT RESOLVED by the Town Council of the Town of Stevensville, Montana, as follows:

Section 1. Definitions, Authorizations and Findings.

1.01. Definitions. The terms defined in this Section 1.01 shall for all purposes of this Resolution have the meanings herein specified, unless the context clearly otherwise requires:

Accountant shall mean a Person engaged in the practice of accounting as a certified public accountant or any other Person authorized under State law to audit and certify financial statements of cities or towns in the State, whether or not employed by the Town.

Act shall mean Montana Code Annotated, Title 7, Chapter 7, Parts 44 and 45, and Section 7-7-109, as heretofore and hereafter amended or supplemented.

Additional Bonds shall mean any Bonds issued on a parity with Outstanding Bonds pursuant to Section 5.01.

Additional Notes shall mean any Notes issued pursuant to Section 5.02.

Bonds shall mean the Definitive Bond and any Additional Bonds.

Bond Counsel shall mean any firm of nationally recognized bond counsel experienced in matters relating to tax-exempt financing, selected by the Town.

Bondholder shall mean the Person in whose name a Bond is registered in the Bond Register.

Bond Register shall mean, with respect to the Definitive Bond, the registration books maintained by the Town Clerk-Treasurer pursuant to Section 4.02, or, with respect to a series of Additional Bonds, the register to be maintained by the Registrar pursuant to Section 2.07 or the Supplemental Resolution authorizing the issuance of such Bonds.

Business Day shall mean any day other than a Saturday, Sunday or other day on which commercial banks located in the Town in which the principal office of the Registrar are not open for business or are authorized by law to close.

Code shall mean the Internal Revenue Code of 1986, as amended from time to time.

Commitment Letter shall mean the Letter of Conditions from Rural Development of the USDA to the Town dated May 31, 2010.

Construction Account shall mean the account created by Section 6.02.

Consulting Engineer shall mean Professional Consultants, Inc., of Missoula, Montana.

Council shall mean the Town Council of the Town or any successor governing body of the Town.

Debt Service Account shall mean the account created by Section 6.04.

Definitive Bond shall mean the Town's Water System Revenue Bond, Series 20__, to be issued in the maximum original principal amount of \$2,173,000 pursuant to this Resolution.

Fiscal Year shall mean the period commencing on the first day of July of any year and ending on the last day of June of the next year, or any other specified twelve-month period, authorized by law and specified by the Council as the Town's fiscal year.

Government Obligations shall mean direct obligations of, or obligations the principal of and the interest on which are fully and unconditionally guaranteed as to payment by, the United States of America.

Holder shall mean a Bondholder or a Noteholder.

Independent shall mean, when used with respect to any specified Person, such a Person who (i) is in fact independent; (ii) does not have any direct financial interest or any material indirect financial interest in the Town, other than the payment to be received under a contract for services to be performed by such Person; and (iii) is not connected with the Town as an officer, employee, promoter, trustee, partner, director, underwriter or person performing similar functions. Whenever it is herein provided that any Independent Person's opinion or certificate shall be furnished, such Person shall be appointed by the Council and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

Interest Payment Date shall mean a date specified in an Obligation and in this Resolution as a fixed date for payment of an installment of interest on any of the Obligations.

Loan shall mean the 20__ Loan.

Maturity shall mean, when used with respect to any Obligation, the date on which the principal of such Obligation becomes due and payable as therein or herein provided, whether at its Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

Net Revenues shall mean the Revenues for a specified period less the Operating Expenses for the same period.

Note Account shall mean the account created by Section 6.09.

Note Register shall mean, with respect to the Series 2011 Note, the registration book maintained by the Town Clerk-Treasurer pursuant to Section 3.02, and with respect to any Additional Notes, the registration books maintained by the Note Registrar in respect thereof.

Note Registrar shall mean, with respect to the Series 2011 Note, the Town Clerk-Treasurer or any successor appointed by the Council, and with respect to any Additional Notes, Person or Persons designated by or pursuant to this Resolution or a Supplemental Resolution to receive and disburse the principal of, premium, if any, and interest on such Additional Notes on behalf of the Town and to hold and maintain the Note Register in respect thereof.

Noteholder shall mean the Person in whose name a Note is registered in the Note Register.

Notes shall mean the Series 2011 Note and any Additional Notes issued pursuant to this Resolution.

Obligations shall mean the Notes and the Bonds, collectively.

Operating Expenses shall mean the current expenses, paid or accrued, of operation, maintenance and minor repair of the System, excluding interest on the Obligations and depreciation, as calculated in accordance with generally accepted accounting principles, and shall include, without limitation, administrative expenses of the Town relating solely to the System, premiums for insurance on the properties thereof, labor and the cost of materials and supplies used for current operation and for maintenance, and charges for the accumulation of appropriate reserves for current expenses which are not recurrent regularly but may reasonably be expected to be incurred, but shall not include amounts to be deposited to the Short-Lived Asset Replacement Reserve Subaccount.

Opinion of Counsel shall mean a written opinion of counsel, who may (except as otherwise expressly provided in this Resolution) be counsel for the Town.

Original Purchaser shall mean, with respect to any series of Obligations, the original purchaser or underwriter of such series of Obligations. The Original Purchaser of the Series 2011 Note is the Board of Investments of the State of Montana, in Helena, Montana. The Original Purchaser of the Definitive Bond is the United States of America acting through the Rural Utilities Service, United States Department Agriculture.

Outstanding shall mean, when used with reference to Obligations, as of the date of determination, all Obligations theretofore issued except:

(i) Obligations theretofore cancelled by the Town or the Registrar or delivered to the Town or the Registrar cancelled or for cancellation;

(ii) Obligations and portions of Obligations for whose payment or redemption money or Government Obligations (as provided in Section 9) shall have been theretofore deposited in trust for the Holders of such Obligations; provided, however, that if such Obligations are to be redeemed, notice of such redemption shall have been duly given pursuant to this Resolution or irrevocable

instructions to call such Obligations for redemption at a specified Redemption Date shall have been given to the Town; and

(iii) Obligations in exchange for or in lieu of which other Obligations shall have been issued and delivered pursuant to this Resolution;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Obligations have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Obligations owned by the Town shall be disregarded and deemed not to be Outstanding.

Person shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Principal and Interest Requirements shall mean, with respect to any Outstanding Bonds and for any Fiscal Year, the amount of principal of and interest on such Bonds due and payable during such Fiscal Year, assuming that Outstanding Serial Bonds are to be paid at their Stated Maturities and Outstanding Term Bonds are to be paid on their Sinking Fund Payment Dates according to the mandatory redemption requirements established by the Resolution.

Principal Payment Date shall mean the Stated Maturity of principal of any Note, Serial Bond and the Sinking Fund Payment Date for any Term Bond.

Project shall mean an improvement, betterment, reconstruction or extension of the System, including, without limitation, the 2011 Project.

Qualified Investments shall mean those obligations and securities set forth in Section 6.10, in which moneys from time to time in the Water System Fund may be invested.

Rebate Account shall mean the account created by Section 6.08.

Rebate Certificate shall mean the Rebate Certificate, if any, executed by the Town and filed in the office of the Town Clerk-Treasurer, in connection with the issuance of any series of Additional Bonds, as such may be amended or supplemented from time to time in accordance with the provisions thereof.

Redemption Date when used with respect to any Obligation to be redeemed shall mean the date on which it is to be redeemed pursuant hereto.

Redemption Price when used with respect to any Obligation to be redeemed shall mean the price at which it is to be redeemed pursuant hereto.

Registrar shall mean, with respect to the Definitive Bond, the Town Clerk-Treasurer or any successor appointed pursuant to Sections 4.01(b) and 4.02(b), and, with respect to any series of Additional Bonds, the Person or Persons designated by or pursuant to this Resolution or a Supplemental Resolution to receive and disburse the principal of, premium, if any, and interest

on the Bonds on behalf of the Town and to hold and maintain the Bond Register, and, with respect to any Note, the Note Registrar.

Repair and Replacement Account shall mean the account created by Section 6.06.

Reserve Account shall mean the account created by Section 6.05.

Reserve Requirement shall mean, as of the date of reference, an amount equal to the maximum amount of Principal and Interest Requirements on all Outstanding Bonds in the then current or any future Fiscal Year.

Resolution shall mean this Resolution No. 270, as amended and supplemented by one or more Supplemental Resolutions, if any.

Revenues shall mean all revenues and receipts from rates, fees, charges and rentals imposed for the availability, benefit and use of the System, and from penalties and interest thereon, and from any sales of property which is a part of the System and income received from the investment of such revenues and receipts, including interest earnings on the Reserve Account and the Operating Account, but excluding interest earnings on the Construction Account, Repair and Replacement Account and Surplus Account, but excluding any special assessments or taxes levied for construction of any part of the System and the proceeds of any grant or loan from the State or the United States, and any investment income thereon, to the extent such exclusion is a condition to such grant or loan.

Serial Bonds shall mean Bonds which are not Term Bonds.

Series 2011 Note shall mean the Water System Revenue Bond Anticipation Note, Series 2011, to be issued in the principal amount of \$2,173,000 in anticipation of the issuance of the Definitive Bond pursuant to this Resolution.

Series 20 Bond shall mean the Town's Water System Revenue Bond, Series 20__, to be issued in the original maximum principal amount of \$2,173,000, or such lesser amount as is actually loaned to the Town, pursuant to the Resolution.

Short-Lived Assets shall mean assets of the System identified as short-lived assets in the application for the Loan made by the Town to the Purchaser.

Short-Lived Asset Replacement Reserve Subaccount shall mean the subaccount created in the Repair and Replacement Account established in Section 6.06 hereof for the purpose stated therein.

Sinking Fund Payment Date shall mean one of the dates set forth in any applicable provisions of a Supplemental Resolution (as to any series of Additional Bonds) for the making of mandatory principal payments for Additional Bonds which are Term Bonds.

State shall mean the State of Montana.

Stated Maturity when used with respect to any Obligation shall mean the date specified in such Obligation as the fixed date on which the principal of such Obligation is due and payable.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of this Resolution adopted in accordance with the requirements of Section 8.

System shall mean the Town's municipal water system, as it may at any time exist, including any replacement, expansion and improvement thereof.

Term Bond shall mean any Bond for the payment of the principal of which mandatory payments are required by the Resolution to be made at times and in amounts sufficient to redeem all or a portion of such Bond prior to its Stated Maturity.

Town shall mean the Town of Stevensville, Montana, its successors and assigns.

Town Resolution shall mean a resolution, ordinance or other appropriate enactment by the Council certified by the Town Clerk-Treasurer to have been duly adopted and to be in full force and effect.

2011 Project shall mean the improvements to the System described in Section 1.04.

20__ Loan or Loan shall mean the 20__ Loan made from the USDA to the Town in an amount not to exceed \$2,173,000 to provide funds to pay and redeem the Series 2011 Note and pay a portion of the costs of the 2011 Project and costs of issuance allocable to the Series 20__ Bond.

USDA shall mean the United States of America acting through Rural Utilities Service, United States Department of Agriculture, or any successor agency under Public Law 103-354.

Water System Fund shall mean the fund created by Section 6.01.

1.02. Rules of Interpretation.

A. All references in this Resolution to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted.

B. The words "herein" and "hereunder" and other words of similar import without reference to any particular Section or subdivision refer to this Resolution as a whole and not to any particular Section or other subdivision unless the context clearly indicates otherwise.

C. The terms defined in Section 1.01 shall include the plural as well as the singular.

D. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles applicable to governmental entities.

E. All computations provided herein shall be made in accordance with generally accepted accounting principles applicable to governmental entities consistently applied.

F. "Or" is not intended to be exclusive, but to encompass one, more or all of the alternatives conjoined, unless the context hereof clearly requires otherwise.

1.03. Authorization. Under the Act, the Town is authorized to issue and sell its revenue bonds payable during a term not exceeding forty years from their date of issue, to provide funds for the reconstruction, improvement, betterment and extension of a municipal water system, provided that the bonds and the interest thereon are to be payable solely out of the income and revenues to be derived from rates, fees and charges for the services, facilities and commodities furnished by such water system, and are not to create any obligation for the payment of which taxes may be levied except to pay for services provided by the water system to the Town.

1.04. The 2011 Project. The Town with the assistance of the Consulting Engineer has determined the necessity of upgrading the System through the 2011 Project to meet certain state and federal requirements. The 2011 Project consists of the acquisition, construction and installation of various improvements to the System, including water meter installation and installation of a new transmission main from the well field to the Town and new water supply wells and pump house construction, distribution system improvements, decommissioning of the existing infiltration gallery, construction of a booster station and installation of pressure reducing valves, and related improvements. The estimated costs of the 2011 Project, including engineering and financing costs, are presently estimated to be \$4,324,000 and consist of the following items:

Construction	\$3,259,173
Basic Engineering	474,768
Construction Inspection	87,000
Additional Services	15,000
Project Contingency	325,959
Interim Interest	42,500
Legal Fees	95,000
Audit Fees	10,000
Bond Counsel	15,000
<hr/> TOTAL	<hr/> \$4,324,400

Costs of the 2011 Project in excess of \$2,173,000 are expected to be paid from a Treasure State Endowment Program grant in the amount of \$500,000, a Water Resources Development Act grant in the amount of \$175,000, a Water Resources Development Act special appropriation in the amount of \$487,500, a USDA Rural Development grant in the amount of \$864,900, and a Department of Natural Resources and Conservation Grant in the amount of \$100,000, and funds the Town has on hand and available therefor in the amount of approximately \$24,000.

