

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTE

I, the undersigned, being the duly qualified and acting recording officer of the 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 APPROVING TAX COMPLIANCE PROCEDURES RELATING TO TAX-EXEMPT BONDS" (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 May 21, 2013, and that the meeting was duly held by the Board of Directors of the District 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notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.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: _____
_____; voted against the same: _____; abstained from voting thereon: _____; or were absent: _____.

WITNESS my hand officially this _____ day of May, 2013.

District Secretary

RESOLUTION NO. _____

RESOLUTION APPROVING TAX COMPLIANCE PROCEDURES
RELATING TO TAX-EXEMPT BONDS

BE IT RESOLVED by the Board of Directors (the “Board”) of the Big Sky
County Water & Sewer District No. 363, Montana (the “District”), as follows:

Section 1. Recitals.

1.01. Pursuant to the laws of the State of Montana and Section 103 of the Internal Revenue Code of 1986, as amended, the District has issued, and likely will issue, tax exempt bonds of the District to finance and refinance various projects and functions of the District.

1.02. Dorsey & Whitney, LLP, as bond counsel to the District, has prepared certain Tax Compliance Procedures Relating to Tax-Exempt Bonds (the “Compliance Procedures”) for adoption by this Board in order to assist the District in preserving the tax-exempt status of bonds previously issued and to be issued by the District and to maintain eligibility to issue additional tax-exempt bonds in the future.

Section 2. Approval. The Compliance Procedures are hereby approved in substantially the form attached hereto as Exhibit A, and the District hereby resolves to abide by the Compliance Procedures and to update periodically the Compliance Procedures in accordance with the Internal Revenue Code and supporting Internal Revenue Service rulings and regulations. The General Manager is hereby authorized and directed to edit, refine, finalize and memorialize the Compliance Procedures, with advice from bond counsel to the District, in order to ensure compliance with state and federal laws and regulations.

Passed and approved May 21, 2013.

President of the Board of Directors

Attest:

District Secretary

EXHIBIT A

Big Sky County Water & Sewer District No. 363, Montana Tax Compliance Procedures Relating to Tax-Exempt Bonds

I. Purpose:

These procedures are approved by the Big Sky County Water & Sewer District No. 363, Montana (the “Issuer”) to ensure that interest on tax-exempt bonds, notes or other obligations (“Bonds”) of the Issuer remains excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”).

These written procedures are intended largely to memorialize formally certain practices and procedures of the Issuer previously followed in connection with its issuance of Bonds. The Issuer reserves the right to make exceptions to these procedures as necessary or appropriate.

The Issuer’s procedures for post-issuance tax compliance are as follows:

II. Expenditure/Use of Proceeds:

- A. Expenditure of Bond proceeds will be reviewed by the project manager for the related project, if any, and the General Manager of the Issuer (the “General Manager”). Such review will include comparison to statements regarding expenditure of proceeds in the documents authorizing the Bonds and documents delivered at closing of the Bonds (collectively, the “Bond Documents”).
- B. The Issuer has separately established procedures for preparation and review of requisitions of Bond proceeds through the accounting system of the Issuer.
- C. The Issuer’s accounting system will identify (i) the material components of the Bond-financed property, such as, for example, building materials, equipment, furniture, and (ii) separate purposes of the bond proceeds, such as, for example, construction, reserve fund deposits, and costs of issuance.
- D. None of the proceeds of Bonds will be used to reimburse the Issuer for costs of a capital project paid prior to the date of issuance of the Bonds unless the Issuer shall have complied with the provisions of Section 1.150-2 of the Treasury Regulations with respect to such reimbursed amounts. The Issuer will consult with Bond Counsel regarding these requirements. Attached hereto as Schedule I is a general synopsis of the reimbursement regulations for tax-exempt bonds.

