

RESOLUTION NO. 2016-02

A RESOLUTION RELATING TO THE CONSTRUCTION OF A WASTEWATER COLLECTION, TRANSPORT AND DISCHARGE SYSTEM BY THE GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT AND AUTHORIZING AND DIRECTING THE ISSUANCE AND SALE OF WASTEWATER REVENUE BONDS AND A WASTEWATER SPECIAL ASSESSMENT BOND TO FINANCE AND PAY FOR A PORTION OF THE COSTS OF THE FOREGOING, PROVIDING THE TERMS OF THE BONDS AND CREATING SPECIAL FUNDS AND ACCOUNTS AND PLEDGING CERTAIN REVENUES AS THE SOURCES OF SECURITY AND PAYMENT FOR REVENUE BONDS AND LEVYING SPECIAL ASSESSMENTS FOR PAYMENT OF THE SPECIAL ASSESSMENT BOND.

WHEREAS, the Gallatin Gateway County Water and Sewer District, Gallatin County, Montana (the "District") is a county water and sewer district, validly organized pursuant to Title 7, Chapter 13, Parts 22 and 23 and is located within the boundaries of Gallatin County, a political subdivision of the State of Montana (the "County"); and

WHEREAS, the District is authorized by law, including without limitation Title 7, Chapter 13, Parts 22 and 23 Mont. Code Ann., to construct and operate its wastewater collection, treatment and discharge system (the "System"), to prescribe and collect fees and charges for the services provided by the System, to issue revenue bonds to finance and pay for a portion of the costs of constructing improvements to the System and obtaining rights to discharge wastewater in the Four Corners Water and Sewer District's treatment system for eventual treatment of the District's wastewater and establish other appropriate covenants and conditions with or for the benefit of the holders of such bonds; and

WHEREAS, the United States Department of Agriculture, Rural Development ("RD") through Rural Utilities Services ("RUS"), is authorized to make certain loans and grants to political subdivisions of the States of Montana, including the District; and

WHEREAS, the District Board submitted to the electors of the District the question of whether the Board should be authorized to issue and sell revenue bonds of the District in an aggregate principal amount of Eight Hundred Sixty-Three Thousand Dollars (\$863,000) payable over a term of up to forty (40) years for the purpose of funding a portion of the costs of the design, construction, acquisition of property, equipping and financing of a public wastewater collection, transportation and discharge system with sewage treatment for the benefit of all lands within the District (the "Project"); and

WHEREAS, pursuant to a duly conducted mail ballot election held on January 31, 2012, by a vote of 51 for and 18 against, the voters of the District approved the issuance of Revenue Bonds in the amount of approximately \$863,000 to finance a portion of the Project; and

WHEREAS, the District passed its Resolution No. 12-04 which was a resolution of intention to levy special assessments in the amount of \$787,000 to finance a portion of the Project. A notice of passage of such resolution and opportunity to protest was mailed to all owners of real property in the District and was published in the Bozeman Daily Chronicle on July 7, 2012 and July 14, 2012, and a hearing was held on August 6, 2012 at which time the District Board considered there were no written protests of the proposed levy and the Project and determined that without written protests there was nothing to stop the creation of the special assessment area or the levy of the special assessments as proposed the District passed its Resolution No. 12-05 creating the special assessment area as all of the District; and

WHEREAS, the District determined, after the near-by Four Corners County Water & Sewer District ("Four Corners") obtained ownership of a wastewater system with excess capacity, that the District should change its approach and amend its plans and instead of creating its own treatment system it would build lift stations and wastewater transportation mains to Four Corners and enter into an agreement with Four Corners to have Four Corners treat the District's wastewater and the District would pay Four Corners for such treatment; and

WHEREAS, the District and Four Corners entered into an Interlocal Agreement for the treatment by Four Corners of the District's wastewater; and

WHEREAS, the District has acquired, or will acquire, rights to construct the wastewater collection system and the force main along Highway 191; and

WHEREAS, the District engineers have revised the Project budget and, on July 28, 2016, the District obtained a commitment from RD for of an additional \$465,000 needed to finance the revised Project budget and the District applied for and received such funding through RD with \$310,000 as a loan and \$125,000 of additional grant; and

WHEREAS, the District has received grants for the Project as follows:

Treasure State Endowment Program Grant	\$750,000
Renewable Resources Grant	\$100,000
U.S.D.A. Rural Utilities Services (RD) Original Grant	\$1,815,000
U.S.D.A. Rural Utilities Services Search Grant	\$30,000
Water Resources Development Act Grant 595	\$233,000
Water Resources Development Act Grant 595-2	\$190,000
Community Development Block Grant	\$450,000
U.S.D.A. Rural Utilities Services Additional Grant	\$125,000

;and

WHEREAS, the District has received loan commitments for the Project as follows: U.S.D.A purchase of a \$787,000 Wastewater Special Assessment Bond, payable over 40 years; U.S.D.A purchase of a \$863,000 voter approved Wastewater Revenue Bond, payable over 40 years; and a U.S.D.A purchase of a \$310,000 Wastewater Revenue Bond (not required to have voter approval), payable over 40 years; and

WHEREAS, Section 7-13-2280 through 2290, M.C.A. authorize the District to issue special assessment bonds of the District and Section 7-13-2333, MCA authorizes the District to issue revenue bonds and special assessment bonds without an election under certain conditions; and

WHEREAS, Section 7-13-2301, M.C.A. authorizes the District to charge a portion of the District's rates and charges for the Project; and

WHEREAS, the Board has determined that it is in the best interest of the District that special assessment bonds in the estimated principal amount of \$787,000 be issued to finance a portion of the Project, which Series B Bond will have a term of up to 40 years and will be payable from special assessments to be levied annually against each benefitted lot or parcel in the District in an equal amount pursuant to Section 7-13-2280 and 7-12-2151(d), M.C.A.; and

WHEREAS, the Board has determined it is in the best interest of the District that revenue bonds, in the estimated principal amount of \$863,000 for the Series A Bond and \$310,000 Series C Bond, be issued to finance a portion of the Project with such revenue bonds paid from District's rates and charges; and

WHEREAS, for the purposes described above, the Board of Directors of the District now desires to adopt this Resolution, as permitted by law, authorizing and directing the construction of the Project as described herein, the issuance of revenue bonds payable out of the revenues of the Wastewater System and special assessment bonds payable from special assessments levied against each parcel in the District to finance a portion of the cost of such Project, and the sale of such Bonds to RD,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT, GALLATIN COUNTY, STATE OF MONTANA, AS FOLLOWS:

ARTICLE I - DEFINITIONS

Section 1.01. Definitions. In this Resolution, unless a different meaning clearly appears from the context;

"Act" means the Title 7, Chapter 13, Parts 22 and 23, Montana Code Annotated as amended.

"Bond" or "Bonds" means the \$863,000 Gallatin Gateway County Water and Sewer District Wastewater System Revenue Bond, Series 2016A, the \$787,000 Gallatin Gateway County Water and Sewer System Special Assessment Bond, Series 2016B and the \$310,000 Gallatin Gateway County Water and Sewer District Wastewater System Revenue Bond, Series 2016C Bond and

any other Bonds issued pursuant to this Resolution to further improve or repair the System. If the year in which the Bonds are issued is anything other than 2016, then the designation of the year of the Bond will be the year issued.

“Bondholder” or “Holder” means any person or entity listed in the registration books of the District Secretary as the holder of a Bond pursuant to Section 3.06 of this Resolution, regardless of whether such Bondholder holds the Bond for his own account or as a fiduciary for another person.

“Bond Repayment Reserve Account” means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.05 and 5.04 of this Resolution.

“CDBG” means the Montana Department of Commerce Community Development Block Grant Program.

“Construction and Acquisition Account” means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Section 5.02 of this Resolution.

“Date of Closing” means the date on which a Bond is sold and delivered by the District to Rural Development.

“Defeasance” means any manner of advance refunding of a bond (as described in Section 149(d) of the IRC and Section 1780.94 (j)(4) of RD’s regulations) where the bond to be refunded is not paid in full at the refunding date but instead paid off over time through escrowed funds from the proceeds of the refunding.

“District” means the Gallatin Gateway County Water and Sewer District, Gallatin County, Montana.

“District Secretary” means the Secretary of the Gallatin Gateway County Water and Sewer District, Gallatin County, Montana.

“Four Corners” means the Four Corners County Water and Sewer District located in Gallatin County about three miles north of the District.

“Governing Body” means the Board of Directors of the District.

“Gross Revenues” include, without limitation, all gross income and receipts, (a) from the rates, fees, charges and rentals imposed on account of the availability, benefit or use of the System as now constituted or hereafter improved, replaced or extended; (b) from penalties and interest on such rates, charges, fees and rentals; (c) from judgments, orders, executions, foreclosures, and settlements in proceedings to collect delinquent payments for use of the System; (d) from sales of property acquired for the System; (e) deficiency taxes levied and received pursuant to Section 7-13-2302, MCA; and (f) from the investment of any of the foregoing.

“Interlocal Agreement” means the agreement between the District and Four Corners originally dated February 16, 2016, concerning the acceptance and treatment of wastewater from the District by Four Corners and the charges therefore.

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

“Monthly Apportionment” means the monthly transfers of money between the accounts created pursuant to this Resolution made pursuant to and in the manner prescribed by Section 5.04 of this Resolution.

“Nationally Recognized Bond Counsel” means a firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

“Net Proceeds” means the amount received by the District as a result of the sale of the Bond, after any deduction for any amount deposited into the Bond Repayment Reserve Account referenced in Section 4.05 but without deduction for any costs incurred by the District except as previously authorized in writing by RD.

“Net Revenues” means, for any period of time, the excess of Gross Revenues over Operating Expenses of the System.

“Operating and Maintenance Account” means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Section 4.03 and 5.04 of this Resolution.