1.05. Outstanding Indebtedness. No other bonds or other indebtedness are outstanding that are secured by revenues of the System.

1.06. Net Revenues Available. The Town is authorized to charge just and equitable rates, charges and rentals for all services directly or indirectly furnished by the System, and to pledge and appropriate to the Series 2011 Note and the Definitive Bond herein authorized the Net Revenues to be derived from the operation of the System, including improvements,

betterments or extensions thereof hereafter constructed or acquired. The Net Revenues to be produced by such rates, charges and rentals during the term of the Definitive Bond and the useful life of the improvements financed thereby will be more than sufficient to pay the principal and interest when due on the Definitive Bond, and to create and maintain reasonable reserves therefor and to provide an allowance for replacement and depreciation, as herein prescribed.

1.07. Sale and Authorization of Series 2011 Note. In anticipation of the receipt of the proceeds of the 20__ Loan and the issuance and delivery of the Definitive Bond, and in order to provide funds during construction of the 2011 Project to pay the costs thereof, it is necessary that the Town provide for the issuance and sale of the Series 2011 Note under and pursuant to Section 7-7-109 of the Act. The Town has received an offer from the Board of Investments of the State of Montana, in Helena, Montana (the Original Purchaser thereof), to purchase the Series 2011 Note at a price of up to \$2,173,000, upon the further terms and conditions herein set forth. The terms and conditions of the offer are reasonable and advantageous to the Town and are hereby accepted. The Town is authorized and shall proceed to issue and deliver the Series 2011 Note in the form and upon the terms and conditions provided in this Resolution.

1.08. Authorization of Definitive Bond. Pursuant to the authority recited in Section 1.03 and for the purpose of paying and redeeming the Series 2011 Note and financing a portion of the cost of the 2011 Project, as necessary, this Council hereby authorizes the issuance of the Definitive Bond. The USDA has agreed, subject to the terms and conditions of the Commitment Letter, to lend the Town \$2,173,000 to finance a portion of the cost of the Project. The terms and conditions of the Loan, as set forth in Commitment Letter, are reasonable and advantageous to the Town and are hereby accepted. The Town has adopted a Loan Resolution, dated June 14, 2010, and a Letter of Intent To Meet Conditions, dated May 31, 2010, pursuant to which the Town has agreed to issue its Definitive Bond, in the aggregate principal amount of \$2,173,000, in accordance with the provisions of this Resolution and the Commitment Letter.

It is hereby found and determined to be necessary and expedient for the Town to issue and sell to the USDA, pursuant to Montana Code Annotated, Section 7-7-4433(2)(a), the Definitive Bond, to be designated as "Water System Revenue Bond, Series 20__" (the series designation to be completed with the calendar year in which the Series 20__ Bond is issued) in the maximum principal amount of \$2,173,000, at a price equal to its principal amount, upon satisfaction of the conditions precedent to the 20__ Loan.

1.09. Recitals. All acts, conditions and things required by the Constitution and laws of the State to be done, to exist, to happen and to be performed prior to the issuance of the Series 2011 Note have been done, do exist, have happened, and have been performed in due time, form and manner, wherefore it is now necessary for this Council to establish the form and terms of the Definitive Bond and the Series 2011 Note, to provide for the security thereof and to issue the Series 2011 Note and to provide for the delivery of the Definitive Bond.

Section 2. The Bonds.

2.01. General Title. The general title of the Bonds of all series shall be "Water System Revenue Bonds." Bonds of each series shall be titled so as to distinguish them from Bonds of all other series.

2.02. General Limitations; Issuable in Series. The aggregate principal amount of Bonds that may be authenticated and delivered and Outstanding under this Resolution is not limited, except as provided in Sections 4 and 5 and except as may be limited by law.

The Bonds may be issued in series as from time to time authorized by the Council. With respect to the Bonds of any particular series, the Town may incorporate in or add to the general title of such Bonds any words, letters or fixtures designed to distinguish that series.

The Bonds shall be special, limited obligations of the Town. Principal of, premium, if any, and interest on the Bonds shall be payable solely from Net Revenues (other than to the extent payable out of proceeds of the Bonds). The Bonds shall not be or constitute a pledge of the general credit or taxing powers of the Town of any kind whatsoever. Neither the Bonds nor any of the agreements or obligations of the Town contained herein shall be construed to constitute an indebtedness of the State or the Town within the meaning of any constitutional or statutory provisions whatsoever.

If the Stated Maturity for the payment of any interest on or principal of any Bond or if any Redemption Date or Sinking Fund Payment Date shall be a day which is not a Business Day, then such payment may be made on the next succeeding Business Day, with the same force and effect as if made on such Stated Maturity, Redemption Date or Sinking Fund Payment Date (whether or not such next succeeding Business Day occurs in a succeeding month).

2.03. Terms of Particular Series. Each series of Bonds (except the Definitive Bond, which is created by Section 4) shall be created by a Supplemental Resolution. The Bonds of each series (other than the Definitive Bond, as to which specific provision is made in this Resolution) shall bear such date or dates, shall be payable at such place or places, shall have such Stated Maturities and Redemption Dates, shall bear interest at such rate or rates, from such date or dates, shall be payable in such installments and on such dates and at such place or places, and may be redeemable at such price or prices and upon such terms (in addition to the prices and terms herein specified for redemption of all Bonds) as shall be provided in the Supplemental Resolution creating that series, all upon such terms as the Town may determine. The Town may, at the time of the creation of any series of Bonds or at any time thereafter, make, and the Bonds of that series may contain provision for:

- A. a sinking, amortization, improvement or other analogous fund;
- B. limiting the aggregate principal amount of the Bonds of that series and of Additional Bonds thereafter to be issued;
- C. exchanging Bonds of that series, at the option of the Holders thereof, for other Bonds of the same series of the same aggregate principal amount of a different authorized kind or authorized denomination or denominations; or
- D. registration, transfer and delivery.

2.04. Form and Denominations of Particular Series. The form of the Bonds of each series (other than the Definitive Bond, as to which specific provisions are made in Section 4.01) shall be established by the provisions of the Supplemental Resolution creating such series. The

Bonds of each series shall be distinguished from the Bonds of other series in such manner as the Council may determine.

The Bonds of each series shall be in such denominations as shall be provided in the Supplemental Resolution creating such series (other than the Definitive Bond, as to which specific provisions are made in this Resolution). In the absence of any such provision with respect to the Bonds of any particular series, the Bonds of such series shall be in the denomination of \$5,000 or any integral multiple thereof of single maturities.

2.05. Execution and Authentication. The Bonds shall be executed on behalf of the Town by the manual or facsimile signature of the Mayor, and attested by the signature of the Town Clerk-Treasurer (or other officers of the Town authorized by Town Resolution); provided that if required by applicable laws, one such signature on each Bond shall be a manual signature. The seal of the Town need not be affixed to or imprinted on any Bond. Any Bond bearing the manual or facsimile signature of an individual who was at any time an appropriate officer of the Town shall be valid and sufficient for all purposes, regardless whether such individual held such office as of the date of sale, issue or delivery of such Bond. No Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this Resolution unless and until a certificate of authentication on such Bond has been duly executed by the manual signature of an authorized representative of the Registrar. Certificates of authentication on each Bond need not be signed by the same representative. The executed certificate of authentication on each Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution and in accordance with the provisions hereof.

2.06. Temporary Bonds. Pending the preparation of the Definitive Bond, the Town, if authorized by law, may execute and deliver temporary Bonds which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued, with such appropriate insertions, omissions, substitutions and other variations as the officers of the Town executing such Bonds may determine, as evidenced by their signing of such Bonds.

If temporary Bonds are issued, the Town will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the temporary Bonds shall be exchangeable for definitive Bonds upon surrender of the temporary Bonds, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Bonds the Town shall execute and deliver in exchange therefor a like principal amount of definitive Bonds of authorized denominations. Until so exchanged the temporary Bonds shall in all respects be entitled to the same security and benefits under this Resolution as definitive Bonds.

2.07. System of Registration. The Town shall appoint, and shall maintain, a bond registrar, transfer agent and paying agent for any series of Additional Bonds (with respect to such Bonds, the "Registrar"). This Section 2.07 shall, except as amended or supplemented by a Supplemental Resolution, establish a system of registration for any series of Additional Bond, as defined in the Model Public Obligations Registration Act of Montana. The effect of registration and the rights and duties of the Town and the Registrar with respect thereto shall be as follows:

(a) Bond Register. The Registrar shall keep at its principal office a Bond Register in which the Registrar shall provide for the registration of ownership of such Bonds and the registration of transfers and exchanges of Bonds entitled to be registered, transferred or exchanged.

(b) Transfer of Bonds. Upon surrender for transfer of any such Bond duly endorsed by the registered owner thereof or accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner thereof or by an attorney duly authorized by the registered owner in writing, the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bond of the same series and a like aggregate principal amount and maturity, as requested by the transferor. The Registrar may, however, close the books for registration of the transfer of such Bond or portion thereof selected for redemption.

(c) Exchange of Bonds. Whenever any such Bond is surrendered by the registered owner for exchange, the Registrar shall authenticate and deliver one or more new Bonds of the same series and a like aggregate principal amount and maturity, as requested by the registered owner or the owner's attorney in writing.

(d) Cancellation. All Bonds surrendered upon any transfer or exchange shall be promptly cancelled by the Registrar and thereafter disposed of as directed by the Town.

(e) Improper or Unauthorized Transfer. When any Bond is presented to the Registrar for transfer, the Registrar may refuse to transfer the same until it is satisfied that the endorsement on such Bond or separate instrument of transfer is legally authorized. The Registrar shall incur no liability for its refusal, in good faith, to make transfers which it, in its judgment, deems improper or unauthorized.

(f) Persons Deemed Owners. The Town and the Registrar may treat the Person in whose name any Bond is at any time registered in the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium, if any, and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon the owner's order shall be valid and effectual to satisfy and discharge the liability of the Town upon such Bond to the extent of the sum or sums to paid.

(g) Taxes, Fees and Charges. For every transfer or exchange of a Bond (except for an exchange upon a partial redemption of any Bond), the Registrar may impose a charge upon the owner thereof sufficient to reimburse the Registrar for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

(h) Mutilated, Lost, Stolen or Destroyed Bonds. In case any Bond shall become mutilated or be lost, stolen or destroyed, the Registrar shall deliver a new Bond of like series, amount, number, maturity date and tenor in exchange and substitution for and upon cancellation of any such mutilated Bond or in lieu of and in substitution for any such Bond lost, stolen or destroyed, upon the payment of the reasonable expenses and charges of the Registrar in connection therewith; and, in the case of a Bond lost, stolen or destroyed, upon receipt by the

Registrar of evidence satisfactory to it that such Bond was lost, stolen or destroyed, and of the ownership thereof, and upon receipt by the Registrar of an appropriate bond of indemnity in form, substance and amount satisfactory to it, in which both the Town and the Registrar shall be named as obligees. All Bonds so surrendered to the Registrar shall be cancelled by it and evidence of such cancellation shall be given to the Town. If the mutilated, lost, stolen or destroyed Bond has already matured or such Bond has been called for redemption in accordance with its terms, it shall not be necessary to issue a new Bond before payment.

2.08. Priority of Payments. Each and all of the Bonds shall be equally and ratably secured without preference or priority of any one Bond over any other by reason of serial number, date of issue, series designation or otherwise; provided that if at any time the Net Revenues on hand in the Fund are insufficient to pay principal and interest then due on all such Bonds, any and all Net Revenues then on hand shall be first used to pay the interest accrued on all Outstanding Bonds, and the balance shall be applied toward payment of the maturing principal of such Bonds to be paid first, and pro rata in payment of Bonds maturing on the same date.

Section 3. The Series 2011 Note.

3.01. General Terms. The Town shall forthwith issue the Series 2011 Note in the maximum principal amount of \$2,173,000. The Series 2011 Note shall be dated as of the date of its delivery. Upon each disbursement of the Series 2011 Note proceeds, the Board of Investments of the State of Montana shall enter the amount advanced on Schedule A attached thereto under "Advances" and the total amount advanced under this Resolution, including such disbursement, under "Total Amount Advanced." The Series 2011 Note shall be lettered and numbered R-1 and shall mature, subject to redemption as herein provided, on February 15, 2013 (the "Stated Maturity"), and shall bear interest on the principal amount thereof at the rate per annum equal to the Variable Rate (as hereinafter defined), as such may be adjusted from time to time as hereinafter provided. Interest shall be computed on the basis of the actual number of days in the year and the actual number of days the Series 2011 Note is outstanding. Principal and interest shall be payable on its Stated Maturity or upon earlier redemption of the Series 2011 Note.

