

SPECIAL COUNCIL MEETING  
CITY OF CROSSLAKE  
WEDNESDAY, JULY 26, 2006  
8:30 A.M. – CITY HALL

The Council for the City of Crosslake met in the Council Chambers of City Hall on Wednesday, July 26, 2006. The following Councilmembers were present: Mayor Jay Andolshek, Terry Curtis, Dean Eggena, Dick Phillips and Dean Swanson. Also present were City Administrator Tom Swenson, City Clerk/Treasurer Darlene Roach, General Manager Paul Hoge, Crosslake Communications Bookkeeper Cyndi Perkins, Northland Securities Representative Monte Eastvold, Auditor Keith Porter and Accountants Tom Koop and Sara Lusignan. There was one other individual in the audience.

1. Mayor Andolshek called the Special Meeting to order at 8:30 A.M.
2. City Bills for Approval – MOTION 07S2-01-06 WAS MADE BY DEAN SWANSON AND SECONDED BY DICK PHILLIPS TO APPROVE THE BILLS FOR PAYMENT FOR MAY AS SUBMITTED IN THE AMOUNT OF \$1,662.87. MOTION CARRIED WITH ALL AYES.
3. Monte Eastvold presented a resolution providing for the issuance and sale of \$4,795,000 Telephone Utility Revenue Bonds, Series 2006A. Mr. Eastvold explained that this bond would not contain G.O. in the title because it does not have the capability to be paid off with tax dollars, rather all the money used to repay the bond will come from revenues of Crosslake Communications. Mr. Eastvold stated that Crosslake Communication's Net Revenue Coverage Ratio came in at an average of 2.40 and added that the banks require a ratio of at least 1.25, so the numbers are very strong for the phone company. Dean Eggena asked if the rates were below the national treasury rate. Mr. Eastvold replied that the rates are about equal to the treasury rate, if the City locks in today. Dean Eggena asked what the true cash flow for the phone company was. Paul Hoge replied that he is monitoring that and will have more information in a few months. MOTION 07S2-02-06 WAS MADE BY DEAN EGGENA AND SECONDED BY DICK PHILLIPS TO APPROVE RESOLUTION NO. 06-31 PROVIDING FOR THE ISSUANCE AND SALE OF \$4,795,000 TELEPHONE UTILITY REVENUE BONDS, SERIES 2006A. Dick Phillips asked if the City Attorney has looked over the legal documents. Tom Swenson replied that the Bond Counsel, Briggs and Morgan, put the resolution together. Dick Phillips asked if Paul Sandelin had any say in the process. Paul Hoge replied that this was not Mr. Sandelin's area of expertise. Dick Phillips asked who would be responsible for any mistakes. Monte Eastvold replied that the Bond Counsel would be liable for any mistakes. MOTION CARRIED WITH ALL AYES.

Monte Eastvold explained that the next step would be for Northland Securities to purchase the bond issue from the City. MOTION 07S2-03-06 WAS MADE BY DEAN EGGENA AND SECONDED BY TERRY CURTIS TO

AUTHORIZE THE SALE OF TELEPHONE UTILITY REVENUE BONDS, SERIES 2006A TO NORTHLAND SECURITIES AS PRESENTED. MOTION CARRIED WITH ALL AYES. Mayor Andolshek and City Administrator Swenson signed the contract. Dean Eggena asked how the phone company will fund next years project. Paul Hoge replied that the RUS Loan should come through by then.

Monte Eastvold discussed investing the 2.7 million dollars that the phone company will receive at the closing on August 14<sup>th</sup>. If Crosslake Communications would like to put it in a local bank, collateral would be required. Mr. Eastvold suggested that the money be put into jumbo CD's in \$100,000 increments, which are federally insured if placed in numerous banks. Northland Securities can invest the money in CD's for the City of Crosslake. MOTION 07S2-04-06 WAS MADE BY DEAN EGGENA AND SECONDED BY DEAN SWANSON TO APPROVE RESOLUTION NO. 06-32 AUTHORIZING AN INVESTMENT ACCOUNT WITH PERSHING LLC THROUGH NORTHLAND SECURITIES, INC. MOTION CARRIED WITH ALL AYES.

4. Presentation by Keith Porter of Beinhorn, Porter & Mayer, Ltd., CPA on Auditor's Report and Legal Compliance on 2005 Audit – Keith Porter stated that this was the first year of auditing the City of Crosslake and that because Larson Allen compiled the financial statements, he could focus on contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and tax increment financing issues. Keith Porter stated that the firm of Beinhorn, Porter & Mayer, Ltd. audited the financial statements of the City of Crosslake for the year ended December 31, 2005 and that the City of Crosslake complied with all material terms and conditions of applicable legal provisions.

Presentation by Tom Koop/Sara Lusignan of Larson Allen on 2005 Financial Statement – Tom Koop appeared before the Council and stated that it was a pleasure working with Beinhorn, Porter & Mayer and City Staff. Mr. Koop and Ms. Lusignan presented a chart of the City's assets, noting that the City owns 60% of its capital investments. The majority of revenues came from services (56%) and property taxes (30%). Dean Eggena stated that the City of Crosslake is similar to a business. Tom Koop stated that this is a good analogy because the City is running from service revenue rather than state aid, which many out-state cities rely on. Mr. Koop noted that the General Fund Balance versus the Expenditures is adequate for approximately 10 months. Dean Eggena stated that he would not be in favor of increasing reserve dollars at budget time. Tom Swenson noted that some of the reserve dollars are dedicated for specific projects. Dean Eggena noted that 23% of expenditures is for general government and asked if that was high compared to other cities. Mr. Koop replied that most cities spend between 20-25% for general government. Mr. Koop advised the Council to pay close attention to the sewer fund. Once all

sewer connections are made, the Council can decide if the user charge is adequate.

Dean Swanson stated that he appreciated the graphs created by Larson Allen because they are easy to follow. Dick Phillips stated that everyone in the audit process did a good job. Dean Eggena stated that he feels very confident with the numbers and that the dollars spent on the audit and the financial statements was money well spent. Tom Koop stated that it is ideal to have an auditor come in after the financial statements are complete to say everything is ok. Dean Eggena stated that if he is on the Council next year, he will not support any more capital expenses, but will be in favor of maintenance of capital only. Dean Swanson asked that Larson Allen add one more graph to next year's statement separating Crosslake Communications from the revenue numbers. MOTION 07S2-05-06 WAS MADE BY DICK PHILLIPS AND SECONDED BY DEAN SWANSON TO ACCEPT THE 2005 CITY FINANCIAL STATEMENTS AS PRESENTED. MOTION CARRIED WITH ALL AYES.

5. A memo dated July 24, 2006 from the Personnel Committee regarding the approval of Tentative Agreement between the City of Crosslake and AFSCME Local 689 was included for Council review. Terry Curtis questioned why the agreement was tentative. Tom Swenson replied that the contract is considered tentative until both sides have signed it. MOTION 07S2-06-06 WAS MADE BY DEAN SWANSON AND SECONDED BY JAY ANDOLSHEK TO APPROVE THE TENTATIVE AGREEMENT PACKAGE BETWEEN THE CITY OF CROSSLAKE AND AFSCME LOCAL 689 CONTINGENT ON RECEIPT OF THE EXECUTED AGREEMENT FROM THE AFSCME BUSINESS AGENT. MOTION CARRIED WITH ALL AYES. COUNCILMAN EGGENA WAS ABSENT FROM THE MEETING DURING THE VOTE.
6. MOTION 07S2-07-06 WAS MADE BY DICK PHILLIPS AND SECONDED BY DEAN SWANSON TO ADJOURN THIS SPECIAL MEETING AT 9:50 A.M. MOTION CARRIED WITH ALL AYES.

Respectfully Submitted by,

Charlene E. Nelson  
Deputy Clerk

Deputy Clerk/Minutes/7-26-06

**BILLS FOR APPROVAL**  
**26-Jul-06**

| VENDOR  | DEPT      | AMOUNT          |
|---|-----------|-----------------|
| Ace Hardware, ant killer, wasp spray, mirror        | P&R       | 13.07           |
| Alden Hardwick, reimburse supply expenses           | Library   | 187.66          |
| Dept of Emp. and Econ. Dev., unemployment insurance | P&R       | 55.92           |
| Dick Dietz, refund application fee                  | P&Z       | 250.00          |
| Echo Publishing, public hearing notice              | P&Z/Admin | 110.25          |
| Hawkins Water Treatment, ferric chloride            | Sewer     | 746.53          |
| Quill, expanding files                              | P&Z/Admin | 26.31           |
| Quill, envelopes, pens                              | P&Z/Admin | 55.37           |
| Viking Industrial North, barricade, solar lights    | PW        | 159.86          |
| Xcel Energy, gas utilities                          | PW/Sewer  | 57.90           |
|   |           |                 |
| <b>TOTAL</b>  |           | <b>1,662.87</b> |

EXTRACT OF MINUTES OF A MEETING OF THE  
CITY COUNCIL OF THE  
CITY OF CROSSLAKE, MINNESOTA

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HELD: July 26, 2006

Pursuant to due call and notice thereof, a regular or special meeting of the City Council of the City of Crosslake, Minnesota, was duly called and held at the City Hall in the City of Crosslake, Minnesota on July 26, 2006, at 8:30 A.M., for the purpose, in part, of authorizing the issuance and awarding the sale of \$4,770,000 Telephone Utility Revenue Bonds, Series 2006A.