“Operating Expenses” include, without limitation, the reasonable and necessary administrative expenses of the District relating solely to the System, the costs of the audits and financial reports required by this Resolution; the treatment and other charges authorized under the Interlocal Agreement; the premiums for insurance and fidelity bonds obtained in connection with the property or operation of the System; the costs of labor, materials, and supplies used for current operation and maintenance of the System; the charges for the accumulation of appropriate reserves, in accordance with sound accounting practices, for the current expenses of operating and maintaining the System; legal fees; and all other current expenses, whether paid or accrued, of operating, maintaining, and repairing the System. Operating Expenses shall not include any allowance for depreciation or replacement of capital assets of the System.

“Permitted Investments” means the obligations set forth in Section 5.08 of this Resolution that may be purchased with Wastewater System Fund moneys.

“Project” means the design, construction, acquisition of property, equipping and financing of a public wastewater collection, transportation and discharge system with sewage treatment provided by Four Corners.

"Project Costs" means those costs which under generally accepted accounting principles are capital costs of the Project, and of such future improvements and extensions of the System as may be authorized in accordance with law and this Resolution. Project Costs shall include, but are not limited to: payments due for work and materials performed and delivered under construction contracts; architectural, engineering, contract administration, inspection, supervision, fiscal, and legal expenses; the costs of acquiring land and easements or other interests in land; the costs of acquiring and installing equipment in connection with the Project; debt service on interim financing during the period of construction of the Project; reimbursement of any advances made for the foregoing purpose from other District funds and all other expenses incurred in connection with the construction and financing of the Project.

"RD" means the United States Department of Agriculture, Rural Development and Rural Utilities Services, their successors and assigns.

"Rebate Amount" means the amount calculated pursuant to Section 5.10 of this Resolution representing excess investment earnings which must be rebated to the United States Treasury.

"Revenue Bond Repayment Account" means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.04 and 5.04 of this Resolution.

"Revenue Bonds" means the Series 2016A and C Bonds and other Bonds issued under this Resolution payable from the Net Revenues of the System.

"Series 2016 Bonds" means, collectively, the Series 2016A, B and C Bonds. If such Bonds are issued in a calendar year other than 216, then each such Bond will bear the Series designation of the calendar year in which it is issued.

"Series 2016A Bond" means the \$863,000 Gallatin Gateway County Water and Sewer District, Wastewater System Revenue Bond, issued under a successful election of the voters on January 31, 2012.

"Series 2016B Bond" means the \$787,000 Gallatin Gateway County Water and Sewer District, Wastewater System Special Assessment Bond, which is issued without an election pursuant to Section 7-13-2333, MCA.

"Series 2016C Bond" means the up to \$310,000 principal amount of Gallatin Gateway County Wastewater System Revenue Bond, Series 2016C, issued without an election pursuant to Section 7-13-2333, MCA.

"Short-lived Asset Replacement Reserve Account" means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.06 and 5.04 of this Resolution.

“Special Assessments” means the assessments to be levied annually by the District and collected through Gallatin County with taxes for the payment of the principal of and interest on the Series 2016 B Bond.

“Special Assessment Bond Repayment Account” means the account created by the District in the Wastewater System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Section 4.08 and 5.04 of this Resolution.

“Supplemental Resolution” means a resolution adopted by the District pursuant to Article X of this Resolution.

“Surplus Account” means the account created by the District pursuant to Section 4.01 hercof in the Wastewater System Fund and treated in the manner described in Sections 4.07 and 5.04 of this Resolution.

“Surplus Net Revenues” means net revenues available after the Monthly Apportionment to satisfy the requirements of the Revenue Bond Repayment Account and the Bond Repayment Reserve Account.

“System” means the Wastewater System of the District.

“Wastewater System Fund” means the fund created by the District pursuant to Section 4.01 of this Resolution.

In addition to the foregoing definitions, other terms are defined or described in subsequent sections or subsections of this Resolution and shall, unless the context otherwise requires, have those same meanings at all places in this Resolution and in related documents where those terms appear.

ARTICLE II - AUTHORIZATION OF PROJECT

Section 2.01 Authorization for the Project. The District held an election on January 31, 2012, and the voters in the District voted by a margin of 51 to 18 to approve the issuance of revenue bonds of up to \$863,000 to pay a portion the estimated Project Costs of the System.

The election authorized the issuance of the Series 2016A Bond payable over 40 years by rates and charges of the System and, if Net Revenues are not sufficient for payment of the Series 2016A Bond, the District is authorized to direct Gallatin County to collect a wastewater system deficiency tax to the extent of the deficiency, as provided in Section 7-13-2302, MCA. The District did not have an election to authorize the up to \$310,000 Series 2016C Bond, but the District Board is authorized to issue the Series 2016C Bond and the Series 2016B Bonds without an election pursuant to Section 7-13-2333, MCA, and such bonds will not be secured by the deficiency levy described in Section 7-13-2302, MCA. The Board hereby determines that the Series 2016B and C Bonds are issued so that principal and interest due in any year on such Bonds will be paid by revenues received in that year (for the Series 2016C Bond) as estimated by

the Board and assessments estimated by the Board to be collected on the Series 2016B Bond to be received in that year. The Board also has determined that the final maturity of the Series 2016B and C Bonds is not later than 40 years after issued or the useful life of the Project as determined by the Board.

The District finds that acquisition of the Project is authorized by law, is not contrary to any covenant, agreement, or obligation of the District, and is in the best interests of the residents of the District. The District Board hereby determines and finds that the improvements to the acquired and financed in part by the Series 2016 Bonds confer a direct benefit on all of the lots or parcels in the District.

Section 2.02 Outstanding Wastewater System Bonds. The District currently has no bonds outstanding.

Section 2.03 Ratification and Repealer. (a) All actions heretofore taken by the District or its officers and agents toward the acquisition and financing of the Project and the issuance and sale of the Bond (except actions inconsistent with the provisions of this Resolution) are hereby ratified, approved and confirmed.

(b) All provisions of other ordinances and resolutions and all other actions and proceedings of the Governing Body of the District which are in any way inconsistent with the terms and provisions of this Resolution are repealed, amended, and rescinded to the full extent necessary to give full force and effect to the provisions of this Resolution.

Section 2.04 Approval of Project. All expenditures for Project Costs and obligations therefor, made or incurred by District officials in the course of their duties prior to the date of this Resolution are hereby ratified and confirmed. It is presently estimated by the Governing Body that the Project Costs will be as follows:

County Health Fees	\$8,900
Project Administration	\$43,470
County Administration	\$32,500
LMI Qualification Services	\$13,400
Legal Costs	\$49,800
Interlocal Agreement legal fees	\$4,200
Audit Fees	\$5,000
Initial O&M	\$10,000
Interim Interest	\$30,000
Bond/Related Costs	\$24,706
Land Acquisition	\$208,264
Study/Report/Preliminary Design	\$321,156
EA Amendment	\$8,000
Engineering/Architectural Design	\$380,084
Construction Engineering Services	\$269,842
Four Corners Connection Fee	\$540,000
Construction	\$3,029,658

Contingency	\$351,883
Direct Benefit portion of CDBG grant	\$312,137
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	\$5,643,000

The District expects to pay the Project Costs from the following sources of funds:

RD Loan (Series 2016A Bond)	\$863,000
RD Loan (Series 2016B Bond)	\$787,000
RD Loan (Series 2016C Bond)	\$310,000
TSEP Grant	\$750,000
RRGL Grant	\$100,000
WRDA Grants 595 & 595-2	\$413,000
CDBG Grant	\$450,000
RD Supplemental Grant	\$125,000
RD Original Grant	\$1,815,000
RD Search Grant	\$30,000
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	\$5,643,000

Section 2.05 Compliance with Laws. The construction, operation, and maintenance of the Project and the procurement of professional services, construction services and construction materials shall be undertaken and performed in accordance with all applicable federal, state and local statutes, regulations and ordinances including, but not limited to, Section 504 of the Rehabilitation Act of 1978 (29 U.S.C. 794).

Section 2.06 Benefit, Rates and Charges. The lands within the District, which are benefitted by construction of the Project, are all of the lands within the District. The total benefit conferred on such lands is not less than \$1,960,000 of which, the total benefit incurred on all the benefitted properties by the Special Assessments is \$787,000. The District will impose reasonable rates and charges for the availability and use of the System which will, based upon the reasonable estimates and projections of the District's consulting engineer, be sufficient to pay all expenses of operation and maintenance, to provide for depreciation and repairs of the System, to pay installments of principal and interest on the Revenue Bonds when due and to build and maintain the required reserves as set forth herein.

Section 2.07 Reimbursement of Expenditures. The Internal Revenue Service has issued Section 1.150-2 of the Treasury Regulations (the "Regulations") dealing with the issuance of tax-exempt bonds, all or a portion of the proceeds of which are to be used to reimburse the issuer for the project expenditures made by the issuer prior to the date of issuance of such bonds. The Regulations generally require that, except for preliminary expenditures of not more than 20% of the Project Costs for such things as engineering, surveying and soil testing, the issuer make a declaration (no later than 60 days after payment of the original expenditures) of its official intent to reimburse itself for such expenditures out of the proceeds of a subsequently issued borrowing, that the borrowing occur and the reimbursement allocation be made from the proceeds of such borrowing within eighteen months of the original expenditure or the date the project is placed in service, and that the expenditure be a capital expenditure or cost of issuance. The District desires to comply with the Regulations in the acquisition of the Project. The District does not expect to reimburse itself from Bond Proceeds for any of its prior expenditures. However, if it does so reimburse itself, then all reimbursed expenditures shall be expenditures authorized to be reimbursed by Section 1.150-2 of the Regulations.

ARTICLE III - AUTHORIZATION AND TERMS OF SERIES 2016 BONDS

Section 3.01 Authorization, Issuance and Sale of Series 2016 Bonds. Pursuant to the Act and in order to provide a portion of the moneys for the Project, the Governing Body of the District hereby authorizes the issuance and sale of the Series 2016A, B and C Bonds to RD as the original purchaser upon the terms and conditions stated herein.

