

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTE

I, the undersigned, being the duly qualified and acting recording officer of Big Sky County Water & Sewer District No. 363, Montana (the "District"), hereby certify that the attached resolution is a true copy of a Resolution entitled: "RESOLUTION RELATING TO THE WASTEWATER SYSTEM; CREATING SPECIAL FUNDS AND ACCOUNTS FOR THE ADMINISTRATION OF MONEY DERIVED THEREFROM AND DEFINING THE TERMS AND THE MANNER OF PAYMENT OF \$7,000,000 GENERAL OBLIGATION BOND (DNRC REVOLVING LOAN PROGRAM), SERIES 2002 AND \$6,500,000 GENERAL OBLIGATION BOND (DNRC REVOLVING LOAN PROGRAM), SERIES 2003" (the "Resolution"), on file in the original records of the District in my legal custody; that the Resolution was duly adopted by the Board of Directors of the District at a regular meeting on August 29, 2002, and that the meeting was duly held by the Board of Directors 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notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.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 Directors voted in favor thereof: Dick Wiggins, Packy Cronin, Gary McRae, Wendell Ingraham and Dee Rothschilder; voted against the same: none; abstained from voting thereon: none; or were absent: William Shropshire and Skip Radick.

WITNESS my hand and seal officially this 11th day of September, 2002.

Dee Rothschilder
Secretary

RESOLUTION NO. 02-07

BOND RESOLUTION

relating to

\$7,000,000 GENERAL OBLIGATION BOND
(DNRC REVOLVING LOAN PROGRAM), SERIES 2002

and

\$6,500,000 GENERAL OBLIGATION BOND
(DNRC REVOLVING LOAN PROGRAM), SERIES 2003

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

Adopted: August 29, 2002

TABLE OF CONTENTS

	<u>Page</u>
Recitals.....	1
 ARTICLE I DEFINITIONS, RULES OF CONSTRUCTION AND APPENDICES 	
Section 1.1. Definitions	1
Section 1.2. Other Rules of Construction	5
Section 1.3. Appendices	6
 ARTICLE II REPRESENTATIONS AND COVENANTS 	
Section 2.1. Representations.....	6
Section 2.2. Covenants	8
 ARTICLE III USE OF PROCEEDS; THE PROJECT 	
Section 3.1. Use of Proceeds	10
Section 3.2. The Project.....	11
Section 3.3. Project Representations and Covenants.....	12
Section 3.4. Completion or Cancellation or Reduction of Costs of the Project	12
 ARTICLE IV THE LOAN 	
Section 4.1. The Loan; Disbursement of Loan.....	12
Section 4.2. Commencement of Loan Term.....	14
Section 4.3. Termination of Loan Term	15
Section 4.4. Loan Closing Submissions	15
 ARTICLE V REPAYMENT OF LOAN 	
Section 5.1. Repayment of Loan	15
Section 5.2. Additional Payments.....	16
Section 5.3. Prepayments.....	17
Section 5.4. Obligations of Borrower Unconditional	17

ARTICLE VI
OTHER AGREEMENTS OF BORROWER

Section 6.1.	Maintenance of Existence; Merger, Consolidation, Etc.	18
Section 6.2.	Covenants Relating to the Tax-Exempt Status of the State Bonds.....	18
Section 6.3.	Information Reporting	20

ARTICLE VII

INDEMNIFICATION OF DNRC AND DEQ AND TRUSTEE	21
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ARTICLE VIII
ASSIGNMENT

Section 8.1.	Assignment by Borrower	21
Section 8.2.	Assignment by DNRC	21
Section 8.3.	State Refunding Bonds	21

ARTICLE IX
THE BOND

Section 9.1.	Authorization	22
Section 9.2.	Outstanding Wastewater Debt	22
Section 9.3.	Issuance and Sale of the Bond	22
Section 9.4.	Terms	22
Section 9.5.	Negotiability, Transfer and Registration.....	22
Section 9.6.	Execution and Delivery.....	23
Section 9.7.	Form.....	23

ARTICLE X
SECURITY FOR THE BOND; CONSTRUCTION FUND
AND DEBT SERVICE FUND

Section 10.1.	Construction Fund.....	23
Section 10.2.	Debt Service Fund.....	23
Section 10.3.	Pledge of Full Faith and Credit; Tax Levies.....	24
Section 10.4.	Other Obligations.....	24
Section 10.5.	Deposit and Investment of Funds	24

ARTICLE XI
TAX MATTERS

Section 11.1.	Use of Project.....	25
Section 11.2.	General Covenant.....	25
Section 11.3.	Arbitrage Certification	25
Section 11.4.	Arbitrage Rebate	25
Section 11.5.	Information Reporting	26
Section 11.6.	Qualified Tax-Exempt Obligation	26

ARTICLE XII
MISCELLANEOUS

Section 12.1.	Notices	26
Section 12.2.	Binding Effect.....	27
Section 12.3.	Severability	27
Section 12.4.	Amendments	27
Section 12.5.	Applicable Law	27
Section 12.6.	Captions; References to Sections.....	27
Section 12.7.	No Liability of Individual Officers Directors or Trustees	27
Section 12.8.	Payments Due on Holidays.....	27
Section 12.9.	Right of Others To Perform Borrower’s Covenants.....	27
Section 12.10.	Authentication of Transcript.....	28
Section 12.11.	Repeals and Effective Date.....	28

APPENDIX A – Description of the Project

APPENDIX B – Form of Bond

APPENDIX C – Additional agreements and representations of the Borrower

RESOLUTION RELATING TO THE WASTEWATER SYSTEM; CREATING SPECIAL FUNDS AND ACCOUNTS FOR THE ADMINISTRATION OF MONEY DERIVED THEREFROM AND DEFINING THE TERMS AND THE MANNER OF PAYMENT OF \$7,000,000 GENERAL OBLIGATION BOND (DNRC REVOLVING LOAN PROGRAM), SERIES 2002 AND \$6,500,000 GENERAL OBLIGATION BOND (DNRC REVOLVING LOAN PROGRAM), SERIES 2003

WHEREAS, pursuant to the Montana Water Pollution Control State Revolving Fund Act, Montana Code Annotated, Title 75, Chapter 5, Part 11, as amended (the "Act"), the State of Montana (the "State") has established a revolving loan program (the "Program") to be administered by the Department of Natural Resources and Conservation of the State of Montana, an agency of the State (the "DNRC"), and by the Department of Environmental Quality of the State of Montana, an agency of the State (the "DEQ"), and has provided that a revolving wastewater treatment works revolving fund (the "Revolving Fund") be created within the state treasury and all federal, state and other funds for use in the Program be deposited into the Revolving Fund, including, but not limited to, all federal grants for capitalization of a state water pollution control revolving fund under the Federal Water Pollution Control Act (also known as the Clean Water Act) (the "Clean Water Act"), all repayments of assistance awarded from the Revolving Fund, interest on investments made on money in the Revolving Fund and payments of principal of and interest on loans made from the Revolving Fund; and

WHEREAS, Big Sky County Water & Sewer District No. 363, Gallatin and Madison Counties, Montana (the "Borrower"), has applied to the DNRC for a loan (the "Loan") from the Revolving Fund to enable the Borrower to finance, refinance or reimburse itself for the costs of the Project (as hereinafter defined) which will carry out the purposes of the Clean Water Act; and

WHEREAS, the Borrower is authorized under applicable laws, ordinances and regulations to adopt this Resolution and to issue the Bond (as hereinafter defined) to evidence the Loan for the purposes set forth herein; and

WHEREAS, the DNRC will fund the Loan in part, directly or indirectly, with proceeds of the State's General Obligation Bonds (Water Pollution Control Revolving Fund) Bonds (the "State Bonds") and in part, directly or indirectly, with funds provided by the United States Environmental Protection Agency; and

WHEREAS, the Loan will consist of two separate series of Bonds, of which the Series 2003 Bonds (as hereinafter defined) will be funded from Recycled Moneys.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE BORROWER, AS FOLLOWS:

ARTICLE I
DEFINITIONS, RULES OF CONSTRUCTION AND APPENDICES

Section 1.1. Definitions. In this Resolution, unless a different meaning clearly appears from the context:

“Accountant” or “Accountants” means an independent certified public accountant or a firm of independent certified public accountants satisfactory to the DNRC.

“Act” means Montana Code Annotated, Title 75, Part 5, Chapter 11, as amended from time to time.

“Administrative Fee” means a fee equal to five hundred and seventy-five thousands of one percent (0.575%) of the initial Committed Amount retained by the DNRC from the proceeds of the Loan at Closing.

“Administrative Expense Surcharge” means a surcharge on the Loan charged by the DNRC to the Borrower equal to three quarters of one percent (0.75%) per annum on the outstanding principal amount of the Loan, payable by the Borrower on the same dates that payments of interest on the Loan are due.

“Authorized DNRC Officer” means the Director or Deputy Director of the DNRC, and, when used with reference to an act or document, also means any other individual authorized by the Director of the DNRC to perform such act or sign such document.

“Bonds” means the Series 2002 Bond and Series 2003 Bond.

“Bond Counsel” means any Counsel acceptable to the DNRC which is nationally recognized as bond counsel. Counsel is nationally recognized as bond counsel if it has rendered a legal opinion as to the validity and enforceability of state or municipal bonds and as to the exclusion of interest thereon from gross income for federal income tax purposes (short-term issues excluded) during the two-year period preceding the date of determination.

“Borrower” means Big Sky County Water & Sewer District No. 363.

“Business Day” means any day which is not a Saturday or Sunday and is not a day on which banks in Montana are authorized or required by law to close.

“Clean Water Act” means the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251-1387, as amended, and all regulations, rules and interpretations issued by the EPA thereunder.

“Closing” means the date of delivery of the Bonds to the DNRC.

“Code” means the Internal Revenue Code of 1986, as amended.

“Collateral Documents” means any security agreement, guaranty or other document or agreement delivered to the DNRC securing the obligations of the Borrower under this Resolution and the Bond. If no Collateral Documents secure such obligations, any reference to Collateral Documents in this Resolution shall be without effect.

“Committed Amount” means the amount of the Loan committed to be lent by the DNRC to the Borrower pursuant to Section 4.1, as such amount may be reduced pursuant to Sections 3.2 and 3.4.

“Construction Fund” means the Fund established pursuant to Section 10.1.

“Consultant” means a nationally recognized consultant or firm of consultants, or an independent engineer or firm of independent engineers, or an Accountant, which in any case is qualified and has skill and experience in the preparation of financial feasibility studies or projections for facilities similar to the System or the Project, selected by the Borrower and satisfactory to the DNRC.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and satisfactory to the DNRC.

“Debt” means, without duplication, (1) indebtedness of the Borrower for borrowed money or for the deferred purchase price of property or services; (2) the obligation of the Borrower as lessee under leases which should be recorded as capital leases under generally accepted accounting principles; and (3) obligations of the Borrower under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (1) or (2) above.

“Debt Service Fund” means the Fund established pursuant to Section 10.2.

“DEQ” means the Department of Environmental Quality of the State of Montana, an agency of the State, or any successor to its powers, duties and obligations under the Act or the EPA Agreements.

“DNRC” means the Department of Natural Resources and Conservation of the State of Montana, an agency of the State, and any successor to its powers, duties and obligations under the Act.

“Enabling Act” means Montana Code Annotated, Title 7, Chapter 13, Parts 22 and 23, as amended, which authorizes the Borrower to own and operate the System, to undertake the Project and to issue the Bond to finance the costs of the Project.

“EPA” means the Environmental Protection Agency, an agency of the United States of America, and any successor to its functions under the Clean Water Act.

“EPA Agreements” means all capitalization grant agreements and other written agreements between the Department of Environmental Quality of the State and the EPA concerning the Program.