The following members were present: Mayor Andolshek, and Councilmembers Curtis, Eggena, Phillips, and Swanson

and the following were absent: None

Member Eggena introduced the following resolution and moved its adoption:

Resolution No. 06-31

RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF  
\$4,770,000 TELEPHONE UTILITY REVENUE BONDS, SERIES 2006A

A. WHEREAS, the City of Crosslake, Minnesota (the "City") has owned and operated Crosslake Communications as a municipal telecommunications utility (the "Telephone Utility") which is under the jurisdiction of the City Council since 1925;

B. WHEREAS, the City authorized the issuance and sale of a \$2,000,000 Taxable Temporary Telephone Utility Revenue Bond, Series 2005, bearing a date of original issue of September 16, 2005 (the "Temporary Bond"), pursuant to Minnesota Statutes, Chapter 475, issued for the purpose of providing money to temporarily finance the construction of infrastructure improvements (the "2005 Improvements"), the Telephone Utility in the City in anticipation of long-term financing; and

C. WHEREAS, the Temporary Bond matures on August 31, 2006, as provided in the resolution of the City Council, adopted September 12, 2005, authorizing the issuance of the Temporary Bond (the "Prior Resolution"); and

D. WHEREAS, the City Council deems it desirable and in the best interests of the City to call the Temporary Bond for redemption and prepayment on the date of issuance of the Bonds defined below (the "Call Date") in accordance with the Prior Resolution to provide moneys for the prompt and full payment of the principal and interest on the Temporary Bond; and

E. WHEREAS, the City Council hereby determines that it is necessary and expedient to issue its \$4,770,000 Telephone Utility Revenue Bonds, Series 2006A (the "Bonds" or, individually, a "Bond") to (i) pay on the Call Date the City's Temporary Bond (the "Refunding") and (ii) finance the construction of certain additional improvements to the

Telephone Utility (together with the 2005 Improvements, the "Improvements") pursuant to Minnesota Statutes, Chapter 475, payable solely from the net revenues of the Telephone Utility; and

F. WHEREAS, it is in the best interests of the City that the Bonds be issued in book-entry form as hereinafter provided; and

NOW, THEREFORE, BE IT RESOLVED by the City of Crosslake, Minnesota, as follows:

1. Findings. It is hereby found, determined and declared that, except for the Temporary Bond, the City has no other presently outstanding bonds, warrants, certificates or other obligations or evidences of indebtedness of money borrowed for or on account of said Telephone Utility or indebtedness for which any of the net revenues of said utility have been appropriated or pledged or which constitute a lien or charge upon the revenues thereof.

2. Sufficiency of Net Revenues. The City Council reasonably expects that the estimated revenues to be derived from the operation of the Telephone Utility during the term of the Bonds will be more than sufficient to produce net revenues after current costs of operation and maintenance adequate to pay principal and interest when due on the Bonds and to maintain reasonable reserves therefor.

3. Acceptance of Offer. The offer of Northland Securities, Inc. (the "Purchaser"), to purchase the Bonds at the rates of interest hereinafter set forth, and to pay therefor the sum of \$4,660,290.00, plus interest accrued to settlement, is hereby accepted.

4. Bond Terms.

(a) Original Issue Date; Denominations; Maturities; Combining Maturities; Term Bond Option. The Bonds shall be dated August 1, 2006, as the date of original issue, shall be issued in fully registered form, shall be numbered from R-1 upward in the denomination of \$5,000 each or in any integral multiple thereof of a single maturity (the "Authorized Denominations") and shall mature on December 1 in the years and amounts as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2007        | \$230,000     | 2015        | \$325,000     |
| 2008        | 240,000       | 2016        | 340,000       |
| 2009        | 250,000       | 2017        | 355,000       |
| 2010        | 260,000       | 2018        | 375,000       |
| 2011        | 275,000       | 2019        | 390,000       |
| 2012        | 285,000       | 2020        | 405,000       |
| 2013        | 300,000       | 2021        | 430,000       |
| 2014        | 310,000       |             |               |

As may be requested by the Purchaser, one or more term Bonds may be issued having mandatory sinking fund redemption and final maturity amounts conforming to the foregoing

principal repayment schedule and corresponding additions may be made to the provisions of the applicable Bond(s).

(b) Book Entry Only System. The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York or any of its successors or its successors to its functions hereunder (the "Depository") will act as securities depository for the Bonds, and to this end:

(i) The Bonds shall be initially issued and, so long as they remain in book entry form only (the "Book Entry Only Period"), shall at all times be in the form of a separate single fully registered Bond for each maturity of the Bonds; and for purposes of complying with this requirement under paragraphs 6 and 11 Authorized Denominations for any Bond shall be deemed to be limited during the Book Entry Only Period to the outstanding principal amount of that Bond.

(ii) Upon initial issuance, ownership of the Bonds shall be registered in a bond register maintained by the Bond Registrar (as hereinafter defined) in the name of CEDE & CO., as the nominee (it or any nominee of the existing or a successor Depository, the "Nominee").

(iii) With respect to the Bonds neither the City nor the Bond Registrar shall have any responsibility or obligation to any broker, dealer, bank, or any other financial institution for which the Depository holds Bonds as securities depository (the "Participant") or the person for which a Participant holds an interest in the Bonds shown on the books and records of the Participant (the "Beneficial Owner"). Without limiting the immediately preceding sentence, neither the City, nor the Bond Registrar, shall have any such responsibility or obligation with respect to (A) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in the Bonds, or (B) the delivery to any Participant, any Owner or any other person, other than the Depository, of any notice with respect to the Bonds, including any notice of redemption, or (C) the payment to any Participant, any Beneficial Owner or any other person, other than the Depository, of any amount with respect to the principal of or premium, if any, or interest on the Bonds, or (D) the consent given or other action taken by the Depository as the Registered Holder of any Bonds (the "Holder"). For purposes of securing the vote or consent of any Holder under this Resolution, the City may, however, rely upon an omnibus proxy under which the Depository assigns its consenting or voting rights to certain Participants to whose accounts the Bonds are credited on the record date identified in a listing attached to the omnibus proxy.

(iv) The City and the Bond Registrar may treat as and deem the Depository to be the absolute owner of the Bonds for the purpose of payment of the principal of and premium, if any, and interest on the Bonds, for the purpose of giving notices of redemption and other matters with respect to the Bonds, for the purpose of obtaining any consent or other action to be taken by Holders for the purpose of registering transfers with respect to such Bonds, and for all purpose whatsoever. The Bond Registrar, as paying agent hereunder, shall pay all principal of and premium, if any, and interest on the Bonds only to the Holder or the Holders of the Bonds as shown on the bond register, and

all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid.

(v) Upon delivery by the Depository to the Bond Registrar of written notice to the effect that the Depository has determined to substitute a new Nominee in place of the existing Nominee, and subject to the transfer provisions in paragraph 11, references to the Nominee hereunder shall refer to such new Nominee.

(vi) So long as any Bond is registered in the name of a Nominee, all payments with respect to the principal of and premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, by the Bond Registrar or City, as the case may be, to the Depository as provided in the Letter of Representations to the Depository required by the Depository as a condition to its acting as book-entry Depository for the Bonds (said Letter of Representations, together with any replacement thereof or amendment or substitute thereto, including any standard procedures or policies referenced therein or applicable thereto respecting the procedures and other matters relating to the Depository's role as book-entry Depository for the Bonds, collectively hereinafter referred to as the "Letter of Representations").

(vii) All transfers of beneficial ownership interests in each Bond issued in book-entry form shall be limited in principal amount to Authorized Denominations and shall be effected by procedures by the Depository with the Participants for recording and transferring the ownership of beneficial interests in such Bonds.

(viii) In connection with any notice or other communication to be provided to the Holders pursuant to this Resolution by the City or Bond Registrar with respect to any consent or other action to be taken by Holders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action; provided, that the City or the Bond Registrar may establish a special record date for such consent or other action. The City or the Bond Registrar shall, to the extent possible, give the Depository notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

(ix) Any successor Bond Registrar in its written acceptance of its duties under this Resolution and any paying agency/bond registrar agreement, shall agree to take any actions necessary from time to time to comply with the requirements of the Letter of Representations.

(x) In the case of a partial prepayment of a Bond, the Holder may, in lieu of surrendering the Bonds for a Bond of a lesser denomination as provided in paragraph 6 hereof, make a notation of the reduction in principal amount on the panel provided on the Bond stating the amount so redeemed.