The Series 2016A and C Bonds shall be limited obligations of the District payable from the Net Revenues of the System (the Series 2016A Bond shall also be payable as described in Section 3.15), shall be issued and initially sold to RD in the aggregate principal amount of \$863,000 for the Series A Bond and \$310,000 for the Series C Bond, and each shall have a term of 40 years. The Series 2016B Bond shall be a limited obligation of the District in the principal amount of \$787,000 payable from the Special Assessments over a term of 40 years.

Section 3.02 Interest Rate. The Series 2016A, B and C Bonds shall each bear interest from their date at the rate permitted and agreed by the District and RD on the unpaid principal balance thereof. The interest rate permitted and agreed shall be the lower of the rate in effect at the time of loan approval by RD (1.625%) or at the Date of Closing. The calculations of payments on the Series 2016 Bonds set forth herein are based on an interest rates referenced above with a 40 year term. Interest is calculated on the basis of a 365 day year.

Section 3.03 Payment Schedule. The principal of and interest on the Series 2016A and C Bonds shall be payable in monthly installments with the first installment due one month from the date of the Date of Closing and the remaining payments due on the same day each month thereafter during the remaining term of the Series 2016A and C Bonds until the principal of and interest on the Series 2016A and C Bonds have been paid in full. Principal and interest payments, which are presently estimated to be in the amount of \$2,451 for the Series 2016A Bond and \$881 for the Series 2016C Bond, based on interest at the rate of one and five-eighths percent (1.625%) per annum, shall be paid on the monthly installment dates for the remaining term of the Series 2016A and C Bonds. The final monthly installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due.

The principal of and interest on the Series 2016B Bond shall be payable in semi-annual installments with the first installment due six months from the date of the Date of Closing and the remaining payments due semi-annually thereafter during the remaining term of the Series 2016B Bond until the principal of and interest on the Series 2016B Bond has been paid in full. Principal and interest payments, which are presently estimated to be in the amount of \$13,419, based on interest at the rate of one and five-eighths percent (1.625%) per annum, shall be paid on the semi-annually installment dates for the remaining term of the Series 2016B Bond. The final semi-annual installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. Prepayments of the Series 206B Bond, as described in Section 3.05, will result in a reamortization of the Series 2016B Bond and a reduced payment over the same term.

Section 3.04 Payments Due on Saturdays, Sundays and Holidays. In any case in which the date on which an installment payment is due shall be a Saturday, a Sunday, a legal holiday, or a day on which banking institutions are authorized by law to close, then such

installment payment need not be made on such date, but may be made on the next business day that is not a Saturday, a Sunday, a legal holiday, or a day on which banking institutions are authorized by law to close, with the same force and effect as if made on the date on which the installment payment was due. No penalty shall attach to a payment made pursuant to this provision.

Section 3.05 Prepayment and Redemption. The District may at any time prepay all or any part of the principal plus accrued interest on the Series 2016 Bonds. Any such prepayment may be made without penalty or premium. Any prepayment on the Series 2016A and C Bonds shall be identified as such, shall be applied first to accrued interest and then to unpaid principal, and shall not extend or postpone the due date of any subsequent installment payments on the Series 2016A and C Bonds. Since the principal of any Special Assessment that is not delinquent may be prepaid in whole at any time after the Special Assessment is levied as provided in Section 7-13-2287, MCA, and, as intended to occur with qualifying low to moderate income users of the System through CDBG direct pay grant funds, a prepayment of the Series 2016B Bond will result in reduced future installment payments on the Series 2016B Bond, to reflect a reamortization of the remaining principal and a reduced total amount of Special Assessments available to make the Series 2016B Bond payment, while the term of the Series 2016B Bond will remain the same. In the event of such prepayment of the Series 2016B Bond, advance notice will be given to RD and a replacement bond reflecting the revised amortization will be provided to RD by the District.

Section 3.06 Negotiability, Transfer and Registration. The Series 2016 Bonds shall be fully registered as to both principal and interest, and shall be initially registered in the name of and payable to the United States of America at the RD National Finance Office. The Series 2016 Bonds shall be negotiable, subject to the provisions for registration and transfer contained in this Section. No transfer of the Series 2016 Bonds shall be valid unless and until (1) the Bondholder, or his duly authorized attorney or legal representative, has executed the form of assignment appearing on the Series 2016 Bonds, and (2) the District Secretary, as Bond Registrar, has duly noted the transfer on the Series 2016 Bonds and recorded the transfer on the Secretary's registration books. The District Secretary may, prior to noting and recording the transfer, require appropriate proof of the transferor's authority and the genuineness of the transferor's signature. In the event that the District adopts or amends a system of registration as provided in Sections 17-5-1101 through 1123, MCA, such system and any amendments thereto shall be applicable to the Series 2016 Bonds except to the extent that such system is inconsistent with this Resolution, in which event the terms of this Resolution shall take precedence. The District shall be entitled to deem and treat the person in whose name a Series 2016 Bond is registered as the absolute owner of the Series 2016 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 District's liability upon such Series 2016 Bonds to the extent of the sum or sums so paid.

Section 3.07 Execution. The Series 2016 Bonds shall be executed on behalf of the District by the manual signature of the President of the Board of Directors of the District and shall be manually countersigned by the Secretary. Any or all of such signatures may be affixed at or prior to the Date of Closing. In the event that any of the officers who have signed the Series 2016 Bonds cease to be officers of the District before the Series 2016 Bonds are issued or

delivered, their signatures shall remain binding upon the District. Conversely, the Series 2016 Bonds may be signed by an authorized official who did not hold such office on the date of this Resolution.

Section 3.08 Delivery. The Series 2016 Bonds shall be delivered to RD, or its attorney or legal representative on or before the Date of Closing. The purchase price of the Series 2016 Bonds shall be not less than the principal amount thereof plus any interest accruing on the Series 2016 Bonds from its date to the Date of Closing.

Section 3.09 Security. The Series 2016 Bonds shall be paid solely from the Wastewater System Fund, to which fund are pledged the Net Revenues generated by the System and the Special Assessments. The Series 2016A Bond is additionally secured by the deficiency tax levy described in Section 3.10.

Section 3.10 Deficiency Tax Levy. The Series 2016A Bond is being issued pursuant to a successful election authorizing a deficiency tax levy. Pursuant to Section 7-13-2302, MCA, at least fifteen days before the first month in which the Board of County Commissioners of Gallatin County is required by law to levy taxes for county purposes, the Board of Directors shall review the sufficiency of the amount of moneys required of the District to pay the Series 2016A Bond. If the amount of moneys required of the District is then estimated to be inadequate to pay such obligation, maintain required reserves or pay the other claims, and expenses against the District, the Board of Directors, in accordance with Section 7-13-2302, MCA, shall estimate in writing the amount necessary for such purposes to be levied and collected in the manner prescribed in Section 7-13-2303 and 7-13-2309, MCA. The estimate shall include the amount of the deficiency for such to arise during the current fiscal year. The proceeds of the levy shall be credited and paid into the appropriate account of the Borrower in which the existing or anticipated deficiency occurred, if and to the extent that the levy was made for claims properly payable therefrom.

Section 3.11 Priorities. The Series 2016A and C Bonds shall be secured by and payable out of the Net Revenues of the System without preference or priority over Parity Revenue Bonds as described in Section 6.01 hereof. If at any time the Net Revenues on hand in the Wastewater System Fund are insufficient to pay the principal and interest then due on the Series 2016A and C Bonds and any Parity Revenue Bonds issued under this Resolution, any and all moneys then available shall be applied to payments then due and overdue in order of the due dates of such payments (earlier-due payments being made before later-due payments), and if available moneys are insufficient to make all payments due on the same date, such moneys shall be applied pro rata first to accrued interest and then to principal.

Section 3.12 Levy of Special Assessments. The District will do all acts and things necessary for the final and valid levy of the Special Assessments upon the benefited property within the boundaries of the District in accordance with the Constitution and laws of the State of Montana and the Constitution of the United States in an aggregate principal amount of \$787,000, as such may be reduced in accordance with the provisions hereof. Such Special Assessments shall be levied on the basis of an equal amount per parcel as prescribed in Resolution No. 12-04 and 12-05. The total Special Assessment per parcel is \$5,917.29

(\$787,000 divided by 133 parcels). If the number of benefited lots in the District increases, then, pursuant to Section 7-13-2280 and 7-12-2151(4), MCA, the Board shall recalculate the amount assessable to each parcel and provide a resolution concerning such reassessment to the County. The initial annual special assessment was estimated to be \$297.55. The annual amount levied per lot listed in Resolution No. 12-05 will be \$201.79 based on the interest rates described in Section 3.03, which the Board hereby levies, provided however, the levy amount will not be placed on the County tax rolls until after the Series 2016B Bond is issued.

As authorized by Section 7-13-2287(2), MCA, the Special Assessments shall be payable in equal semi-annual installments of principal and interest. After the Series 2016B Bond is issued, the Special Assessments will be payable in installments on the 30th day of November and on the 31st day of May, and shall become delinquent on such dates unless paid in full. The payment due on any installment date shall be the amount necessary to amortize, over the remaining years of the 40-year term in equal semi-annual payments, the principal amount of the assessment, together with interest to accrue thereon over said term at the interest rate thereon; provided that the amount of each such installment shall be adjusted each fiscal year to an amount equal to the amount necessary to amortize fully the then outstanding principal amount of the assessments (excluding any delinquent amounts), plus interest accrued at the interest rate on the assessments in the number of installments then remaining. The Special Assessments shall constitute a lien upon and against the property against which they are made and levied, which lien may be extinguished only by payment of the Special Assessment with all penalties, costs and interest as provided in Section 7-13-2289, MCA. No tax deed issued with respect to any lot or parcel of land shall operate as payment of any installment of the Special Assessment thereon which is payable after the execution of such deed, and any tax deed so issued shall convey title subject only to the lien of said future installments, as provided in Section 15-18-214, MCA.