“EPA Capitalization Grant” means a grant of funds to the State by the EPA under Title VI of the Clean Water Act and any grant made available by the EPA for deposit in the Revolving Fund pursuant to Section 205(m) of the Clean Water Act.

“Governmental Unit” means governmental unit as such term is used in Section 145(a) of the Code.

“Indenture” means the Indenture of Trust, dated as of June 1, 1991, between the Board of Examiners of the State and the Trustee, as such may be supplemented or amended from time to time in accordance with the provisions thereof, pursuant to which, among other things, the State Bonds are to be or have been issued.

“Loan” means the Loan made to the Borrower by the DNRC pursuant to the Program in the maximum amount of the Committed Amount to provide funds to pay all or a portion of the costs of the Project, the Origination Fee and the Administrative Fee payable under the Program.

“Loan Loss Reserve Surcharge” means a fee equal to one percent (1.00%) per annum on the outstanding principal amount of the Loan, payable on the same dates that payments of interest on the Loan are due.

“Opinion of Counsel” means a written opinion of Counsel.

“Origination Fee” means \$70,000 for the Series 2002 Bond and \$65,000 for the Series 2003 Bond, which represents the Borrower’s pro rata share of the costs of issuance of the State Bonds.

“Person” means any Private Person or Public Entity.

“Private Person” means an individual, corporation, partnership, limited liability company, limited liability partnership, association, joint venture, joint stock company or unincorporated organization, except a Public Entity.

“Program” means the Water Pollution Control State Revolving Loan Program established by the Act.

“Project” means the facilities, improvements and activities financed, refinanced or the cost of which is being reimbursed to the Borrower with proceeds of the Loan, described in Exhibit A hereto.

“Public Entity” means a municipality, town, county, school district, political or administrative subdivision of State government, irrigation district, drainage district or other public body established by State law.

“Recycled Moneys” means money on hand in the Revolving Fund derived from the repayment of loans under the Program.

“Regulations” means the Treasury Regulations, whether final, temporary or proposed, promulgated under the Code.

“Reserved Amounts” means any undisbursed Committed Amount which will or may be required to pay any remaining costs of the Project upon completion thereof as provided in Section 3.4(a).

“Series 2002 Bond” means the \$7,000,000 General Obligation Bond (DNRC Revolving Loan Program), Series 2002, issued to the DNRC to evidence the Loan pursuant to this Resolution.

“Series 2003 Bond” means the \$6,500,000 General Obligation Bond (DNRC Revolving Loan Program), Series 2003, issued to the DNRC to evidence the Loan pursuant to this Resolution.

“Sewer System Jurisdictional Area” means the area served by the Borrower’s System, as may be modified from time to time by the Board.

“Sewage System” means any device for collecting or conducting sewage, industrial wastes or wastewater or an ultimate disposal point.

“State” means the State of Montana.

“State Bonds” means the State’s General Obligation Bonds (Water Pollution Control State Revolving Fund Program), issued pursuant to the Indenture.

“System” means the existing wastewater system of the Borrower and all extensions, improvements and betterments thereof hereafter constructed and acquired, including the Project.

“Trustee” means U.S. Bank Trust National Association MT, in Billings, Montana (formerly known as First Trust Company of Montana National Association), or any successor trustee under the Indenture.

“Wastewater” means sewage, sewage sludge, industrial wastes, stormwater, other wastes or any combination thereof.

“Wastewater Debt” means Debt incurred to acquire, construct, extend, improve, add to or otherwise pay expenses of or related to the System, without regard to the source of payment and security for such Debt (i.e., without regard to whether it is general obligation or revenue Debt).

“Wastewater Revenues” means revenues (gross or net) received by the Borrower from or in connection with the operation of the System.

Section 1.2. Other Rules of Construction. For all purposes of this Resolution, except where the context clearly indicates otherwise:

- (a) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted government accounting standards.
- (b) Terms in the singular include the plural and vice versa.
- (c) All references to time shall refer to Helena, Montana time, unless otherwise provided herein.
- (d) All references to mail shall refer to first-class mail postage prepaid.

(e) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders.

(f) “Or” is not exclusive, but is intended to permit or encompass one, more or all of the alternatives conjoined.

Section 1.3. Appendices. Attached to this Resolution and hereby made a part hereof are the following Appendices:

Appendix A: a description of the Project;

Appendix B: the form of the Bonds; and

Appendix C: additional agreements and representations of the Borrower.

ARTICLE II REPRESENTATIONS AND COVENANTS

Section 2.1. Representations. The Borrower represents as follows:

(a) Organization and Authority. The Borrower:

- (i) is duly organized and validly existing as a political subdivision of the State;
- (ii) has all requisite power and authority and all necessary licenses and permits required as of the date hereof to own and operate the System and to carry on its current activities with respect to the System, to adopt this Resolution and to enter into the Collateral Documents and to issue the Bonds and to carry out and consummate all transactions contemplated by this Resolution, the Bonds and the Collateral Documents;
- (iii) is a Governmental Unit and a Public Entity; and
- (iv) has taken all proper action to authorize the execution, delivery and performance of its obligations under this Resolution, the Bonds and the Collateral Documents and the incurrence of the Debt evidenced by the Bonds in the maximum amount of the Committed Amount.

(b) Pending Litigation. There is no litigation or proceeding pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower in any court or before or by any governmental authority or arbitration board or tribunal that, if adversely determined, would materially and adversely affect the existence, corporate or otherwise, of the Borrower, or the ability of the Borrower to make all payments and otherwise perform its obligations under this Resolution, the Bonds and the Collateral Documents, or the financial condition of the Borrower,

or the transactions contemplated by this Resolution, the Bonds and the Collateral Documents or the validity and enforceability of this Resolution, the Bonds and the Collateral Documents.

(c) Borrowing Legal and Authorized. The adoption of this Resolution, the execution and delivery of the Bonds and the Collateral Documents and the consummation of the transactions provided for in this Resolution, the Bonds and the Collateral Documents and compliance by the Borrower with the provisions of this Resolution, the Bonds and the Collateral Documents:

- (i) are within the powers of the Borrower and have been duly authorized by all necessary action on the part of the Borrower; and
- (ii) do not and will not result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Borrower pursuant to any resolution, indenture, loan agreement or other agreement or instrument (other than this Resolution and any Collateral Documents) to which the Borrower is a party or by which the Borrower or its property may be bound, nor will such action result in any violation of the provisions of any laws, ordinances, governmental rules or regulations or court or other governmental orders to which the Borrower, its properties or operations are subject.

(d) No Defaults. No event has occurred and no condition exists that, upon execution and delivery of the Bonds and the Collateral Documents, would constitute a default under this Resolution or the Collateral Documents. The Borrower is not in violation of any term of any agreement, bond resolution, trust indenture, charter or other instrument to which it is a party or by which it or its property may be bound which violation would materially and adversely affect the transactions contemplated hereby or the compliance by the Borrower with the terms hereof or of the Bonds and the Collateral Documents.

(e) Governmental Consent. The Borrower has obtained or made all permits, findings and approvals required to the date of adoption of this Resolution by any governmental body or officer for the making and performance by the Borrower of its obligations under this Resolution, the Bonds and the Collateral Documents or for the Project, the financing or refinancing thereof or the reimbursement of the Borrower for the costs thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those, if any, already obtained) is required on the part of the Borrower as a condition to adopting this Resolution, issuing the Bonds or entering into the Collateral Documents and the performance of the Borrower's obligations hereunder and thereunder.

(f) Binding Obligation. This Resolution, the Bonds and any Collateral Document to which the Borrower is a party are the valid and binding obligations and agreements of the Borrower, enforceable against the Borrower in accordance with their terms except to the extent that the enforceability thereof may be limited by laws relating to bankruptcy, moratorium,

reorganization, insolvency or similar laws affecting creditors' rights and general principles of equity.

(g) The Project. The Project consists and will consist of the facilities, improvements and activities described in Appendix A, as such Appendix A may be amended from time to time in accordance with the provision of Article III of this Resolution.

(h) Full Disclosure. There is no fact that the Borrower has not specifically disclosed in writing to the DNRC that materially and adversely affects or (so far as the Borrower can now foresee), except for pending or proposed legislation or regulations that are a matter of general public information, that will materially and adversely affect the properties, operations and finances of the System, the Borrower's status as a Public Entity and Governmental Unit, its ability to own and operate the System in the manner it is currently operated or the Borrower's ability to perform its obligations under this Resolution, the Bonds and the Collateral Documents and to pledge any revenues or other property pledged to the payment of the Bonds.

(i) Compliance With Law. The Borrower:

(1) is in compliance with all laws, ordinances, governmental rules and regulations and court or other governmental orders, judgments and decrees to which it is subject and which are material to the properties, operations and finances of the System or its status as a Public Entity and Governmental Unit; excepting current violations of state water quality standards regarding the System, of which the DNRC and DEQ are aware; and

(2) has obtained all licenses, permits, franchises or other governmental authorizations necessary to the ownership of the System and the operation thereof.

Section 2.2. Covenants.

(a) Insurance. The Borrower at all times shall keep and maintain with respect to the System property and casualty insurance and liability insurance with financially sound and reputable insurers, or self-insurance as authorized by State law, against such risks and in such amounts, and with such deductible provisions, as are customary in the State in the case of entities of the same size and type as the Borrower and similarly situated and shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for all such insurance. The Borrower shall give the DNRC prompt notice of each insurance policy it obtains or maintains to comply with this Section 2.2(a) and of each renewal, replacement, change in coverage or deductible under or amount of or cancellation of each such insurance policy and the amount and coverage and deductibles and carrier of each new or replacement policy. Such notice shall specifically note any adverse change as being an adverse change. The Borrower shall deliver to the DNRC at Closing a certificate providing the information required by this Section 2.2(a).

(b) Right of Inspection and Notice of Change of Location. The DNRC, the DEQ and the EPA and their designated agents shall have the right at all reasonable times during normal business hours and upon reasonable notice to enter into and upon the property of the Borrower

for the purpose of inspecting the System or any or all books and records of the Borrower relating to the System.

(c) Further Assurance. The Borrower shall execute and deliver to the DNRC all such documents and instruments and do all such other acts and things as may be necessary or required by the DNRC to enable the DNRC to exercise and enforce its rights under this Resolution, the Bonds and the Collateral Documents and to realize thereon, and record and file and re-record and refile all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be necessary or required by the DNRC to validate, preserve and protect the position of the DNRC under this Resolution, the Bonds and the Collateral Documents.

(d) Additional Agreements. The Borrower covenants to comply with all representations, covenants, conditions and agreements, if any, set forth in Appendix C hereto.

(e) Financial Information. The Borrower agrees that for each fiscal year it shall furnish to the DNRC and the DEQ, promptly when available:

(1) the preliminary budget for the System, with items for the Project shown separately; and

(2) when adopted, the final budget for the System, with items for the Project shown separately.

The Borrower 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 monthly gross revenues derived from its operation, and the segregation and application of the gross revenues in accordance with this Resolution, in such reasonable detail as may be determined by the Borrower in accordance with generally accepted governmental accounting practice and principles. It will cause such books to be maintained on the basis of the same fiscal year as that utilized by the Borrower. The Borrower shall, within 180 days after the close of each fiscal year, cause to be prepared and supply to the DNRC a financial report with respect to the System for such fiscal year. The report shall be prepared at the direction of the financial officer of the Borrower in accordance with applicable generally accepted governmental accounting principles and, in addition to whatever matters may be thought proper by the financial officer 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 number of premises connected to the System 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 statement in detail of the property taxes levied pursuant to this Resolution and collected for the fiscal year and identifying the application thereof.