(c) Termination of Book-Entry Only System. Discontinuance of a particular Depository's services and termination of the book-entry only system may be effected as follows:



(i) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the City and discharging its responsibilities with respect thereto under applicable law. The City may terminate the services of the Depository with respect to the Bond if it determines that the Depository is no longer able to carry out its functions as securities depository or the continuation of the system of book-entry transfers through the Depository is not in the best interests of the City or the Beneficial Owners.

(ii) Upon termination of the services of the Depository as provided in the preceding paragraph, and if no substitute securities depository is willing to undertake the functions of the Depository hereunder can be found which, in the opinion of the City, is willing and able to assume such functions upon reasonable or customary terms, or if the City determines that it is in the best interests of the City or the Beneficial Owners of the Bond that the Beneficial Owners be able to obtain certificates for the Bonds, the Bonds shall no longer be registered as being registered in the bond register in the name of the Nominee, but may be registered in whatever name or names the Holder of the Bonds shall designate at that time, in accordance with paragraph 11. To the extent that the Beneficial Owners are designated as the transferee by the Holders, in accordance with paragraph 11, the Bonds will be delivered to the Beneficial Owners.

(iii) Nothing in this subparagraph (c) shall limit or restrict the provisions of paragraph 11.

(d) Letter of Representations. The provisions in the Letter of Representation are incorporated herein by referenced and made a part of the resolution, and if and to the extent any such provisions are inconsistent with the other provisions of this resolution, the provisions in the Letter of Representation shall control.

5. Interest. The Bonds shall bear interest payable semiannually on June 1 and December 1 of each year commencing December 1, 2006, at the respective rates per annum set forth opposite the maturity years as follows:

| <u>Maturity Year</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Interest Rate</u> |
|----------------------|----------------------|----------------------|----------------------|
| 2007                 | 4.00 %               | 2015                 | 4.60 %               |
| 2008                 | 4.10                 | 2016                 | 4.65                 |
| 2009                 | 4.20                 | 2017                 | 4.70                 |
| 2010                 | 4.30                 | 2018                 | 4.80                 |
| 2011                 | 4.40                 | 2019                 | 4.90                 |
| 2012                 | 4.45                 | 2020                 | 5.00                 |
| 2013                 | 4.50                 | 2021                 | 5.00                 |
| 2014                 | 4.55                 |                      |                      |

6. Redemption. Bonds maturing on and after December 1, 2015, shall be subject to redemption and prepayment at the option of the City on December 1, 2014, and on any date thereafter at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturities and the principal amounts

within each maturity to be redeemed shall be determined by the City; and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be chosen by lot by the Bond Registrar. Bonds or portions thereof called for redemption shall be due and payable on the redemption date, and interest thereon shall cease to accrue from and after the redemption date. Notice of redemption shall be given by first class mail at least thirty days prior to the date fixed for redemption to the paying agent and to each affected registered holder of the Bonds at the address shown on the registration books.

To effect a partial redemption of Bonds having a common maturity date, the Bond Registrar prior to giving notice of redemption shall assign to each Bond having a common maturity date a distinctive number for each \$5,000 of the principal amount of such Bond. The Bond Registrar shall then select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers so assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. If a Bond is to be redeemed only in part, it shall be surrendered to the Bond Registrar (with, if the City or Bond Registrar so requires, a written instrument of transfer in form satisfactory to the City and Bond Registrar duly executed by the Holder thereof or the Holder's attorney duly authorized in writing) and the City shall execute (if necessary) and the Bond Registrar shall authenticate and deliver to the Holder of such Bond, without service charge, a new Bond or Bonds having the same stated maturity and interest rate and of any Authorized Denomination or Denominations, as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

7. Bond Registrar. Northland Trust Services, Inc., in Minneapolis, Minnesota, is appointed to act as bond registrar and transfer agent with respect to the Bonds (the "Bond Registrar"), and shall do so unless and until a successor Bond Registrar is duly appointed, all pursuant to any contract the City and Bond Registrar shall execute which is consistent herewith. The Bond Registrar shall also serve as paying agent unless and until a successor paying agent is duly appointed. Principal and interest on the Bonds shall be paid to the registered Holders (or record holders) of the Bonds in the manner set forth in the form of Bond and paragraph 14.

8. Form of Bond. The Bonds to be issued hereunder, together with the Bond Registrar's Certificate of Authentication, the form of Assignment and the registration information thereon, shall be in substantially the following form:

UNITED STATES OF AMERICA  
STATE OF MINNESOTA  
CROW WING COUNTY  
CITY OF CROSSLAKE

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TELEPHONE UTILITY REVENUE BOND, SERIES 2006A

| <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Date of Original Issue</u> | <u>CUSIP</u> |
|----------------------|----------------------|-------------------------------|--------------|
|                      | December 1,          | August 1, 2006                |              |

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The City of Crosslake, Crow Wing County, Minnesota (the "Issuer"), hereby certifies that it is indebted and for value received promises to pay to the registered owner specified above, or registered assigns, in the manner hereinafter set forth, the principal amount specified above, on the maturity date specified above, unless called for earlier redemption, and to pay interest thereon semiannually on June 1 and December 1 of each year (each, an "Interest Payment Date") commencing December 1, 2006, at the rate per annum specified above (calculated on the basis of a 360-day year of twelve 30-day months) until the principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or, if no interest has been paid, from the date of original issue hereof. The principal of and premium, if any, on this Bond are payable upon presentation and surrender hereof at the principal office of Northland Trust Services, Inc., in Minneapolis, Minnesota (the "Bond Registrar"), acting as paying agent, or any successor paying agent duly appointed by the Issuer. Interest on this Bond will be paid on each Interest Payment Date by check or draft mailed to the person in whose name this Bond is registered (the "Holder" or "Bond Holder") on the registration books of the Issuer maintained by the Bond Registrar and at the address appearing thereon at the close of business on the fifteenth day of the calendar month next preceding such Interest Payment Date (the "Regular Record Date"). Any interest not so timely paid shall cease to be payable to the person who is the Holder hereof as of the Regular Record Date, and shall be payable to the person who is the Holder hereof at the close of business on a date (the "Special Record Date") fixed by the Bond Registrar whenever money becomes available for payment of the defaulted interest. Notice of the Special Record Date shall be given to Bondholders not less than ten days prior to the Special Record Date. The principal of and premium, if any, and interest on this Bond are payable in lawful money of the United States of America. So long as this Bond is registered in the name of the Depository or its Nominee as provided in the Resolution hereinafter described, and as those terms are defined therein, payment of principal of, premium, if any, and interest on this Bond and notice with respect thereto shall be made as provided in the Letter of Representations, as defined in the Resolution and surrender of this Bond shall not be required for payment of the redemption price upon a partial redemption of this Bond. Until termination of the book-entry only system pursuant to the Resolution, Bonds may only be registered in the name of the Depository or its Nominee.

Redemption. All Bonds of this issue (the "Bonds") maturing on December 1, 2015, and thereafter, are subject to redemption and prepayment at the option of the Issuer on December 1, 2014 and on any date thereafter at a price of par plus accrued interest. ~~Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturities and the principal amounts within each maturity to be redeemed shall be determined by the Issuer; and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be chosen by lot by the Bond Registrar. Bonds or portions thereof called for redemption shall be due and payable on the redemption date, and interest thereon shall cease to accrue from and after the redemption date. Notice of redemption shall be given by first class mail at least thirty days prior to the date fixed for redemption to the paying agent and to each affected Holder of the Bonds at the address shown on the registration books.~~

Selection of Bonds for Redemption; Partial Redemption. To effect a partial redemption of Bonds having a common maturity date, the Bond Registrar shall assign to each Bond having a common maturity date a distinctive number for each \$5,000 of the principal amount of such Bond. The Bond Registrar shall then select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers assigned to the Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. If a Bond is to be redeemed only in part, it shall be surrendered to the Bond Registrar (with, if the Issuer or Bond Registrar so requires, a written instrument of transfer in form satisfactory to the Issuer and Bond Registrar duly executed by the Holder thereof or the Holder's attorney duly authorized in writing) and the Issuer shall execute (if necessary) and the Bond Registrar shall authenticate and deliver to the Holder of such Bond, without service charge, a new Bond or Bonds having the same stated maturity and interest rate and of any Authorized Denomination or Denominations, as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

Issuance; Purpose; Special Obligations. This Bond is one of an issue in the total principal amount of \$4,770,000, all of like date of original issue and tenor, except as to number, maturity, interest rate, redemption privilege and denomination, issued pursuant to and in full conformity with the Constitution and the laws of the State of Minnesota and pursuant to a resolution adopted by the City Council on July 26, 2006 (the "Resolution"), for the purpose of providing money to (i) redeem and prepay the Temporary Bond on the date of issuance of the Bonds (the "Refunding") the City's \$2,000,000 Taxable Temporary Telephone Utility Revenue Bond, Series 2005, bearing a date of original issue of September 16, 2005 (the "Temporary Bond") previously issued to temporarily finance the construction of infrastructure improvements to the City's municipal telecommunications utility operated as Crosslake Communications (the "Telephone Utility") (the "2005 Improvements"), and (ii) finance the construction of certain additional improvements to the Telephone Utility (together with the 2005 Improvements, the "Improvements"). The Bonds and the interest thereon are payable solely and exclusively from the net revenues of the Telephone Utility pledged to the payment thereof, and do not constitute a debt of the Issuer, within the meaning of any constitutional or statutory limitation of indebtedness. In the event of any default hereunder, the Holder of this Bond may exercise any of the rights and privileges granted by the laws of the State of Minnesota subject to the provisions

of the Resolution. The Bonds are a first and prior lien upon the net revenues of the Telephone Utility, provided the Issuer is authorized under certain conditions to issue additional revenue obligations on a parity of lien with the Bonds, all as provided in the Resolution.