Section 3.13 Reassessment. If at any time and for whatever reason any Special Assessment herein agreed to be levied is held invalid, the District and its governing body, its officers and employees, will take all steps necessary to correct the same and to reassess and re-levy the same, including the ordering of work, with the same force and effect as if made at the time provided by law, ordinance or resolution relating thereto, and will reassess and re-levy the same with the same force and effect as an original levy thereof, as authorized by Section 7-13-2285, MCA. Any Special Assessment, or reassessment or re-levy shall, so far as is practicable, be levied and collected as it would have been if the first levy had been enforced including the levy and collection of any interest accrued on the first levy.

Section 3.14 Form of Revenue Bonds. The Series 2016A and C Bonds shall be in substantially the following forms (with appropriate insertions for dates and amounts as described above and a description of Section 3.10 for the Series 2016A Bond):

UNITED STATES OF AMERICA
STATE OF MONTANA
GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT
Gallatin County, Montana
Wastewater System Revenue Bond
Series 2016__

KNOW ALL PERSONS BY THESE PRESENTS: The Gallatin Gateway County Water and Sewer District (the "District"), a duly organized political subdivision of the State of Montana, acknowledges itself to be indebted to and for value received promises to pay to the order of the **United States of America**, or its registered assignee, at the U.S.D.A. Rural Utilities Services National Finance Office, solely from the Revenue Bond Repayment Account of the District's Wastewater System Fund, the principal sum of _____ Thousand and No/100 Dollars (\$_____,000), plus interest from the date hereof at the rate of one and five-eighths percent (1.625%) per annum on the unpaid balance for the Bond's total term of 40 years. Principal and interest in the amount of _____ (\$_____) shall be paid on the ____ day of each month, beginning _____, 20__, and each month thereafter for the 40 year term of the Bond. The final monthly installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. Interest is computed on the basis of a 365 day year. Such installment payments shall be made by check or draft mailed 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 or payments may be made electronically by preauthorized debit arranged for the benefit of the Registered Owner of the Bond.

This Bond has been issued pursuant to and in full conformity with the constitution and laws of the State of Montana, including without limitation Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated, and in accordance with Resolution No. _____ of the District, duly adopted on _____, 2016, (the "Resolution"). Reference is hereby made to the Resolution for a description of the terms and conditions other than those herein, upon which this Bond is issued and secured.

The Bond has been issued for the purpose of providing part of the funds necessary to pay the costs of designing, constructing, equipping and financing the Wastewater System of the District (the "Project"). The principal of and interest on the Bond is payable from the Net Revenues of the System as defined in the Resolution [provided, however, for the Series 2016A Bond, if, from any cause, Net Revenues of the System are inadequate to pay the principal hereof and interest hereon when due, the Board of Directors of the District is required by law to estimate to the Board of County Commissioners of Gallatin County, Montana, the amount required for such purposes and the Board of County Commissioners must thereupon levy upon lands in the District benefitted by the Project funded in part by the Bond, exclusive of exempt lands, an assessment designated as a "wastewater district bond tax" in an amount sufficient to provide for such deficiency but not exceeding such benefit.]

The District may at any time prepay all or any part of the principal, plus accrued interest on the Bond. Any such prepayment may be made without penalty or premium. Any prepayment shall be identified as such, shall be applied first to accrued interest and then to unpaid principal, and shall not extend or postpone the due date of any subsequent installment payment on the Bond.

The District has duly authorized and will forthwith acquire and finance the Project as defined in the Resolution. The District will establish and collect reasonable rates and charges for the services afforded by the System of which the Project is a part, and has created a Wastewater System Fund into which the Gross Revenues of the System, including all revenues from additions, replacements and improvements to the System subsequently constructed or acquired, will be paid. The Wastewater System Fund includes a Revenue Bond Repayment Account, into which there shall each month be credited, out of the Net Revenues of the System then on hand, amounts sufficient, with similar credits from prior and subsequent months, to meet all payments of principal of and interest on the Bond as they become due. The Wastewater System Fund also includes a Bond Repayment Reserve Account, into which account there shall each month be credited out of the remaining Net Revenues of the System ten percent of the annual Bond payment as provided in the Resolution to establish within ten years from the date hereof and maintain therein a reserve in an amount equal to the annual payment of principal and interest due on the Bonds issued under the Resolution, to be used only to pay the principal of and interest on the Bonds as such principal and interest become due. The Wastewater System Fund also includes a Short-lived Asset Replacement Reserve Subaccount within the Replacement and Depreciations Account, into which Subaccount shall be credited \$5,400 annually for the term of the Bond for the replacement of short-lived assets. Rates and charges for the use of the System will be made from time to time in amounts sufficient to provide for the prompt payment of the reasonable and current expenses of operation and maintenance of the System and to produce Net Revenues, in excess of such expenses, sufficient to pay the principal of and interest on the Bonds and any additional Bond hereafter issued and made payable from said Net Revenues. The revenues of the System will also be kept sufficient to provide for the replacement of the System as it deteriorates. Except in so far as parity Bonds are authorized in the Resolution, no obligation will be incurred and made payable from the Net Revenues of the System, unless the lien thereof shall be made expressly subordinate to the lien of the Bond on such Net Revenues.

It is hereby certified that all acts, conditions, and things required by law, resolution, or agreement to be done or to have happened prior to or in connection with the issuance of the Bond have been done or have happened, and that the issuance of the Bond does not violate any constitutional or statutory limitation on bonded indebtedness.

IN WITNESS WHEREOF, the District, acting by and through its Board of Directors, has caused this Bond to be executed on its behalf by the signature of the President and countersigned by the signature of the Secretary of the District, and has caused this Bond to be dated as of _____, 2016.

SAMPLE

President

Countersigned:

SAMPLE

Secretary

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 District Secretary, as bond registrar, has duly noted the transfer on the Bond and recorded the transfer on the Secretary's registration books. The District shall be entitled to deem and treat the person in whose name a 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 District'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 District Secretary of the GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT, Gallatin County, Montana, acting as registrar for this Bond, has transferred, on the books of the District, on the date last noted below, ownership of the principal amount of and the accrued interest on the Bond to the new registered holder noted next to such date, except amounts of principal and interest theretofore paid.

Date of Transfer	Name of new Registered Holder	Signature of Bond Registrar
_____	_____	_____
_____	_____	_____
_____	_____	_____

Section 3.15 Form of the Special Assessment Bond. The Series 2016B Bond shall be in substantially the following form (with appropriate insertions for dates and amounts as described above):

UNITED STATES OF AMERICA
STATE OF MONTANA
GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT
Gallatin County, Montana
Wastewater System Special Assessment Bond
Series 2016B

R-1 \$787,000

KNOW ALL PERSONS BY THESE PRESENTS: The Gallatin Gateway County Water and Sewer District (the "District"), a duly organized political subdivision of the State of Montana, acknowledges itself to be indebted to and for value received promises to pay to the order of the **United States of America**, or its registered assignee, at the U.S.D.A. Rural Utilities

Services National Finance Office, solely from the Special Assessment Bond Repayment Account of the District's Wastewater System Fund, the principal sum of Seven Hundred Eighty-Seven Thousand and No/100 Dollars (\$787,000), plus interest from the date hereof at the rate of one and five-eighths percent (1.625%) per annum on the unpaid balance for the Bond's total term of 40 years. Principal and interest in the amount of Thirteen Thousand Four Hundred Nineteen and No/100 Dollars (\$13,419) shall be paid semi-annually, beginning _____, 20__, and each six months thereafter for the 40 year term of the Bond. The final installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. Interest is computed on the basis of a 365 day year. Such installment payments shall be made by check or draft mailed 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 or payments may be made electronically by preauthorized debit arranged for the benefit of the Registered Owner of the Bond.

This Bond has been issued pursuant to and in full conformity with the constitution and laws of the State of Montana, including without limitation Title 7, Chapter 13, Parts 22 and 23 of the Montana Code Annotated, and in accordance with Resolution No. _____ of the District, duly adopted on _____, 2016, (the "Resolution"). Reference is hereby made to the Resolution for a description of the terms and conditions other than those herein, upon which this Bond is issued and secured.

The Bond has been issued for the purpose of providing part of the funds necessary to pay the costs of designing, constructing, equipping and financing the Wastewater system of the District (the "Project"). The principal of and interest on the Bond is payable solely from the Special Assessments of the System as defined in the Resolution.

The District may at any time prepay all or any part of the principal, plus accrued interest on the Bond. Any such prepayment may be made without penalty or premium. Any prepayment shall be identified as such, shall be applied first to accrued interest and then to unpaid principal. Since the principal of any Special Assessment that is not delinquent may be prepaid in whole at any time after the Special Assessment is levied as provided in Section 7-13-2287, MCA, and, as intended to occur with qualifying low to moderate income users of the System through CDBG direct pay grant funds, a prepayment of the Series 2016B Bond will result in reduced future installment payments on the Series 2016B Bond, to reflect a recamortization of the remaining principal and a reduced total amount of Special Assessments available to make the Series 2016B Bond payment, while the term of the Series 2016B Bond will remain the same. In the event of such prepayment, advance notice will be given to RD and a replacement bond reflecting the revised amortization will be provided to RD by the District.

The District has duly authorized and will forthwith acquire and finance the Project as defined in the Resolution. The District will establish and collect reasonable rates and charges for the services afforded by the System of which the Project is a part, and has created a Wastewater System Fund into which the Gross Revenues of the System, including all revenues from additions, replacements and improvements to the System subsequently constructed or acquired, will be paid. Rates and charges for the use of the System will be made from time to time in amounts sufficient to provide for the prompt payment of the reasonable and current expenses of

operation and maintenance of the System and to produce Net Revenues, in excess of such expenses, sufficient to pay the principal of and interest on the Series 2016A and C Bonds and any additional Bonds hereafter issued and made payable from said Net Revenues. The revenues of the System will also be kept sufficient to provide for the replacement of the System as it deteriorates. Except in so far as parity Bonds are authorized in the Resolution, no obligation will be incurred and made payable from the Net Revenues of the System, unless the lien thereof shall be made expressly subordinate to the lien of the Series 2016A and C Bond on such Net Revenues. The Wastewater System Fund also includes a Special Assessment Bond Repayment Account, into which there shall be paid the Special Assessments collected by the County for the District for the payment of this Series 2016B Wastewater Special Assessment Bond. The Special Assessments are a lien against the properties in the District and are pledged to the payment of this Bond as provided in the Resolution.