The Borrower shall also have prepared and supplied to the DNRC and the DEQ, within 180 days of the close of every other fiscal year, an audit report prepared by an independent certified public accountant or an agency of the State in accordance with generally accepted governmental accounting principles and practice with respect to the financial statements and records of the System and the Borrower.

(f) Project Accounts. The Borrower shall maintain Project accounts in accordance with generally accepted government accounting standards, and as separate accounts, as required by Section 602(b)(9) of the Clean Water Act.

(g) Records. After reasonable notice from the EPA, the Borrower shall make available to the EPA such records as the EPA reasonably requires to review and determine compliance with Title VI of the Clean Water Act, as provided in Section 606(e) of the Clean Water Act.

(h) Compliance with Clean Water Act. The Borrower has complied and shall comply with all conditions and requirements of the Clean Water Act pertaining to the Loan and the Project.

(i) Program Covenant. The Borrower agrees that neither it nor any “related person” to the Borrower (within the meaning of Section 147(a)(2) of the Code) shall, whether pursuant to a formal or informal arrangement, acquire bonds issued by the State under the Indenture in an amount related to the amount of the Bonds.

ARTICLE III USE OF PROCEEDS; THE PROJECT

Section 3.1. Use of Proceeds. The Borrower shall apply the proceeds of the Loan from the DNRC solely as follows:

(a) The Borrower shall apply the proceeds of the Loan solely to the financing, refinancing or reimbursement of the costs of the Project as set forth in Appendix A hereto and this Section 3.1. The Loan will be disbursed in accordance with Article IV hereof and Article VII of the Indenture. If the Project has not been completed prior to Closing, the Borrower shall, as quickly as reasonably possible, complete the Project and expend proceeds of the Bonds to pay the costs of completing the Project.

(b) No portion of the proceeds of the Loan shall be used to reimburse the Borrower for costs paid prior to the date of adoption of this Resolution of a Project the construction or acquisition of which occurred or began earlier than March 7, 1985. In addition, if any proceeds

of the Loan are to be used to reimburse the Borrower for Project costs paid prior to the date of adoption of this Resolution and in a prior fiscal year of the Borrower, the Borrower represents that at the time it incurred such costs it intended to finance them with tax-exempt debt or a loan under a state revolving fund program such as the Program.

(c) Any Debt to be refinanced with proceeds of the Loan was incurred after March 7, 1985 for a Project the construction or acquisition of which began after March 7, 1985. No proceeds of the Loan shall be used for the purpose of refinancing an obligation the interest on which is exempt from federal income tax or excludable from gross income for purposes of federal income taxation unless the DNRC has received an Opinion of Bond Counsel, satisfactory to it, to the effect that such refinancing will not adversely affect the exclusion of interest on the State Bonds from gross income for purposes of federal income taxation.

Section 3.2. The Project. Set forth in Appendix A to this Resolution is a description of the Project, which describes the property which has been or is to be acquired, installed, constructed or improved and the other activities, if any to be funded from the Loan (the Project may consist of more than one facility or activity). The Project may be changed and the description thereof in Appendix A may be amended from time to time by the Borrower but only after delivery to the DNRC of the following:

(a) A certificate of the Borrower setting forth the amendment to Appendix A and stating the reason therefor, including statements whether the amendment would cause an increase or decrease in the cost of the Project, an increase or decrease in the amount of Loan proceeds which will be required to complete the Project and whether the change will materially accelerate or delay the construction schedule for the Project;

(b) A written consent to such change in the Project by an Authorized DNRC Officer;

(c) An Opinion or Opinions of Bond Counsel stating that the Project, as constituted after such amendment, is, and was at the time the State Bonds were issued, eligible for financing under the Act and is, and was at the time the Bonds were issued, eligible for financing under the Enabling Act, such amendment will not violate the Act or the Enabling Act and such amendment will not adversely affect the exclusion of interest on the State Bonds or the Bonds from gross income for purposes of federal income taxation. Such an Opinion of Bond Counsel shall not be required for amendments which do not affect the type of facility to be constructed or activity to be financed.

The Borrower acknowledges and agrees that an increase in the principal amount of the Loan may be made only upon an application to the DEQ, the DNRC and the Trustee, in such form as the DEQ shall specify, which is approved by the DEQ and the DNRC, in their sole and absolute discretion, and adoption by the governing body of the Borrower of a resolution amendatory of or supplementary to this resolution authorizing the additional loan and delivery of written certifications by officers of the Borrower to the DEQ, the DNRC and the Trustee to the effect that all representations and covenants contained in this resolution as it may be so amended or supplemented are true as of the date of closing of the additional loan. No assurance can be given that any additional loan funds will be available under the Program at the time of any such application or thereafter. The Borrower acknowledges and agrees that neither the DEQ, the

DNRC, the Trustee nor any of their agents, employees or representatives shall have any liability to the Borrower and have made no representations to the Borrower as to the sufficiency of the Loan to pay Project Costs or as to the availability of additional funds under the Program to increase the principal amount of the Loan.

Section 3.3. Project Representations and Covenants. The Borrower hereby represents to and covenants with the DNRC that:

(a) all construction of the Project has complied and will comply with all federal and state standards, including, without limitation, EPA regulations and standards;

(b) all future construction of the Project will be done only pursuant to fixed price construction contracts. The Borrower shall obtain a performance and payment bond from the contractor for each construction contract in the amount of 100% of the construction price and ensure that such bond is maintained until construction is completed to the Borrower's, the DNRC's and the DEQ's satisfaction;

(c) all future construction will be done in accordance with plans and specifications on file with the DNRC and the DEQ, provided that changes may be made in such plans and specifications with the written consent of an Authorized DNRC Officer and the DEQ; and

(d) the Project is a project of the type permitted to be financed under the Enabling Act, the Act and the Program and Title VI of the Clean Water Act.

Section 3.4. Completion or Cancellation or Reduction of Costs of the Project.

(a) Upon completion of the Project, the Borrower shall deliver to the DNRC a certificate stating that the Project is complete, stating the amount, if any, of the Reserved Amounts, and releasing the remaining amount, if any, of the Committed Amount. If any Reserved Amount is not later needed, the Borrower shall so inform the DNRC and release such amount. If Appendix A describes two or more separate projects as making up the Project, a separate completion certificate shall be delivered for each.

(b) If all or any portion of the Project is cancelled or cut back or its costs are reduced or for any other reason the Borrower will not require the full Committed Amount, the Borrower shall promptly notify the DNRC in writing of such fact and release the portion of the Committed Amount which will not be needed.

ARTICLE IV THE LOAN

Section 4.1. The Loan; Disbursement of Loan. The DNRC has agreed to lend to the Borrower, from time to time as the requirements of this Section 4.1 are met, an amount up to \$13,500,000 (the "Committed Amount") for the purposes of financing, refinancing or reimbursing the Borrower for the costs of the Project; provided the DNRC shall not be required to loan any proceeds of the State Bonds to the Borrower after January 1, 2004. The Committed Amount may be reduced as provided in Sections 3.2 and 3.4. The Loan shall be disbursed as

provided in this Section 4.1. The DNRC intends to disburse the Loan through the Trustee as two separate Bonds, i.e., the Series 2002 Bond and the Series 2003 Bond as previously defined. Each Bond shall be dated as of its date of delivery to the DNRC.

(a) In consideration of the issuance of the Bonds by the Borrower, the DNRC shall make, or cause the Trustee to make, a disbursement of all or a portion of the Loan upon receipt of the following documents:

(1) an Opinion of Bond Counsel as to the validity and enforceability of each series of Bonds as a general obligation of the Borrower and stating in effect that interest on the Bonds is not includable in gross income for purposes of federal income taxation, in form and substance satisfactory to the DNRC;

(2) each series of Bonds, fully executed and authenticated;

(3) a certified copy of this Resolution;

(4) any other security instruments or documents required by the DNRC or DEQ as a condition to their approval of the Loan;

(5) if all or part of a Loan is being made to refinance a Project or reimburse the Borrower for the costs of a Project paid prior to the Closing, evidence, satisfactory to the DNRC and the Bond Counsel referred to in (1) above, (A) that the acquisition or construction of the Project was begun no earlier than March 7, 1985 or the debt was incurred no earlier than March 7, 1985, (B) of the Borrower's title to the Project, (C) of the costs of such Project and that such costs have been paid by the Borrower and (D) if such costs were paid by the Borrower, before issuance of the Bonds, compliance with Section 1.150-2 of the Regulations;

(6) the items required by the Indenture for the portion of the Loan to be disbursed at Closing;

(7) payment or provision for payment of the Administrative Fee and the Origination Fee; and

(8) such other certificates, documents and other information as the DNRC, the DEQ or the Bond Counsel giving the opinion referred to in subparagraph (1) may require (including any necessary arbitrage rebate instructions).

(b) In order to obtain a disbursement of a portion of the Loan to pay costs of the Project, the Borrower shall submit to the DNRC and the Trustee a signed request for disbursement on the form prescribed by the DNRC, with all attachments required by such form. The Borrower may obtain disbursements only for costs which have been legally incurred and are due and payable. All Loan disbursements will be made to the Borrower only upon proof that cost was incurred.

(c) On the date of Closing, the Trustee is authorized to make an initial disbursement of the Loan in an amount sufficient to pay the Administration Fee and the Origination Fee. The DNRC will retain, and not physically advance to the Borrower, an amount equal to the sum of Administration Fee and the Origination Fee, and the Borrower acknowledges and agrees that such retainage constitutes a disbursement of proceeds of the Loan in an amount equal to the amount retained by the DNRC.

(d) For refinancings, a disbursement schedule complying with the requirements of the Clean Water Act shall be established by the DNRC and the Borrower at Closing. The Trustee shall disburse Loan amounts directly to the holder of the debt being refinanced according to such schedule. If the Borrower should repay all or a portion of the debt to be refinanced from other sources or should otherwise not need any portion of the Loan which was to have been used to refinance such debt, it shall inform the DNRC and the Trustee of such fact pursuant to Section 3.4(b) and a new disbursement schedule shall be drawn up by the DNRC. The DNRC shall obtain a receipt from the holder of the debt being refinanced for each disbursement made to pay or prepay a portion of such debt.

(e) If all or a portion of a Loan is made to reimburse a Borrower for Project costs paid by it prior to Closing, the Borrower shall present at Closing the items required by Section 4.1(b) relating to such costs. The Trustee shall disburse such amounts to the Borrower pursuant to a disbursement schedule complying with the requirements of the Clean Water Act established by the DNRC and the Borrower at the Closing.

(f) Notwithstanding anything else provided herein, the Trustee shall not be obligated to disburse the Loan any faster or to any greater extent than it has available EPA Capitalization Grants, Bond proceeds and other amounts available therefor in the Revolving Fund. The DNRC shall not be required to do "overmatching" pursuant to Section 5.04(b) of the Indenture, but may do so in its discretion. The Borrower acknowledges that if Project costs are incurred faster than the Borrower projected at Closing, there may be delays in making Loan disbursements for such costs because of the schedule under which EPA makes EPA Capitalization Grant money available to the DNRC. The DNRC will use its best efforts to obtain an acceleration of such schedule if necessary.

(g) Upon making each Loan disbursement, the Trustee shall note such disbursement on Schedule A to each respective series of Bonds.

(h) The Borrower further acknowledges and agrees that any portions of the Loan representing capitalized interest shall be advanced only on Payment Dates and shall be transferred by the Trustee on the Payment Date directly to the Debt Service Account. The amount of any such transfer shall be a credit against the interest payments due on the Bonds and interest thereon shall accrue only from the date of transfer.