Principal of the Series 2011 Note from time to time outstanding shall bear interest from the date of issuance thereof, as provided in this Section 3.01, until paid at the Variable Rate, as such may be adjusted from time to time as hereinafter provided. Until the initial Adjustment Date (as hereafter defined), the Variable Rate shall be one and ninety-five hundredths percent (1.95%) per annum. Thereafter, for the Adjustment Period (as hereafter defined), the Variable Rate shall be the rate per annum equal to the interest rate then borne by the Board of Investment's Annual Adjustable Rate Tender Option, Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program), plus up to one and one-half percent (1.50%) per annum, as certified by the Board of Investments as of the Adjustment Date, but in no event to exceed fifteen percent (15.00%) per annum. If for any reason the interest rate cannot be established as so provided or is held invalid or unenforceable by a court of law, the interest rate for the Series 2011 Note for the Adjustment Period shall be a rate equal to the largest integral multiple of five hundredths of one percent (0.05%) that is equal to or less than eighty percent (80%) of the average yield, evaluated at par, of United States Treasury obligations with a stated

or remaining maturity of one year, as reported in *The Wall Street Journal* (Des Moines Edition) (or, if such paper is no longer published or fails to report such information, in any other financial periodical selected by the U.S. Bank National Association, of Seattle, Washington, and reasonably acceptable to the Holders of the Series 2011 Note) on the Adjustment Date or, if the Adjustment Date is not a Business Day, the next preceding Business Day, but in no event to exceed fifteen percent (15.00%) per annum. As used herein, "Adjustment Date" means each February 16 and "Adjustment Period" means the period beginning on an Adjustment Date and ending on the day before the next succeeding Adjustment Date or the final Stated Maturity of the Series 2011 Note, whichever is earlier; provided that if the Series 2011 Note is not paid at its final Stated Maturity, the final Adjustment Period with respect to the Series 2011 Note shall extend until it is paid or provision has been duly made for its payment.

3.02. Registration. The Series 2011 Note shall be fully registered as to both principal and interest and shall initially be registered in the name of and payable to the Original Purchaser thereof. The Town Clerk-Treasurer shall act as Note Registrar and as such shall establish and maintain a Note Register for the purpose of recording the names and addresses of the registered owners of the Series 2011 Note and the date of registration of any transfer.

3.03. Redemption. The Series 2011 Note shall be subject to redemption in whole but not in part, on any date, at the principal amount thereof plus accrued interest, without premium. Not less than 15 days before the date specified for redemption thereof, the Town Clerk-Treasurer shall mail notice of the redemption to the registered owner thereof at the address as it appears on the registration books of the Note Registrar.

3.04. Form of Series 2011 Note. The Series 2011 Note shall be prepared in substantially the form attached as Exhibit A to this Resolution, which is hereby incorporated herein and made a part hereof, with such appropriate variations, omissions and insertions as are permitted or required by this Resolution.

3.05. Assignment. The Series 2011 Note shall be transferable by the registered owner or attorney duly authorized in writing upon presentation thereof to the Town Clerk-Treasurer together with a written instrument of transfer satisfactory to the Town Clerk-Treasurer duly executed by the registered owner or its attorney. Such transfer shall be noted on the Series 2011 Note. Upon request of the registered owner or transferee, the Town shall execute and deliver another Series 2011 Note of a principal amount equal to the outstanding principal amount of the Series 2011 Note and maturing at the same time as the Series 2011 Note so transferred, and the Series 2011 Note so surrendered for transfer shall be promptly cancelled by the Town Clerk-Treasurer. No service charge shall be made for such transfer, but the Town may require payment of a sum sufficient to cover any tax, fee or governmental charge or other expense incurred by the Town with respect to such transfer. Until and unless otherwise provided by resolution of this Council, the following shall be a sufficient written instrument of transfer within the meaning of this Section 3.05:

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto:
_____ the Water System Revenue

Bond Anticipation Note, Series 2011, No. R-_, of the Town of Stevensville, Montana, and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Registered Owner

3.06. Preparation, Execution and Delivery of Series 2011 Note. The Series 2011 Note shall be issued and delivered to the Original Purchaser thereof upon payment of the purchase price thereof. The Series 2011 Note shall be prepared under the direction of the Town Clerk-Treasurer and when so prepared shall be executed on behalf of the Town by the Mayor and the Town Clerk-Treasurer, and sealed with the corporate seal of the Town. When the Note has been so executed, it shall be delivered by the Town Clerk-Treasurer to the Original Purchaser thereof, and the Original Purchaser shall not be required to see to the application thereof.

3.07. The Loan. The Town will observe and perform all of its obligations and duties under and do all acts and things as may be necessary or appropriate to satisfy the terms and conditions of the Commitment Letter described in Section 1.08 of this Resolution, and all other regulations and requirements of the USDA relating to the Loan and the receipt of the proceeds therefrom to the end that the Loan may be closed and the Definitive Bond issued and delivered in evidence thereof on or before the maturity of the Series 2011 Note.

3.08. Issuance of Definitive Bond. The Series 2011 Note shall be payable solely from and secured by the Net Revenues and other revenues and income pledged and appropriated and from time to time credited to the Note Account, including the proceeds of the Definitive Bond. The Series 2011 Note is issued in anticipation of the Net Revenues to be received and credited to the Note Account prior to the maturity thereof and the proceeds to be received upon the sale and issuance of up to \$2,173,000 principal amount of the Definitive Bond authorized by Section 4 of this Resolution and to be issued and sold by the Town prior to the maturity of the Note to refund the principal amount thereof then outstanding.

The Town hereby covenants and agrees for the benefit from time to time of the owners of the Series 2011 Note that on or before February 15, 2013, it will authorize, issue and offer for sale and use its best efforts to sell the Definitive Bond or other Additional Bonds to refund the Series 2011 Note at its stated maturity. In the event the Town is unable to sell the Definitive Bond herein authorized or such Additional Bonds, the Holders of the Series 2011 Note shall be entitled, at their option, to exchange the Series 2011 Note for one or more Definitive Bond amortized in semiannual installments over a ten-year period or fifteen-year period (at the election of the Holders of the Series 2011 Note) and bearing interest at a rate equal to the Variable Rate as defined in Section 3.01 of this Resolution on a par-for-par basis, and the Town covenants and agrees to increase the rates and charges of the System, if necessary, to comply with Section 7.09 within one year after the date of issuance thereof.

3.09. Increase in Rates and Charges. It is expressly understood that the Definitive Bond will be payable from and secured by the Net Revenues of the System. The Town hereby covenants and agrees with the Holder of the Series 2011 Note that the Town has increased the rates, charges and rentals for all services directly or indirectly furnished by the System, effective as of October 1, 2010, such that such rates, charges and rentals are reasonable and expected to be sufficient to produce Net Revenues of the System in each Fiscal Year, not less than 110% of the maximum Principal and Interest Requirements on the Definitive Bond, commencing with the Fiscal Year ending June 30, 2011.

3.10. Application of Proceeds. All of the proceeds of the Series 2011 Note shall be deposited in the Construction Account established in and pursuant to Section 6.02 hereof and used solely to defray expenses of the 2011 Project and costs of issuance or to the transfer to the Note Account, created pursuant to Section 6.09 of this Resolution, to the extent necessary, of amounts sufficient for the payment of interest and principal due upon the Series 2011 Note.

Section 4. The Definitive Bond.

4.01. Date, Maturity and Interest. The Definitive Bond to be issued and sold pursuant to this Resolution shall be designated a Water System Revenue Bond, Series 20__ [the series designation to be completed with the calendar year in which the Definitive Bond is issued], shall be in the maximum principal amount of \$2,173,000, shall be one in number, shall be dated as of the date of delivery to and payment therefor by the USDA, and shall bear interest at the rate of three and one-quarter percent (3.250%) per annum. Interest shall be computed on the basis of a 365-day year based on the actual number of days elapsed. Principal of and interest on the Definitive Bond shall be payable in equal amortized monthly installments of \$8,106 commencing on the same date as the date of issuance of the Definitive Bond in the calendar month next succeeding the calendar month containing such date of issuance, but no later than the 28th day of the month, and the final installment being due and payable not later than forty (40) years from the date of issuance of the Definitive Bond. The final payment will be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. Such installment payments shall be made to the registered holder of the Definitive Bond, at its address as it appears on the Bond Register on the date such principal and interest are payable, or as otherwise provided in Section 4.02, in lawful money of the United States of America.

4.02. Registration. The Definitive Bond shall be fully registered as to both principal and interest and shall be initially registered in the name of and payable to the United States of America acting through Rural Utilities Service, United States Department of Agriculture. While held by the United States of America acting through Rural Utilities Service, United States Department of Agriculture, the address of the registered holder shall be the Office of the Deputy Chief Financial Officer, USDA, at 4300 Goodfellow Boulevard, St. Louis, Missouri 63120, or such other address as the USDA may designate in writing and delivered to the Registrar for the Definitive Bond, and principal of and interest on the Definitive Bond shall be payable at the State Office of the USDA Rural Development, at 2229 Boot Hill Court, Bozeman, Montana 59715, or such other place as may be designated by the USDA in writing and delivered to the Registrar for the Definitive Bond. The Town Clerk-Treasurer and her successors in office shall act as Registrar for the Definitive Bond and as such shall establish and maintain a Bond Register for the purpose of recording the names and addresses of the registered holder or assigns of the

Definitive Bond, and the date of registration. The Town reserves the right to appoint a successor Registrar which may be a financial institution. The Town shall pay all fees and charges of such Registrar for such services.

4.03. Redemption. The Town shall have the right, on any installment payment date to redeem installments of principal of the Definitive Bond, in whole or in part, and if in part, in multiples of \$1,000, at a price equal to the principal amount to be redeemed plus accrued interest without premium; provided, that so long as the Definitive Bond is registered in the name of the United States of America, the Town may redeem all or any portion of the principal on any date without penalty or premium. All such prepayments shall be applied to installments of principal in inverse order of their maturity dates. The Town Clerk-Treasurer shall, at least 30 days prior to the designated redemption date, cause notice of the redemption to be mailed to the registered holder of the Bond at its address as it appears in the bond register described in Section 4.01(b). The Registrar shall enter in the Bond Register the amount and date of each prepayment.

4.04. Assignment and Exchange. The Definitive Bond shall be transferable by the registered owner or its attorney duly authorized in writing upon presentation thereof to the Registrar together with a written instrument of transfer satisfactory to the Registrar and duly executed by the registered owner or its attorney. The following form of assignment shall be sufficient for the purpose:

For value received _____
_____ hereby sells, assigns and transfers unto
_____ the within Bond of the Town of Stevensville,
Montana, and does hereby irrevocably constitute and appoint
_____, Attorney, to transfer said Bond on the books of
said Town with full power of substitution in the premises.

Dated: _____

Registered Owner

Such transfer shall also be noted on the Definitive Bond and in the Bond Register. Upon request of the registered owner or transferee, and upon surrender of any Definitive Bond, the Town shall execute and deliver, and the Registrar shall authenticate, one or more bonds, in an aggregate principal amount (and, if more than one bond is to be issued, in denominations that are multiples of \$1,000, to the extent practicable) equal to the principal amount of the Definitive Bond that then remains unpaid, and maturing at the same time or times as the then unpaid principal installments of the Definitive Bond, and the Definitive Bond shall be promptly cancelled by the Registrar. No service charge shall be made for such transfer or exchange, but the Town may require payment of a sum sufficient to cover any tax, fee or governmental charge or other expense incurred by the Town with respect to such exchange. In the event of a request for the issuance of more than one new bond upon any such exchange, the Town Council shall, by resolution, make such provisions relative to the form of such bonds as shall be deemed necessary or desirable to ensure that the terms of and the security for the indebtedness represented by the Definitive Bond shall not be varied in any material respect by reason of such exchange.

4.05. Execution and Delivery. The Definitive Bond shall be prepared under the direction of the Town Clerk-Treasurer and shall be executed on behalf of the Town by the signature of the Mayor and countersigned by the Town Clerk-Treasurer, and sealed with the official corporate seal of the Town. When the Definitive Bond has been executed, the Town Clerk-Treasurer shall cause it to be dated as of the date of delivery and delivered to the USDA, as the Original Purchaser thereof, upon payment of the purchase price heretofore agreed upon, and the USDA shall not be obligated to see to the application of the purchase price.

4.06. Refinancing. If, at any time it shall appear to the Rural Utilities Service that the Town is able to refinance the principal amount of the Definitive Bond then outstanding, in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources at reasonable rates and terms for loans for similar purposes and periods of time, the Town will, upon request of the USDA, apply for and accept such loan in a sufficient amount to repay the USDA and will take all such action as may be required in connection with such loan.

4.07. Transcript Certification. The officers of the Town are directed to furnish to Bond Counsel and the USDA certified copies of all proceedings and information in their official records relevant to the authorization, sale, execution and issuance of the Definitive Bond, and such certificates and affidavits as to other matters appearing in their official records or otherwise known to them as may be reasonably required to evidence the validity and security of the Definitive Bond, and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations and recitals of the Town as to the correctness of all facts stated therein and the completion of all proceedings stated therein to have been taken.

4.08. Form of Definitive Bond. The Definitive Bond shall be prepared in substantially the form attached as Exhibit B to this Resolution, which is hereby incorporated herein and made a part hereof, with such appropriate variations, omissions and insertions as are permitted or required by this Resolution.

4.09. Appropriation of Definitive Bond Proceeds. The proceeds of the Definitive Bond are appropriated to the Note Account to the extent required to pay principal of and interest on the Series 2011 Note and otherwise to the Construction Account in the Water System Fund and applied to the costs of the 2011 Project, including costs of issuance of the Definitive Bond.