It is hereby certified that all acts, conditions, and things required by law, resolution, or agreement to be done or to have happened prior to or in connection with the issuance of the Bond have been done or have happened, and that the issuance of the Bond does not violate any constitutional or statutory limitation on bonded indebtedness.

IN WITNESS WHEREOF, the District, acting by and through its Board of Directors, has caused this Bond to be executed on its behalf by the signature of the President and countersigned by the signature of the Secretary of the District, and has caused this Bond to be dated as of _____, 2016.

SAMPLE

President

Countersigned:

SAMPLE

Secretary

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 District Secretary, as bond registrar, has duly noted the transfer on the Bond and recorded the transfer on the Secretary's registration books. The District shall be entitled to deem and treat the person in whose name a 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 District'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 District Secretary of the GALLATIN GATEWAY COUNTY WATER AND SEWER DISTRICT, Gallatin County, Montana, acting as registrar for this Bond, has transferred, on the books of the District, on the date last noted below, ownership of the principal amount of and the accrued interest on the Bond to the new registered holder noted next to such date, except amounts of principal and interest theretofore paid.

Date of Transfer	Name of new Registered Holder	Signature of Bond Registrar
_____	_____	_____
_____	_____	_____
_____	_____	_____

ARTICLE IV - WASTEWATER SYSTEM FUND AND ACCOUNTS

Section 4.01 Establishment of Fund and Accounts; Pledge of Revenues and Special Assessments. The District Secretary has established or shall establish a fund designated as the Wastewater System Fund in the official books of the District, and shall establish the following six accounts within the Wastewater System Fund:

- (a) The Construction and Acquisition Account;
- (b) The Operating and Maintenance Account;
- (c) The Revenue Bond Repayment Account;
- (d) The Bond Repayment Reserve Account;
- (e) The Short-lived Asset Replacement Reserve Account;
- (f) The Surplus Account; and
- (g) The Special Assessment Bond Repayment Account.

All Net Revenues derived from operation of the System are irrevocably pledged, appropriated and shall be credited to the Wastewater System Fund and the accounts listed above until the principal of and interest on the Series 2016A and C Bonds have been fully paid or the District's obligation with respect to the Series 2016 Bonds have been discharged as provided in this Resolution. All Special Assessments are pledged to the payment of the Series 2016B Bond.

Section 4.02 Construction and Acquisition Account. Money in the Construction and Acquisition Account shall be used only to pay Project Costs, and shall be held in bank accounts and disbursed only in the manner prescribed in Section 5.02 of this Resolution.

Section 4.03 Operating and Maintenance Account. Money held in the Operating and Maintenance Account shall be disbursed only to pay the reasonable and necessary Operating Expenses of the System and to make the transfers of money required by Section 5.04 of this Resolution. Money may also be transferred from the Operating and Maintenance Account to the Revenue Bond Repayment Account to be used to make prepayments with respect to the Revenue Bonds or to redeem the Revenue Bonds. Money may also be transferred from the Operating and

Maintenance Account to make payments required to be made for Rebate Amounts due pursuant to the IRC.

Section 4.04 Revenue Bond Repayment Account. Money in the Revenue Bond Repayment Account shall be disbursed only to meet the regular installment payments of principal and interest on the Series 2016A and C Bonds as it becomes due or to redeem or make prepayments with respect to the Series 2016A and C Bonds. If on any regular installment payment date the money in a Revenue Bond Repayment Account is insufficient to make the installment payments due, then an amount equal to the amount of the insufficiency shall be transferred to the Revenue Bond Repayment Account from (i) the Operating and Maintenance Account, (ii) the Revenue Bond Repayment Reserve Account, (iii) the Short-lived Asset Replacement Reserve Account, (iv) the Surplus Account, and (v) the Construction and Acquisition Account, in that order.

Section 4.05 Bond Repayment Reserve Account. Money held in the Bond Repayment Reserve Account shall be disbursed only to the Revenue Bond Repayment Account or the Special Assessment Bond Repayment Account, and only for the purpose of eliminating any insufficiency existing in the Revenue Bond Repayment Account or the Special Assessment Bond Repayment Account at the time of any Monthly Apportionment or regular installment payment date, pursuant to Section 5.04 of this Resolution.

Section 4.06 Short-lived Asset Replacement Reserve Account. Money held in the Short-lived Asset Replacement Reserve Account shall be disbursed only for the following purposes: (a) for the repayment or the renewal of worn out, obsolete or damaged property or equipment pertaining to the System; (b) to eliminate any insufficiency in the Revenue Bond Repayment Account or the Special Assessment Bond Repayment Account on any regular installment payment date, pursuant to Section 5.04 of this Resolution; (c) if directed by the Governing Body, for the transfer to the Revenue Bond Repayment Account or the Bond Repayment Reserve Account pursuant to Section 5.04 of this Resolution to eliminate any insufficiency existing at the time of any Monthly Apportionment; (d) if directed by the Governing Body, for transfer to the Special Assessment Bond Repayment Account to be used to make payments due to deficiencies in collections with respect to the Series 2016B Bond, provided that once the special assessment deficiencies are collected, such collection will be credited to the Short-lived Asset Replacement Reserve Account and to the Bond Repayment Reserve Account to the extent advances were made therefrom for Series 2016B Bond payment.

Section 4.07 Surplus Account. Money held in the Surplus Account, when not required to restore a current deficiency in the Revenue Bond Repayment Account or the Bond Repayment Reserve Account, may be disbursed only for the redemption or prepayment of the Series 2016A and C Bonds, to cover insufficiencies in a Bond Repayment Reserve Account, pay for repairs of or construction and installation of improvements or additions to the System or to make payments of Rebate Amounts.

Section 4.08 Special Assessment Bond Repayment Account. Money in the Special Assessment Bond Repayment Account shall be disbursed only to meet the regular installment payments of principal and interest on the Series 2016B Bond as they become due or to redeem or

make prepayments with respect to the Series 2016B Bond. If transfer were made from the Bond Repayment Reserve Account or the Short-lived Asset Replacement Reserve Account to the Special Assessment Bond Repayment Account due to deficiencies in collection of Special Assessments and the County collects such deficiencies and transfers such collections to the District, the collections will be credited to the above-referenced Reserve Accounts to the extent advances were made from them for the Series 2016B Bond payments.

ARTICLE V - DEPOSITS, TRANSFERS, INVESTMENTS AND WITHDRAWALS

Section 5.01 Deposit of Bond Proceeds. The entire Proceeds of sale and delivery of the Series 2016 Bonds shall be deposited in the Construction and Acquisition Account for payment of Project Costs.

Section 5.02 Disbursements from Construction and Acquisition Account. (a) In the event grant funds for a future improvement project are available from any governmental agencies, then said funds and the proceeds of an additional Bond shall be deposited in the Construction and Acquisition Account as authorized by the Governing Body from time to time for expenses approved by the funding agency, and only for the purposes for which said Bond is issued. Any interest earnings on funds invested shall be deposited in the Construction and Acquisition Account. The District's share of any liquidated damages and other monies paid by defaulting contractors or their sureties will be deposited in the Construction and Acquisition Account to assure completion of the Project.

(b) RD has agreed to lend the Bond proceeds to the District, if requirements of this Section 5.02 are met, for the purposes of acquiring and financing a portion of the Project. The Bond proceeds shall be disbursed as provided in this Section 5.02. Bond proceeds will be disbursed as requested by the District and approved by RD after receipt by RD of the following documents:

(1) an Opinion of Bond Counsel as to the validity and enforceability of the Bond and the security therefor and stating in effect that interest on the Bond is not includable in gross income for purposes of federal income taxation;

(2) the Bond, fully executed and registered;

(3) a copy of the Resolution and all other documents described in the Preliminary Bond Transcript or required by Loan Closing Instructions provided by the Office of General Counsel of the US Department of Agriculture for the financing of the Project;

(4) a completed Payment Request Form required by RD for acquisition of the Project and with accompanying documentation.

Section 5.03 Deposit of Gross Revenues. The District Secretary shall deposit all Gross Revenues of the System into the Operating and Maintenance Account immediately upon their

receipt, and shall disburse such revenues from the Operating and Maintenance Account only in the manner prescribed by Section 5.04 of this Resolution.