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Not General Obligations. The Bonds are payable solely from net revenues or funds of the Issuer and neither the State of Minnesota nor any political subdivision thereof is obligated to pay the principal or interest on the Bonds and neither the full faith and credit nor the taxing power of the Issuer, State of Minnesota or any political subdivision thereof is pledged to the payment of the Bonds.

Remedies. The Holders of twenty percent or more in aggregate principal amount of Bonds at any time outstanding may, either by law or in equity, by suit, action, or other proceedings, protect and enforce the rights of all Holders of Bonds then outstanding, or enforce and compel the performance of any and all of the covenants and duties specified in the Resolution to be performed by the Issuer or its officers and agents; provided, however, that nothing shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and interest on each of the Bonds issued to the respective Holders thereof at the time and place, from the source and in the manner provided in the Resolution.

Denominations; Exchange; Resolution. The Bonds are issuable solely in fully registered form in Authorized Denominations (as defined in the Resolution) and are exchangeable for fully registered Bonds of other Authorized Denominations in equal aggregate principal amounts at the principal office of the Bond Registrar, but only in the manner and subject to the limitations provided in the Resolution. Reference is hereby made to the Resolution for a description of the rights and duties of the Bond Registrar. Copies of the Resolution are on file in the principal office of the Bond Registrar.

Transfer. This Bond is transferable by the Holder in person or by the Holder's attorney duly authorized in writing at the principal office of the Bond Registrar upon presentation and surrender hereof to the Bond Registrar, all subject to the terms and conditions provided in the Resolution and to reasonable regulations of the Issuer contained in any agreement with the Bond Registrar. Thereupon the Issuer shall execute and the Bond Registrar shall authenticate and deliver, in exchange for this Bond, one or more new fully registered Bonds in the name of the transferee (but not registered in blank or to "bearer" or similar designation), of an Authorized Denomination or Denominations, in aggregate principal amount equal to the principal amount of this Bond, of the same maturity and bearing interest at the same rate.

Fees upon Transfer or Loss. The Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange of this Bond and any legal or unusual costs regarding transfers and lost Bonds.

Treatment of Registered Owners. The Issuer and the Bond Registrar may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided (except as provided herein with respect to the Record Date) and for all other purposes, whether or not this Bond shall be overdue, and neither the Issuer nor the Bond Registrar shall be affected by notice to the contrary.

Authentication. This Bond shall not be valid or become obligatory for any purpose or be entitled to any security unless the Certificate of Authentication hereon shall have been executed by the Bond Registrar.

Qualified Tax-Exempt Obligations. The Bonds have been designated by the Issuer as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the federal Internal Revenue Code of 1986, as amended.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and the laws of the State of Minnesota to be done, to happen and to be performed, precedent to and in the issuance of this Bond, have been done, have happened and have been performed, in regular and due form, time and manner as required by law, and this Bond, together with all other debts of the Issuer outstanding on the date of original issue hereof and the date of its issuance and delivery to the original purchaser does not exceed any constitutional or statutory limitation of indebtedness; and that the Issuer will maintain rates and charges for the telephone service furnished by the Telephone Utility sufficient in an amount to promptly meet the principal and interest requirements of the Bonds.

IN WITNESS WHEREOF, the City of Crosslake, Crow Wing County, Minnesota, has caused this Bond to be executed on its behalf by the facsimile signatures of the Mayor and the Clerk-Treasurer, the corporate seal of the Issuer having been intentionally omitted as permitted by law.

Date of Registration:

Registrable by: NORTHLAND TRUST  
SERVICES, INC.

BOND REGISTRAR'S  
CERTIFICATE OF  
AUTHENTICATION

Payable at: NORTHLAND TRUST  
SERVICES, INC.

This Bond is one of the Bonds  
described in the Resolution mentioned  
within.

CITY OF CROSSLAKE, CROW WING  
COUNTY, MINNESOTA

Northland Trust Services, Inc.  
Minneapolis, Minnesota

/s/ Facsimile  
Mayor

By  
Authorized Signature

/s/ Facsimile  
Clerk-Treasurer

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by the entireties

JT TEN - as joint tenants with right of survivorship and not as tenants in common

UTMA - \_\_\_\_\_ as custodian for \_\_\_\_\_ under the \_\_\_\_\_ Uniform Transfers to Minors Act  
(Cust) (Minor) (State)

Additional abbreviations may also be used though not in the above list.

## ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ the within Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney to transfer the Bond on the books kept for the registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Notice: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

Signature Guaranteed:

\_\_\_\_\_  
Signature(s) must be guaranteed by a national bank or trust company or by a brokerage firm having a membership in one of the major stock exchanges or any other "Eligible Guarantor Institution" as defined in 17 CFR 240.17 Ad-15(a)(2).

The Bond Registrar will not effect transfer of this Bond unless the information concerning the transferee requested below is provided.

Name and Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Include information for all joint owners if the Bond is held by joint account.)

## PREPAYMENT SCHEDULE

~~This Bond has been prepaid in part on the date(s) and in the amount(s) as follows:~~

[illegible]



9. Execution; Temporary Bonds. The Bonds shall be printed (or, at the request of the Purchaser, typewritten) and shall be executed on behalf of the City by the signatures of its Mayor and Clerk-Treasurer and be sealed with the seal of the City; provided, however, that the seal of the City may be a printed facsimile; and provided further that both of such signatures may be printed (or, at the request of the Purchaser, photocopied) facsimiles and the corporate seal may be omitted on the Bonds as permitted by law. In the event of disability or resignation or other absence of either such officer, the Bonds may be signed by the manual or facsimile signature of that officer who may act on behalf of such absent or disabled officer. In case either such officer whose signature or facsimile of whose signature shall appear on the Bonds shall cease to be such officer before the delivery of the Bonds, such signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if the officer had remained in office until delivery. The City may elect to deliver, in lieu of printed definitive bonds, one or more typewritten temporary bonds in substantially the form set forth above, with such changes as may be necessary to reflect more than one maturity in a single temporary bond. Such temporary bonds may be executed with photocopied facsimile signatures of the Mayor and Clerk-Treasurer. Such temporary bonds shall, upon the printing of the definitive bonds and the execution thereof, be exchanged therefor and canceled.

10. Authentication. No Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this resolution unless a Certificate of Authentication on such Bond, substantially in the form hereinabove set forth, shall have been duly executed by an authorized representative of the Bond Registrar. Certificates of Authentication on different Bonds need not be signed by the same person. The Bond Registrar shall authenticate the signatures of officers of the City on each Bond by execution of the Certificate of Authentication on the Bond and by inserting as the date of registration in the space provided the date on which the Bond is authenticated, except that for purposes of delivering the original Bonds to the Purchaser, the Bond Registrar shall insert as a date of registration the nominal date of original issue, which date is August 1, 2006. The Certificate of Authentication so executed on each Bond shall be conclusive evidence that it has been authenticated and delivered under this resolution.

11. Registration; Transfer; Exchange. The City will cause to be kept at the principal office of the Bond Registrar a bond register in which, subject to such reasonable regulations as the Bond Registrar may prescribe, the Bond Registrar shall provide for the registration of Bonds and the registration of transfers of Bonds entitled to be registered or transferred as herein provided.

Upon surrender for transfer of any Bond at the principal office of the Bond Registrar, the City shall execute (if necessary), and the Bond Registrar shall authenticate, insert the date of registration (as provided in paragraph 10) and deliver, in the name of the designated transferee or transferees, one or more new Bonds of any Authorized Denomination or Denominations of a like aggregate principal amount, having the same stated maturity and interest rate, as requested by the transferor; provided, however, that no bond may be registered in blank or in the name of "bearer" or similar designation.