Section 5. Additional Obligations.

5.01. General Provisions. In addition to the Definitive Bond, whose issuance and delivery is provided for in Section 4, Additional Bonds may at any time and from time to time be issued, sold and delivered by the Town but only upon compliance with the conditions of this Section and upon filing with the Town Clerk-Treasurer of the following:

A. A Supplemental Resolution creating the designated series of Additional Bonds and authorizing the issuance and the sale thereof to the Original Purchaser or Purchasers named therein for the purchase price set forth therein;

B. An Opinion of Bond Counsel stating in effect:

(1) that all conditions precedent provided for in the Resolution relating to the issuance and delivery of such Additional Bonds have been complied with, including any conditions precedent specified in this Section;

(2) that the series of Additional Bonds when issued and delivered by the Town will be valid and binding special, limited obligations of the Town in accordance with their terms and this Resolution and entitled to the benefits of and secured by this Resolution; and

(3) that the issuance of such Additional Bonds will not adversely affect the exemption from federal income taxation of the interest on any Bonds then Outstanding.

C. A certificate signed by the Mayor and Town Clerk-Treasurer stating that the Town is not then in default under this Resolution and that on the date of issuance of such Additional Bonds the balance in the Reserve Account equals the Reserve Requirement, or the Town has provided for increasing the balance in the Reserve Account to the Reserve Requirement upon the issuance of such Additional Bonds, calculated assuming the issuance of such Additional Bonds, within 36 months after the date of issuance of the Additional Bonds in not less than equal monthly installments.

D. If the Additional Bonds are issued to pay the costs of completing the 2011 Project which may not be paid from any other sources, a certificate signed by the Mayor and the Town Clerk-Treasurer to that effect.

E. If the Additional Bonds are issued to finance a Project other than the 2011 Project, (i) if the Definitive Bond is then Outstanding, the written consent of the USDA, if it is the Holder of the Definitive Bond, is obtained; and (ii) a certificate or report from an Independent Accountant or engineer (hereinafter, the "Independent Consultant") stating that the Net Revenues in the Fiscal Year immediately preceding the issuance of such Additional Bonds were at least equal to 110% of the maximum Principal and Interest Requirements for any future Fiscal Year (during the term of the then Outstanding Bonds) with respect to the Outstanding Bonds and the Additional Bonds proposed to be issued; provided, however, that the requirements of clause (ii) hereof may be waived or modified by the Holders of not less than 75% in principal amount of the then Outstanding Bonds. For purposes of the preceding sentence, if the Town has increased the rates, fees, charges and rentals for the benefit and availability of the System and such rates, fees and charges are in effect at the time of issuance of the Additional Bonds or finally authorized to go into effect within 30 days thereafter or if the Town has extended the System to serve additional ratepayers since the beginning of the preceding Fiscal Year, the Independent Consultant may adjust the historical Net Revenues of the System for the preceding Fiscal Year to include Net Revenues which, in the opinion of the Independent Consultant would have been received had such increased rates, fees, charges and rentals been in effect during the entire preceding Fiscal Year or had such extension of the System been placed in service at the beginning of the preceding Fiscal Year. In addition, if the Independent Consultant determines that additional Operating Expenses will be incurred because of the proposed Project, the annual additional Operating Expenses shall be added to the Operating Expenses for the preceding Fiscal Year in determining Net Revenues for purposes of the first sentence of this paragraph.

F. If the Additional Bonds are issued to refund any one or more Bonds then Outstanding, there is to be filed with the Town Clerk-Treasurer:

(1) (i) either (a) a report of an Independent Accountant to the effect that (a) the proceeds (excluding accrued interest but including any premium) of the Additional Bonds plus any money available and to be withdrawn from the Debt Service Account or the Reserve Account for such purpose, will not be less than an amount sufficient to pay the principal of and redemption premium, if any, on the Outstanding Bonds to be refunded and the interest which will become due and payable on and before the Redemption Dates or Stated Maturities of the Bonds to be refunded, or (b) from such proceeds there shall be deposited in an Escrow Account in trust, Government Obligations which do not permit the redemption thereof at the option of the issuer, the principal of and the interest on which when due and payable (or redeemable at the option of the holder thereof) will provide, together with any other money which shall have been deposited irrevocably in the Escrow Account for such purpose, but without reinvestment, sufficient money to pay such principal, any redemption premium and interest; or

(ii) if the Supplemental Resolution authorizing the issuance of the refunding Bonds provides for the creation of an escrow account with a bank qualified by law as an escrow agent for this purpose and provides that amounts in such escrow fund are pledged only to and may be used only for the payment of the principal of, if any, or interest on the Additional Bonds until the first optional redemption date of the Outstanding Bonds to be refunded at which time such amounts must be transferred to the Debt Service Account and used to pay the principal of and premium, if any, on the Outstanding Bonds to be refunded, a report of an Independent Accountant to the effect that the proceeds of such Additional Bonds to be deposited in such escrow account are in an amount sufficient to pay the principal, if any, and interest on the Additional Bonds payable until the first optional redemption date of the Outstanding Bonds to be refunded and to pay the principal of and premium, if any, on all Outstanding Bonds to be refunded on such date; and

(2) (x) if the Principal and Interest Requirements of the Additional Bonds exceed in any Fiscal Year by more than 5% the Principal and Interest Requirements of the Outstanding Bonds to be refunded, (y) if not all Outstanding Bonds of a series are to be refunded and if the first Stated Maturity of the series of Additional Bonds proposed to be issued is earlier than the final Stated Maturity of any Outstanding Bonds of such series not to be refunded, or (z) if the Definitive Bond would remain Outstanding after the issuance of the Additional Bonds, the consent of the Holder of the Definitive Bond, and a certificate or report of an Independent Consultant as would be required under the preceding paragraph E of this Section.

Section 5.02. Additional Notes. In addition to the Series 2011 Note, the Town may from time to time issue Additional Notes in anticipation of the issuance of Additional Bonds subject to the following conditions:

(a) the Additional Bonds in anticipation of which the Notes are issued, assuming a maximum rate of interest on such Bonds, shall be authorized to be issued under Section 5.01,

(b) the payment of interest on the Notes from the Net Revenues shall be subordinated to Outstanding Bonds and the principal of the Notes shall be payable solely from the proceeds of

the Additional Bonds, unless the Town is unable to sell the Additional Bonds, in which case the Notes shall be exchanged, at the option of the Holders of the Notes, for the Additional Bonds on a par-for-par basis at an interest rate equal to the maximum rate assumed in subsection (a) of this Section 5.02, and

(c) the Notes shall have Stated Maturities within three years after their date of issue.

The Town reserves the right to issue Additional Notes from time to time to pay the principal of or interest on Outstanding Notes.

Section 5.03. Subordinate Lien Obligations. Notwithstanding the foregoing provisions of this Section 5, nothing contained in this Resolution, the Series 2011 Note or the Definitive Bond shall be construed to preclude the Town from issuing additional obligations when necessary for the enlargement, improvement or extension of the System without compliance with Section 5.01; provided such additional obligations are expressly made a charge on and are payable only from the Surplus Net Revenues, as defined in Section 6.06, and are subordinate to the Bonds payable from the Debt Service Account and to Outstanding Notes payable from the Note Account and provided further, that if the Definitive Bond is then outstanding, the written consent of the Holder of such bond is obtained; provided, however, no obligations may be issued pursuant to this Section 5.03 if a deficiency exists in the Debt Service Account, the Note Account or the Reserve Account which is not to be restored by the issuance of the subordinate obligations. Any Surplus Net Revenues segregated to pay or secure such subordinate lien obligations in the Water System Fund are subject to the prior appropriation thereof to the Debt Service Account, the Reserve Account, the Note Account or the Rebate Account if necessary to meet the requirements thereof.

Section 6. Water System Fund.

6.01. Proceeds and Revenues Pledged and Appropriated. A special Water System Fund is hereby created and shall be maintained as a separate bookkeeping account on the official books of the Town until all Obligations and interest and redemption premiums due thereon have been fully paid, or the Town's obligations with reference to such Obligations has been discharged as provided in Section 9. All proceeds of Obligations and all other funds presently on hand derived from the operation of the System are irrevocably pledged and appropriated to the Water System Fund. In addition, there is hereby irrevocably pledged and appropriated to the Water System Fund all Revenues. Within the Water System Fund shall be separate accounts designated and described in Sections 6.02 through 6.09, to segregate income and expenses received, paid and accrued for the respective purposes described in those sections. The Revenues received in the Water System Fund shall be apportioned monthly as of the first day of each month, commencing on the first day of the month immediately following the date of closing of the Series 2011 Note.

6.02. Construction Account. The Construction Account is hereby established as a separate account within the Water System Fund. Upon delivery of the Series 2011 Note, the Town shall credit to the Construction Account the proceeds of the Series 2011 Note to be applied to the payment of costs of the 2011 Project, including costs of issuance of the Series 2011 Note. Upon delivery of the Definitive Bond, the Town shall credit to the Construction Account, the

proceeds of the Definitive Bond, if any, in excess of the amounts thereof to be deposited to the Note Account, to be applied to the payment of costs of the 2011 Project, including costs of issuance of the Definitive Bond. The Construction Account shall be used only to pay as incurred and allowed Project costs, which under generally accepted accounting principles are capital costs of Projects authorized in accordance with law, including but not limited to payments due for work and materials performed and delivered under construction contracts, architectural, engineering, inspection, supervision, fiscal and legal expenses, the cost of lands and easements, interest accruing on Bonds during the period of construction of the Project financed thereby and for six months thereafter, if and to the extent that funds on hand in the Debt Service Account or the Note Account are not sufficient for payment of such interest, reimbursement of any advances made from other Town funds, and all other expenses incurred in connection with the construction and financing of such Projects including the costs of issuance of Bonds and Notes. To the Construction Account shall be credited as received all proceeds of Obligations issued to finance Projects and any other funds appropriated by the Town for an improvement, betterment or extension to the System, and all income received from the investment of the Construction Account. Upon completion of a Project for which Bond proceeds have been credited to the Construction Account, the balance of such Bond proceeds remaining in the Construction Account may be used to pay the cost of other capital improvements to the System to the extent permitted by the Act but if and to the extent not so used shall be transferred to the Reserve Account to the extent required to establish the Reserve Requirement therein and, to the extent not so required, to the Debt Service Account. Upon completion of a Project for which Note proceeds have been credited to the Construction Account, the balance of such Note proceeds remaining in the Construction Account may be used to pay the cost of other capital improvements to the System to the extent permitted by the Act and the Resolution but if and to the extent not so used shall be transferred to the Note Account.

6.03. Operating Account. The Operating Account is hereby established as a separate account within the Water System Fund. As of each monthly apportionment there shall be set aside and credited to the Operating Account, as a first charge on the Revenues, such amount as may be required over and above the balance then held in the Operating Account to pay the reasonable and necessary Operating Expenses of the System which are then due and payable, or are to be paid prior to the next monthly apportionment. Operating Expenses shall not include any allowance for interest expense or depreciation, renewals or replacements of capital assets of the System and shall not include any portion of the salaries or wages paid to any officer or employee of the Town, except such portion as shall represent reasonable compensation for the performance of duties necessary to the operation of the System. An operating reserve within the Operating Account is to be accumulated and maintained in an amount equal to the average monthly Operating Expenses for the preceding Fiscal Year or for another period selected by the Council, not less than six consecutive months of the preceding eighteen months. Money in the Operating Account shall be used solely for the payment of current Operating Expenses of the System.

6.04. Debt Service Account. The Debt Service Account is hereby established as a separate account within the Water System Fund. As of each monthly apportionment there shall be credited to the Debt Service Account out of the Net Revenues remaining after the credit to the Operating Account an amount equal to the principal of and interest on the Definitive Bond and any Additional Bonds Outstanding that are payable monthly payable on the next succeeding

installment payment date and, if Additional Bonds are Outstanding that are payable semi-annually, an amount equal to not less than one-sixth of the interest due within the next six months on all such Additional Bonds then Outstanding and one-twelfth of the principal, if any, to become due within the next twelve months on all such Additional Outstanding Bonds; provided that the Town shall be entitled to reduce a monthly apportionment by the amount of any surplus previously credited and then on hand in the Debt Service Account. Money from time to time held in the Debt Service Account shall be disbursed only to meet payments of principal of and interest on the Bonds as such payments become due; provided that on any date when the amount then on hand in the Debt Service Account, plus the amount in the Reserve Account allocable to a series of Bonds, are sufficient with other moneys available for the purpose to pay or discharge all Bonds of that series and the interest accrued thereon in full, they may be used for that purpose. If any payment of principal or interest becomes due when money in the Debt Service Account is temporarily insufficient therefor, such payment shall be advanced from the Debt Service Account from transfers thereto of available funds then on hand in the Reserve Account, the Repair and Replacement Account or the Surplus Account, in that order.