Section 5.04 Monthly Apportionment. Each month the District Secretary shall transfer money between the accounts created pursuant to Section 4.01 of this Resolution, which monthly transfers (the "Monthly Apportionment") shall be made as follows:

(a) First, all Operating Expenses then due and owing or subject to accrual (or which will become due and owing or subject to accrual prior to the next Monthly Apportionment) shall be paid from the Operating and Maintenance Account or accrued;

(b) Second, an amount equal to the monthly principal and interest payment due on the Series 2016 Bonds will be transferred from the Operating and Maintenance Account to the Series 2016 Bond Repayment Account (plus the amount of any such transfers required in previous months that was not made due to lack of funds);

(c) Third, if the money in the Operating and Maintenance Account is insufficient to make the transfer required by subparagraph (b), then an amount equal to the amount of the insufficiency shall be transferred to the Bond Repayment Account from (i) the correlating Bond Repayment Reserve Account or (ii) if directed by the Governing Body, the Short-lived Asset Replacement Reserve Account or the Surplus Account;

(d) Fourth, beginning no later than with the first Monthly Apportionment made in the first month following the Date of Closing of the Series 2016A and C Bonds, the amount of Three Hundred Thirty-five and NO/100 Dollars (\$335) shall be transferred from the Operating and Maintenance Account to the Bond Repayment Reserve Account, until the balance in the Bond Repayment Reserve Account is Forty-four Thousand Four and NO/100 Dollars (\$44,004);

(e) Fifth, beginning with the first Monthly Apportionment made in the first month following the Date of Closing of all the Series 2016 Bonds, the amount of Four Hundred Fifty and NO/100 Dollars (\$450) shall be transferred from the Operating and Maintenance Account to the Short-lived Asset Replacement Reserve Account so that \$5,400 is deposited annually therein, until the Series 2016 Bonds are paid in full;

(f) Sixth, if the money in the Operating and Maintenance Account is insufficient to make the transfers required by subparagraph (d), then an amount equal to the amount of the insufficiency shall be transferred to the Bond Repayment Reserve Account from the Short-lived Asset Replacement Reserve Account or the Surplus Account, if the Governing Body authorized such transfer;

(g) Seventh, there shall be transferred from the Operating and Maintenance Account to the Short-lived Asset Replacement Reserve Account Surplus Net Revenues in an amount which the Governing Body shall by resolution have found to be required for the accumulation of a reasonable fund for replacement or renewal of worn out, obsolete or damaged property or equipment pertaining to the System, and for the costs of

improvements, or repairs or additions to the System and at least in the amounts described in the phrase of subsection (c) above with reference to the Short-lived Asset Replacement Reserve Account;

(h) Eighth, any amount of the Surplus Net Revenues in excess of the current requirements of the Short-lived Asset Replacement Reserve Account shall be credited to the Surplus Account; and

(i) Ninth, any amounts received from Special Assessments collected by Gallatin County shall be credited to the Special Assessment Bond Repayment Account and to the extent advances were made for payments on the Series 2016B Bond from the Bond Repayment Reserve Account or the Short-lived Asset Replacement Account, then to the Reserve Account from which the advance was made.

Section 5.05 Funding from Other Sources. Nothing in this Resolution shall prevent the District from depositing money from sources other than Gross Revenues into the Wastewater System Fund or any of its Accounts in addition to the transfers and apportionments required by this Resolution. Such voluntary deposits shall be treated as Gross Revenues and shall not thereafter be withdrawn except in accordance with this Resolution. Such voluntary deposits of other money to the Bond Repayment Account or the Bond Repayment Reserve Account may be made in lieu of an equal amount of transfers or apportionments of Net Revenues to such accounts as required by this Resolution.

Section 5.06 Segregation of Moneys. All Net Proceeds, Net Revenues, and other moneys received by the District pursuant to this Resolution and any Supplemental Resolution are to be deposited into the accounts within the Wastewater System Fund, and all Permitted Investments purchased with moneys deposited therein, shall at all times be kept segregated and set apart from all other funds of the District. No such moneys shall at any time be transferred from any account in the Wastewater System Fund to any other fund of the District, nor shall any moneys at any time be loaned to other District funds or invested in other obligations payable from other funds, except as provided in this Resolution. None of such moneys or investments shall at any time or under any circumstances constitute public funds of the District, nor shall they be subject to lien or attachment by any creditor (except by a creditor acting as or on behalf of a Bondholder). However, the requirements of this Section shall not be construed in such a manner as to prevent the aggregation or pooling of moneys in the Wastewater System Fund or one or more of its accounts for the purpose of investing such funds as permitted by this Resolution, so long as such aggregation or pooling, and any investments so made, do not cause this Bond to become an "arbitrage bond" under IRC Section 148(a).

Section 5.07 Deposit of Moneys. The District Secretary shall deposit all money held in the Wastewater System Fund pursuant to this Resolution in one or more financial institutions qualified to serve as depositories for public funds under Section 7-6-201, MCA. The balance in such deposit accounts, except portions guaranteed by federal insurance, shall at all times be secured in the manner provided by Section 7-6-207, MCA, to the full extent of such uninsured portion or to the maximum extent permitted by law.

Section 5.08 Investment of Moneys. Wastewater System Fund moneys may be invested if and to the extent that the District does not need such moneys to be available for immediate use, in direct obligations of the United States Government, savings or time deposits, or other investments authorized for water and/or sewer districts in Montana, described in Title 7, Chapter 6, Part 2 of the Montana Code Annotated.

Section 5.09 Investment Income. Except as otherwise provided with respect to the Rebate Amount, income from the deposit or investing of moneys in said accounts shall be credited to the account from whose moneys the deposit was made or the investment was purchased, and shall be handled and accounted for in the same manner as other moneys in that account.

Section 5.10 Arbitrage Limitation. The District hereby covenants and agrees with the Bondholder that no part of the proceeds of the Bond or any other funds held by the District shall at any time be used directly or indirectly to acquire securities or obligations the acquisition of which would cause the Bond to be or become an "arbitrage bond" as defined in IRC Section 148(a); provided, however, that the District may at any time request, receive, and rely with full acquittance upon the opinion of Nationally Recognized Bond Counsel that a proposed acquisition will not cause the Bond to be or become an arbitrage bond. Any fees and expenses incurred in providing such opinion of Nationally Recognized Bond Counsel shall be paid by the District and may be paid out of the Operating and Maintenance Account.

The Governing Body of the District recognizes that certain arbitrage profits must be rebated to the United States Treasury Department. The Governing Body agrees to obtain the assistance of Nationally Recognized Bond Counsel in the preparation and passage of any Supplemental Resolution necessitated by the arbitrage requirements of the IRC or promulgation of the Treasury Regulations thereunder. The District hereby covenants to make any determinations, retain records and rebate to the United States Treasury any Rebate Amounts determined to be due at the times and in the manner required by Section 148(f) of the IRC.

ARTICLE VI - ADDITIONAL BONDS

Section 6.01 Parity Revenue Bonds. The District reserves the right and privilege of issuing, pursuant to a Supplemental Resolution or resolutions, additional bonds on a parity with and having a lien equal in rank to that of the Series 2016A and C Bonds against the Wastewater System Fund and the accounts therein, except for the Special Assessment Bond Repayment Account, and which are payable equally and ratably therefrom without preference, priority, or distinction because of date of issue. Such additional bonds (hereinafter called "Parity Revenue Bonds") may be issued only for the purposes and in accordance with the conditions set forth in Sections 6.02, 6.03 and 6.04 of this Resolution. There will not be any parity bonds issued on a parity with the Series 2016B Bond.

Section 6.02 Completion Parity Bonds. Parity Bonds may be issued for the purpose of financing the cost or estimated cost of completing the acquisition of the Project (hereinafter called "Completion Parity Bonds"), provided that the scope of the Project has not changed, that

other available moneys are insufficient for completing the Project, and that the Completion Parity Bonds together with available moneys will be sufficient to complete the Project.

Section 6.03 Improvement Parity Bonds.

(a) Parity Bonds may be issued to finance the cost or estimated cost of providing any further improvement, extension, or rehabilitation of the System (hereinafter called "Improvement Parity Bonds"), provided that the Net Revenues of the System for the fiscal year preceding the issuance of such Improvement Parity Bonds equaled at least 120% of the average annual debt service on all Parity Bonds and all other bonds to be outstanding immediately after the issuance of such Improvement Parity Bonds.

(b) For the purposes of the foregoing computation, Net Revenues shall be those shown on the official books and records of the District for the applicable period; provided, however, that if the rates and charges for services provided by the System have been changed or will be changed after the commencement of such period, then the rates and charges which will be in effect at the time of issuance of the Improvement Parity Bonds shall be applied to the quantities of service actually rendered and made available during the period in order to ascertain the Gross Revenues, from which there shall be deducted, to determine the Net Revenues, the actual costs of operation and maintenance during the period as shown on the official books and records of the District plus any additional annual costs of operation and maintenance which the Engineer of the District reasonably estimates will be incurred because of the improvement or extension of the System which is proposed to be constructed from the proceeds of the Improvement Parity Bonds or less any savings anticipated by the utilization of the said improvements. Improvement Parity Bonds may not be issued if the District is in default in any payment of principal or interest on any outstanding Bond payable from the Wastewater System Fund or if there exists a deficiency in any of the balances required to be kept pursuant to this Resolution.

Section 6.04 Refunding and No Defeasance. The District may issue Parity Bonds to "currently" refund the Bond or Parity Bonds provided that "advance refunding" of the Bond may not occur. For the purposes of meeting RD requirements, no Defeasance of the Bond may occur.

If, at any time, it shall appear to RD that the District is able to currently refund the amount of any Bond then outstanding, in whole or in part, by issuance and sale of bonds to responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, the District will, upon request of RD in RUS Instruction 1780.94(j)(4), apply for and accept such financing in a sufficient amount to repay the Bond.

Section 6.05 Subordinate Bonds. Nothing in this Resolution shall preclude the District from issuing, pursuant to a separate resolution or resolutions, additional bonds when necessary for the improvement, extension, or rehabilitation of the System, provided that such additional bonds (hereinafter called "Subordinate Bonds") are expressly made subordinate to the lien of the Revenue Bonds and Parity Bonds authorized by this Resolution on the Net Revenues of the System and all accounts of the Wastewater System Fund.

Section 6.06 Approval of Counsel. Any registered holder of the Revenue Bonds or Parity Bonds whose aggregate unpaid principal amount constitutes at least ten percent (10%) of the aggregate unpaid principal amount of the Revenue Bonds and of all outstanding Parity Bonds shall have the right, prior to the issuance of any Parity Bonds or Subordinate Bonds, to require the District to furnish, at the District's expense, either or both of the following:

(a) An opinion of an attorney duly licensed to practice law in Montana to the effect that the District is not then in default on the Revenue Bonds or any Parity Bond, covenant or any other term or condition of this Resolution;

(b) The opinion of a Nationally Recognized Bond Counsel to the effect that the issuance of the proposed bonds will not violate any covenant, term, or condition of this Resolution, and that the interest on the Revenue Bonds and Parity Bonds then outstanding shall be and remain exempt from taxation under IRC Section 103.

ARTICLE VII - GENERAL COVENANTS

Section 7.01 Resolution Constitutes Contract Between Bondholder and District.