At the option of the Holder, Bonds may be exchanged for Bonds of any Authorized Denomination or Denominations of a like aggregate principal amount and stated maturity, upon surrender of the Bonds to be exchanged at the principal office of the Bond Registrar. Whenever

any Bonds are so surrendered for exchange, the City shall execute (if necessary), and the Bond Registrar shall authenticate, insert the date of registration of, and deliver the Bonds which the Holder making the exchange is entitled to receive.

All Bonds surrendered upon any exchange or transfer provided for in this resolution shall be promptly canceled by the Bond Registrar and thereafter disposed of as directed by the City.

All Bonds delivered in exchange for or upon transfer of Bonds shall be valid special obligations of the City evidencing the same debt, and entitled to the same benefits under this resolution, as the Bonds surrendered for such exchange or transfer.

Every Bond presented or surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, duly executed by the Holder thereof or the Holder's attorney duly authorized in writing.

The Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange of any Bond and any legal or unusual costs regarding transfers and lost Bonds.

Transfers shall also be subject to reasonable regulations of the City contained in any agreement with the Bond Registrar, including regulations which permit the Bond Registrar to close its transfer books between record dates and payment dates. The Clerk-Treasurer is hereby authorized to negotiate and execute the terms of the agreement.

12. Rights Upon Transfer or Exchange. Each Bond delivered upon transfer of or in exchange for or in lieu of any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

13. Interest Payment, Record Date. Interest on any Bond shall be paid on each interest payment date by check or draft mailed to the person in whose name the Bond is registered (the "Holder") on the registration books of the City maintained by the Bond Registrar and at the address appearing thereon at the close of business on the fifteenth day of the calendar month next preceding such interest payment date (the "Regular Record Date"). Any such interest not so timely paid shall cease to be payable to the person who is the Holder thereof as of the Regular Record Date, and shall be payable to the person who is the Holder thereof at the close of business on a date (the "Special Record Date") fixed by the Bond Registrar whenever money becomes available for payment of the defaulted interest. Notice of the Special Record Date shall be given by the Bond Registrar to the Holders not less than ten days prior to the Special Record Date.

14. Treatment of Registered Owner. The City and the Bond Registrar may treat the person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of and premium, if any, and interest (subject to the payment provisions in paragraph 13) on, such Bond and for all other purposes whatsoever whether or not such Bond shall be overdue, and neither the City nor the Bond Registrar shall be affected by notice to the contrary.

15. Delivery; Application of Proceeds. The Bonds when so prepared and executed shall be delivered by the Clerk-Treasurer to the Purchaser upon receipt of the purchase price, and the Purchaser shall not be obliged to see to the proper application thereof.

16. Fund and Accounts. For the convenience and proper administration of the proceeds derived from the sale of the Bonds and for the payment of principal of and interest on the Bonds, the Telephone Fund shall continue to be in effect, subject to the following accounts which are hereby established. The Operation and Maintenance Account heretofore established by the City shall continue to be maintained in the manner heretofore and herein provided by the City. All moneys remaining after paying or providing for the items set forth in the Prior Resolutions shall constitute and are referred to as "net revenues" until the Bonds and the Prior Bonds have been paid:

(a) Capital Account. To the Capital Account there shall be credited the proceeds of the sale of the Bonds less any accrued interest paid by the Purchaser upon delivery, less any Bond proceeds deposited in the Reserve Account and less any capitalized interest on the Bonds. From the Capital Account shall be paid the Temporary Bond on the Call Date in the amount of \$1,980,000 and all costs of the Improvements, including construction, engineering, legal, financing and all other expenses incidental to issuance of the Bonds. Any balance remaining in the Capital Account after the payment of such costs shall be transferred to the Parity Revenue Bond Debt Service Account herein established.

(b) Operation and Maintenance Account. To the Operation and Maintenance Account shall be paid all gross revenues and earnings derived from the operation of the Telephone Utility. From the Operation and Maintenance Account there shall be paid all, but only, current expenses of the Telephone Utility. Current expenses shall include the reasonable and necessary costs of administering, operating, maintaining and insuring the Telephone Utility, salaries, wages, costs of materials and supplies, necessary legal, engineering and auditing services, and all other items which, by sound accounting practices constitute normal, reasonable and current costs of operation and maintenance, but excluding any allowance for depreciation, extraordinary repairs and payments into the Parity Revenue Bond Debt Service Account and the Subordinate Revenue Bond Debt Service Account. All money remaining in the Operation and Maintenance Account, including interest or other earnings received from the investment of any moneys in the Telephone Fund, after paying or providing for the foregoing items shall constitute and are referred to in this resolution as "net revenues."

(c) Parity Revenue Bond Debt Service Account. To the Parity Revenue Bond Debt Service Account shall be credited and to which there is hereby irrevocably pledged (a) accrued interest paid by the Purchaser upon delivery of the Bonds and (b) from the net revenues of the operation of the Telephone Utility monthly commencing as of September 1, 2006 a sum equal to at least  $\frac{1}{4}$  of the interest due on the Bonds on December 1, 2006 and thereafter at least  $\frac{1}{12}$  of the total principal and interest due during the ensuing 12 months on the Bonds and any other bonds issued on a parity therewith (collectively the "Parity Bonds"); provided, however, that no further payments need be made to the account when the moneys held therein are sufficient for the payment of all principal and interest due on the Parity Bonds on or before the next maturity date of each issue thereof. No money shall be paid out of the account except to pay principal and interest on the Parity Bonds.

(d) Reserve Account. The Reserve Account shall be used only when and if moneys in the Parity Revenue Bond Debt Service Account or other moneys available therefor are insufficient to pay principal and interest on the Parity Bonds; provided, however, that the moneys in the Reserve Account may be used to prepay the Parity Bonds, when such prepayment will retire all of the Parity Bonds then outstanding. There shall be deposited in the Reserve Account from available Telephone Utility funds, the sum of \$455,000 (the "Debt Service Reserve Requirement") is equal to the lesser of (i) 10% of the proceeds of the Parity Bonds, (ii) the maximum amount of principal and interest to become due on the Parity Bonds in any future fiscal year or (iii) 125% of the average annual debt service on the Parity Bonds. Any amounts in the Reserve Account allocated to the Bonds in excess of the Reserve Requirement shall be transferred to the Operation and Maintenance Account. Whenever any moneys constituting the Reserve Account shall be used to pay principal and interest, the Reserve Account shall be restored from the next available net revenues, provided however, that the Reserve Account shall terminate whenever there are sufficient funds in the Parity Revenue Bond Debt Service Account to pay principal and interest on all outstanding Parity Bonds. In no event may sums in the Reserve Account be used to fund the Parity Revenue Bond Debt Service Account so long as there are sufficient net revenues therefor. The balance in the Reserve Account shall be deemed to be the sum of all cash and the cost of all securities held in the account.

(e) Subordinate Revenue Bond Debt Service Account. To the Subordinate Revenue Bond Debt Service Account shall be credited monthly and to which there shall be irrevocably pledged from the net revenues of the operation of the Telephone Utility a sum equal to at least 1/12 of the total principal and interest due during the ensuing 12 months on any obligations secured by a lien on said net revenues second and subordinate to the pledge of net revenues for the security of the Parity Bonds; provided, however, that no further payments need be made to the account when the moneys held therein are sufficient for the payment of all principal and interest due on the subordinate lien bonds payable therefrom on or before the next maturity date of each issue thereof. No money shall be paid out of the account except to pay principal and interest on the Parity Bonds (on a priority of lien) or any subordinate lien bonds payable from said account.

17. Excess Net Revenues. Net revenues in excess of those required for the foregoing purposes may be used for any proper purpose.

18. Investments. Moneys on deposit in the Reserve Account, the Parity Revenue Bond Debt Service Account and the Subordinate Revenue Bond Debt Service Account may be invested in any securities described in Minnesota Statutes, Section 475.66, as from time to time amended. Such investment may at any time be liquidated and the proceeds thereof applied for the purpose or purposes for which the fund was created. All income derived from such investment shall constitute net revenues of the Telephone Utility.

19. Allocation of Money. The money in the Telephone Utility Fund shall be allotted and paid to the various accounts herein established in the order in which the funds are listed on a cumulative basis, and if in any month the money in the accounts is insufficient to place the required amount in any account, the deficiency shall be made up in the following month or months after payment into all other funds having a prior claim on the revenues have been made in full.

20. Separate Accounting. All money held in any of the accounts created by this resolution shall be kept separate and apart from all municipal funds and accounts and shall be deposited in any bank or banks or such investments selected by the City.