Section 4.2. Commencement of Loan Term. The Borrower's obligations under this Resolution and the Collateral Documents shall commence on the date hereof unless otherwise provided in this Resolution. However, the obligation to make payments under Article V hereof shall commence only upon the first disbursement by the Trustee of Loan proceeds.

Section 4.3. Termination of Loan Term. The Borrower's obligations under this Resolution and the Collateral Documents shall terminate upon payment in full of all amounts due under the Bonds and this Resolution; provided, however, that the covenants and obligations provided in Article VII and Sections 6.2, 11.2 and 11.4 shall survive the termination of this Resolution.

Section 4.4. Loan Closing Submissions. On or prior to the Closing, the Borrower will have delivered to the DNRC and the Trustee the closing submissions required by Section 7.05 of the Indenture.

ARTICLE V REPAYMENT OF LOAN

Section 5.1. Repayment of Loan. The Borrower shall repay the amounts lent to it pursuant to Section 4.1 hereof, plus interest on the unpaid amounts lent at the rate of two and one quarter percent (2.25%) per annum, in semiannual Loan Repayments. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of the Loan at the rate of seventy-five hundredths of one percent (0.75%) per annum and a Loan Loss Reserve Surcharge equal to one percent (1.00%) per annum on the outstanding principal amount of the Loan. The Borrower shall pay all Loan Repayments and Administrative Expense Surcharges and Loan Loss Reserve Surcharge in lawful money of the United States of America to the DNRC. Interest and Administrative Expense Surcharges and Loan Loss Reserve Surcharge shall be calculated on the basis of a year of 360 days comprising 12 months of 30 days each.

The Loan Repayments required by this Section 5.1, and the Administrative Expense Surcharge and the Loan Loss Reserve Surcharge, shall be due on each January 1 and July 1 (the "Payment Dates"), as follows:

(1) for the Series 2002 Bond, interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal balance of the Loan shall be payable on each January 1 and July 1, commencing January 1, 2003 and concluding July 1, 2023;

(2) for the Series 2002 Bond, the principal of the Loan shall be repayable on each January 1 and July 1, commencing January 1, 2004 and concluding July 1, 2023, and the amount of each principal payment shall be calculated on the basis of approximately level debt service at an interest rate of four percent (4.00%) per annum, as further provided in the form of the Bonds;

(3) for the Series 2003 Bond, interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal balance of the Loan shall be payable on each January 1 and July 1, commencing July 1, 2003, assuming the Series 2003 Bond has been drawn upon prior to June 1, 2003, and concluding July 1, 2024; and

(4) for the Series 2003 Bond, the principal of the Loan shall be repayable on each January 1 and July 1, commencing July 1, 2004 and concluding January 1, 2024, and the

amount of each principal payment shall be calculated on the basis of approximately level debt service at an interest rate of four percent (4.00%) per annum, as further provided in the form of the Bonds

The payments of principal of and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the Loan shall be due on the dates and in the amounts shown in Schedule B to the Bonds, as such Schedule B shall be modified from time to time as provided below. The portion of each such Loan Repayment consisting of principal and the portion consisting of interest and the amount of each Administrative Expense Surcharge and the amount of each Loan Loss Reserve Surcharge shall be set forth in Schedule B to the Bonds. Upon each disbursement of Loan amounts to the Borrower pursuant to Section 4.1 hereof, the Trustee shall enter or cause to be entered the amount advanced on Schedule A to the Bonds under "Advances" and the total amount advanced under Section 4.1, including such disbursement, under "Total Amount Advanced."

If the advance was made to pay costs of the Project pursuant to Section 4.1(b), interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on such advance shall accrue from the date the advance is made and shall be payable on each Payment Date thereafter. Once the completion certificate for a Project has been delivered to the DNRC, the Trustee shall revise Schedule B to the Bonds in accordance with this Section 5.1 and the Trustee shall send a copy of such Schedule B to the Borrower within one month after delivery of the completion certificate.

Past-due payments of principal and interest and Administrative Expense Surcharges and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum, until paid.

Any payment of principal, interest or Administrative Expense Surcharge and Loan Loss Reserve Surcharge under this Section 5.1 shall also be credited against the same payment obligation under the Bonds.

Section 5.2. Additional Payments. The Borrower shall also pay, within 30 days after receipt of a bill therefor, from any legally available funds therefor, including proceeds of the Loan, if the Borrower so chooses, all reasonable expenses of the DNRC and the Trustee in connection with the Loan, the Collateral Documents and the Bonds, including, but not limited to:

(1) the cost of reproducing this Resolution, the Collateral Documents and the Bonds;

(2) the fees and disbursements of Bond Counsel and other Counsel utilized by the DNRC and the Trustee in connection with the Loan, this Resolution, the Collateral Documents and the Bonds and the enforcement thereof; and

(3) all taxes and other governmental charges in connection with the execution and delivery of the Collateral Documents or the Bonds, whether or not the Bonds are then outstanding, including all recording and filing fees relating to the Collateral Documents and the pledge of the State's right, title and interest in and to the Bonds, the Collateral

Documents and this Resolution under the Board Resolution (and with the exceptions noted therein) and all expenses, including attorneys' fees, relating to any amendments, waivers, consents or collection or enforcement proceedings pursuant to the provisions hereof or thereof.

Section 5.3. Prepayments. The principal installments of the Series 2002 Bond with stated maturities on or after January 1, 2012 shall each be subject to redemption at the option of the Borrower, in whole or in part, in inverse order of stated maturities and in \$1,000 principal amounts, on July 1, 2011, and any Payment Date thereafter at a price equal to the principal amount of the Bonds to be redeemed with interest accrued to the redemption date. The principal installments of the Series 2003 Bond with stated maturities on or after January 1, 2013 shall each be subject to redemption at the option of the Borrower, in whole or in part, in inverse order of stated maturities and in \$1,000 principal amounts, on July 1, 2012, and any Payment Date thereafter at a price equal to the principal amount of the Bonds to be redeemed with interest accrued to the redemption date. At least thirty days prior to the designated redemption date, the Secretary shall cause notice of redemption to be mailed, by first class mail, to the registered owner of the Bonds at its address as it appears on the bond register, but no defect in or failure to give such mailed notice shall affect the validity of proceedings for the redemption of any principal installment not affected by such defect or failure. The notice of redemption shall specify the redemption date, redemption price and the principal installments of the Bonds to be redeemed. Notice of redemption having been given as aforesaid, the Bonds or principal installments thereof so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date (unless the Borrower shall default in the payment of the redemption price) the Bonds or principal installments thereof shall cease to bear interest. Any prepayment must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. If the Bonds are prepaid in part pursuant to this Section 5.3, such prepayments shall be applied to principal payments in inverse order of maturity.

Section 5.4. Obligations of Borrower Unconditional. The obligations of the Borrower to make the payments required by this Resolution and the Bonds and to perform its other agreements contained in this Resolution, the Bonds and Collateral Documents shall be absolute and unconditional, except as otherwise provided herein or in such documents. The Borrower (a) shall not suspend or discontinue any payments provided for in this Resolution and the Bonds, (b) shall perform all its other agreements in this Resolution, the Bonds and the Collateral Documents and (c) shall not terminate this Resolution, the Bonds or the Collateral Documents for any cause, including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project or the System, commercial frustration of purpose, any dispute with the DNRC or the EPA, any change in the laws of the United States or of the State or any political subdivision of either or any failure of the DNRC to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with this Resolution.

ARTICLE VI
OTHER AGREEMENTS OF BORROWER

Section 6.1. Maintenance of Existence; Merger, Consolidation, Etc. The Borrower shall maintain its corporate existence, except that it may consolidate with or merge into another Governmental Unit or permit one or more Governmental Units to consolidate with or merge into it or may transfer all or substantially all of its assets to another Governmental Unit and then dissolve if the surviving, resulting or transferee entity (if other than the Borrower) (i) is a Public Entity and (ii) assumes in writing all of the obligations of the Borrower under this Resolution, the Bonds and the Collateral Documents, and (a) such action does not result in any default in the performance or observance of any of the terms, covenants or agreements of the Borrower under this Resolution, the Bonds and the Collateral Documents, (b) such action does not violate the Act or the Clean Water Act and does not adversely affect the exclusion of interest on the Bonds or the State Bonds from gross income for federal income tax purposes and (c) the Borrower delivers to the DNRC on the date of such action an Opinion of Bond Counsel that such action complies with this Section 6.1.

Section 6.2. Covenants Relating to the Tax-Exempt Status of the State Bonds.

(a) The Borrower covenants and agrees that it will not use or permit to be used any of the proceeds of the Bonds or any other funds of the Borrower, directly or indirectly, in a manner that would cause, or take any other action that would cause, any State Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or would otherwise cause the interest on the State Bonds to be included in gross income for purposes of federal income taxation. In addition, the Borrower agrees that it will not enter into, or allow any “related person” (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the State Bonds or any other obligations of the DNRC in an amount related to the amount of the Loan or the portion of the Loan derived directly or indirectly from proceeds of the State Bonds or that would otherwise cause any State Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code.

(b) The Borrower shall not use or permit the use of the Project directly or indirectly in any trade or business carried on by any Person who is not a Governmental Unit. For the purpose of this subparagraph, use as a member of the general public shall not be taken into account and any activity carried on by a Person other than a natural person shall be treated as a trade or business.

(c) Any portion of the Project being refinanced or the cost of which is being reimbursed was acquired by and is now and shall, during the term of the Loan, be owned by the Borrower and not by any other Person. Any portion of the Project being financed shall be acquired by and shall, during the term of the Loan, be owned by the Borrower and not by any other Person. Notwithstanding the previous two sentences, the Borrower may transfer the Project or a portion thereof to another Governmental Unit which is also a Public Entity if such transfer is otherwise permitted hereunder and if such organization agrees with the DNRC to comply with Sections 2.2(h), 2.2(i) and 6.3 hereof and if the DNRC receive an Opinion of Bond Counsel that such transfer will not violate the Act or the Clean Water Act or adversely affect the exclusion of interest on the Bonds from gross income or purposes of federal income taxation. In

addition, except as otherwise provided herein or in any Collateral Documents, the Borrower may sell or otherwise dispose of any portion of the Project which has become obsolete or outmoded or is being replaced or for other reasons is not needed by the Borrower or beneficial to the general public or necessary to carry out the purposes of the Clean Water Act.

(d) At the Closing of the Loan the DNRC will, if necessary to obtain the Opinion of Bond Counsel described in Section 7.05(a) of the Indenture, deliver to the Borrower instructions concerning compliance by the Borrower with the arbitrage rebate requirements of Section 148 of the Code (the "Arbitrage Rebate Instructions"). The Borrower shall comply with the Arbitrage Rebate Instructions, if any, delivered to it by the DNRC at Closing, as such Instructions may be amended or replaced by the DNRC from time to time. The Arbitrage Rebate Instructions may be amended or replaced by new Arbitrage Rebate Instructions delivered by the DNRC and accompanied by an Opinion of Bond Counsel to the effect that the use of said amended or new Arbitrage Rebate Instructions will not adversely affect the excludability of interest on the State Bonds or any Additional State Bonds (except Additional State Bonds the interest on which the State did not intend to be excluded from gross income for federal income tax purposes) from gross income of the recipients thereof for federal income tax purposes.

(e) The Borrower agrees that during the Loan Term it will not contract with or permit any Private Person to manage the Project or any portion thereof except according to a written management contract which complies with the following provisions:

(1) If any contract between the Borrower and the Private Person with respect to the Project provides for compensation based on a percentage of fees charged for services rendered by the Private Person, the contract may not exceed a term of five years (including any renewal options). At least 50% of the compensation to the Private Person must be based upon a periodic fixed fee. In addition, the Borrower must be able to cancel the contract without penalty or cause at the end of any three-year period of the contract term. The compensation must be reasonable, and it may not be based on a percentage of the net profits of the Project or the System or any portion thereof or any other division or activity of the Borrower.