(a) This Resolution constitutes and shall be deemed to be a contract between the District and the Bondholder, and the pledges and the covenants made by the District in this article or elsewhere in this Resolution shall be for the benefit, protection and security of the Bondholder.

(b) No recourse for the payment of any part of the principal of or interest on the Bonds or for the satisfaction of any liability arising from the issuance, sale, purchase or ownership of the Bonds, or any liability arising from this Resolution, shall be had against any officer, member, employee, or agent of the District in his or her individual capacity, all such liability being hereby expressly released and waived as a condition of and as part of the consideration for the execution of this Resolution and the issuance of the Bonds.

(c) Nothing in this Resolution, express or implied, is intended or shall be construed to confer upon or to give to any person or corporation other than the Bondholder any right, remedy, or claim under or by any reason of this Resolution, and the covenants, stipulations, and agreements contained in this Resolution are and shall be for the sole and exclusive benefit of the Bondholder.

Section 7.02 Faithful Performance in General. The District will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and in the Bonds issued hereunder; will pay or cause to be paid to the Bondholder, the principal of and interest on the Bonds, on the dates and in the place and manner prescribed in each Bond, provided that such payments will be made solely out of the revenues pledged for the payment thereof pursuant to this Resolution; will not issue any bonds in any manner other than in accordance with the provisions of this Resolution; and will not suffer or permit any default to occur under this Resolution, but will faithfully observe and perform all the conditions, covenants, and requirements hereof. The District will take all steps reasonably necessary to insure that its officers, employees, and agents act in accordance with and in furtherance of the purposes,

covenants, and conditions of this Resolution, and the District will adopt and carry out such further resolutions as may be reasonably requested by RD for the purpose of better carrying out the purpose and intent of this Resolution.

Section 7.03 Authority of the District. The District is duly authorized under the constitution and laws of the State of Montana to create and issue the Series 2016 Bond and to adopt and be bound by this Resolution. All actions and proceedings that must be taken by the District for the authorization and issuance of the Series 2016 Bond and the adoption and delivery of this Resolution have been duly and effectively taken, and the Series 2016 Bond will be a valid and enforceable obligation of the District in accordance with its terms.

Section 7.04 Pledge.

(a) To secure payment of the principal of and interest on the Series 2016 Bond, the District hereby irrevocably pledges and confirms to the Bondholder and grants the Bondholder a security interest in the following revenues, assets and moneys:

(1) The Net Proceeds of the Series 2016 Bond, as defined in this Resolution;

(2) All moneys and investments in the Wastewater System Fund and all of its accounts as established pursuant to this Resolution;

(3) Any insurance payments made to the District on account of the loss of or damage to any part of the System or the Project;

(4) Any other revenues or property which may in the future be pledged, confirmed, assigned, transferred or conveyed as additional security under this Resolution.

(b) This pledge is valid and binding from the date of the adoption of this Resolution by the Governing Body, and all revenues, assets and moneys so pledged and hereafter received by the District for the System shall immediately be subject to the lien created by the pledge. It is the intention of the District that the lien and security interest created by this pledge shall be valid and binding against all parties having claims of any kind, whether in tort, contract or otherwise, against the District.

(c) The District further pledges that at least fifteen (15) days before the first day of the month in which the Board of Commissioners of Gallatin County is required by law to levy taxes for county purposes, this Governing Body shall review the sufficiency of the Wastewater System Fund for payment of all claims and expenses payable therefrom, including principal and interest payable from the Revenue Bond Repayment Account for the Series 2016A Bond and funds necessary to comply with the requirements of the Bond Repayment Reserve Account and the Short-lived Asset Reserve Account. If the revenues of the District are then estimated to be inadequate to pay such principal and interest, maintain such reserve or pay the other claims and expenses against the District, the Governing Body, in accordance with Montana Code Annotated,

Section 7-13-2302, shall take all necessary action regarding the levy of a wastewater district bond tax, shall estimate in writing the amount of money required by the District for such purposes and request the County that the amounts necessary for such purposes be levied and collected in the manner prescribed by Montana Code Annotated, Sections 7-13-2302 through 7-13-2310. The estimate shall include the amount of the deficiency for such purposes then existing and the amount of the anticipated deficiency for such purposes estimated to arise during the current fiscal year. The proceeds of the levy shall be credited and paid into the appropriate account or fund of the District in which the existing or anticipated deficiency occurred, if and to the extent that the levy was made for claims properly payable therefrom, and shall be credited and paid into the Operating Account, Revenue Bond Repayment Account, the Bond Repayment Reserve Account, and the Short-lived Asset Reserve Account respectively, if and to the extent that the levy was made with respect to obligations payable from the Revenue Bond Repayment Account or requirements of the Bond Repayment Reserve Account and the Short-lived Asset Reserve Account.

(d) If the District shall pay or cause to be paid the principal of and interest due on the Bonds at the times and in the manner required or permitted in this Resolution, and shall observe and perform all of the covenants made by it in this Resolution, then this pledge and the rights and interests granted by this Resolution shall cease, terminate and be void.

Section 7.05 Operation of the System. The District will continue to hold, maintain, and operate the System as a public utility and convenience, and will keep the System and its Net Revenues free from all liens other than the liens granted or authorized by this Resolution. The District will not establish or authorize the establishment of any other Water System for the public or other services in competition with any of the services supplied by the facilities of the System.

Section 7.06 Charging and Collection of Fees. The District will maintain, revise, charge, and collect rates and other charges for all service furnished and made available by the System in the manner and to the extent now or hereafter provided by law, according to schedules such that the Gross Revenues derived from the System will be sufficient, when combined with other available funds, to pay when due all expenses of the operation and maintenance of the System, to pay all principal of and interest on the Revenue Bonds, to provide for the establishment and maintenance of adequate reserves in the amounts required by this Resolution, to provide an allowance adequate for recurring renewals and replacements of the System, and to fulfill the terms of all other agreements with holders of the District's Bonds and other obligations.

Section 7.07 Property Insurance. The District will cause all buildings, properties, fixtures, and equipment constituting a part of the System to be kept insured, during and after construction, with a reputable insurance carrier or carriers qualified under the laws of Montana, in such amounts as are ordinarily carried, against loss or damage by fire, explosion, and such other hazards or risks as are ordinarily insured against by public utilities owning and operating properties of similar character and size. The proceeds of all such insurance shall be available for the repair, replacement, and reconstruction of damaged or destroyed property, and, until paid out in making good for such loss or damage, are pledged as security for the Bonds. All insurance proceeds received in excess of amounts required for restoration of the loss or damage

compensated thereby shall be and become part of the revenues appropriated and pledged to the Wastewater System Fund. If for any reason the insurance proceeds are insufficient for the repair, replacement, and reconstruction of the insured property, the District shall supply the deficiency from revenues on hand in the Short-lived Asset Replacement Reserve Account; and if such deficiency results from breach of the covenant of this section it will be supplied from any other available District funds.

Section 7.08 Liability Insurance and Surety Bonds. The District will cause insurance to be carried against liability of the District and its agents and employees for injuries (including death) to persons and damage to property resulting from the construction, operation, maintenance, improvement or extension of the System, in amounts customarily carried by similar municipalities for similar systems. The District also will cause workers' compensation insurance to be carried sufficient to comply with the laws of the state of Montana pertaining thereto. The District also will cause all persons handling money and other assets of the Wastewater System Fund to be bonded adequately for the faithful performance of their duties, and to account for and to pay over such money and assets to the District. All amounts received under such insurance and bonds shall be applied to the loss or damage covered thereby.

Section 7.09 Disposition of Property. The District will not mortgage, lease, sell, or otherwise dispose of any real or personal property pertaining to the System, unless:

(a) Prior to or simultaneous with such disposition all outstanding bonds shall be discharged as provided in Article IX of this Resolution; or

(b) (i) the property to be disposed of is unserviceable, inadequate, obsolete, or no longer required for use in connection with the System, (ii) the disposition will not prevent the District from complying with any covenant or condition of this Resolution, including the Tax Covenants in Section 7.15, and (iii) all proceeds of the disposition are treated in the same manner as Gross Revenues of the System.

Section 7.10 Maintenance of Books and Accounts/Audits. The District Secretary shall keep or cause to be kept books of record and account in which complete and correct entries shall be made of all receipts, disbursements and other transactions relating to the System and the accounts created by this Resolution. Such books shall be based on a fiscal year basis, and shall be subject to inspection by any Bondholder or the representative, duly authorized in writing, of any Bondholder. The District recognizes it is subject to, and agrees to comply with, the State of Montana Single Audit Act in Title 2, Chapter 7, Part 5, MCA.

The District shall, within 60 days after the close of each Fiscal Year, cause to be prepared and supply to the Purchasers of all series of Bonds then outstanding a financial report with respect to the System for such Fiscal Year. The report shall be prepared at the direction of the District financial officer in accordance with applicable generally accepted accounting principles applicable to governmental entities and, in addition to whatever matters may be thought proper by the District 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 amount on hand in each account of the Wastewater System Fund at the end of the Fiscal Year;
- (d) A list of the insurance policies and fidelity bonds in force at the end of the Fiscal Year, setting out as to each the amount thereof, the risks covered thereby, the name of the insurer or surety and the expiration date of the policy or bond;
- (e) A determination that the report shows full compliance by the District with the provisions of this Resolution during the Fiscal Year covered thereby, including proper segregation of the capital expenditures from Operating Expenses, maintenance of the Reserve Requirement in the Bond Repayment Reserve Account, and receipt of Revenues during each Fiscal Year as herein required, or, if the report should reveal that the Net Revenues have been insufficient for compliance with this Resolution, or that the methods used in accounting for such revenues were contrary to any provision of this Resolution, the report shall include a full explanation thereof, together with recommendations for such change in rates or accounting practices or in the operation of the System as may be required; and

The District shall also have prepared and supplied to the Original Purchasers of all series of Obligations then Outstanding and the Registrar, at the time and in accordance with the provisions of Title 2, Chapter 7, Part 5, as amended, an audit report prepared by an Independent Accountant or an agency of the State of Montana in accordance with generally accepted accounting principles and practice with respect to the financial statements and records of the System, and if Outstanding Obligations are held by RD or another agency or instrumentality of the United States of America, in accordance with the following requirements of this paragraph. The audit report shall include an analysis of the District's compliance with the provisions of this Resolution. In addition, the District shall, so long as the Series 2016 Bonds are outstanding and RD is the holder thereof, submit to RD a proposed budget for the ensuing Fiscal Year as soon as it is available.