6.05. Reserve Account. The Reserve Account is hereby established as a separate account within the Water System Fund. Subject to any additional funding requirements resulting from the issuance of any Additional Bonds, commencing with the monthly amortization payments under Section 4.01 with regard to the Definitive Bond and simultaneously therewith throughout the first ten years of such payments, and in addition to and from the Net Revenues remaining after each monthly credit to the Debt Service Account required by Section 6.04, the Town shall credit to the Reserve Account in regards to the Definitive Bond a minimum of \$811 per month (or, in the event less than the total principal amount of the Definitive Bond is advanced, such lesser amount as will be necessary to total the initial Reserve Requirement in 120 equal monthly installments) to accumulate over such period in respect of the Definitive Bond a balance in the Reserve Account equal to \$97,272 (the initial Reserve Requirement for the Definitive Bond assuming all of the principal amount of the Definitive Bond is advanced) or such lesser amount to equal the initial Reserve Requirement on the total principal amount of the Definitive Bond advanced. Thereafter, upon each monthly apportionment, if the balance in the Reserve Account is less than the Reserve Requirement, all Net Revenues in the Water System Fund remaining after the required credit to the Debt Service Account shall be credited to the Reserve Account until the balance therein equals the Reserve Requirement. If the monthly credit of \$811 would cause the Reserve Requirement to be exceeded, such monthly credit shall not be required to be made, unless and until the balance in the Reserve Account should be less than the Reserve Requirement, in which case, the Town shall cause the amount in the Reserve Account to equal the Reserve Requirement as soon as practicable and in any event shall resume depositing \$811 per month into the Reserve Account until the Reserve Requirement is satisfied.

If on any Interest Payment Date or Principal Payment Date there shall exist a deficiency in the Debt Service Account, the Town shall immediately transfer from the Reserve Account to the Debt Service Account an amount equal to such deficiency.

If the Town issues Additional Bonds the Town shall, upon issuance of the Additional Bonds or within 36 months thereafter, in not less than equal monthly installments, from the Net Revenues remaining after the apportionment to the Debt Service Account, increase the balance in

the Reserve Account to the Reserve Requirement, calculated after giving effect to the issuance of such Additional Bonds.

Except as provided in Section 6.08, money held in the Reserve Account shall be used only to pay maturing principal and interest when money in the Debt Service Account is insufficient therefor or to pay or defease a series of Bonds as provided in Section 6.04.

If at any time (including, but not limited to, any Principal Payment Date and any Redemption Date), the balance in the Reserve Account exceeds the Reserve Requirement, the Town shall transfer such excess to the Debt Service Account to meet the requirements thereof or to the Repair and Replacement Account.

6.06. Repair and Replacement Account. The Repair and Replacement Account is hereby established as a separate account within the Water System Fund. As of each monthly apportionment, there shall be credited to the Repair and Replacement Account such portion of the Net Revenues, in excess of the current requirements of the Debt Service Account, the Reserve Account, and the Note Account (which portion of the Revenues is referred to herein as "Surplus Net Revenues"), as the Town shall determine to be required for replacement or renewal of worn out, obsolete or damaged properties and equipment of the System, provided, however, that if the Definitive Bond is Outstanding and if the balance in the Reserve Account equals the maximum Reserve Requirement and the Town is otherwise in compliance with its covenants herein, the amount in excess of the Reserve Requirement, to the extent not credited to the Debt Service Account as provided in the last paragraph of Section 6.05, will be placed in the Repair and Replacement Account or the Surplus Account. The Town hereby establishes a subaccount in the Repair and Replacement Account denominated the Short-Lived Asset Replacement Reserve Subaccount. Commencing on the date that is one month following the date of issuance of the Series 2011 Bond and monthly thereafter throughout the ensuing years, the Town shall deposit in the Short-Lived Asset Replacement Reserve Subaccount from Surplus Net Revenues \$1,395 per month until the amount accumulated therein is ultimately equal to \$169,000 or as adjusted for inflation. Money in the Short-Lived Asset Replacement Reserve Subaccount is to be used for the replacement of Short-Lived Assets, but may be applied to pay and discharge the Definitive Bond, together with other available funds of the Town, if the amount therein is then sufficient to pay and discharge the Definitive Bond in full. Once the balance in the Short-Lived Asset Replacement Reserve Subaccount has accumulated to \$169,000, if the balance therein drops below \$169,000, Surplus Net Revenues will be credited to the Short-Lived Asset Replacement Reserve Subaccount in an amount sufficient to cause the balance to equal \$169,000 as soon as reasonably practical; provided that the Town shall not be required to fund such subaccount more rapidly than \$1,395 per month. Money in the Repair and Replacement Account shall be used only for the purposes above stated or, but only if the above requirements of the Repair and Replacement Account are satisfied, including those relating to funding the Short-Lived Asset Replacement Reserve Account, and if so directed by the Council, to pay Operating Expenses, to redeem Obligations which are prepayable according to their terms, to pay principal or interest when due thereon as required in Section 6.04 or Section 6.09, to pay the cost of improvements to the System, to be transferred to the Rebate Account as provided in Section 6.08 or to be transferred to the Surplus Account; provided that in the event construction and installation of additional improvements or additions to the System are financed other than from Obligations, so long as the amounts required are on deposit in the Short-Lived Asset Replacement Reserve

Subaccount, Surplus Net Revenues from time to time received may be segregated and paid into one or more separate and additional accounts for the repayment of such indebtedness and interest thereon, in advance of payments required to be made into the Repair and Replacement Account; and provided further that amounts in the Short-Lived Asset Replacement Reserve Subaccount may be used only for the replacement of Short-Lived Assets or to discharge the Definitive Bond as stated above.

6.07. Surplus Account. The Surplus Account is hereby established as a separate account within the Water System Fund. Any amount of the Surplus Net Revenues from time to time remaining after the applications thereof required by Sections 6.03 to 6.06 and 6.09 shall be credited to the Surplus Account, and the moneys from time to time in that account, when not required to restore a current deficiency in the Debt Service Account, the Reserve Account, the Short-Lived Asset Replacement Reserve Subaccount, or the Note Account as provided in Sections 6.04, 6.05, 6.06, and 6.09, may be used for any of the following purposes and not otherwise:

- (a) To redeem Obligations when and as such Obligations become payable according to their terms; or
- (b) To purchase Obligations on the open market, whether or not the Obligations or other such Obligations may then be prepayable according to their terms; or
- (c) To be held as a reserve for redemption of Obligations payable from the Net Revenues which are not then but will later be prepayable according to their terms; or
- (d) To pay for repairs of or for the construction and installation of improvements or additions to the System; or
- (e) To pay Operating Expenses and to restore the operating reserve or increase the same when determined to be necessary by the Council;
- (f) To pay principal of or interest on, or to redeem, subordinate lien obligations issued under Section 5.03; or
- (g) To be transferred to the Rebate Account as provided in Section 6.08 to meet the requirements thereof.

Except as provided in Section 6.10, no money shall at any time be transferred from the Surplus Account or any other account of the Water System Fund to any other fund of the Town, nor shall such moneys at any time be loaned to other Town funds or invested in warrants, special improvement bonds or other obligations payable from other funds.

6.08. Rebate Account. The Rebate Account is hereby established as a separate account within the Water System Fund. The Town shall make deposits to and disbursements from the Rebate Account pursuant to the Rebate Certificate, and for such purposes may make transfers, in the following order of priority, from the Surplus Account, the Repair and Replacement Account and the Reserve Account, as necessary, to meet the requirements of the Rebate Account. The Town shall invest the Rebate Account in accordance with the provisions of the Rebate Certificate

and shall deposit income from such investments immediately upon receipt thereof in the Rebate Account.

6.09. Note Account. There is hereby established in the Water System Fund a separate and special Note Account (the "Note Account"). If a Note is Outstanding, all Net Revenues remaining after the required credits to the Debt Service Account and the Reserve Account pursuant to this Resolution shall be credited to the Note Account. The Town irrevocably appropriates to the Note Account (a) the proceeds of the loans (including with respect to the Series 2011 Note, the Loan) to the extent required to pay the principal of and interest on Notes, as received, (b) the proceeds of definitive water system revenue bonds issued to redeem Notes, including with respect to the Series 2011 Note, the Definitive Bond, and (c) such other money as shall be appropriated to the Note Account from time to time.

Amounts on deposit in the Note Account shall be used solely to pay the principal of and interest on the Series 2011 Note and any Additional Notes made payable therefrom; provided that, except in the case of the Series 2011 Note, if on any date the balance in the Debt Service Account or the Reserve Account is less than then required, an amount equal to such deficiency will be transferred from the Net Revenues and investment income therefrom on deposit in the Note Account. Upon payment or discharge of the Series 2011 Note and upon the making of the credits to the Note Account required in connection with any other Notes made payable therefrom, all surplus funds therein shall be transferred to the Surplus Account. Until the Series 2011 Note and interest thereon have been paid or discharged, no credits shall be made to the Surplus Account.

6.10. Deposit and Investment of Funds. The Town Clerk-Treasurer shall cause all money pertaining to the Water System Fund to be deposited as received with one or more depository banks duly qualified in accordance with the provisions of Montana Code Annotated, Section 7-6-201, as amended, in a deposit account or accounts. The balance in such accounts, except such portion thereof as shall be guaranteed by federal deposit insurance, shall at all times be secured to its full amount by bonds or securities of the types set forth in said Section 7-6-206. No money shall at any time be withdrawn from such deposit accounts except for the purposes of the Water System Fund as defined and authorized in this Resolution; except that money from time to time on hand in the Water System Fund may at any time, in the discretion of the Council, be invested in securities which are direct, general obligations of, or obligations the prompt payment of the principal of and the interest on which is fully and unconditionally guaranteed by, the United States of America, which investments mature and bear interest at the times and in the amounts estimated to be required to provide cash when needed for the purposes of the respective accounts; provided that moneys on deposit in the Reserve Account, the Repair and Replacement Account and the Surplus Account may be invested in any such securities, but such securities shall be valued annually at their market value, and if the value of such securities, plus cash, on hand in the Reserve Account, is less than the Reserve Requirement, the balance therein shall be restored to that amount from any Surplus Net Revenues then on hand in the Surplus Account or the Repair and Replacement Account or from the next Surplus Net Revenues thereafter received. Except as otherwise expressly provided herein, income received from the deposit or investment of money in said accounts shall be credited to the account from which the deposit was made or the investment was purchased, and handled and accounted for in the same manner as other money in that account.

Section 7. Covenants.

7.01. General. The Town covenants and agrees with the Holders from time to time of all Obligations that the recitals contained in Sections 1.04, 1.05, 1.06, 1.07 and 1.08 are correct; and that until all Obligations are fully discharged as provided in this Resolution, it will continue to hold, maintain and operate the System as a public convenience, free from all liens thereon or on the income therefrom other than the liens herein granted or provided for, and will maintain, expend and account for its Water System Fund and the several accounts therein as provided in Section 6, and will not incur a further lien or charge on the income or revenues of the System except upon the conditions and in the manner prescribed in Section 6, and will perform and cause all officers and employees of the Town to perform and enforce each and all of the additional covenants and agreements set forth in this Section 7. The Town further covenants to cause the System to be properly maintained.

7.02. Competing Service. The Town will not establish or enfranchise any other facilities in competition with the facilities of the System.

7.03. Property Insurance. The Town will cause all buildings, properties, fixtures and equipment constituting a part of the System to be kept insured with a reputable insurance carrier or carriers, qualified under the laws of the State, in such amounts as are ordinarily carried, and against loss or damage by such hazards and risks as are ordinarily insured against, by public bodies owning and operating properties of a similar character and size; provided that if at any time the Town is unable to obtain insurance, it will obtain insurance in such amounts and against risks as are reasonably obtainable. The proceeds of all such insurance shall be available for the repair, replacement or reconstruction of damaged or destroyed property, and until paid out in making good such loss or damage, are pledged as security for the Outstanding Obligations. All insurance proceeds received in excess of the amount required for restoration of the loss or damage compensated thereby shall be and become part of the revenues appropriated to the Water System Fund. If for any reason insurance proceeds are insufficient for the repair, replacement and reconstruction of the insured property, the Town shall supply the deficiency from revenues on hand in the Repair and Replacement Account and the Surplus Account.

7.04. Liability Insurance and Surety Bonds. The Town will carry insurance against liability of the Town and its employees for injuries to persons (including death) and damage to property resulting from the construction, operation, maintenance, improvement or extension of the System in amounts not less than \$300,000 for death of or personal injury to any one person, \$1,000,000 for all personal injuries and deaths resulting from any one accident and \$300,000 for property damage in any one accident. It will also cause all persons handling money and other assets of the Fund to be adequately bonded for the faithful performance of their duties and to account for and pay over such money to the Town. Such bond shall be in the penal sum of \$10,000 or such greater amount as may from time to time be on hand in the Debt Service Account and Repair, the Reserve Account, and Replacement Account and the USDA shall be named a co-obligee thereunder to the extent permitted under the Town's insurance and bonding policies. All amounts received under such insurance and bonds shall be applied to the payment of the loss or damage covered thereby. The premiums for all insurance and bonds required by this Section 7.04 and Section 7.03 constitute part of the Operating Expenses of the System, but no insurance liabilities of the Town in excess of amounts received under such insurance and

bonds shall constitute a lien or charge on revenues or any other assets herein or otherwise pledged to the Water System Fund.