(2) If any contract between the Borrower and the Private Person with respect to the Project provides for compensation based on a periodic flat fee, the compensation must be reasonable and the contract may not exceed a term of five years (including any renewal options). In addition, the Borrower must be able to cancel the contract without penalty or cause at the end of any three-year period of the contract term. If the contract provides for automatic increases in the periodic flat fee, the increases may not exceed the percentage increases determined by particular external standards for computing such increases that are mutually agreed upon in the contract. The percentage increases reflected in the Consumer Price Index compiled by the Bureau of Labor Statistics, U.S. Department of Labor, or the actual percentage increases for services that result from the application of external criteria (for example, increases in rates paid by insurance companies) are illustrations of two external standards that may be used.

(3) If a Private Person and the Borrower enter into a contract described in subparagraph (1) or (2) above and the governing body of the Borrower contains five or

more members, no more than one member of the governing body of the Borrower may be the Private Person or a related person (as described in Section 144(a)(3) of the Code) (a "Related Person"), an employee of the Private Person or a Related Person, or a member of the governing body of the Private Person or a Related Person. However, such Private Person or a Related Person, employee of the Private Person or a Related Person or a member of the governing body of the Private Person or a Related Person may not serve as the chief executive of the Borrower. If a Private Person and the Borrower enter into a contract described in (1) or (2) above and the governing body contains less than five members, no member of the governing body may be the Private Person or a Related Person, an employee of the Private Person or a Related Person or a member of the governing body of the Private Person or a Related Person.

(4) The Borrower may depart from any of its agreements contained in subparagraphs (1) through (3) if it delivers to the DNRC, at the Borrower's expense, an Opinion of Bond Counsel that to do so would not adversely affect the exclusion of interest on the State Bonds from gross income for purposes of federal income taxation.

(f) The Borrower may not lease the Project or any portion thereof to any Person other than a Nonexempt Person which agrees in writing with the Borrower and the State not to cause any Default to occur under this Resolution, provided the Borrower may lease all or any portion of the Project to a Nonexempt Person pursuant to a lease which in the Opinion of Bond Counsel delivered to the DNRC will not cause the interest on the State Bonds to be included in gross income for purposes of federal income taxation.

(g) The Borrower shall not change the use or nature of the Project if (i) such change will violate the Clean Water Act, or (ii) so long as the State Bonds are outstanding unless, in the Opinion of Bond Counsel delivered to the DNRC, such change will not result in the inclusion in gross income of interest on the State Bonds for federal income tax purposes.

Section 6.3. Information Reporting. The Borrower understands and acknowledges that the DNRC acquisition of the Bonds under the Program pursuant to which the State issues from time to time State Bonds to provide funds therefor. The Borrower covenants and agrees that, upon written request of the DNRC from time to time, the Borrower will promptly provide to the DNRC all information that the Department reasonably determines to be necessary or appropriate to offer and sell State Bonds or to provide continuing disclosure in respect of State Bonds, whether under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12) or otherwise. Such information shall include, among other things and if so requested, financial statements of the Borrower prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Montana law, as in effect from time to time (such financial statements to relate to a fiscal year or any period therein for which they are customarily prepared by the Borrower, and, if for a fiscal year and so requested by the DNRC, subject to an audit report and opinion of an accountant or government auditor, as permitted or required by the laws of the State. The Borrower will also provide, with any information so furnished to the DNRC, a certificate of its President and Secretary to the effect that, to the best of their knowledge, such

information does not include any untrue statement of a material fact or omit to state any material fact required to be stated therein to make the statements made, in light of the circumstances under which they are made, not misleading.

ARTICLE VII INDEMNIFICATION OF DNRC, DEQ AND TRUSTEE

The Borrower shall indemnify and save harmless the DNRC, the DEQ, the Trustee and their officers, employees and agents (each an “Indemnified Party” or, collectively, the “Indemnified Parties”) against and from any and all claims, damages, demands, expenses, liabilities and losses of every kind asserted by or on behalf of any Person arising out of, resulting from or in any way connected with the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation or financing of the Project. The Borrower shall also indemnify and save harmless the Indemnified Parties against and from all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. If any proceeding is brought against an Indemnified Party by reason of any such claim or demand, the Borrower shall, upon notice from the Indemnified Party, defend such proceeding on behalf of the Indemnified Party. Notwithstanding the foregoing, the Borrower shall not be obligated to indemnify an Indemnified Party or any of its officers, employees or agents or hold any of them harmless against or from or in respect of any claim, damage, demand, expense, liability or loss arising from the intentional or willful misconduct or gross negligence of the Indemnified Parties.

ARTICLE VIII ASSIGNMENT

Section 8.1. Assignment by Borrower. The Borrower may not assign its rights and obligations under this Resolution or the Bonds.

Section 8.2. Assignment by DNRC. The DNRC will pledge its rights under and interest in this Resolution, the Bonds and the Collateral Documents (except to the extent otherwise provided in the Indenture) as security for the payment of the State Bonds.

Section 8.3. State Refunding Bonds. In the event the State Bonds and Additional State Bonds are refunded by bonds which are not Additional State Bonds, all references in this Resolution to State Bonds and Additional State Bonds shall be deemed to refer to the refunding bonds and any bonds of the State on a parity with such refunding bonds (together, the “Refunding Bonds”) or, in the case of a crossover refunding, to the State Bonds and Additional State Bonds and the Refunding Bonds. In the event the State Bonds are refunded by an issue of Additional State Bonds, all references in this Resolution to the State Bonds shall be deemed to refer to such Additional State Bonds or, in the case of a crossover refunding, both the State Bonds and such Additional State Bonds.

ARTICLE IX THE BONDS

Section 9.1. Authorization. Under the provisions of the Enabling Act and an election duly conducted on February 27, 2002, the Borrower is authorized to issue and sell its general obligation bonds in the maximum principal amount of \$13,500,000 payable during a term not exceeding twenty years from their date of issue, to provide funds to pay costs of the Project and costs of the issuance and sale of the Bonds. The District has previously issued to the DNRC Revolving Fund its General Obligation Bond (DNRC Revolving Loan Program), Series 1996 in the original principal amount of \$5,513,000 (the "Series 1996 Bond") and its General Obligation Bond (DNRC Revolving Loan Program), Series 1998 in the original principal amount of \$417,000 (the "Series 1998 Bond"). The Series 1996 Bond, the Series 1998 Bond and the Bonds comprise the total principal amount of general obligation bonds authorized to be issued by the District with respect to the System as of the date hereof.

Section 9.2. Outstanding Wastewater Debt. No bonds or indebtedness are outstanding that are payable from Wastewater Revenues of the System.

Section 9.3. Issuance and Sale of the Bonds. The Board has investigated the facts necessary and hereby finds, determines and declares it to be necessary and desirable for the Borrower to issue the Bonds to evidence the Loan.

Section 9.4. Terms. The Bonds shall be in the maximum principal amount equal to the original Committed Amount of the Loan, each shall be issued as a single, fully registered bond numbered R-1, shall be dated as of the date of delivery to the DNRC, and shall bear interest at the rate charged by the DNRC on the Loan. The principal of and interest on the Bonds shall be payable on the same dates and in the same amounts as principal and interest of the Loan Repayments are payable. Advances of principal of the Bonds shall be deemed made when advances of the Loan are made under Section 4.1, and such advances shall be payable in accordance with Schedule B to the Bonds, as it may be revised by the DNRC from time to time in accordance with Section 5.1.

The Borrower may prepay the Bonds, in whole or in part, only upon the terms and conditions under which it can prepay the Loan under Section 5.3.

Section 9.5. Negotiability, Transfer and Registration. The Bonds shall be fully registered as to both principal and interest, and shall be initially registered in the name of and payable to the DNRC. While so registered, principal of and interest on the Bonds shall be payable to the DNRC at the Office of the Department of Natural Resources and Conservation, 1625 Eleventh Avenue, Helena, Montana 59620 or such other place as may be designated by the DNRC in writing and delivered to the Borrower. The Bonds shall be negotiable, subject to the provisions for registration and transfer contained in this section. No transfer of the Bonds shall be valid unless and until (1) the holder, or his duly authorized attorney or legal representative, has executed the form of assignment appearing on the Bonds, and (2) the Secretary of the Borrower (the "Registrar"), as Bond Registrar, has duly noted the transfer on the Bonds and recorded the transfer on the registration books of the Registrar. The Registrar may, prior to noting and recording the transfer, require appropriate proof of the transferor's authority and the

genuineness of the transferor's signature. The Borrower shall be entitled to deem and treat the person in whose name the Bonds are registered as the absolute owner of the Bonds for all purposes, notwithstanding any notice to the contrary, and all payments to the registered holder shall be valid and effectual to satisfy and discharge the Borrower's liability upon such Bonds to the extent of the sum or sums so paid.

Section 9.6. Execution and Delivery. The Bonds shall be executed on behalf of the Borrower by the manual signatures of the President and the Secretary. Any or all of such signatures may be affixed at or prior to the date of delivery of the Bonds. The Bonds shall be sealed with the corporate seal of the Borrower. In the event that any of the officers who shall have signed the Bonds shall cease to be officers of the Borrower before the Bonds are issued or delivered, their signatures shall remain binding upon the Borrower. Conversely, the Bonds may be signed by an authorized official who did not hold such office on the date of adoption of this Supplemental Resolution. The Bonds shall be delivered to the DNRC, or its attorney or legal representative.

Section 9.7. Form. The Bonds shall be prepared in substantially the form attached as Appendix B.

ARTICLE X SECURITY FOR THE BONDS; CONSTRUCTION FUND AND DEBT SERVICE FUND

Section 10.1. Construction Fund. There is hereby created special funds to be designated as the "2002-2003 Construction Fund" (the "Construction Fund"), to be held and administered by the Secretary separate and apart from all other funds of the Borrower. The Borrower hereby appropriates to Construction Fund: (a) the proceeds of the sale of the Bonds, and (b) all income derived from the investment of amounts on hand in the Construction Fund. The Construction Fund shall be used solely to defray expenses of the Project, including but not limited to the transfer to the Debt Service Fund described in Section 10.2 of amounts sufficient for the payment of interest and principal, if any, due upon the Bonds prior to the completion and payment of all costs of the Project. Upon completion and payment of all costs of the Project, any remaining proceeds of Bonds in the Construction Fund shall be credited and paid to the Debt Service Fund.

Section 10.2. Debt Service Fund. So long as any principal installments of the Bonds are outstanding or interest thereon unpaid, the Treasurer shall maintain a separate and special 2002-2003 General Obligation Debt Service Fund (the "Debt Service Fund") to be used for no purpose other than the payment of the principal of and interest on the Bonds. The Borrower irrevocably appropriates to the Debt Service Fund: (a) all funds to be credited and paid thereto in accordance with the provisions of Section 10.1, (b) any taxes levied in accordance with this Resolution, (c) all income derived from the investment of amounts on hand in the Debt Service Fund, and (d) such other money as shall be received and appropriated to the Debt Service Fund from time to time, including the revenues derived from the System, as provided in Section 10.3.

There are hereby established two accounts in the Debt Service Fund, designated as the "Bond Account" and the "Surplus Account." All money appropriated or to be deposited in the Debt Service Fund shall be deposited as received into the Bond Account. On each July 1, the

Secretary shall determine the amount on hand in the Bond Account. If such amount is in excess of one-twelfth of the debt service payable from the Debt Service Fund in the next succeeding 12 months, the Secretary shall promptly transfer the amount in excess to the Surplus Account. The Borrower appropriates to the Surplus Account any amounts to be transferred thereto from the Bond Account as herein provided and all income derived from the investment of amounts on hand in the Surplus Account. If at any time the amount on hand in the Bond Account is insufficient to meet the requirements of the Debt Service Fund, the Secretary shall transfer to the Bond Account amounts on hand in the Surplus Account to the extent necessary to cure such deficiency.

