

BOOK-ENTRY ONLY**NOT RATED**

In the opinion of Primmer Piper Eggleston & Cramer, PC, Bond Counsel to the District, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2018A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. It should be noted that Public Law 115-97, signed into law by the President of the United States on December 22, 2017, repeals the federal alternative minimum tax imposed on corporations for taxable years beginning after December 31, 2017. In the opinion of Bond Counsel, under existing law, the interest is not subject to the Vermont personal income tax or the Vermont corporate income tax. The District has determined that each of the 2018A Bonds is a "qualified tax-exempt obligation" for purposes and effect contemplated by Section 265(b)(3) of the Code ("Bank Qualified"). See "TAX EXEMPTION" herein.

\$8,500,000**EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT
Project Revenue Bonds, Series 2018A****Dated: Date of Delivery****Due: December 1, as shown herein**

The East Central Vermont Telecommunications District (the "District") is issuing its Project Revenue Bonds, Series 2018A (the "Series 2018A Bonds"). The Series 2018A Bonds will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co. as Bondowner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2018A Bonds. Purchases of the Series 2018A Bonds will be made in book-entry form, in denominations of \$5,000 or any multiple of \$5,000 in excess thereof. Purchasers will not receive certificates representing their interest in Series 2018A Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2018A Bonds. See APPENDIX F – "Book-Entry-Only System".

Peoples United Bank will act as trustee and paying agent for the Series 2018A Bonds (the "Trustee"). The principal or redemption price of and interest on the Series 2018A Bonds will be payable as described herein. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein.

Interest on the Series 2018A Bonds will be payable on December 1, 2018, and semi-annually thereafter on each June 1 and December 1 to the Bondowners of record as of the close of business on the fifteenth (15th) day of the month preceding such interest payment date.

The Series 2018A Bonds shall be subject to optional, mandatory and special redemption prior to maturity, as described herein.

The Series 2018A Bonds shall be special obligations of the District payable solely from and secured solely by the Revenues (as defined herein) or money and securities of the District, including payments to the Trustee by the District in accordance with the provisions of a Resolution adopted by the District on March 16, 2017 (the "Approving Resolution"), and a General Bond Resolution (the "General Resolution") adopted on March 8, 2016 and a Series 2018A Resolution adopted on July 17, 2018 (the "Supplemental Resolution" and collectively with the General Resolution and the Approving Resolution, the "Resolution"), pursuant to which the Series 2018A Bonds are issued. Such payments required to be paid by the District will be in amounts sufficient to pay, when due, interest on and principal of the Series 2018A Bonds, together with any redemption premium, all in accordance with the Resolution. Neither the State of Vermont nor any political subdivision thereof shall be obligated to pay the principal or redemption price of, or interest on any Series 2018A Bond, and neither the faith and credit nor the taxing power of Vermont or any political subdivision thereof is pledged to such payment. The District has no taxing power.

THE SERIES 2018A BONDS WILL BE OFFERED ONLY TO "ACCREDITED INVESTORS" (AS DEFINED IN THE SECURITIES ACT OF 1933, AS AMENDED) TO WHOM THIS LIMITED OFFERING MEMORANDUM HAS BEEN FURNISHED. THE SERIES 2018A BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS AND MAY BE TRANSFERRED IN THE FUTURE AND HELD ONLY BY ACCREDITED INVESTORS. THIS LIMITED OFFERING MEMORANDUM IS BEING FURNISHED SOLELY FOR CONSIDERATION BY ACCREDITED INVESTORS WITH SUBSTANTIAL FINANCIAL RESOURCES AND THE EXPERIENCE AND FINANCIAL EXPERTISE TO UNDERSTAND AND EVALUATE THE HIGH DEGREE OF RISK INHERENT IN THIS INVESTMENT, INCLUDING THE RISK OF NON-PAYMENT OF PRINCIPAL AND INTEREST. THIS LIMITED OFFERING MEMORANDUM PRESENTS ONLY LIMITED INFORMATION RELATED TO THE DISTRICT, THE PLAN OF FINANCE AND MATTERS PERTINENT TO THE EXPECTED REPAYMENT OF THE SERIES 2018A BONDS. PROSPECTIVE PURCHASERS OF THE SERIES 2018A BONDS ARE EXPECTED TO CONDUCT THEIR OWN INDEPENDENT DUE DILIGENCE INVESTIGATIONS WITH RESPECT TO THE SERIES 2018A BONDS AND THE DISTRICT. DOCUMENTS AND MATERIALS ARE AVAILABLE TO SUCH PROSPECTIVE PURCHASERS UPON REQUEST.

THE SERIES 2018A BONDS HAVE NOT BEEN ASSIGNED A RATING BY ANY RATING AGENCY. PURCHASE OF THE SERIES 2018A BONDS INVOLVES A HIGH DEGREE OF RISK. POTENTIAL INVESTORS IN THE SERIES 2018A BONDS ARE ADVISED TO READ THE ENTIRE LIMITED OFFERING MEMORANDUM, INCLUDING THE APPENDICES HERETO, WHICH ARE A PART OF THIS LIMITED OFFERING MEMORANDUM. THIS COVER PAGE CONTAINS INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE LIMITED OFFERING MEMORANDUM TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 2018A Bonds will be offered when, as and if issued and accepted by the purchasers identified by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approval of legality and certain other matters by Primmer Piper Eggleston & Cramer PC, Bond Counsel to the District. Certain legal matters will be passed upon for the Underwriter by McCarter & English, LLP, Boston, Massachusetts. The Series 2018A Bonds are expected to be available for delivery to DTC in New York, New York or its custodial agent on or about August 22, 2018.