21. Arbitrage Covenants. The Reserve Account, the Parity Revenue Bond Debt Service Account and the Subordinate Revenue Bond Debt Service Account shall be used solely to pay the principal and interest and any premiums for redemption of all Parity Bonds or subordinate bonds as provided hereunder. No portion of the proceeds of the Bonds shall be used directly or indirectly to acquire higher yielding investments or to replace funds which were used directly or indirectly to acquire higher yielding investments, except (a) for a reasonable temporary period until such proceeds are needed for the purpose for which the Bonds were issued, (b) as part of a reasonably required reserve or replacement fund not in excess of ten percent of the proceeds of the Bonds, and (c) in addition to the above in an amount not greater than the lesser of five percent of the proceeds of the Bonds or \$100,000. To this effect, any proceeds of the Bonds and any sums from time to time held in the Reserve Account, the Parity Revenue Bond Debt Service Account and the Subordinate Revenue Bond Debt Service Account any other City account which will be used to pay principal or interest to become due on the bonds payable therefrom) in excess of amounts which under the applicable federal arbitrage regulations may be invested in excess of the applicable yield restrictions imposed by said arbitrage regulations on such investments after taking into account any applicable "temporary periods" or "minor portion" made available under the federal arbitrage regulations. Money in the Telephone Fund shall not be invested in obligations or deposits issued by, guaranteed by or insured by the United States or any agency or instrumentality thereof if and to the extent that such investment would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the federal Internal Revenue Code of 1986, as amended (the "Code").

22. Additional Parity Bonds. The Bonds issued hereunder shall be secured by a first charge and lien upon the net revenues of the Telephone Utility. No additional obligations shall be hereafter issued unless they are secured by a lien on the net revenues which is expressly made second and subordinate to the lien upon the net revenues securing all Parity Bonds; provided however, that additional obligations may be issued on a parity of lien with outstanding Parity Bonds, if the annual net revenues of the Telephone Utility (with adjustments as hereinafter provided) for the three completed fiscal or calendar years immediately preceding the issuance of such additional obligations shall have averaged at least (a) 125% of the average annual principal and interest (after taking into account any mandatory redemption schedule) to become due on all outstanding Parity Bonds, including the proposed additional Parity Bonds, on or before the longest maturity of any of the then outstanding Parity Bonds; and (b) equal to the maximum annual principal and interest coming due thereafter on all outstanding obligations payable from the revenues of the Telephone Utility Fund, including any subordinate lien obligations and the additional obligations so to be issued; and provided also, that the interest to become due on any such additional Parity Bonds shall commence on June 1 of the year in which such interest first becomes payable and shall be payable semiannually thereafter on June 1 and December 1 of each year and the principal to become due on such additional Parity Bonds shall be payable on December 1 of each year in which any such principal becomes due.

For the purpose of determining the net revenues of the Telephone Utility for each of the preceding calendar or fiscal years as aforesaid, the amount of the gross revenues of the

Telephone Utility for such years may be adjusted by a Consulting Engineer or by the independent certified public accountant who prepared the last audit report covering the operations of the Telephone Utility so as to reflect any changes in the amount of such revenues which would have resulted if any revision of the schedule of rates and charges imposed at least six months prior to the time of issuance of any additional bonds had been in effect. The amount of the revenues may be further adjusted for such purpose by a Consulting Engineer or such certified public accountant to the extent that either person estimates that: (a) net revenues of the Telephone Utility would have increased if the customers using the Telephone Utility as of the date of issuance of the additional obligations had been customers during the preceding years or (b) a reduction in costs would have been effected if the improvements and extensions then to be constructed had been in operation during the preceding years. The term "Consulting Engineer" means an engineer or firm of engineers who is not an officer or regular employee of the City or the City and is not devoting substantially all time and effort to the affairs of the Telephone Utility.

Nothing herein shall be construed as prohibiting the City from treating the costs referred to in this paragraph as an operating cost payable from the Operation and Maintenance Account so long as the obligation to pay such costs is not treated as debt under generally accepted accounting principles.

No additional Parity Bonds may be issued pursuant to this paragraph unless the conditions and requirements of the resolutions authorizing all respective Parity Bonds are complied with and fully performed.

23. Refunding Bonds. The City also reserves the right and privilege of issuing additional Parity Bonds if and to the extent needed to refund bonds maturing within six months of the issuance of the refunding bonds in case the moneys in the Parity Revenue Bond Debt Service Account, the Subordinate Revenue Bond Debt Service Account and the Reserve Account of the Telephone Utility Fund are insufficient to pay the same at maturity, provided that such refunding Parity Bonds shall mature subsequent to all other Parity Bonds which are still outstanding upon completion of such refunding.

24. Subordinate Lien Bonds. Except as authorized in paragraphs 22 and 23, the City covenants and agrees that it will issue or incur no obligations payable from the net revenues of all or a part of the Telephone Utility or constituting in any manner a lien thereon, unless such obligations are secured by a lien on such net revenues which is expressly made junior and subordinate to the lien and charge of the Parity Bonds on the net revenues, except that the Parity Bonds, or any part thereof, may be refunded and the refunding bonds issued shall enjoy complete equality of lien with the portion of any Parity Bonds not refunded, if there are any, provided that if only a portion of the outstanding Parity Bonds shall be so refunded and if such Parity Bonds shall be refunded in such manner that the annual principal and interest to become due on the refunding Parity Bonds shall be greater than the annual principal and interest to become due on the Parity Bonds to be refunded (assuming payment at their maturity), then such Parity Bonds may not be refunded without the consent of the Holders of the unrefunded portion of the outstanding Parity Bonds.

25. Application of Funds Upon Default. In the event that the moneys in the Parity Revenue Bond Debt Service Account, the Subordinate Revenue Bond Debt Service Account and the Reserve Account shall be insufficient at any time to pay the principal then due and interest then accrued on all Parity Bonds payable therefrom, moneys shall first be applied to the payment pro rata of the accrued interest on all such Parity Bonds, and any balance shall be applied in payment pro rata of the principal on all such Parity Bonds; provided further that if it shall ever be determined by a court of competent jurisdiction while any such Parity Bonds remain outstanding that the sums available and to become available for the payment of the principal thereof and interest thereon are insufficient whether or not then due, then the moneys in the Parity Revenue Bond Debt Service Account, the Subordinate Revenue Bond Debt Service Account and the Reserve Account shall be applied in payment of all then outstanding principal whether or not then due and the interest accrued thereon to the date of payment ratably according to the aggregate amount thereof without any preference or priority.

26. Bondholder Remedies. The Holders of twenty percent or more in aggregate principal amount of all outstanding Parity Bonds may, either at law or in equity, by suit, action, or other proceedings, protect and enforce the rights of all Holders of all outstanding Parity Bonds or enforce or compel the performance of any and all of the covenants and duties specified in this resolution, to be performed by the City or its officers and agents, including the fixing and maintaining of rates and charges and the collection and proper segregation of revenues and the application and use thereof; provided, however, that nothing herein shall affect or impair the right of the Holder of any Parity Bond to enforce the payment of the principal of and interest on any Parity Bond at and after the maturity thereof, or the obligation of the City to pay the principal of and interest on each of the Parity Bonds issued hereunder to the respective Holders thereof at the time and place, from the source and in the manner provided in the Parity Bonds.

27. Additional Covenants. For the protection of the Holders of the Bonds herein authorized and all other Parity Bonds from time to time outstanding, the City herein covenants and agrees to and with the Holders thereof from time to time as follows:

(a) It will at all times adequately maintain and efficiently operate the Telephone Utility as a municipal utility. It will from time to time make all needful and proper repairs, replacements, additions and betterments to the equipment and facilities of the Telephone Utility so that they may at all times be operated properly and advantageously, and whenever any equipment of the Telephone Utility shall have been worn out, destroyed or otherwise become insufficient for proper use, it shall be promptly replaced or repaired so that the value and efficiency of the Telephone Utility shall be at all times fully maintained and its revenues unencumbered by reason thereof.

(b) It will permit no free service to any consumer. The rates for all communications services to all consumers shall be reasonable and just, taking into account the cost and value of the communications services, the cost of maintaining and operating the Telephone Utility and the proper and necessary allowances for depreciation and the amounts required for the payment of principal and interest on the bonds payable from the net revenues of the Telephone Utility.

(c) It will establish, maintain and collect such charges and rates as will produce revenues sufficient to pay the reasonable cost of operation and maintenance of the Telephone

Utility and to pay one hundred twenty-five percent of the interest on and principal of all Parity Bonds and one hundred percent of the interest on and principal of all subordinate lien bonds as and when they become due as well as to provide sufficient money to make the required appropriations to the various accounts established herein.

(d) The City will not sell, lease, mortgage, or in any manner dispose of the Telephone Utility or any part thereof including any and all extensions and additions that may be made thereto until all bonds payable from the revenues of the Telephone Utility or a part thereof have been paid in full; provided however, that the City may sell the Telephone Utility or any part thereof if simultaneously with or prior to the sale all of the outstanding bonds are discharged in accordance with paragraph 29. This covenant shall not be construed to prevent the sale by the City at fair market value of real estate, equipment or other non-revenue-producing properties which in the judgment of the City have become unnecessary, uneconomical or inexpedient to use in connection with the Telephone Utility provided that suitable facilities are obtained in place thereof or in the judgment of the City the sale will not adversely affect the Telephone Utility earnings or ability to meet required financial obligations.