Section 7.11 Information Reports to U.S. Treasury Department. The District agrees to promptly provide and/or cooperate in providing, any reports required by the U.S. Treasury Department relating to the Series 2016 Bonds.

Section 7.12 Merger with other Systems. In the event other public entities in the immediate area of the District apply for and receive RD financing for a Wastewater System which could feasibly connect to the District's Wastewater System, then the District agrees to merge with such other systems if physically, legally and economically possible. The term "merge" as used herein includes allowing a neighboring federally funded Wastewater System to purchase and utilize excess capacity of the System.

Section 7.13 Service and Billing. The District will provide service from the System to all areas of the District where it is legally and economically feasible and will charge equitable fees for such service. The charges for wastewater services will be billed at least quarterly, and if a bill is not paid within the time frame established by the District, or if the customer fails to comply with all rules and regulations established for the System within the time frame established by the District after notice of violation thereof (which notice shall be given promptly upon discovery of any such violation), the services to the premises involved may be discontinued and may not be resumed until payment of all past-due bills for wastewater services and compliance with all such rules and regulations.

Section 7.14 Rural Development Approval of Additional System Improvements. The District will not modify or improve the System, borrow money, enter into any contractor agreement, or otherwise incur any liabilities for any purpose in connection with the facility (exclusive of normal maintenance) without the prior written consent of RD if such undertaking would involve the source of funds pledged to pay the bonds. Such modifications shall be subject to the review and prior approval of RD after the District has submitted preliminary plans.

Section 7.15 Tax Covenants Generally. The District covenants and agrees with the owners from time to time of the Series 2016 Bond that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Series 2016 Bond to become includable in gross income for federal income tax purposes under the Code and applicable Treasury Regulations (the "Regulations"), and covenants to take any and all actions within its powers to ensure that the interest on the Series 2016 Bonds will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

ARTICLE VIII - DEFAULT AND REMEDIES

Section 8.01 Events of Default. Any one or more of the following events shall constitute an "Event of Default" under this Resolution:

(a) Nonpayment of any principal of or interest on the Bonds within thirty (30) days after the date on which such principal and interest was due and payable;

(b) Default by the District in the due and punctual performance of any of the covenants, conditions, agreements, and provisions contained in the Bonds, this Resolution, or in any resolution supplemental hereto, which are to be performed by the District, if such default shall have continued for a period of thirty (30) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the District by any Bondholder;

(c) The filing of a petition by the District under the laws of the United States seeking protection under the Bankruptcy Code or the consent of the District to the appointment of a receiver, trustee, or debtor in possession of all or a major portion of its property; and

(d) Any event (other than amendment of the Internal Revenue Code) causing interest on the Bonds to be subject to federal income taxation.

Section 8.02 Remedies.

(a) Upon the occurrence and continuance of an Event of Default, the Bondholder shall have the right, either at law or in equity, by suit, action, or other proceeding, to protect and enforce his rights and to compel the performance of any and all covenants and conditions required herein to be performed by the District and its officers and employees, including but not limited to the fixing and maintaining of rates, fees, and charges, the collection or proper segregation of revenues, and the application and use thereof. The Bondholder shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to Bondholder or the exercise of any power conferred on the Bondholder, and the right to waive a default in the performance of any covenant or condition, and its consequences, except in payment of the principal of or interest on any Bond when due.

(b) Nothing herein shall impair the absolute and unconditional right of any Bondholder to receive each payment of the principal of and interest on such Bond, as such principal and interest, respectively, become due, and to institute suit for any such payment. Any court with jurisdiction of the action may appoint a receiver to administer the System on behalf of the District with the power to charge and collect rates, fees, and charges sufficient to provide for the payment of any bonds, or obligations outstanding against the System, and with power to apply the revenues in conformity with this Resolution and the laws of the State of Montana.

(c) No remedy conferred upon or reserved to a Bondholder by the terms of this Resolution is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given by this Resolution or now or hereafter existing at law, in equity or by statute. No delay or omission in the exercise of any right or power accruing upon any default or Event of Default shall impair any such right or power or be construed to be a waiver of or acquiescence in any such default or Event of Default, and such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under this Resolution shall extend to or effect any subsequent default or Event of Default, nor impair any rights or remedies consequent thereon. In case a Bondholder shall have proceeded to enforce any right under this Resolution, and the proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bondholder, then and in every such case the District and the Bondholder shall be restored to their former positions and rights and duties hereunder and the same shall continue as if no such proceedings had been taken.

ARTICLE IX - DISCHARGE

Section 9.01 Discharge by Payment. When all principal of and interest due and payable on the Bonds have been paid in the manner required or permitted by this Resolution, then the Bonds shall cease to be entitled to any lien, pledge, benefit or security under this Resolution and all pledges, covenants and other rights granted to the Bondholder by the Resolution shall cease, terminate and be discharged and satisfied.

ARTICLE X - AMENDMENTS

Section 10.01 Amendments without Bondholder Consent. The District reserves the right to amend or supplement this Resolution by adopting further resolutions from time to time, and at any time, for any one or more of the following purposes:

- (a) To add covenants and agreements for the protection of the Bondholder;
- (b) To cure any ambiguity or correct any defect or inconsistent provision in this Resolution;
- (c) To subject additional revenue, properties, or collateral to the terms of this Resolution;
- (d) To set forth terms and conditions of Parity Bonds or Subordinate Bonds not contrary to this Resolution;
- (e) To preserve the exemption of interest on the Bonds from federal and/or state income taxation and to preserve the right of the District to continue to issue other bonds, debts, or other obligations of any nature the interest income of which is likewise exempt from federal and/or state income taxation;
- (f) To surrender or waive any right or power reserved to or conferred upon the District by this Resolution; or
- (g) To make any other change or addition to this Resolution which the Governing Body may deem necessary or desirable, which is not inconsistent with this Resolution, and which does not adversely affect the interests of the Bondholder.

Section 10.02 Amendments with Bondholder Consent. Except as provided in Section 10.01 of this Resolution, the District shall not have the right or the power to amend this Resolution or to adopt any supplemental resolutions, unless, after notice to the Bondholder, such amendment or supplemental resolution is approved by the holder of the Bonds.

Section 10.03 Notice and Consent.

(a) Notice of any proposed amendment or supplement to this Resolution, which requires consent of the Bondholder pursuant to Section 10.02 hereof, shall be given in the manner prescribed by Section 11.01 of this Resolution not less than thirty (30) days prior to the adoption of such amendment or supplement to the holder of the Bonds at the time of such notice. Any written consent to an amendment may be embodied in and evidenced by one or any number of concurrent written instruments of substantially a similar tenor signed by an agent of the Bondholder duly appointed in writing, and shall become effective when delivered to the District Secretary. Any consent by a Bondholder shall bind him and every future holder of the same Bond with respect to any amendment adopted by the District pursuant to such consent.

(b) The fact and date of execution by any person of any such consent may be proved by the affidavit of the witness to such execution or by the certificate of any Notary Public or other officer authorized to take acknowledgments of deeds, certifying that the person signing it acknowledged to him the execution thereof.

ARTICLE XI - OTHER PROVISIONS

Section 11.01 Notices. Any request, demand authorization, consent, direction, notice, or other document provided or permitted by this Resolution shall be sufficient for such purpose when mailed by certified mail, return receipt requested, and with sufficient postage prepaid, to the following addresses (or to such other address as may be provided by any party upon notice to all other parties), but shall not be deemed to be effective until receipt:

To the District: Gallatin Gateway County Water and Sewer District
P.O. Box 383
Gallatin Gateway, MT 59730

To RD: Rural Development
USDA
2229 Boot Hill Court
Bozeman, MT 59715

To any Bondholder: The name and address of such Bondholder as it appears in the bond register.

Section 11.02 Arbitrage Certificate. The President and Secretary, being the officers of the District charged with the responsibility of issuing the Bonds, are authorized and directed to execute and deliver to the purchaser a certification stating the reasonable expectations of the District, on the date of issue and delivery of the Bonds authorized by this Resolution, regarding the amount and the use of the proceeds of the issue. Such expectations must be such that the Bonds will not be "arbitrage bonds" as defined in IRC Section 148(a). The certificate will also state the District's intent to maintain the tax-exempt nature of the interest income on the Bonds and to do all things necessary to maintain such tax-exemption. Any additional Bonds issued under this Resolution will be required to similarly comply with this Section.

Section 11.03 Transcript. The officers of the District are hereby authorized and directed to prepare and furnish to the purchaser of the Bonds, and to the attorneys approving the legality of the issuance of the Bonds, certified copies of all proceedings and records of the District relating to the Bonds and to the organization of the District, and of reports on the financial condition of the District, and such affidavits, certificates, and other information and documents as may be requested or required to carry out the purposes of this Resolution; and all such certified copies, affidavits and certificates, including any heretofore furnished, shall constitute representations of the District as to the truth of the matters contained therein.

Section 11.04 Severability. In case any one or more of the provisions contained in this Resolution or in the Bonds shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Resolution, but this Resolution shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Resolution was adopted by the Governing Body of the District, on the 18 day of August, 2016.

IN WITNESS WHEREOF, the President has executed this Resolution and the Secretary has so attested.

Attest:


Secretary

Approved:


President

The following Board Members voted in favor of the Resolution: Boelter, Sullivan
Ament, Kroon

The following Board Members voted against the Resolution: NONE

The following Board Members were absent or abstained: MERLE ADAMS (DECEASED)