Section 10.3. Pledge of Full Faith and Credit; Tax Levies. The full faith, credit and taxing powers of the Borrower shall be and are hereby irrevocably pledged to the payment of the Bonds and interest due thereon, and the Borrower shall cause taxes to be levied annually on all taxable property in the Borrower sufficient to pay the interest on the Bonds when it falls due and to pay and discharge the principal at maturity of each and all of the Bonds as they respectively become due.

The Borrower proposes to use certain revenues of the System to pay a portion of the annual principal of and interest due on the Bonds. Any such revenues to be so applied shall be credited to the Debt Service Fund on or before July 15 of each year. At the time the Borrower is determining the amount of property taxes to levy to pay debt service on the Bonds in a fiscal year, as provided in the immediately preceding paragraph, the Borrower shall take into account the amount then on hand in the Debt Service Fund in determining the amount of the net debt service levy. The Finance Director of the Borrower shall report the net debt service levy requirement to the County Commissioners on the fourth Monday of August.

Section 10.4. Other Obligations. Nothing in this Resolution shall preclude the Borrower from issuing additional bonds or other obligations which are made a charge on the revenues of the System.

Section 10.5. Deposit and Investment of Funds. The finance officer of the Borrower shall cause all money appropriated to the Construction Fund and the Debt Service 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, 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 7-6-201. Any of such moneys not necessary for immediate use may be deposited with such depository banks in savings or time deposits. No money shall at any time be withdrawn from such deposit accounts except for the purposes of the Construction Fund and the Debt Service Fund as defined and authorized in this Resolution; except that money from time to time on hand in the Construction Fund or the Debt Service Fund may at any time, in the discretion of the governing body of the Borrower, 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, bank repurchase agreements with respect to such obligations, certificates of deposits of national banks having a combined capital and surplus of at least \$1,000,000 or in the Montana short-term investment program administered by the Board of Investments of the State of Montana, 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 Funds. Income received from the deposit or investment of moneys in said Funds shall be credited to the Fund from whose moneys the deposit was made or the investment was purchased, and handled and accounted for in the same manner as other moneys in that Fund.

ARTICLE XI TAX MATTERS

Section 11.1. Use of Project. The Project will be owned and operated by the Borrower and available for use by members of the general public on a substantially equal basis. The Borrower shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the Project or the System or security for the payment of the Bonds which might cause the Bonds to be considered a “private activity bond” or “private loan bond” within the meaning of Section 141 of the Code.

Section 11.2. General Covenant. The Borrower covenants and agrees with the owners from time to time of the Bonds 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 Bonds to become includable in gross income for federal income tax purposes under the Code and the Regulations, and covenants to take any and all actions within its powers to ensure that the interest on the Bonds will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

Section 11.3. Arbitrage Certification. The President and the Secretary, being the officers of the Borrower charged with the responsibility for issuing the Bonds pursuant to this Resolution, are authorized and directed to execute and deliver to the DNRC a certificate in accordance with the provisions of Section 148 of the Code, and Sections 1.148-2(b) of the Regulations, stating that on the basis of facts, estimates and circumstances in existence on the date of issue and delivery of the Bonds, it is reasonably expected that the proceeds of the Bonds will be used in a manner that would not cause the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code and the Regulations.

Section 11.4. Arbitrage Rebate. The Borrower acknowledges that the Bonds are subject to the rebate requirements of Section 148(f) of the Code. The Borrower covenants and agrees to retain such records, make such determinations, file such reports and documents and pay such amounts at such times as are required under said Section 148(f) and applicable Treasury Regulations to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes, unless the Bonds qualify for the exception from the rebate requirement under Section 148(f)(4)(B) of the Code and no “gross proceeds” of the Bonds (other than amounts constituting a “bona fide debt service fund”) arise during or after the expenditure of the original proceeds thereof. In furtherance of the foregoing, the President and Secretary are hereby authorized and directed to execute a Rebate Certificate, substantially in the form prepared by Bond Counsel, and the Borrower hereby covenants and agrees to observe and perform the covenants and agreements contained therein, unless amended or terminated in accordance with the provisions thereof.

Section 11.5. Information Reporting. The Borrower shall file with the Secretary of the Treasury, not later than November 15, 2002, a statement concerning the Series 2002 Bond containing the information required by Section 149(e) of the Code. The Borrower shall file with the Secretary of the Treasury, not later than the 15th day of the second month after the quarter year in which the Series 2003 Bond is issued, a statement concerning the Series 2003 Bond containing the information required by Section 149(e) of the Code.

Section 11.6. “Qualified Tax-Exempt Obligations.” Pursuant to Section 265(b)(3)(B)(ii) of the Code, the Borrower hereby designates the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. The Borrower has not designated any obligations in 2002 other than the Bonds, except its \$2,500,000 General Obligation Bond (DNRC Drinking Water Revolving Loan Program). The Borrower 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 Borrower and all “subordinate entities” of the Borrower in 2002 in an amount greater than \$10,000,000.

ARTICLE XII MISCELLANEOUS

Section 12.1. Notices. All notices or other communications hereunder shall be sufficiently sent or given and shall be deemed sent or given when delivered or mailed by certified mail, postage prepaid, to the parties at the following addresses:

DNRC: Department of Natural Resources
and Conservation
1625 Eleventh Avenue
Helena, Montana 59620
Attention: Ms. Anna Miller

Trustee: U.S. Bank National Association
c/o Corporate Trust Services
1420 Fifth Avenue, 7th Floor
Seattle, Washington 98101
Attn: Corporate Trust Department

Borrower: Big Sky County Water & Sewer District No. 363
P.O. Box 160670
Big Sky, MT 59716
Attention: Mr. Ron Edwards

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices or other communications shall be sent.

Section 12.2. Binding Effect. This Resolution shall inure to the benefit of and shall be binding upon the DNRC, the Borrower and their respective successors and assigns.

Section 12.3. Severability. If any provision of this Resolution shall be determined to be unenforceable at any time, it shall not affect any other provision of this Resolution or the enforceability of that provision at any other time.

Section 12.4. Amendments. This Resolution may not be effectively amended without the prior written consent of the DNRC.

Section 12.5. Applicable Law. This Resolution shall be governed by and construed in accordance with the laws of the State without giving effect to the conflicts-of-laws principles thereof.

Section 12.6. Captions; References to Sections. The captions in this Resolution are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Resolution. References to Articles and Sections are to the Articles and Sections of this Resolution, unless the context otherwise requires.

Section 12.7. No Liability of Individual Officers, Directors or Trustees. No recourse under or upon any obligation, covenant or agreement contained in this Resolution shall be had against any director, officer or employee, as such, past, present or future, of the DNRC, the DEQ or the Trustee, either directly or through the DNRC, the DEQ or the Trustee, or against any officer, or member of the governing body or employee of the Borrower, past, present or future, as an individual so long as such individual was acting in good faith. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such officer or member of the governing body or employee of the DNRC, the DEQ, the Trustee or the Borrower is hereby expressly waived and released by the Borrower and by the DNRC as a condition of and in consideration for the adoption of this Resolution and the making of the Loan.

Section 12.8. Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Resolution or the Bonds, shall not be Business Day, such payments may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Resolution or the Bonds.

Section 12.9. Right of Others To Perform Borrower's Covenants. In the event the Borrower shall fail to make any payment or perform any act required to be performed hereunder, then and in each such case the DNRC or the provider of any Collateral Document may (but shall not be obligated to) remedy such default for the account of the Borrower and make advances for that purpose. No such performance or advance shall operate to release the Borrower from any such default and any sums so advanced by the DNRC or the provider of any Collateral Document shall be paid immediately to the party making such advance and shall bear interest at the rate of ten percent (10%) from the date of the advance until repaid. The DNRC and the provider of any Collateral Document shall have the right to enter the Project or the facility or

facilities of which the Project is a part or any other facility which is a part of the System in order to effectuate the purposes of this Section.

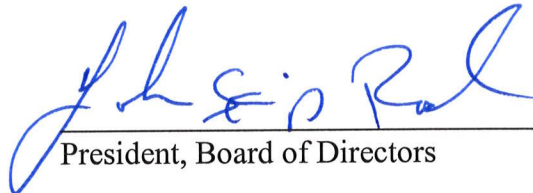
Section 12.10. Authentication of Transcript. The officers of the Borrower are hereby authorized and directed to furnish to the DNRC and to Bond Counsel certified copies of all proceedings relating to the issuance of the Bonds and such other certificates and affidavits as may be required to show the right, power and authority of the Borrower to issue the Bonds, and all statements contained in and shown by such instruments, including any heretofore furnished, shall constitute representations of the Borrower as to the truth of the statements purported to be shown thereby.

Section 12.11. Repeals and Effective Date.

(a) Repeal. All provisions of other resolutions and other actions and proceedings of the Borrower and this Board that 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.


(b) Effective Date. This Resolution shall take effect immediately.

PASSED AND ADOPTED by the Board of Directors of the Big Sky County Water & Sewer District No. 363 on this 29th day of August, 2002.



President, Board of Directors

ATTEST:



Secretary

(SEAL)

APPENDIX A

Description of the Project

The construction of a new mechanical wastewater treatment plant that will serve the Big Sky Water and Sewer District at Big Sky, Montana and construct booster stations and a pipeline to pump treated effluent to the Yellowstone Club storage ponds. The treatment plant will consist of a new administration building, a headworks building with two micro-strainers for screening, grit removal facility, a Sequencing Batch Reactor (SBR) treatment system, equalization basin, scum basin, two aerobic digesters, belt filter press, compost building and equipment, sludge waste pumps, air blowers, chemical feed pumps, associated piping and site access improvements. The project also involves cleaning and relining the existing aeration lagoon for additional effluent storage. In addition, two booster pump stations and approximately 45,000 lineal feet of pipe will be constructed to pump treated effluent to the Yellowstone Club storage ponds.

APPENDIX B-1

[Form of the Series 2002 Bond]

UNITED STATES OF AMERICA
STATE OF MONTANA
COUNTIES OF GALLATIN AND MADISON

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

GENERAL OBLIGATION BOND
(DNRC REVOLVING LOAN PROGRAM), SERIES 2002

No. R-1

\$7,000,000

FOR VALUE RECEIVED, BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363 (the "Borrower"), a duly organized political subdivision of the State of Montana, acknowledges itself to be indebted and hereby promises to pay to the Department of Natural Resources and Conservation of the State of Montana (the "DNRC"), or its registered assigns, the principal sum equal to the sum of the amounts entered on Schedule A hereto under "Total Amount Advanced," with interest on each such amount from the date such amount is advanced hereunder at the rate of two and one-quarter percent (2.25%) per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge and a Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond at the rates of three-quarters of one percent (0.75%) and one percent (1.00%), respectively, per annum. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be payable in semiannual installments payable on each January 1 and July 1 (each a "Loan Repayment Date") commencing January 1, 2003. Principal shall be payable on the dates set forth in Schedule B hereto. Each installment shall be in the amount set forth opposite its due date in Schedule B hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest and the portion consisting of Administrative Expense Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of Loan amounts to the Borrower pursuant to the Resolution described below, the DNRC shall enter (or cause to be entered) the amount advanced on Schedule A under "Advances" and the total amount advanced under the Resolution (as hereinafter defined), including such disbursement, under "Total Amount Advanced." The DNRC shall prepare Schedule B and revised Schedules B, or cause Schedule B and revised Schedules B to be prepared, as provided in Section 5.1 of the Resolution. Schedule B shall be calculated and recalculated, as nearly as practicable, on a level debt service basis assuming an interest rate of four percent (4.00%) per annum. Past-due payments of principal and interest, Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum, until paid. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be calculated on the basis of a 360-day year comprising 12 months of 30 days each. All payments under this Bond shall be made to the registered holder of this Bond, at its address as it appears on the Bond register, in lawful money of the United States of America.