(e) It will procure and keep in force insurance upon the Telephone Utility of a kind and in an amount which would normally be carried by private companies in a like business, including public liability insurance, with an insurer or insurers in good standing; and it will keep in full force and effect fiduciary bonds on employees in charge of the Telephone Utility. In the event of any loss, the proceeds from such insurance (including liability insurance) or bonds shall be used to make good such loss or to repair or restore the Telephone Utility or to discharge all of the outstanding Parity Bonds in accordance with paragraph 29. Insurance premiums shall be paid as a cost of operation.

(f) The City shall cause to be kept proper books, records and accounts adapted to the Telephone Utility separate from other accounts to be audited by a certified public accountant at the end of each fiscal year. A copy of the audit shall be furnished, without cost, to the original purchaser of any outstanding Parity Bonds within ninety days after the close of each fiscal year. If the City fails to provide such audit at such time, the Holders of twenty percent or more of the outstanding Parity Bonds may cause such audit to be made at the expense of the City. The expense of preparing such audit shall be paid as current operating expenses of the Telephone Utility. The original purchaser of the outstanding Parity Bonds and the Holders thereof, or their duly appointed representatives, from time to time shall have the right at all reasonable times, to inspect the Telephone Utility and to inspect and copy the books, records, accounts and data relating thereto. The City agrees to furnish copies of such audit, without cost, to any Holder or Holders of the Parity Bonds at their request within ninety days after the close of each fiscal year.

28. Amendments. No change, amendment, modification or alteration shall be made in the covenants made with Holders of the Parity Bonds without the consent of the Holders of not less than sixty percent in principal amount of then such outstanding Parity Bonds except for changes, amendments, modifications and alterations made (a) to cure any ambiguity or formal defect or omission, or (b) any other change which would not materially prejudice the Holders of such outstanding Parity Bonds; provided, however, that nothing herein contained shall permit or be construed as permitting (c) an extension of the maturity of the principal of or the interest on any such Parity Bonds, or (d) a reduction in the principal amount of any such Parity Bond or the



rate of interest thereon, or (e) a privilege or priority of any such Parity Bond or Bonds over any other Parity Bond or Bonds except as otherwise provided herein, or (f) a reduction in the aggregate principal amount of such Parity Bonds required for consent to any change, amendment, modification or alteration, or (g) permit the creation of any lien ranking prior to or on a parity with the lien of such Parity Bonds, except as hereinbefore expressly permitted, or (h) modify any of the provisions of this paragraph without the consent of the Holders of one hundred percent of the principal amount of Parity Bonds outstanding, or, in the case of any modifications described in clauses (a) through (e) the Holders of only those outstanding Parity Bonds adversely affected by the modifications.

29. Defeasance. When any Parity Bonds and the interest due thereon, have been discharged as provided in this paragraph, all pledges, covenants and other rights granted by this resolution to the Holders of such Parity Bonds shall cease. The City may discharge any Parity Bonds which are due on any date by depositing with the Bond Registrar for such Bonds on or before that date a sum sufficient for the payment thereof in full; or if any Parity Bond should not be paid when due, it may nevertheless be discharged by depositing with the Bond Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit. The City may also discharge its obligations with respect to any prepayable Parity Bonds called for redemption on any date when they are prepayable according to their terms, by depositing with the Bond Registrar on or before that date a sum sufficient for the payment thereof in full, provided that notice of redemption thereof has been duly given as provided in the resolution authorizing the Parity Bonds. The City may also at any time discharge its obligations with respect to any Parity Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a suitable banking institution qualified by law as an escrow agent for this purpose, cash or securities described in Minnesota Statutes, Section 475.67, Subdivision 8, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without regard to sale and/or reinvestment, to pay all amounts to become due thereon to maturity or, if notice of redemption as provided in the resolution authorizing the Parity Bonds has been duly provided for, to such earlier redemption date. The City may discharge Parity Bonds as herein provided without the consent of the Holders of any outstanding Parity Bonds.

30. Fiscal Year. As used in this resolution the words "Fiscal Year" shall mean the twelve month period beginning on January 1 of each year and ending on December 31 of the same year. Should it be deemed advisable at some later date to change its fiscal yearly basis, the same may be done by proper actions to that effect, with the approval of the original Purchaser of these Bonds, which change shall not constitute an amendment or modification of this resolution.

31. Compliance With Reimbursement Bond Regulations. The provisions of this paragraph are intended to establish and provide for the City's compliance with United States Treasury Regulations Section 1.150-2 (the "Reimbursement Regulations") applicable to the "reimbursement proceeds" of the Bonds, being those portions thereof which will be used by the City to reimburse itself for any expenditure which the City paid or will have paid prior to the Closing Date (a "Reimbursement Expenditure").

The City hereby certifies and/or covenants as follows:

(a) ~~Not later than sixty days after the date of payment of a Reimbursement~~ Expenditure, the City (or person designated to do so on behalf of the City) has made or will have made a written declaration of the City's official intent (a "Declaration") which effectively (i) states the City's reasonable expectation to reimburse itself for the payment of the Reimbursement Expenditure out of the proceeds of a subsequent borrowing; (ii) gives a general and functional description of the property, project or program to which the Declaration relates and for which the Reimbursement Expenditure is paid, or identifies a specific fund or account of the City and the general functional purpose thereof from which the Reimbursement Expenditure was to be paid (collectively the "Project"); and (iii) states the maximum principal amount of debt expected to be issued by the City for the purpose of financing the Project; provided, however, that no such Declaration shall necessarily have been made with respect to: (i) "preliminary expenditures" for the Project, defined in the Reimbursement Regulations to include engineering or architectural, surveying and soil testing expenses and similar prefatory costs, which in the aggregate do not exceed twenty percent of the "issue price" of the Bonds, and (ii) a *de minimis* amount of Reimbursement Expenditures not in excess of the lesser of \$100,000 or five percent of the proceeds of the Bonds.

(b) Each Reimbursement Expenditure is a capital expenditure or a cost of issuance of the Bonds or any of the other types of expenditures described in Section 1.150-2(d)(3) of the Reimbursement Regulations.

(c) The "reimbursement allocation" described in the Reimbursement Regulations for each Reimbursement Expenditure shall and will be made forthwith following (but not prior to) the issuance of the Bonds and in all events within the period ending on the date which is the later of eighteen months after payment of the Reimbursement Expenditure or one year after the date on which the Project to which the Reimbursement Expenditure relates is first placed in service, but not more than three years after the date of the Reimbursement Expenditure.

(d) Each such reimbursement allocation will be made in a writing that evidences the City's use of Bond proceeds to reimburse the Reimbursement Expenditure and, if made within thirty days after the Bonds are issued, shall be treated as made on the day the Bonds are issued.

Provided, however, that the City may take action contrary to any of the foregoing covenants in this paragraph upon receipt of an opinion of its Bond Counsel for the Bonds stating in effect that such action will not impair the tax-exempt status of the Bonds.

32. Continuing Disclosure. The City is the sole obligated person with respect to the Bonds. The City hereby agrees, in accordance with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended, and a Continuing Disclosure Undertaking (the "Undertaking") hereinafter described to:

(a) Provide or cause to be provided to each nationally recognized municipal securities information repository ("NRMSIR") and to the appropriate state information depository ("SID"), if any, for the State of Minnesota, in each case as designated by the Commission in accordance

with the Rule, certain annual financial information and operating data in accordance with the Undertaking. The City reserves the right to modify from time to time the terms of the Undertaking as provided therein.

(b) Provide or cause to be provided, in a timely manner, to (i) each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and (ii) the SID, notice of the occurrence of certain material events with respect to the Bonds in accordance with the Undertaking.

(c) Provide or cause to be provided, in a timely manner, to (i) each NRMSIR or to the MSRB and (ii) the SID, notice of a failure by the City to provide the annual financial information with respect to the City described in the Undertaking.

(d) The City agrees that its covenants pursuant to the Rule set forth in this paragraph and in the Undertaking is intended to be for the benefit of the Holders of the Bonds and shall be enforceable on behalf of such Holders; provided that the right to enforce the provisions of these covenants shall be limited to a right to obtain specific enforcement of the City's obligations under the covenants.

The Mayor and Administrator of the City, or any other officer of the City authorized to act in their place (the "Officers") are hereby authorized and directed to execute on behalf of the City the Undertaking in substantially the form presented to the City Council subject to such modifications thereof or additions thereto as are (i) consistent with the requirements under the Rule, (ii) required by the Purchaser of the Bonds, and (iii) acceptable to the Officers.