7.05. Disposition of Property. The Town will not mortgage, lease, sell or otherwise dispose of any real or personal properties of the System, unless:

(a) Prior to or simultaneous with such mortgage, lease, sale or other disposition, all of the Obligations then Outstanding shall be discharged as provided in Section 9; or

(b)(i) The properties to be mortgaged, leased, sold or otherwise disposed of are unserviceable, inadequate, obsolete or no longer required for use in connection with the System; and

(ii) the mortgage, lease, sale or other disposition will not prevent the Town from complying with the provisions of this Resolution; and

(iii) all proceeds of the mortgage, lease, sale or other disposition of such properties are deposited into the Water System Fund.

7.06. Books and Records. The Town will cause proper and adequate books of record and account to be kept showing complete and correct entries of all receipts, disbursements and other transactions relating to the System, the Net Revenues derived from its operation, and the segregation and application of the Net Revenues in accordance with this Resolution, in such reasonable detail as may be determined by the Town in accordance with generally accepted accounting practice and principles. It will cause such books to be maintained on the basis of a Fiscal Year. The Town shall, within 270 days after the close of each Fiscal Year, cause to be prepared and supply to the Original Purchasers of all series of Obligations then Outstanding and the Registrar a financial report with respect to the System for such Fiscal Year. The report shall be prepared at the direction of the Town Clerk-Treasurer in accordance with applicable generally accepted accounting principles applicable to governmental entities and, in addition to whatever matters may be thought proper by the Town Clerk-Treasurer to be included therein, shall include the following:

(a) A statement in detail of the income and expenditures of the System for the Fiscal Year, identifying capital expenditures and separating them from operating expenditures;

(b) A balance sheet as of the end of the Fiscal Year;

(c) The amount on hand in each account of the Water System Fund at the end of the Fiscal Year;

(d) A list of the insurance policies and fidelity bonds in force at the end of the Fiscal Year, setting out as to each the amount thereof, the risks covered thereby, the name of the insurer or surety and the expiration date of the policy or bond; and

(e) A determination that the report shows full compliance by the Town with the provisions of this Resolution during the Fiscal Year covered thereby, including proper segregation of the capital expenditures from Operating Expenses, maintenance of the Reserve

Requirement in the Reserve Account, and receipt of Revenues during each Fiscal Year as herein required, or, if the report should reveal that the Net Revenues have been insufficient for compliance with this Resolution, or that the methods used in accounting for such revenues were contrary to any provision of this Resolution, the report shall include a full explanation thereof, together with recommendations for such change in rates or accounting practices or in the operation of the System as may be required.

The Town shall also have prepared and supplied to the Original Purchasers of all series of Obligations then Outstanding and all Bond Registrars and Note Registrars, at the time and in accordance with the provisions of Title 2, Chapter 7, Part 5, as amended, an audit report prepared by an Independent Accountant or an agency of the State of Montana in accordance with generally accepted accounting principles and practice with respect to the financial statements and records of the System and if Outstanding Obligations are held by the USDA or another agency or instrumentality of the United States of America, in accordance with the following requirements of this paragraph. The audit report shall include an analysis of the Town's compliance with the provisions of this Resolution. So long as any Outstanding Obligation is held by the USDA or another agency or instrumentality of the United States of America, the audit must be completed and submitted to such Original Purchaser or Purchasers and all Bond Registrars and Note Registrars in accordance with the requirements of the Office of Management and Budget, as then in effect, which currently means that in the event an audit needs to comply with Generally Accepted Government Auditing Standards, it shall be completed and submitted by the date that is 150 days after the end of each Fiscal Year, and in the event Circular No. A-133 controls, the audit shall be completed and submitted by the date that is 270 days after the end of the Fiscal Year. In the event Obligations are Outstanding and none of such Obligations are held by the USDA or an agency or instrumentality of the United States of America, the audit report shall be completed and submitted to the Purchasers and Registrars within one year after the end of each Fiscal Year.

In addition, the Town shall, so long as the Definitive Bond is Outstanding and the USDA is the holder thereof, prior to the beginning of each Fiscal Year submit to the USDA a proposed budget for the ensuing Fiscal Year and shall also submit to the USDA a quarterly income and expense statement for three complete years after completion of the 2011 Project.

7.07. Cost of Insurance and Accounting. The insurance and fidelity bond premiums and the cost of the bookkeeping and audits herein provided for and of the billings and collection of the Revenues shall be payable from the Operating Account.

7.08. Handling of Funds. The employees of the Town, under the direction and control of the Town Clerk-Treasurer, shall keep books of account and collect the rates, charges and rentals for the services and facilities provided by the System and for other money currently receivable on account thereof. All money collected with respect to the System shall be deposited daily with the Town Clerk-Treasurer. The Town Clerk-Treasurer shall be bonded at all times with a surety company authorized to do business in the State, in the amount of at least \$5,000, to assure the faithful carrying out of such duties. Any failure on the part of the Town Clerk-Treasurer to comply and to enforce compliance on the part of all officers and employees concerned with the provisions of this Resolution, and with the Town's other regulations respecting the System, shall

constitute malfeasance for which the Town Clerk-Treasurer and the surety on his bond shall be personally liable.

7.09. Rates and Charges. While any Obligations are Outstanding and unpaid, the rates, charges and rentals for all services and facilities furnished and made available by the System to the Town and its inhabitants, and to all customers within or without the boundaries of the Town, shall be reasonable and just, taking into consideration the cost and value of the System and the cost of maintaining and operating them, and the amounts necessary for the payment of all Obligations and the interest accruing thereon, and the proper and necessary allowances for the depreciation of the System, and no free service shall be provided to any person or corporation. It is covenanted and agreed that the rates, charges and rentals to be charged to all recipients of water services shall be maintained and shall be revised, whenever and as often as may be necessary, according to schedules such that the revenues for each Fiscal Year will be at least sufficient to pay the current expenses of operation and maintenance as herein defined, to maintain the operating reserve herein established, to produce Net Revenues during each Fiscal Year, not less than 110% of the maximum Principal and Interest Requirements on the Bonds, commencing with the Fiscal Year ending June 30, 2011, and to accumulate the amounts required in the Short-Lived Asset Replacement Reserve Subaccount.

If at the close of any Fiscal Year the Net Revenues actually received during such year have been less than required hereby, the Town will forthwith prepare a schedule of altered rates, charges and rentals which are just and equitable and sufficient to produce Net Revenues and Surplus Net Revenues in such amount, and will do all things necessary to the end that such schedule will be placed in operation at the earliest possible date.

The establishment of the above ratio of Net Revenues available for the Debt Service Account is deemed necessary for the issuance of the Definitive Bond upon terms most advantageous to the Town. The excess of the Net Revenues over the annual principal and interest and reserve requirements of the Definitive Bond may be used as authorized in Section 6 of this Resolution.

7.10. Billing. The charges for water services shall be billed at least monthly, and if the bill is not paid within 10 days of the date of billing, or if the customer fails to comply with all rules and regulations established for the System within 30 days after notice of violation thereof (which notice shall be given promptly upon discovery of any such violation), the water service to the premises involved shall be discontinued and shall not be resumed until payment of all past-due bills for water service and compliance with all such rules and regulations.

7.11. Appointment of Superintendent. In the event of default on the part of the Town in the prompt and full payment of principal of or interest on any Obligation, or in the keeping of any covenants herein contained, and if such default shall continue for a period of sixty (60) days, the Council will appoint a special superintendent for the System, with the power and responsibility to operate the System for the Town and to recommend to the Council such revisions of the rates and charges and operating policies as may be necessary to comply with this Resolution, and to assure that the Revenues will be sufficient to pay all principal of and interest on Obligations, and he shall in all things so operate the System as to comply fully with all the requirements and provisions of this Resolution. The right of the Holders of the Obligations to

require employment of such a superintendent shall not be exclusive, and in the event of default as herein outlined, such Holders shall have the right to proceed at law or in equity, in any form of action which shall to them seem appropriate.

7.12. Remedies. The Holders of not less than 25% in principal amount of the Outstanding Obligations shall have the right, either at law or in equity, through suit, action or other proceedings, to protect and enforce the rights of all Holders of such Obligations and to compel the performance of any and all of the covenants required herein to be performed by the Town, and its officers and employees, including but not limited to the fixing and maintaining of rates, fees and charges and the collection and proper segregation of Revenues and the application and use thereof. The Holders of a majority in principal amount of Outstanding Obligations shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Holders of the Obligations or the exercise of any power conferred on them and the right to waive a default in the performance of any such covenant, and its consequences, except a default in the payment of the principal of or interest on any Obligation when due. Nothing herein, however, shall impair the absolute and unconditional right of the Holder of each Obligation to receive payment of the principal of, premium, if any, and interest on such Obligation as such principal, premium and interest respectively become due, and to institute suit for any such payment. Any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Town with power to charge and collect rates, fees and charges sufficient to provide for the payment of any Obligations, and to apply the Revenues in conformity with this Resolution and the laws of the State.

7.13. Future System Improvements. If at any time the Definitive Bond are Outstanding, the Town plans to make improvements or modifications to the System, such improvements or modifications, regardless of the source of funding therefor, shall be subject to review and approval by USDA. The Town shall be responsible for the timely submission of preliminary plans to USDA. USDA approval is based upon consideration of economics, technical feasibility, direct and indirect impacts to the human environment and natural resources, including water quality, floodplains, wetlands and important farmlands.

Section 8. Supplemental Resolutions.

8.01. General. The Town reserves the right to adopt Supplemental Resolutions from time to time and at any time, for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained herein, or of making such provisions with regard to matters or questions arising hereunder as the Town may deem necessary or desirable and not inconsistent with this Resolution, and which shall not adversely affect the interests of the Holders of Outstanding Obligations, or for the purpose of adding to the covenants and agreements herein contained, or to the Revenues herein pledged, other covenants and agreements thereafter to be observed and additional revenues or income thereafter appropriated to the Water System Fund, or for the purpose of surrendering any right or power herein reserved to or conferred upon the Town, or for the purpose of authorizing the creation and issuance of a series of Additional Bonds or Notes or subordinate lien obligations, as provided in and subject to the conditions and requirements of Section 5. Any such Supplemental Resolution may be adopted without notice to or the consent of the Holder of any of the Obligations issued hereunder.

8.02. Consent of Holders. With the consent of the Holders of Obligations issued hereunder as provided in Sections 8.03 and 8.04, the Town may from time to time and at any time adopt a Supplemental Resolution for the purpose of amending this Resolution by adding any provisions hereto or changing in any manner or eliminating any of the provisions hereof or of any Supplemental Resolution, except that no Supplemental Resolution shall be adopted at any time without the consent of the Holders of all Obligations issued hereunder which are then Outstanding and affected thereby, if it would extend the time of payment of interest thereon or principal thereof, would reduce the interest rate thereon or the amount of the principal or the redemption price thereof, would give to any Bond or Bonds any privileges over any other Bond or Bonds, would give to any Note or Notes any privileges over any other Note or Notes, would reduce the sources of revenues or income appropriated to the Water System Fund, or would reduce the percentage in principal amount of such Obligations required to authorize or consent to any such Supplemental Resolution.

8.03. Notice. Notice of the Supplemental Resolution to be adopted pursuant to Section 8.02 shall be mailed by first-class mail to the Holders of all Outstanding Obligations at their addresses appearing in the Bond Register or Note Register, as the case may be, and shall become effective only upon the filing of written consents with the Town Clerk-Treasurer, signed by the Holders of not less than a majority in principal amount of the Obligations then Outstanding and affected thereby. Any written consent to the Supplemental Resolution may be embodied in and evidenced by one or any number of concurrent written instruments of substantially similar tenor signed by Holders in person or by agent duly appointed in writing, and shall become effective when delivered to the Town Clerk-Treasurer. Any consent by the Holder of any Obligation shall bind him and every future Holder of the same Obligation with respect to any Supplemental Resolution adopted by the Town pursuant to such consent; provided that any Holder may revoke his consent with reference to any Obligation by written notice received by the Town Clerk-Treasurer before the Supplemental Resolution has become effective. In the event that unrevoked consents of the Holders of the required amount of Obligations have not been received by the Town Clerk-Treasurer within one year after the mailing of notice of the Supplemental Resolution, the Supplemental Resolution and all consents theretofore received shall be of no further force and effect.

8.04. Manner of Consent. Proof of the execution of any consent, or of a writing appointing any agent to execute the same, or of the ownership by any Person of Obligations shall be sufficient for any purpose of this Resolution and shall be conclusive in favor of the Town if made in the manner provided in this Section 8.04. The fact and date of the execution by any Person of any such consent or appointment may be proved by the affidavit of a witness of such execution or by the certification of any notary public or other officer authorized by law to take acknowledgment of deeds, certifying that the Person signing it acknowledged to him the execution thereof. The fact and date of execution of any such consent may also be proved in any other manner which the Town may deem sufficient; but the Town may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable. The ownership of Bonds shall be proved by the Bond Register and the ownership of Notes shall be proved by the Note Register.

Section 9. Defeasance.

9.01. General. When the liability of the Town on all Obligations issued under and secured by this Resolution and all interest thereon has been discharged as provided in this Section 9, all pledges, covenants and other rights granted by this Resolution to the Holders of such Obligations shall cease, other than to the payment of such Obligations from money segregated for such purpose. The Town may also discharge its liability with respect to one or more Obligations in accordance with this Section 9.