This Bond constitutes a series in the maximum authorized principal amount of \$13,500,000 (the "Bond"), authorized by the favorable vote of more than the requisite majority of the qualified electors of the Borrower voting on the question of the issuance thereof at an election duly held, issued to finance costs of the construction of certain improvements to the wastewater system of the Borrower (the "System") and to pay costs of issuance of the Bond. The Bond is issued pursuant to and in full conformity with the Constitution and laws of the State of Montana thereunto enabling, including Montana Code Annotated, Title 7, Chapter 13, Parts 22 and 23, as amended, and ordinances and resolutions duly adopted by the governing body of the Borrower. The Bond is issuable only as a single, fully registered bond.

Reference is made to Resolution No. 02-07, duly adopted by the governing body of the Borrower on August 29, 2002 (the "Resolution"), for a more complete statement of the terms and conditions upon which the Bond has been issued, the conditions upon which the Resolution may be amended, the rights, duties and obligations of the City, and the rights of the owners of the Bond.

The principal installments of this Bond with stated maturities on or after January 1, 2012 are subject to redemption at the option of the Borrower, in whole or in part, in inverse order of maturities and in \$1,000 principal amounts within a maturity, on July 1, 2011 and any Payment Date thereafter, at a redemption price equal to the principal amount of the Bond to be redeemed with accrued interest to the date of redemption. Any prepayment must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. Notice of redemption will be mailed at least 30 days before the redemption date to the registered owner of this Bond. This Bond or principal installments thereof so called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption have been duly deposited and, except for the purpose of payment, shall no longer be secured by the Resolution and shall not be deemed Outstanding under the Resolution.

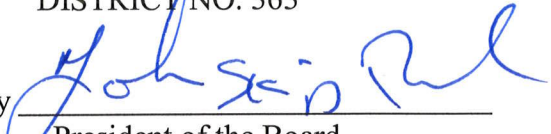
The Borrower may deem and treat the Person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and the Borrower shall not be affected by any notice to the contrary.


BANK QUALIFIED: This Bond has been designated by the Borrower as a "qualified tax-exempt obligation" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended.

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 Bond, in order to make it a valid and binding general obligation of the Borrower 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 an annual ad valorem tax will be duly levied on all of the taxable property in the Borrower sufficient to pay the interest hereon when it falls due and also to pay and discharge the principal of this Bond at maturity; and that the issuance of this Bond does not cause the indebtedness of the Borrower to exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the Board of Directors of Big Sky County Water & Sewer District No. 363, Montana, by its governing body, has caused this Bond to be executed by the signatures of its President and Secretary, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the _____ day of _____, 20__.

BIG SKY COUNTY WATER & SEWER
DISTRICT NO. 363

By 
President of the Board

By 
Secretary of the Board

(SEAL)

REGISTRATION AND TRANSFER

This Bond shall be fully registered as to both principal and interest. No transfer of this Bond shall be valid unless and until (1) the registered holder of the Bond, or his duly authorized attorney or legal representative, executes the form of assignment appearing on this Bond, and (2) the Secretary of the Borrower as bond registrar (the "Registrar"), has duly noted the transfer on the Bond and recorded the transfer on the Registrar's registration books. The Borrower shall be entitled to deem and treat the person in whose name this Bond is registered as absolute owner thereof for all purposes, notwithstanding any notice to the contrary. Payments on account of the Bond shall be made only to the order of the registered holder thereof, and all such payments shall be valid and effectual to satisfy and discharge the Borrower's liability upon the Bond to the extent of the sum or sums so paid.

THE FOLLOWING ENTRIES ARE TO BE MADE ONLY BY THE BOND
REGISTRAR UPON REGISTRATION OF EACH TRANSFER

The Secretary of Big Sky County Water & Sewer District No. 363, Gallatin and Madison Counties, Montana, acting as Bond Registrar, has transferred, on the books of the Borrower, on the date last noted below, ownership of the principal amount of and the accrued interest on this Bond to the new registered holder noted next to such date, except for amounts of principal and interest theretofore paid.

<u>Date of Transfer</u>	<u>Name of New Registered Holder</u>	<u>Signature of Bond Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

FORM OF ASSIGNMENT

For value received, this Bond is hereby transferred and assigned by the undersigned holder, without recourse, to _____ on this ____ day of _____, _____.

By: _____
(authorized signature)

For: _____
(Holder)

SCHEDULE A
SCHEDULE OF AMOUNTS ADVANCED

<u>Date</u>	<u>Advances</u>	<u>Total Amount Advanced</u>	<u>Notation Made By</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
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_____	_____	_____	_____
_____	_____	_____	_____

STATE OF MONTANA
GENERAL OBLIGATION BONDS
WASTEWATER LOAN
(REVOLVING FUND PROGRAM) SER 02

BORROWER: Big Sky III-A
PROJECT NAME:
LOAN COMMITMENT: \$7,000,000
LOAN AMOUNT: 7,000,000
INTEREST RATE: 4.00%

FINAL LOAN PAYMENT: 7/1/2023
OF LOAN PAYMENTS: 39
PROJECT NUMBER:
DATE OF FUNDING: 9/5/2002

PAYMENT	LOAN LOSS	ADM EXPENSE	INTEREST	PRINCIPAL	O/S LOAN	TOTAL AMOUNT	
DUE	RESERVE	SURCHARGE	PAYMENT	PAYMENT	BALANCE	OF PAYMENT	
1 1/1/2004	92,555.56	69,416.67	208,250.00	0.00	7,000,000.00	\$370,222.22	370,222.22
2 7/1/2004	35,000.00	26,250.00	78,750.00	120,000.00	6,880,000.00	\$260,000.00	
3 1/1/2005	34,400.00	25,800.00	77,400.00	123,000.00	6,757,000.00	\$260,600.00	520,600.00
4 7/1/2005	33,785.00	25,338.75	76,016.25	125,000.00	6,632,000.00	\$260,140.00	
5 1/1/2006	33,160.00	24,870.00	74,610.00	128,000.00	6,504,000.00	\$260,640.00	520,780.00
6 7/1/2006	32,520.00	24,390.00	73,170.00	130,000.00	6,374,000.00	\$260,080.00	
7 1/1/2007	31,870.00	23,902.50	71,707.50	133,000.00	6,241,000.00	\$260,480.00	520,560.00
8 7/1/2007	31,205.00	23,403.75	70,211.25	135,000.00	6,106,000.00	\$259,820.00	
9 1/1/2008	30,530.00	22,897.50	68,692.50	138,000.00	5,968,000.00	\$260,120.00	519,940.00
10 7/1/2008	29,840.00	22,380.00	67,140.00	141,000.00	5,827,000.00	\$260,360.00	
11 1/1/2009	29,135.00	21,851.25	65,553.75	144,000.00	5,683,000.00	\$260,540.00	520,900.00
12 7/1/2009	28,415.00	21,311.25	63,933.75	147,000.00	5,536,000.00	\$260,660.00	
13 1/1/2010	27,680.00	20,760.00	62,280.00	149,000.00	5,387,000.00	\$259,720.00	520,380.00
14 7/1/2010	26,935.00	20,201.25	60,603.75	152,000.00	5,235,000.00	\$259,740.00	
15 1/1/2011	26,175.00	19,631.25	58,893.75	155,000.00	5,080,000.00	\$259,700.00	519,440.00
16 7/1/2011	25,400.00	19,050.00	57,150.00	159,000.00	4,921,000.00	\$260,600.00	
17 1/1/2012	24,605.00	18,453.75	55,361.25	162,000.00	4,759,000.00	\$260,420.00	521,020.00
18 7/1/2012	23,795.00	17,846.25	53,538.75	165,000.00	4,594,000.00	\$260,180.00	
19 1/1/2013	22,970.00	17,227.50	51,682.50	168,000.00	4,426,000.00	\$259,880.00	520,060.00
20 7/1/2013	22,130.00	16,597.50	49,792.50	172,000.00	4,254,000.00	\$260,520.00	
21 1/1/2014	21,270.00	15,952.50	47,857.50	175,000.00	4,079,000.00	\$260,080.00	520,600.00
22 7/1/2014	20,395.00	15,296.25	45,888.75	179,000.00	3,900,000.00	\$260,580.00	
23 1/1/2015	19,500.00	14,625.00	43,875.00	182,000.00	3,718,000.00	\$260,000.00	520,580.00
24 7/1/2015	18,590.00	13,942.50	41,827.50	186,000.00	3,532,000.00	\$260,360.00	
25 1/1/2016	17,660.00	13,245.00	39,735.00	190,000.00	3,342,000.00	\$260,640.00	521,000.00
26 7/1/2016	16,710.00	12,532.50	37,597.50	193,000.00	3,149,000.00	\$259,840.00	
27 1/1/2017	15,745.00	11,808.75	35,426.25	197,000.00	2,952,000.00	\$259,980.00	519,820.00
28 7/1/2017	14,760.00	11,070.00	33,210.00	201,000.00	2,751,000.00	\$260,040.00	
29 1/1/2018	13,755.00	10,316.25	30,948.75	205,000.00	2,546,000.00	\$260,020.00	520,060.00
30 7/1/2018	12,730.00	9,547.50	28,642.50	209,000.00	2,337,000.00	\$259,920.00	
31 1/1/2019	11,685.00	8,763.75	26,291.25	213,000.00	2,124,000.00	\$259,740.00	519,660.00
32 7/1/2019	10,620.00	7,965.00	23,895.00	218,000.00	1,906,000.00	\$260,480.00	
33 1/1/2020	9,530.00	7,147.50	21,442.50	222,000.00	1,684,000.00	\$260,120.00	520,600.00
34 7/1/2020	8,420.00	6,315.00	18,945.00	227,000.00	1,457,000.00	\$260,680.00	
35 1/1/2021	7,285.00	5,463.75	16,391.25	231,000.00	1,226,000.00	\$260,140.00	520,820.00
36 7/1/2021	6,130.00	4,597.50	13,792.50	236,000.00	990,000.00	\$260,520.00	
37 1/1/2022	4,950.00	3,712.50	11,137.50	240,000.00	750,000.00	\$259,800.00	520,320.00
38 7/1/2022	3,750.00	2,812.50	8,437.50	245,000.00	505,000.00	\$260,000.00	
39 1/1/2023	2,525.00	1,893.75	5,681.25	250,000.00	255,000.00	\$260,100.00	520,100.00
40 7/1/2023	1,275.00	956.25	2,868.75	255,000.00	0.00	\$260,100.00	260,100.00
	879,390.56	659,542.92	1,978,628.75	7,000,000.00		10,517,562.22	10,517,562.22

APPENDIX B-2

[Form of the Series 2003 Bond]

UNITED STATES OF AMERICA
STATE OF MONTANA
COUNTIES OF GALLATIN AND MADISON

BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363

GENERAL OBLIGATION BOND
(DNRC REVOLVING LOAN PROGRAM), SERIES 2003

No. R-1

\$6,500,000

FOR VALUE RECEIVED, BIG SKY COUNTY WATER & SEWER DISTRICT NO. 363 (the "Borrower"), a duly organized political subdivision of the State of Montana, acknowledges itself to be indebted and hereby promises to pay to the Department of Natural Resources and Conservation of the State of Montana (the "DNRC"), or its registered assigns, the principal sum equal to the sum of the amounts entered on Schedule A hereto under "Total Amount Advanced," with interest on each such amount from the date such amount is advanced hereunder at the rate of two and one-quarter percent (2.25%) per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge and a Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond at the rates of three-quarters of one percent (0.75%) and one percent (1.00%), respectively, per annum. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be payable in semiannual installments payable on each January 1 and July 1 (each a "Loan Repayment Date") commencing July 1, 2003. Principal shall be payable on the dates set forth in Schedule B hereto. Each installment shall be in the amount set forth opposite its due date in Schedule B hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest and the portion consisting of Administrative Expense Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of Loan amounts to the Borrower pursuant to the Resolution described below, the DNRC shall enter (or cause to be entered) the amount advanced on Schedule A under "Advances" and the total amount advanced under the Resolution (as hereinafter defined), including such disbursement, under "Total Amount Advanced." The DNRC shall prepare Schedule B and revised Schedules B, or cause Schedule B and revised Schedules B to be prepared, as provided in Section 5.1 of the Resolution. Schedule B shall be calculated and recalculated, as nearly as practicable, on a level debt service basis assuming an interest rate of four percent (4.00%) per annum. Past-due payments of principal and interest, Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum, until paid. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be calculated on the basis of a 360-day year comprising 12 months of 30 days each. All payments under this Bond shall be made to the registered holder of this Bond, at its address as it appears on the Bond register, in lawful money of the United States of America.