- E. Costs of staff may be financed by Bond proceeds only to the extent they are properly capitalized as part of a capital project (i.e., are a capital expenditure) under generally accepted accounting principles and federal tax law.
 - F. Requisitions will be summarized in a “final allocation” of Bond proceeds to uses not later than 18 months after the in-service date of the financed property or the date of completion (and in any event not later than 5 years and 60 days after the issuance of the Bonds or not later than 60 days after earlier retirement of issue).
 - G. Expenditure of proceeds of Bonds will be measured against the Issuer’s expectation, as set forth in the Tax Certificate delivered at the closing of Bonds, to (i) incur a substantial binding obligation to a third party to spend at least 5% of the net sales proceeds of the Bond on the capital project within 6 months after the issue date, and (ii) proceed with due diligence to complete the capital project and spend at least 85% of the net sale proceeds within the earlier of three years from the date of issue or completion of the project with due diligence.
 - H. If there are any Bond proceeds remaining in the Construction Account/Project Fund established pursuant to the Bond Documents after completion of the project, unless the proceeds can be properly allocated to other uses, such proceeds shall be applied to make debt service payment on the Bonds or otherwise defease the Bonds.
 - I. In the event that Bond proceeds are to be used to make a grant to an unrelated party, a grant agreement will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the Issuer’s attorney or Bond Counsel and the General Manager. The repayment of any portion of a grant by the grantee shall be treated as unspent Bond proceeds.
 - J. If Bond proceeds are loaned to a conduit borrower, Bond Counsel will identify in the Tax Certificate for the conduit loan issue the matters that the conduit borrower will undertake and the Issuer will cause the conduit borrower to adopt any necessary or appropriate tax compliance procedures prepared by Bond Counsel. The General Manager will be the primary officer responsible for causing the conduit borrower to agree to adopt such procedures and the primary contact of the Issuer with the conduit borrower.
- III. Use of Bond-Financed Property:
- A. Use of Bond-financed property when completed and placed in service will be reviewed by the project manager, if any, and the General Manager. The General Manager will consult with Bond Counsel regarding any third-party contracts regarding use of a Bond-financed facility, including, without limitation, leases, use, management or service contracts, and research contracts.
 - B. The General Manager shall consult with Bond Counsel regarding any third-party contract or arrangement concerning use of the Bond-financed facilities, including

without limitation leases, use, management or service contracts, and research contracts.

- C. Agreements with business users for lease, use, management, or any other service with respect to, or non-governmental use of, Bond-financed property will be reviewed prior to execution for compliance with the Code. Such agreements will be approved by the General Manager and Bond Counsel, who will be responsible for determining whether the proposed agreement (i) results in private business use of the facilities, and (ii) if applicable, meets the compensation, term and other requirements under Revenue Procedures 97-13 and 2007-47.
- D. Upon issuance of Bonds, there shall be no expectation that the Bond-financed property will be sold or otherwise disposed of by the Issuer during the term of the Bonds; and no item of Bond-financed property will be sold or transferred by the Issuer while the Bonds are outstanding without approval of the Issuer's attorney and the General Manager upon advice of Bond Counsel or advance arrangement of a "remedial action" under the applicable Treasury Regulations.
- E. The Issuer acknowledges that any sale, transfer, change in use, or change in the users of the Bond-financed property may require remedial action or resolution pursuant to the IRS Voluntary Closing Agreement Program ("VCAP") to assist in resolving violations of federal tax laws applicable to the Bonds.

IV. Investments:

- A. Investment of Bond proceeds in compliance with Montana law (Title 7, Chapter 6, Part 2, Montana Code Annotated) and the arbitrage and rebate requirements of the Code and applicable Treasury Regulations will be supervised by the Issuer's General Manager.
- B. All investments will be purchased only at fair market value, as determined under applicable Treasury Regulations.
- C. Guaranteed investment contracts ("GICs") and other open-market securities, if ever purchased, will be purchased only according to applicable Treasury Regulations, including bid requirements and fee limitations.
- D. If calculation of rebate liability is required, calculations of rebate liability will be performed by outside consultants and reviewed by the General Manager. Such calculations shall be made, as necessary, upon each 5 year anniversary of the date of issue of the Bonds and within the period prescribed following full retirement of the Bonds, or as otherwise directed or required by the Code and applicable Treasury Regulations.
- E. Unless certain exceptions are available following consultation with Bond Counsel, upon final expenditure of the gross proceeds of Bonds, and in any event promptly following the fifth anniversary of the date of issuance of the Bonds or

earlier retirement of the Bonds, the General Manager will consult a qualified professional to prepare a spending exception report for the issue of Bonds.

- F. Rebate payments, if owing, will be made with Form 8038-T no later than 60 days after (i) each fifth anniversary of the date of issuance of the Bonds and (ii) the final retirement of the Bond issue.