9.02. Maturity. The Town may discharge its liability with reference to any Obligations and interest thereon which are due on any date by depositing with the Registrar for such Obligations on or before the date a sum sufficient for the payment thereof in full; or if any Obligation or interest thereon shall not be paid when due, the Town may nevertheless discharge its liability with reference thereto by depositing with the Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit.

9.03. Prepayment. The Town may also discharge its obligations with respect to any prepayable Obligations called for redemption on any date when they are prepayable according to their terms, by depositing with the Registrar therefor on or before the Redemption Date a sum sufficient for the payment thereof in full; provided that notice of the redemption thereof has been duly given as provided in this Resolution or any Supplemental Resolution relating thereto.

9.04. Escrow. The Town may at any time discharge its liability with reference to any Obligations, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or Government Obligations authorized by law to be so deposited, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without reinvestment, to provide funds sufficient to pay all principal, interest and redemption premiums, if any, to become due on such Obligations at their Stated Maturities or, if such Obligations are prepayable and notice of redemption thereof has been duly given or irrevocably provided for, to such earlier Redemption Date.

No defeasance may be made pursuant to this Section 9.04 with respect to any Bond registered in the name of the United States of America. No defeasance shall be made pursuant to this Section 9.04 unless there has first been presented to the escrow agent a written opinion of nationally recognized bond counsel to the effect that such defeasance shall not cause the interest on any outstanding Obligations to be included in the gross income of the holders thereof for federal income tax purposes.

Section 10. Tax Matters relating to the Series 2011 Note and the Definitive Bond.

10.01. Use of System. The 2011 Project is and will be owned and operated by the Town and used by the Town to provide water services to members of the general public as part of the System. No user of the System is granted any concession, license or special arrangement with respect to the System or any part thereof. The Town shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the 2011 Project or the System or security for the payment of the Series 2011 Note or the Definitive Bond which might cause either the Series 2011 Note or the Definitive Bond to be considered a "private activity bond" or a "private loan bond" within the meaning of Section 141 of the Code.

10.02. General Covenant. The Town covenants and agrees with the owners from time to time of the Obligations that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Series 2011 Note or the Definitive Bond to become includable in gross income for federal income tax purposes under the Code and applicable Treasury Regulations (the "Regulations"), and covenants to take any and all actions within its powers to ensure that the interest on the Definitive Bond will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

10.03. Certification as to Expectations. The Mayor and the Town Clerk-Treasurer, being the officers of the Town charged with the responsibility for issuing the Series 2011 Note and the Definitive Bond pursuant to this Resolution, are authorized and directed to execute and deliver to the Original Purchaser thereof a certificate in accordance with the provisions of Section 148 of the Code, and Section 1.148-2(b) of the Regulations, stating that on the basis of facts, estimates and circumstances in existence on the respective dates of issue and delivery of the Series 2011 Note and the Definitive Bond, it is reasonably expected that the proceeds of thereof will be used in a manner that would not cause the Series 2011 Note or the Definitive Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the Regulations.

10.04. Arbitrage Rebate. (a) The Town hereby represents that the Series 2011 Note qualifies for the exception for small governmental units to the arbitrage rebate provisions contained in Section 148(f) of the Code. Specifically, the Town represents:

(1) The 2011 Project is to be used solely by members of the general public and no special concession or contract is or will be granted to any user of the 2011 Project.

(2) Substantially all (not less than 95%) of the proceeds of the Series 2011 Note will be used for local governmental activities of the Town.

(3) The aggregate face amount of all "tax-exempt bonds" (including warrants, contracts, leases and other indebtedness, but excluding private activity bonds) issued by the Town and all subordinate entities thereof during 2011 is not reasonably expected to exceed \$5,000,000. To date in 2011, the Town has not issued any such tax-exempt bonds, and in the calendar years 2006 through 2010, the Town did not issue any tax-exempt bonds.

(b) If notwithstanding the provisions of paragraph (a) of this Section 10.04, the arbitrage rebate provisions of Section 148(f) of the Code apply to the Series 2011 Note, the Town hereby covenants and agrees to make the determinations, retain records, and rebate to the United States the amounts at the times, required by said Section 148(f).

10.05. Information Reporting. The Town shall file with the Secretary of the Treasury a statement concerning the Series 2011 Note containing the information required by Section 149(e) of the Code.

10.06. Qualified Tax-Exempt Obligation. Pursuant to Section 265(b)(3)(B)(ii) of the Code, the Town hereby designates the Series 2011 Note as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Code. The Town has not designated under Section 265(b) any obligations in 2011 other than the Series 2011 Note under Section 265(b)(3). The


Town hereby represents that it does not anticipate that obligations bearing interest not includable in gross income for purposes of federal income taxation under Section 103 of the Code (including refunding obligations as provided in Section 265(b)(3) of the Code and including "qualified 501(c)(3) bonds" but excluding other "private activity bonds," as defined in Sections 141(a) and 145(a) of the Code) will be issued by or on behalf of the Town and all "subordinate entities" of the Town in 2011 in an amount greater than \$10,000,000.

Section 11. Effective Date; Repeals. This Resolution shall become effective upon passage and all provisions of ordinances, resolutions and other actions and proceedings of the Town which are in any way inconsistent with the terms and provisions of this Resolution are repealed, amended and rescinded to the full extent necessary to give full force and effect to the provisions of this Resolution.

Passed by the Town Council of the Town of Stevensville, Montana, on this 14th day of March, 2011.



Mayor

Attest: 
Interim Town Clerk-Treasurer

(SEAL)

Town hereby represents that it does not anticipate that obligations bearing interest not includable in gross income for purposes of federal income taxation under Section 103 of the Code (including refunding obligations as provided in Section 265(b)(3) of the Code and including "qualified 501(c)(3) bonds" but excluding other "private activity bonds," as defined in Sections 141(a) and 145(a) of the Code) will be issued by or on behalf of the Town and all "subordinate entities" of the Town in 2011 in an amount greater than \$10,000,000.

Section 11. Effective Date; Repeals. This Resolution shall become effective upon passage and all provisions of ordinances, resolutions and other actions and proceedings of the Town which are in any way inconsistent with the terms and provisions of this Resolution are repealed, amended and rescinded to the full extent necessary to give full force and effect to the provisions of this Resolution.

Passed by the Town Council of the Town of Stevensville, Montana, on this 14th day of March, 2011.



Mayor

Attest: _____
Town Clerk-Treasurer

(SEAL)

EXHIBIT A

UNITED STATES OF AMERICA
STATE OF MONTANA
COUNTY OF RAVALLI

TOWN OF STEVENSVILLE

WATER SYSTEM REVENUE BOND ANTICIPATION NOTE
SERIES 2011

No. R-1

\$2,173,000.00

<u>Maturity</u>	<u>Date of Original Issue</u>
February 15, 2013	_____, 2011

REGISTERED OWNER: BOARD OF INVESTMENTS OF THE STATE OF MONTANA

PRINCIPAL AMOUNT: TWO MILLION ONE HUNDRED SEVENTY-THREE
THOUSAND AND NO/100 DOLLARS

FOR VALUE RECEIVED, THE TOWN OF STEVENSVILLE, Montana, a municipal corporation and political subdivision of the State of Montana (the "Town"), acknowledges itself to be indebted and hereby promises to pay to the registered owner named above, or registered assigns, but solely out of the Note Account (the "Note Account") in its Water System Fund (the "Fund"), the principal sum equal to the sum of the amounts entered on Schedule A hereto under "Total Amount Advanced," on the maturity date specified above, with interest on such amount as advanced hereunder, at the Variable Rate (as is hereafter defined), until paid or discharged, all subject to the provisions hereof relating to the redemption of this Note before maturity. Interest shall be computed on the basis of the actual number of days in the year. Principal and interest hereon are payable at maturity or upon redemption hereof. Upon presentation and surrender hereof at the office of the Town Clerk-Treasurer in Stevensville, Montana, the interest hereon and the principal hereof are payable in lawful money of the United States of America to the registered owner of this Note as it appears in the Note Register of the Town.

This Note shall bear interest from the date hereof until paid at the Variable Rate, as such may be adjusted from time to time as hereinafter provided. Until the initial Adjustment Date (as hereafter defined), the Variable Rate shall be one and ninety-five hundredths percent (1.95%) per annum. Thereafter, for the Adjustment Period (as hereafter defined), the Variable Rate shall be the rate per annum equal to the interest rate then borne by the Board of Investment's Annual Adjustable Rate Tender Option, Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program), plus up to one and one-half percent (1.50%) per annum, as certified by the Board of Investments as of the Adjustment Date, but in no event to exceed fifteen percent (15.00%) per annum. If for any reason the interest rate cannot be established as so provided or is

held invalid or unenforceable by a court of law, the interest rate for this Note for the Adjustment Period shall be a rate equal to the largest integral multiple of five hundredths of one percent (0.05%) that is equal to or less than eighty percent (80%) of the average yield, evaluated at par, of United States Treasury obligations with a stated or remaining maturity of one year, as reported in *The Wall Street Journal* (Des Moines Edition) (or, if such paper is no longer published or fails to report such information, in any other financial periodical selected by the U.S. Bank National Association, of Seattle, Washington, and reasonably acceptable to the holders of this Note) on the Adjustment Date or, if the Adjustment Date is not a Business Day, the next preceding Business Day, but in no event to exceed fifteen percent (15.00%) per annum. As used herein, "Adjustment Date" means each February 16 and "Adjustment Period" means the period beginning on an Adjustment Date and ending on the day before the next succeeding Adjustment Date or the final Stated Maturity of this Note, whichever is earlier; provided that if this Note is not paid at its final Stated Maturity, the final Adjustment Period with respect to this Note shall extend until it is paid or provision has been duly made for its payment.

Upon each disbursement of proceeds of this Note, the Holder shall enter the amount advanced on Schedule A attached hereto under "Advances" and the total amount advanced under this Resolution, including such disbursement, under "Total Amount Advanced."

This Note is one in number and comprises all of a duly authorized issue of Notes of the Town (the "Series 2011 Note") issued pursuant to, and in anticipation of the issuance by the Town of its Water System Revenue Bond, Series 20__ (the "Definitive Bond"), evidencing a loan (the "Loan") from the United States of America through Rural Utilities Service, United States Department of Agriculture, authorized to be issued under Resolution No. 270 adopted by the Town Council of the Town on March 14, 2011 (the "Resolution"), to which Resolution, copies of which are on file with the Town, reference is hereby made for a description of the nature and extent of the security for the Series 2011 Note, the conditions under which additional Bonds may be issued on a parity as to payment with the Series 2011 Note or otherwise, the conditions under which the Resolution may be amended and the rights of the Holders of the Series 2011 Note. The Series 2011 Note is issued by the Town for the purpose of providing interim financing for improvements to the Town's municipal water system (the "System") consisting of installing cast in place piping and related improvements.

This Series 2011 Note is issued pursuant to and in full compliance with the Constitution and laws of the State of Montana, particularly Montana Code Annotated, Section 7-7-109, and Title 7, Chapter 7, Parts 44 and 45, as amended (the "Act"), and pursuant to the Resolution. This Series 2011 Note is payable from and secured by a lien on the net revenues of the System (as defined in the Resolution, "Net Revenues") and other revenues and income pledged and appropriated and from time to time credited to the Note Account in the Water System Fund (the "Note Account"), including the proceeds of the Definitive Bond, which the Town has covenanted to issue and sell prior to the maturity of this Note in an amount sufficient, with other funds on hand, to pay the principal hereof and interest hereon.

This Series 2011 Note is not a general obligation of the Town and the Town's general credit and taxing powers are not pledged to the payment of this Series 2011 Note or interest

thereon. This Series 2011 Note does not constitute an indebtedness of the Town within the meaning of any constitutional or statutory provisions.

The Town may redeem on any date, in whole but not in part, the unpaid principal of this Note at a price equal to the principal amount to be redeemed plus interest accrued to the date of redemption, without premium. Notice of any such prepayment will be mailed by the Town not less than 15 days prior to the date specified for payment, to the registered holder of this Note at his address as it appears on the Note Register maintained by the Town Clerk-Treasurer.

The Town has designated this Note as a "qualified tax-exempt obligation" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

As provided in the Resolution and subject to certain limitations set forth therein, this Note is transferable upon the books of the Town at the office of the Town Clerk-Treasurer, by the registered owner hereof in person or by his attorney duly authorized in writing upon surrender hereof together with a written instrument of transfer satisfactory to the Town Clerk-Treasurer, duly executed by the registered owner or his attorney. Upon such transfer, the Town will cause a new Note to be issued in the name of the transferee or registered owner, of the same aggregate principal amount, bearing interest at the same rate and maturing on the same date, subject to reimbursement for any tax, fee or governmental charge required to be paid with respect to such transfer.