This Bond constitutes a series in the maximum authorized principal amount of \$13,500,000 (the "Bond"), authorized by the favorable vote of more than the requisite majority of the qualified electors of the Borrower voting on the question of the issuance thereof at an election duly held, issued to finance costs of the construction of certain improvements to the wastewater system of the Borrower (the "System") and to pay costs of issuance of the Bond. The Bond is issued pursuant to and in full conformity with the Constitution and laws of the State of Montana thereunto enabling, including Montana Code Annotated, Title 7, Chapter 13, Parts 22 and 23, as amended, and ordinances and resolutions duly adopted by the governing body of the Borrower. The Bond is issuable only as a single, fully registered bond.

Reference is made to Resolution No. 02-07, duly adopted by the governing body of the Borrower on August 29, 2002 (the "Resolution"), for a more complete statement of the terms and conditions upon which the Bond has been issued, the conditions upon which the Resolution may be amended, the rights, duties and obligations of the City, and the rights of the owners of the Bond.

The principal installments of this Bond with stated maturities on or after January 1, 2013 are subject to redemption at the option of the Borrower, in whole or in part, in inverse order of maturities and in \$1,000 principal amounts within a maturity, on July 1, 2012 and any Payment Date thereafter, at a redemption price equal to the principal amount of the Bond to be redeemed with accrued interest to the date of redemption. Any prepayment must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. Notice of redemption will be mailed at least 30 days before the redemption date to the registered owner of this Bond. This Bond or principal installments thereof so called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption have been duly deposited and, except for the purpose of payment, shall no longer be secured by the Resolution and shall not be deemed Outstanding under the Resolution.

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

BANK QUALIFIED: This Bond has been designated by the Borrower as a "qualified tax-exempt obligation" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended.

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 Bond, in order to make it a valid and binding general obligation of the Borrower 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 an annual ad valorem tax will be duly levied on all of the taxable property in the Borrower sufficient to pay the interest hereon when it falls due and also to pay and discharge the principal of this Bond at maturity; and that the issuance of this Bond does not cause the indebtedness of the Borrower to exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the Board of Directors of Big Sky County Water & Sewer District No. 363, Montana, by its governing body, has caused this Bond to be executed by the signatures of its President and Secretary, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the _____ day of _____, 20__.

BIG SKY COUNTY WATER & SEWER
DISTRICT NO. 363

By _____
President of the Board

By _____
Secretary of the Board

(SEAL)

REGISTRATION AND TRANSFER

This Bond shall be fully registered as to both principal and interest. No transfer of this Bond shall be valid unless and until (1) the registered holder of the Bond, or his duly authorized attorney or legal representative, executes the form of assignment appearing on this Bond, and (2) the Secretary of the Borrower as bond registrar (the "Registrar"), has duly noted the transfer on the Bond and recorded the transfer on the Registrar's registration books. The Borrower shall be entitled to deem and treat the person in whose name this Bond is registered as absolute owner thereof for all purposes, notwithstanding any notice to the contrary. Payments on account of the Bond shall be made only to the order of the registered holder thereof, and all such payments shall be valid and effectual to satisfy and discharge the Borrower's liability upon the Bond to the extent of the sum or sums so paid.

THE FOLLOWING ENTRIES ARE TO BE MADE ONLY BY THE BOND
REGISTRAR UPON REGISTRATION OF EACH TRANSFER

The Secretary of Big Sky County Water & Sewer District No. 363, Gallatin and Madison Counties, Montana, acting as Bond Registrar, has transferred, on the books of the Borrower, on the date last noted below, ownership of the principal amount of and the accrued interest on this Bond to the new registered holder noted next to such date, except for amounts of principal and interest theretofore paid.

<u>Date of Transfer</u>	<u>Name of New Registered Holder</u>	<u>Signature of Bond Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

FORM OF ASSIGNMENT

For value received, this Bond is hereby transferred and assigned by the undersigned holder, without recourse, to _____ on this ____ day of _____, _____.

By: _____
(authorized signature)

For: _____
(Holder)

SCHEDULE A
SCHEDULE OF AMOUNTS ADVANCED

<u>Date</u>	<u>Advances</u>	<u>Total Amount Advanced</u>	<u>Notation Made By</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

STATE OF MONTANA
GENERAL OBLIGATION BONDS
WASTEWATER LOAN
(REVOLVING FUND PROGRAM) SER 03

BORROWER: Big Sky III-B
PROJECT NAME:
LOAN COMMITMENT: \$6,500,000
LOAN AMOUNT: 6,500,000
INTEREST RATE: 4.00%

FINAL LOAN PAYMENT: 7/1/2023
OF LOAN PAYMENTS: 39
PROJECT NUMBER:
DATE OF FUNDING: 5/5/2003

PAYMENT DUE	LOAN LOSS RESERVE	ADM EXPENSE SURCHARGE	INTEREST PAYMENT	PRINCIPAL PAYMENT	O/S LOAN BALANCE	TOTAL AMOUNT OF PAYMENT	
1 1/1/2004	42,611.11	31,958.33	95,875.00	0.00	6,500,000.00	\$170,444.44	170,444.44
2 7/1/2004	32,500.00	24,375.00	73,125.00	112,000.00	6,388,000.00	\$242,000.00	
3 1/1/2005	31,940.00	23,955.00	71,865.00	114,000.00	6,274,000.00	\$241,760.00	483,760.00
4 7/1/2005	31,370.00	23,527.50	70,582.50	116,000.00	6,158,000.00	\$241,480.00	
5 1/1/2006	30,790.00	23,092.50	69,277.50	118,000.00	6,040,000.00	\$241,160.00	482,640.00
6 7/1/2006	30,200.00	22,650.00	67,950.00	121,000.00	5,919,000.00	\$241,800.00	
7 1/1/2007	29,595.00	22,196.25	66,588.75	123,000.00	5,796,000.00	\$241,380.00	483,180.00
8 7/1/2007	28,980.00	21,735.00	65,205.00	126,000.00	5,670,000.00	\$241,920.00	
9 1/1/2008	28,350.00	21,262.50	63,787.50	128,000.00	5,542,000.00	\$241,400.00	483,320.00
10 7/1/2008	27,710.00	20,782.50	62,347.50	131,000.00	5,411,000.00	\$241,840.00	
11 1/1/2009	27,055.00	20,291.25	60,873.75	133,000.00	5,278,000.00	\$241,220.00	483,060.00
12 7/1/2009	26,390.00	19,792.50	59,377.50	136,000.00	5,142,000.00	\$241,560.00	
13 1/1/2010	25,710.00	19,282.50	57,847.50	139,000.00	5,003,000.00	\$241,840.00	483,400.00
14 7/1/2010	25,015.00	18,761.25	56,283.75	142,000.00	4,861,000.00	\$242,060.00	
15 1/1/2011	24,305.00	18,228.75	54,686.25	144,000.00	4,717,000.00	\$241,220.00	483,280.00
16 7/1/2011	23,585.00	17,688.75	53,066.25	147,000.00	4,570,000.00	\$241,340.00	
17 1/1/2012	22,850.00	17,137.50	51,412.50	150,000.00	4,420,000.00	\$241,400.00	482,740.00
18 7/1/2012	22,100.00	16,575.00	49,725.00	153,000.00	4,267,000.00	\$241,400.00	
19 1/1/2013	21,335.00	16,001.25	48,003.75	156,000.00	4,111,000.00	\$241,340.00	482,740.00
20 7/1/2013	20,555.00	15,416.25	46,248.75	159,000.00	3,952,000.00	\$241,220.00	
21 1/1/2014	19,760.00	14,820.00	44,460.00	163,000.00	3,789,000.00	\$242,040.00	483,260.00
22 7/1/2014	18,945.00	14,208.75	42,626.25	166,000.00	3,623,000.00	\$241,780.00	
23 1/1/2015	18,115.00	13,586.25	40,758.75	169,000.00	3,454,000.00	\$241,460.00	483,240.00
24 7/1/2015	17,270.00	12,952.50	38,857.50	173,000.00	3,281,000.00	\$242,080.00	
25 1/1/2016	16,405.00	12,303.75	36,911.25	176,000.00	3,105,000.00	\$241,620.00	483,700.00
26 7/1/2016	15,525.00	11,643.75	34,931.25	180,000.00	2,925,000.00	\$242,100.00	
27 1/1/2017	14,625.00	10,968.75	32,906.25	183,000.00	2,742,000.00	\$241,500.00	483,600.00
28 7/1/2017	13,710.00	10,282.50	30,847.50	187,000.00	2,555,000.00	\$241,840.00	
29 1/1/2018	12,775.00	9,581.25	28,743.75	191,000.00	2,364,000.00	\$242,100.00	483,940.00
30 7/1/2018	11,820.00	8,865.00	26,595.00	194,000.00	2,170,000.00	\$241,280.00	
31 1/1/2019	10,850.00	8,137.50	24,412.50	198,000.00	1,972,000.00	\$241,400.00	482,680.00
32 7/1/2019	9,860.00	7,395.00	22,185.00	202,000.00	1,770,000.00	\$241,440.00	
33 1/1/2020	8,850.00	6,637.50	19,912.50	206,000.00	1,564,000.00	\$241,400.00	482,840.00
34 7/1/2020	7,820.00	5,865.00	17,595.00	210,000.00	1,354,000.00	\$241,280.00	
35 1/1/2021	6,770.00	5,077.50	15,232.50	215,000.00	1,139,000.00	\$242,080.00	483,360.00
36 7/1/2021	5,695.00	4,271.25	12,813.75	219,000.00	920,000.00	\$241,780.00	
37 1/1/2022	4,600.00	3,450.00	10,350.00	223,000.00	697,000.00	\$241,400.00	483,180.00
38 7/1/2022	3,485.00	2,613.75	7,841.25	228,000.00	469,000.00	\$241,940.00	
39 1/1/2023	2,345.00	1,758.75	5,276.25	232,000.00	237,000.00	\$241,380.00	483,320.00
7/1/2023	1,185.00	888.75	2,666.25	237,000.00	0.00	\$241,740.00	241,740.00
	773,356.11	580,017.08	1,740,051.25	6,500,000.00		9,593,424.44	9,593,424.44

APPENDIX C

ADDITIONAL AGREEMENTS AND REPRESENTATIONS
OF THE BORROWER

NONE