V. Issue Price:

For bonds sold through an underwriter or other purchaser to the general public:

- A. The Certificate of Purchaser will include certifications to establish issue price, including a bona fide public sale, reasonable expectations at the time of sale that at least 10% of each maturity of the Bonds will be sold to the general public at the prices or yields shown on the cover or inside cover of the official statement, and sales of at least 10% of each maturity of the Bonds to the general public at the prices or yields shown on the cover or inside cover of the official statement. If the purchaser will not provide this certification, the General Manager or Bond Counsel will inquire as to the circumstances preventing sales at such prices or why otherwise the representation will not be made.
- B. As necessary or appropriate, the General Manager will consult Bond Counsel in connection with review of publicly available records, if any, of the secondary market trading activity for Bonds between the sale date and the date of issue of the Bonds.
- C. The Issuer's financial advisor, if any, will certify that the offer accepted by the Issuer for the purchase of Bonds is a reasonable offer under customary standards applicable in the municipal bond market for similar bonds, and, if the General Manager and Bond Counsel determine it is advisable and the financial advisor agrees to do so, confirm or provide the information in paragraph V.A.

VI. Refunding Bonds:

- A. Refunding bonds ("Refunding Bonds") shall not be issued in any greater amount than will be required to pay the principal and interest of the bonds to be refunded, plus any defaulted interest thereon, costs of issuance and of the refunding, and, if necessary, fund a reserve. Refunding Bonds will satisfy parameters established by the governing body of the Issuer, including those regarding savings.
- B. Prior to issuing any Refunding Bonds, the General Manager will consult with Bond Counsel to ensure that:
 - (i) All of the sale, transferred, and investment proceeds of the Bonds to be refunded (the "Refunded Bonds") have been expended for the purposes for which they were issued in accordance with the resolution authorizing their issuance, and, if not, to take them into account in a permissible manner under the Code following consultation with Bond Counsel;

- (ii) If the Refunded Bonds were issued as governmental bonds, that all facilities financed by the Refunded Bonds have been and are available for use by members of the general public on a substantially equal basis and the Refunded Bonds are not “private activity bonds” within the meaning of Section 141 of the Code;
 - (iii) The Refunded Bonds were not (and the Refunding Bonds will not be) hedge bonds as defined in Section 149(g) of the Code;
 - (iv) There are no funds on deposit in the debt service account or reserve account (or other pledged fund) that secure the repayment of the Refunded Bonds, or if there are, that they are applied to the refunding or taken into account permissibly in the refunding; and
 - (v) The refunding and refunded issues comply with applicable federal tax requirements and restrictions in place on the redemption date of the Refunded Bonds.
- C. The Issuer will consult with its financial advisor or Bond Counsel to ensure that the weighted average maturity of the Refunded Bonds did not exceed 120% of the average reasonably expected economic life of the projects that such bond financed, and that the weighted average maturity of the Refunding Bonds determined as of the date of issuance of the Refunding Bonds does not exceed 120% of the remaining average reasonably expected economic life of the projects that the Refunded Bonds financed, determined under Section 147(b) of the Code.
- D. The General Manager will ensure that sale proceeds, exclusive of amounts to pay costs of issuance or of the refunding or fund a reserve, of the Refunding Bonds will be applied, if invested, toward the purchase of certain eligible securities, including State and Local Government Series (“SLGS”), to be deposited in the escrow account (the “Escrow Account”) established to pay the Refunded Bonds pursuant to an escrow agreement. If SLGS are not acquired for an advance refunding escrow, the financial advisor to the Issuer shall document the reason for not investing in SLGS and the Issuer will comply with all federal tax laws and laws of the State of Montana pertaining to investments other than SLGS, including adherence to the fair market value rules of the Treasury Regulations. Without limitation of the meaning of the preceding sentence, if any GICs or open-market securities are acquired for any advance refunding escrow, the Issuer’s financial advisor will provide guidance on the bidding process and Bond Counsel will oversee compliance with fair market value investment rules, including receipt of at least 3 competitive bids, compliance with compensation limitations, and obtaining appropriate certificates, including from the bidding agent.
- E. In the case of an advance refunding, the General Manager will obtain a verification report from certified public accountants verifying that the yield of the eligible securities acquired with proceeds of the Refunding Bonds for the Escrow Account, computed in accordance with Section 148 of the Code and applicable

Regulations, is not in excess of the yield of the advance Refunding Bonds, and that the amounts in the Escrow Account are sufficient to pay and redeem the Refunded Bonds in full on their redemption date.