33. Tax-Exempt Status of the Bonds; Rebate. The City shall comply with requirements necessary under the Code to establish and maintain the exclusion from gross income under Section 103 of the Code of the interest on the Bonds, including without limitation (a) requirements relating to temporary periods for investments, (b) limitations on amounts invested at a yield greater than the yield on the Bonds, and (c) the rebate of excess investment earnings to the United States. With respect to the proceeds of the Bonds used for construction of the Improvements, the Issuer expects to satisfy the 24 month expenditure exemption for gross proceeds of the Bonds as provided in Section 1.148-7(e) of the Regulations. With respect to the proceeds of the Bonds used for the Refunding, the Issuer expects to satisfy the 6 month expenditure exemption for gross proceeds of the Bonds as provided in Section 1.148-7(c) of the Regulations.

34. Designation of Qualified Tax-Exempt Obligations. In order to qualify the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, the City hereby makes the following factual statements and representations:

- (a) the Bonds are issued after August 7, 1986;
- (b) the Bonds are not "private activity bonds" as defined in Section 141 of the Code;
- (c) the City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code;

(d) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds, treating qualified 501(c)(3) bonds as not being private activity bonds) which will be issued by the City (and all entities treated as one issuer with the City, and all subordinate entities whose obligations are treated as issued by the City) during this calendar year 2006 will not exceed \$10,000,000; and

(e) not more than \$10,000,000 of obligations issued by the City during this calendar year 2006 have been designated for purposes of Section 265(b)(3) of the Code.

The City shall use its best efforts to comply with any federal procedural requirements which may apply in order to effectuate the designation made by this paragraph.

35. Negative Covenant as to Use of Improvements. The City hereby covenants not to use the Improvements or to cause or permit them to be used, or to enter into any deferred payment arrangements for the cost of the Improvements, in such a manner as to cause the Bonds to be "private activity bonds" within the meaning of Sections 103 and 141 through 150 of the Code.

36. Records and Certificates. The Clerk-Treasurer is authorized and directed to prepare and furnish to the Purchaser and the attorneys approving the Bonds certified copies of all orders and resolutions of the City relating to the Telephone Utility, the issuance of the Bonds, and all other proceedings or records showing the right, power and authority of the City to issue the Bonds and to provide funds for the payment thereof, and such certified copies and certificates shall be deemed representations of the City as to all statements therein.

37. Covenant With Bondholders. Each and all of the terms and provisions of this resolution shall be and constitute a covenant on the part of the City to and with each and every Holder from time to time of the Bonds and any other Parity Bonds from time to time outstanding.

38. Payment of Issuance Expenses. The City authorizes the Purchaser to forward the amount of Bond proceeds allocable to the payment of issuance expenses to the Bond Registrar on the closing date for further distribution as directed by the Purchaser.

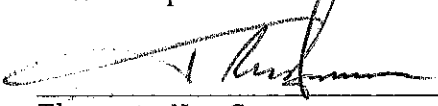
39. Severability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this resolution.

40. Headings. Headings in this resolution are included for convenience of reference only and are not a part hereof and shall not limit or define the meaning of any provision hereof.


The motion for the adoption of the foregoing resolution was duly seconded by member Phillips and, after a full discussion thereof and upon a vote being taken thereon, the following voted in favor thereof: Andolshek, Curtis, Eggena, Phillips, and Swanson

and the following voted against the same: None

Whereupon the resolution was declared duly passed and adopted.

  
Thomas N. Swenson  
City Administrator

24

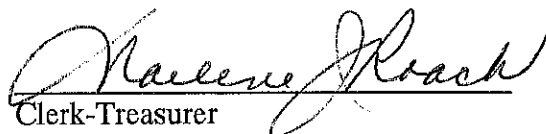
  
Jay Andolshek  
Mayor

STATE OF MINNESOTA  
COUNTY OF CROW WING  
CITY OF CROSSLAKE

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I, the undersigned, being the duly qualified and acting Clerk-Treasurer of the City of Crosslake, Minnesota, DO HEREBY CERTIFY that I have carefully compared the attached and foregoing extract of minutes of a meeting of the City, held on the date therein indicated, with the original minutes thereof on file in my office, and that the same is a full, true and correct transcript thereof insofar as the minutes relate to the adoption of the Resolution Providing for the Issuance and Sale of \$4,770,000 Telephone Utility Revenue Bonds, Series 2006A.

WITNESS my hand as such Clerk-Treasurer on July 26, 2006.

  
Clerk-Treasurer

**CORPORATE RESOLUTION  
FOR  
BROKERAGE INVESTMENT ACCOUNT**

Account Number: \_\_\_\_\_  
Office \_\_\_\_\_  
Registered Rep.'s Name: \_\_\_\_\_  
Registered Rep.'s Number: \_\_\_\_\_  
Name for Filing \_\_\_\_\_

**EXTRACT OF MINUTES OF A MEETING OF THE  
CITY COUNCIL OF THE CITY  
OF CROSSLAKE, MINNESOTA**

**HELD: July 26, 2006**

Pursuant to due call and notice thereof, a special meeting of the City Council (the Council) of the City of Crosslake, (the City), Crow Wing County, Minnesota, was duly called and held at the City Hall in the City on July 26, 2006, at 8:30 A.M.

The following members were present:

Jay Andolshek, Dick Phillips, Terry Curtis, Dean Eggena and Dean Swanson

and the following were absent: none.

Member Dean Eggena introduced the following resolution and moved its adoption:

**RESOLUTION NO. 06-32**

**RESOLUTION AUTHORIZING AN INVESTMENT ACCOUNT WITH  
PERSHING LLC**

**BE IT RESOLVED** by the City Council (the "Council") of the City of Crosslake, Minnesota, (the "City") as follows:

**Section 1. Recitals.**

1.01. The City, pursuant to Minnesota Statutes, Sections 118A.01 through 118A.08, has authority to invest "Public Funds" as defined in Minnesota Statutes, Section 118A.01(4)

1.02. Public Funds may be invested in the manner and in the securities detailed in Minnesota Statutes, Sections 118A.04 and 118A.05.

1.03. Minnesota Statutes, Section 118A.02(1) permits the City Council to authorize the treasurer or chief financial officer to make investments.

1.04. The City of Crosslake is a "Government Entity" as defined in Minnesota Statutes, Section 118A.01(2).

1.05. Subject to compliance with Minnesota Statutes, Section 118A.04(9), the treasurer or chief financial officer may purchase securities through a broker-dealer.

## **Section 2. Approval of Account/Investments.**

2.01. The Financing Director, who is the City's "treasurer or chief financial officer", is authorized to open and maintain an investment account with Pershing LLC through Northland Securities, Inc. ("NSI"), and any Pershing or NSI affiliate, subsidiary, or successor corporation, for the purpose of buying and selling such securities as may be permitted by Minnesota Statutes, Sections 118A.01 through 118A.08. The trading of options, trading on margin, and selling short is not authorized.

2.02. The General Manager of Crosslake Communications or any duly appointed deputy thereto are authorized to act on behalf of the City with respect to the Pershing/NSI investment accounts without any limitations. This authority includes, but is not limited to, the authority to open and close investment accounts, to execute documents on behalf of the City, to order securities transactions, to order assignment or transfer of securities and distribution of proceeds, and to otherwise make investment decisions on behalf of the City with respect to any investments or investment accounts.

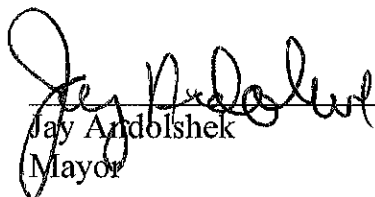
2.03. That Pershing/NSI and all transfer agents are authorized to rely upon the oral or written instructions of the General Manager of Crosslake Communications without further inquiry into that person's authority to act on behalf of the City. Furthermore, Pershing/NSI and all transfer agents may continue to exercise such reliance until the City provides Pershing/NSI with a certified copy of a resolution of the City revoking or modifying this resolution.

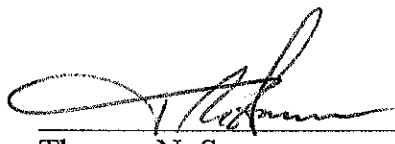
The motion for the adoption of the foregoing resolution was duly seconded by Member Dean Swanson and upon voted being taken thereon, the following voted in favor thereof:

Jay Andolshek, Dick Phillips, Terry Curtis, Dean Eggena and Dean Swanson

and the following voted against the same: none.

Whereupon said resolution was declared duly passed and adopted on July 26, 2006.

  
Jay Andolshek  
Mayor

  
Thomas N. Swenson  
City Administrator

STATE OF MINNESOTA                    )  
  )SS  
COUNTY OF CROW WING)

I, the undersigned, being the duly qualified and acting City Clerk of the City of Crosslake, Crow Wing County, Minnesota, DO HEREBY CERTIFY, that I have carefully compared the preceding extract of minutes of a meeting of the City Council of said City held on the date therein indicated with the original minutes thereof on file in my office and that the same is a full, true and correct transcript thereof insofar as said minutes relate to the topic described in the title of the resolution set forth in the extract.

WITNESS my hand officially and the official seal of the City on 8/04/06

  
City Clerk

(SEAL)