The Town may deem and treat the person in whose name this Note is registered as the absolute owner hereof, whether this Note is overdue or not, for the purpose of receiving payment and for all other purposes, and the Town shall not be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that all acts, conditions and things required by the Constitution and laws of the State of Montana to be done, to exist, to happen and to be performed precedent to and in the issuance of this Note in order to make it a valid and binding special obligation of the Town according to its terms, have been done, do exist, have happened and have been performed in regular and due time, form and manner as so required; that the Town, in and by the Resolution, has validly made and entered into covenants and agreements with and for the benefit of the Holders from time to time of the Series 2011 Note including covenants that the rates and charges for the System will from time to time be made and kept sufficient to provide gross income and revenues adequate to pay promptly the reasonable and current expenses of operating and maintaining the System and to produce in each fiscal year, Net Revenues in excess of such current expenses, equal to at least 110% of the maximum amount of principal and interest payable from the Debt Service Account in any subsequent fiscal year, commencing with the fiscal year ending June 30, 2011; that the Town has received a written commitment for the Loan from the United States of America in an amount equal to \$2,173,000 and has by resolution covenanted to satisfy the conditions of the commitment; that the Town has appropriated to the Note Account the proceeds of the Loan to the extent required to pay principal hereof or interest hereon; that by the Resolution, the Town has covenanted, at or prior to the maturity of this Note, to sell and issue the Definitive Bond, either to the United States of America in evidence of the Loan or otherwise pursuant to the Act and the Resolution in a principal amount so as to provide funds sufficient, together with any money on

deposit in the Note Account and available therefor, to pay in full the principal of and interest on this Note at maturity; that if this Note is not paid in full at maturity, the owner hereof may require the Town to issue, in exchange for this Note, on a par-for-par basis, one or more of such Water System Revenue Bonds amortized in semiannual installments over a ten-year period or fifteen-year period (at the option of the Holder) and bearing interest at a rate equal to the Variable Rate as defined herein; that all provisions for the security of the Holder of this Series 2011 Note set forth in the Resolution will be punctually and faithfully performed as therein stipulated; and that the issuance of this Note does not cause the general or special indebtedness of the Town to exceed any constitutional or statutory limitation of indebtedness.

IN WITNESS WHEREOF, the Town of Stevensville, Montana, by its Town Council, has caused this Note to be executed on its behalf by the signature of the Mayor, attested by the Town Clerk-Treasurer, sealed with the official corporate seal of the Town, and has caused this Note to be dated as of _____, 2011.

Attest:

Mayor

Town Clerk-Treasurer

(SEAL)

PROVISIONS FOR REGISTRATION OF TRANSFER

The ownership of this Note and of the interest payable hereon may be transferred to a bona fide purchaser only by delivery with an assignment duly executed by the registered owner or his attorney or legal representative, and the Town may treat the registered owner as the person exclusively entitled to receive payments of principal of and interest on this Note and to exercise all the rights and powers of an owner until this Note is presented to the Town Clerk-Treasurer of the Town of Stevensville, accompanied by said assignment and by assurance of the nature provided by law that the same is genuine and effective, and until such transfer is registered on the books of the Town and noted hereon by the Town Clerk-Treasurer.

REGISTER

The ownership of the unpaid Principal Balance of this Bond and the interest accruing thereon is registered on the books of the Town of Stevensville, Montana in the name of the registered holder appearing on the first page hereof or as last noted below:

<u>Date of Registration</u>	<u>Name and Address of Registered Holder</u>	<u>Town Clerk-Treasurer</u>
_____	Board of Investments 2401 Colonial Dr. P.O. Box 200126 Helena, MT 59620-0126	_____

NO WRITING HEREON EXCEPT BY TOWN CLERK-TREASURER
AS NOTE REGISTRAR

The Town Clerk-Treasurer has transferred on the books of the Town of Stevensville, Ravalli County, Montana, on the date last noted below, to the registered assign noted opposite said date, ownership of the principal amount of and interest on this Note, except the amounts of principal and interest theretofore paid:

<u>Date of Transfer</u>	<u>Registered Assign</u>	<u>Signature of Town Clerk-Treasurer</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

EXHIBIT B

UNITED STATES OF AMERICA
STATE OF MONTANA
COUNTY OF RAVALLI

TOWN OF STEVENSVILLE

WATER SYSTEM REVENUE BOND
SERIES 20__

[the series designation to be completed with the calendar year
in which the Bond is issued]

No. R-1

\$2,173,000.00

FOR VALUE RECEIVED, THE TOWN OF STEVENSVILLE (the "Town"), a duly organized municipal corporation of the State of Montana, acknowledges itself to be specially indebted and hereby promises to pay, solely from the Debt Service Account of its Water System Fund, to the United States of America acting through Rural Utilities Service, United States Department of Agriculture, or any successor agency under Public Law 103-354 (the "USDA"), or registered assigns (the "Holder"), the principal sum of TWO MILLION ONE HUNDRED SEVENTY-THREE THOUSAND AND NO/100 DOLLARS (\$2,173,000.00), in installments as set forth below, and to pay interest thereon, solely from the Debt Service Account, at the rate of three and one-quarter percent (3.250%) per annum. Interest shall be computed on the basis of a 365-day year based on the actual number of days elapsed from and after each advance. Principal of and interest on this Bond shall be payable in equal monthly installments in the amount of \$8,106 beginning _____, ____, [thirty-one or thirty days after the date of delivery of the Series 20__ Bond], but no later than the 28th day of the month, and the final installment being due and payable not later than forty (40) years from the date of issuance of the Definitive Bond. The final payment will be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. The installments of principal and interest are payable at State Office of the USDA Rural Development, at 2229 Boot Hill Court, Bozeman Montana 59715, or such other place as the USDA shall designate in writing, except that in the event that the United States of America has assigned this Bond, the installments of principal and interest are payable to the registered Holder at his address as it appears on the Bond Register of the Town. Principal and interest are payable in any coin or currency of the United States of America which on the respective dates of payment is legal tender for public and private debts.

This Bond is one of an issue of Water System Revenue Bonds, issuable in one or more series from time to time (the "Bonds"), pursuant to Montana Code Annotated, Title 7, Chapter 7, Parts 44 and 45, as amended (the "Act"), and Resolution No. 270 duly adopted by the Town Council of the Town on March 14, 2011, as amended and supplemented by Resolution No. ____, adopted by the Town Council of the Town on _____, 20__ (as so amended and supplemented, the "Resolution"). This Bond (the "Series 20__ Bond") is issued for the purpose of refinancing a portion of the costs the construction, improvement, extension and rehabilitation of certain improvements (the "Improvements") to the municipal water system of the Town (the

“System”), through the refunding of a valid outstanding Water System Revenue Bond Anticipation Note, Series 2011, issued by the Town in the original principal amount of \$2,173,000 and paying costs of issuance, all pursuant to and in full conformity with the Constitution and laws of the State of Montana and resolutions of the Town thereunto enabling, including the Act and the Resolution, to which Resolution reference is made for the terms and conditions, other than those herein stated, upon which this Bond is issued and secured. The Series 20__ Bond and any additional Bonds issued on a parity therewith under the Resolution are referred to as the “Bonds.” The Bonds, including the interest thereon, are payable solely from the revenues pledged to the payment thereof and do not constitute a debt of the Town within the meaning of any constitutional or statutory limitation or provision.

The Town may redeem on any installment payment date, in whole or part and if in part, in multiples of \$1,000, any unpaid principal of this Series 20__ Bond at a price equal to the principal amount to be redeemed plus interest accrued to the date of redemption without premium; provided that while this Series 20__ Bond is registered in the name of the United States of America, the Town may redeem any unpaid principal on any date and in any amount. Notice of any such prepayment will be mailed by the Town not less than 30 days prior to the date specified for payment, to the registered holder of this Series 20__ Bond at his address as it appears on the Bond Register.

The Town has designated this Series 20__ Bond as a “qualified tax-exempt obligation” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

This Series 20__ Bond shall be registered in the name of the Holder on the bond register of the Town kept by the Town Clerk-Treasurer as Bond Registrar. This Series 20__ Bond is transferable by the registered Holder or its attorney duly authorized in writing, upon presentation hereof with a written instrument of transfer satisfactory to the Town and duly executed by the registered holder or its attorney. Such transfer shall be noted on the bond register and on the reverse hereof. The Town will, upon request, issue to the registered Holder or transferee, upon surrender of this Series 20__ Bond, one or more other bonds, in an aggregate principal amount (and, if more than one bond is to be issued, in denominations that are multiples of \$1,000, to the extent practicable) equal to the principal amount of the Definitive Bond that then remains unpaid and maturing at the same time or times as the then unpaid principal installments hereof, subject to reimbursement for any tax, fee or governmental charge or other expense incurred by the Town with respect to such exchange. The Town may treat the person in whose name this Series 20__ Bond is registered as the absolute owner hereof, whether this Series 20__ Bond is overdue or not, for the purpose of receiving payment of principal and interest and all other purposes, and shall not be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that the Town will prescribe and collect reasonable rates and charges for all services and facilities afforded by the System, including all additions thereto and replacements and improvements thereof, and has created a special Water System Fund into which the Revenues (as defined in the Resolution) of the System will be paid, and a separate and special Debt Service Account in that fund, into which will be credited periodically, at least once in each calendar month, Net Revenues of the System then on hand (the Revenues remaining after the payment of Operating

Expenses of the System) an amount not less than the installment next payable on this Series 20__ Bond and any Additional Bonds payable on a monthly basis and, if Additional Bonds are issued that are payable on a semi-annual basis, not less than one-sixth of the interest due on such Outstanding Bonds within the next six months and one-twelfth of the principal on such Outstanding Bonds due within the next twelve months; that it will transfer to the Reserve Account in the Water System Fund monthly out of the remaining Net Revenues a minimum of \$811 per month and such additional amounts as may be necessary to accumulate therein over a period concluding [10 years] ____, 20__, a reserve equal to 100% of the maximum Principal and Interest Requirements on the Bonds then Outstanding in the current or any future Fiscal Year (the initial Reserve Requirement (as defined in the Resolution)), and such additional amounts as may be necessary thereafter to maintain therein a balance equal to the Reserve Requirement; that the Debt Service Account and the Reserve Account will be used only to pay the principal of, premium, if any, and interest on the Bonds; that the rates and charges for the System will, from time to time be made and kept sufficient to provide Net Revenues during each Fiscal Year that Bonds are outstanding equal to at least 110% of the maximum Principal and Interest Requirements on the Bonds in the current or any future Fiscal Year; that sufficient Surplus Net Revenues shall be available to fund the Short-Lived Asset Replacement Reserve Subaccount as described in the Resolution; that Additional Bonds may be issued and made payable from the Water System Fund on a parity with the Series 20__ Bond upon certain conditions set forth in the Resolution, but no obligation will be otherwise incurred and made payable from the Net Revenues, unless the lien thereof shall be expressly made subordinate to the lien of the Series 20__ Bond on such Net Revenues; that all provisions for the security of the Holder of this Bond set forth in the Resolution will be punctually and faithfully performed as therein stipulated; that all acts, conditions and things required by the Constitution and laws of the State of Montana and the ordinances and resolutions of the Town to be done, to exist, to happen and to be performed in order to make this Bond a valid and binding special obligation of the Town according to its terms have been done, do exist, have happened and have been performed as so required; and that this Bond and the interest and premium, if any, hereon are payable solely from the Net Revenues of the System pledged and appropriated to the Debt Service Account and do not constitute a debt of the Town within the meaning of any constitutional or statutory limitation or provision and the issuance of this Series 20__ Bond does not cause either the general or the special indebtedness of the Town to exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF the Town of Stevensville, Ravalli County, State of Montana, by its Town Council, has caused this Bond to be executed on its behalf by the signature of the Mayor, countersigned by the Town Clerk-Treasurer, sealed with the official corporate seal of the Town, and has caused this Bond to be dated as of _____, 20__.

TOWN OF STEVENSVILLE, MONTANA

Mayor

Attest:

Town Clerk-Treasurer

(SEAL)

PROVISIONS FOR REGISTRATION OF TRANSFER AND EXCHANGE

The ownership of this Series 20__ Bond and of the interest payable hereon may be transferred to a bona fide purchaser only by delivery hereof with an assignment duly executed by the registered owner or his attorney or legal representative, and the Town may treat the registered owner as the person exclusively entitled to receive payments of principal of and interest on this Series 20__ Bond and to exercise all the rights and powers of an owner until this Series 20__ Bond is presented to the Town Clerk-Treasurer of the Town of Stevensville, Montana, as Bond Registrar, accompanied by said assignment and by assurance of the nature provided by law that the same is genuine and effective, and until such transfer is duly registered on the books of the Town and noted hereon by the Bond Registrar.

REGISTER

The ownership of the unpaid Principal Balance of this Series 20__ Bond and the interest accruing thereon is registered on the books of the Town of Stevensville, Montana, in the name of the registered holder as last noted below:

<u>Date of Registration</u>	<u>Name and Address of Registered Holder</u>	<u>Signature of Town Clerk-Treasurer</u>
_____, 20__	United States of America, United States Department of Agriculture Office of the Deputy Chief Financial Officer 4300 Goodfellow Boulevard St. Louis, Missouri 63120	_____

NO WRITING HEREON EXCEPT BY TOWN CLERK-TREASURER AS BOND REGISTRAR

The Bond Registrar has transferred on the books of the Town of Stevensville, Ravalli County, Montana, on the date last noted below, to the registered assign noted opposite said date, ownership of the principal amount of and interest on this Bond, except the amounts of principal and interest theretofore paid:

<u>Date of Transfer</u>	<u>Registered Assign</u>	<u>Signature of Bond Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____