- F. The General Manager will ensure that, with the exceptions of any proceeds used to pay issuance costs of the advance Refunding Bonds and expected to be fully expended within 90 days of the issue, an aggregate amount not to exceed the “minor portion” amount for the advance Refunding Bonds, and any other permissible exceptions to yield restriction under the Code, none of the proceeds of the advance refunding bonds will be invested at a materially higher yield than the yield of the advance Refunding Bonds.

VII. Record Management and Retention:

- A. Management and retention of records related to Bond issues will be supervised by the General Manager.
- B. Records for Bonds will be retained for the life of the Bonds, plus any refunding Bonds, plus three years (or such longer term as may be required under state law). Such records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.
- C. Retainable records pertaining to Bond issuance shall include a transcript of documents executed in connection with the issuance of the Bonds and any amendments, copies of rebate calculations, if any, records of payments, escrow agreements, verification reports, records of investment earnings on any relevant funds/accounts, IRS filings and audit reports/investigations.
- D. Retainable records pertaining to expenditures of Bond proceeds include requisitions; reimbursement allocations; paying agent statements, if applicable; trustee statements, if applicable; and final allocation of proceeds.
- E. Retainable records pertaining to use of Bond-financed property include all third-party contracts concerning use of the facilities, including, without limitation, leases, use, management or service contracts, and research contracts.
- F. Retainable records pertaining to investments include GIC documents under the Treasury Regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

VIII. Overall Responsibility:

- A. Overall administration and coordination of these procedures is the responsibility of the General Manager.
- B. Review of compliance with these procedures and, if appropriate, updating these procedures, shall be undertaken not less than annually.

- C. Training, within budget limits, will be made available through attendance at appropriate conferences, applicable publications, consultation with Bond Counsel, and related activities.
- D. The Issuer understands that failure to comply with these policies and procedures could result in the retroactive loss of the exclusion of interest on Bonds from federal gross taxable income and, thus, it would be advisable to consult with Bond Counsel and other professionals in advance regarding deviations from the facts and expectations as set forth in the closing certifications relating to any issue of Bonds.
- E. The Issuer understands that remedial actions to remedy violations of the Code or Treasury Regulations may be undertaken as specified by the Code and Treasury Regulations and that resolution of violations of federal tax law may be pursued under VCAP, and will consult with Bond Counsel regarding the nature and availability of all remedial actions and voluntary closing agreements to resolve such violations. It will consult with Bond Counsel and other professionals to evaluate and implement any remedial actions. Attached hereto as Schedule II is a general synopsis of certain common remedial concepts and actions.
- F. Any violations or potential violations of federal tax requirements shall promptly be reported by or to the General Manager, and the General Manager will engage qualified consultants and Bond Counsel to further investigate potential violations or recommend appropriate remedial actions, including voluntary closing agreements, if necessary.

These Tax Compliance Procedures may be updated or amended from time to time by the undertaking of the appropriate officials or body or bodies of the Issuer.

Originally Dated: May 21, 2013.

SCHEDULE I

REIMBURSEMENT BOND SUMMARY

Following is a general summary of the requirements relating to bonds that are issued to reimburse expenditures that were paid prior to the date of issuance of bonds (“Reimbursement Bonds”).

Reimbursement Bond proceeds cannot be used to reimburse expenditures paid more than 60 days prior to the adoption of the declaration of official intent/reimbursement resolution, which must contain:

- a general functional description of the property to which the reimbursement relates or an identification of the fund or account from which the expenditure is to be paid and a general functional description of the purposes of such fund or account; and
- the maximum principal amount of debt proposed to be issued.

The Treasury Regulations (the “Regulations”) generally require that Reimbursement Bonds must be issued not later than 18 months (or three years, if the Reimbursement Bonds qualify for the “small issuer” exception from the arbitrage rebate requirement) after the later of (i) the date on which the original expenditure is paid, or (ii) the date on which the property is placed in service or abandoned, but (unless the issue qualifies for the “small issuer” exception from the arbitrage rebate requirement) in any case not more than three years after the date on which the original expenditure is paid. If possible, actual reimbursement should be made within 30 days of the date of issuance of the Reimbursement Bonds. The Regulations generally permit reimbursement of capital expenditures and costs of issuance of the Reimbursement Bonds.

Note that there are exceptions to the above requirements pertaining to Reimbursement Bonds, including the following:

- (i) expenditures to be paid or reimbursed from sources other than the Reimbursement Bonds,
- (ii) expenditures permitted to be reimbursed under the transitional provision contained in Section 1.150-2(j)(2) of the Regulations,
- (iii) expenditures constituting preliminary expenditures within the meaning of Section 1.150-2(f)(2) of the Regulations, and
- (iv) expenditures in a “de minimus” amount (as defined in Section 1.150-2(f)(1) of the Regulations).

SCHEDULE II

CERTAIN REMEDIAL PROVISIONS APPLICABLE TO BONDS

The Issuer acknowledges that any deliberate action by the Issuer after Bond issuance that results in a satisfaction of the private business tests or the private loan test will result in private activity bond status unless one or more qualifying remedial actions are taken by the Issuer. Specifically, Treasury Regulations provide that actions are not treated as deliberate actions if (A) five conditional requirements are met, and (B) one of three remedial actions is taken, with respect to the disposition proceeds and nonqualified bonds*:

CONDITIONAL REQUIREMENTS

1. Reasonable Expectations – The Issuer reasonably expected on the issue date that it would not meet the private business tests or the private loan test for the whole term of the bonds; and
2. Reasonable Bond Maturity – The term of the issue must not be unreasonably long; this requirement is met if the weighted average maturity of the bond issue is not greater than 120% of the expected economic life of the property financed; and
3. Fair Market Value Consideration – The terms of any agreement (relating to satisfaction of a private activity bond test) must be bona fide and at arm's-length, and the new user must pay a fair market value consideration for the use of the bond-financed property; and
4. Disposition Proceeds Are Gross Proceeds – The Issuer must treat any disposition proceeds as gross proceeds subject to arbitrage/rebate restrictions; and
5. Proceeds Spent for Authorized Purpose – Except as described with respect to redemption and defeasance options below, prior to deliberate actions, the affected proceeds must have been spent for the authorized purposes under the applicable bond documents.

REMEDIAL ACTIONS – Under Treasury Regulations, Sections 1.141-12(d), (e) and (f):

1. Redemption of Non-Qualified Bonds – Under the general rule, all nonqualified bonds of the issue must be redeemed. Tax-exempt bond proceeds (i.e., refunding bond proceeds) cannot be used unless the tax-exempt bonds are qualified bonds, taking into account the purchaser's use of the facility. The bonds must be

* The portion of the outstanding bonds in an amount that, if the remaining bonds were issued on the date on which the deliberate action occurs, the remaining bonds would not satisfy the private business use test or the private loan financing test, as applicable. The amount of private business use is the highest percentage of business use in any one-year period, commencing with the deliberate action.

redeemed within 90 days of the date of the deliberate action or a defeasance escrow for the bonds must be established within such 90-day period. Special rules apply to transfers exclusively for cash and to defeasance escrows.

2. Alternative Use of Disposition Proceeds – To meet this requirement, all disposition proceeds must be in cash, the Issuer must reasonably expect to expend the proceeds within 2 years, the new use must not meet the private business tests or the private loan test (and the Issuer cannot take any action subsequent to the date of the deliberate action to cause the tests to be met), and any unused proceeds must satisfy the redemption requirement in the preceding paragraph.
3. Alternative Use of Facility – This remedial action is satisfied if the bond-financed property itself (as distinguished from the proceeds of the issue) is used in an alternative manner (e.g., for a different purpose or by a different person); the nonqualified bonds are treated as reissued on the date of the deliberate action and independently meet all of the requirements for tax exemption under Sections 141 through 150 of the Code, except the arbitrage and rebate rules of Section 148, for the remaining term of the nonqualified bonds; the deliberate action does not involve a transfer of the property to a purchaser that finances the acquisition with the proceeds of another issue of tax-exempt bonds; and any disposition proceeds, other than those arising from an agreement to provide services, resulting from the deliberate action are used to pay debt service on the bonds on the next available payment date or escrowed within 90 days of receipt and yield restricted to pay debt service on the next available payment date.

The above is only a brief summary of certain remedial actions, and additional special rules may be applicable. As provided in the Issuer's Compliance Procedures for Tax-Exempt Bonds, the General Manager shall seek advice of Bond Counsel as necessary to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations.

The Commissioner of the IRS may, by publication, provide for additional remedial actions. In addition, the IRS provides a program in which issuers/borrowers which cannot meet a listed remedial action can enter into a closing agreement with the IRS to avoid private activity bond status. The closing agreement program includes several conditions, including providing for the redemption of the bonds and paying the IRS an amount based on an assumption that the non-qualified bonds are taxable from the date of the subsequent act until they are redeemed.