MUNICIPAL CAPITAL MARKETS GROUP, INC.**Dated: August 8, 2018**

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS/PRICES

\$8,500,000

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT Project Revenue Bonds, Series 2018A

| Principal Amount | Coupon | Maturity | Price | Yield | CUSIP[†] |
|-------------------------|---------------|---------------------------------|--------------|--------------|--------------------------|
| \$1,030,000 | 5.375% | Term Bonds due December 1, 2025 | 102.5%** | 4.906% | 271524AM2 |
| \$1,380,000 | 5.000% | Term Bonds due December 1, 2030 | 98.0% | 5.222% | 271524AN0 |
| \$2,180,000 | 5.750% | Term Bonds due December 1, 2036 | 101.5% | 5.463% | 271524AP5 |
| \$1,910,000 | 5.500% | Term Bonds due December 1, 2040 | 98.0% | 5.658% | 271524AQ3 |
| \$2,000,000 | 5.600% | Term Bonds due December 1, 2043 | 98.5% | 5.712% | 271524AR1 |

**Priced to the optional call date of December 1, 2024 at par.

† The CUSIP (Committee on Uniform Securities Identification Procedures) numbers on the inside cover of this Official Statement have been assigned by an organization not affiliated with the District or the Trustee, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Bondowners and no representation is made as to the correctness of the CUSIP numbers printed on the inside cover hereof. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including but not limited to the refunding or defeasance of such issue or the use of secondary market financial products. Neither the District nor the Trustee has agreed to, nor is there any duty or obligation to, update this Limited Offering Memorandum to reflect any change or correction in the CUSIP numbers printed on the inside cover hereof.

No dealer, broker, salesperson or other person has been authorized by any of the Municipalities (defined herein) or the District to give any information or to make any representations, other than those contained in this Limited Offering Memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2018A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been provided by or on behalf of the District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale of the Series 2018A Bonds shall under any circumstances create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

This Limited Offering Memorandum and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Limited Offering Memorandum is delivered in final form. Under no circumstances shall this Limited Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE DISTRICT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 2018A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") IN RELIANCE UPON THE EXEMPTIONS CONTAINED IN SUCH ACTS. THE SECURITIES AND EXCHANGE COMMISSION HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS LIMITED OFFERING MEMORANDUM. WITH RESPECT TO THE VARIOUS STATES IN WHICH THE SERIES 2018A BONDS MAY BE OFFERED, NO ATTORNEY GENERAL, STATE OFFICIAL, STATE AGENCY OR BUREAU, OR OTHER STATE OR LOCAL GOVERNMENTAL AUTHORITY OR ENTITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS LIMITED OFFERING MEMORANDUM OR PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OF THE SERIES 2018A BONDS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE OFFERING CONTEMPLATED BY THIS LIMITED OFFERING MEMORANDUM WILL BE MADE IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT FOR MUNICIPAL SECURITIES.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS IN THIS LIMITED OFFERING MEMORANDUM

This Limited Offering Memorandum contains statements that should be considered "forward-looking statements," meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as "plan," "expect," "anticipate," "estimate," "project," "budget" or similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements expressed or implied by such forward-looking statements to differ from such forward-looking statements, and such differences may be material. These forward-looking statements speak only as of the date of this Limited Offering Memorandum. The District disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the District's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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LIMITED OFFERING MEMORANDUM

Relating to

\$8,500,000

**East Central Vermont
Telecommunications District
Project Revenue Bonds, Series 2018A**

INTRODUCTORY STATEMENT

Purpose of this Limited Offering Memorandum

The purpose of this Limited Offering Memorandum is to set forth certain information concerning the East Central Vermont Telecommunications District (the "District") and the District's Project Revenue Bonds, Series 2018A, to be issued in the aggregate principal amount of \$8,500,000 (the "Series 2018A Bonds"). The Series 2018A Bonds are to be issued pursuant to a Resolution adopted by the Governing Board of the District on March 16, 2017 (the "Approving Resolution"), and a General Bond Resolution (the "General Resolution") adopted on March 8, 2016 and a Series 2018A Resolution adopted on July 17, 2018 (the "Supplemental Resolution" and collectively with the General Resolution and the Approving Resolution, the "Resolution"). Peoples United Bank will act as trustee and paying agent under the Resolution for the Series 2018A Bonds (the "Trustee"). The District is authorized under Chapter 82 of Title 30 of the Vermont Statutes Annotated, Section 21 of No. 41 of the Acts of 2015 and Subchapter 2 of Chapter 53 and Chapter 54 of Title 53 of the Vermont Statutes Annotated (said Chapters and Act, collectively and as amended to date, the "Act"), and pursuant to the Resolution to issue the 2018A Bonds. The information contained in this Limited Offering Memorandum is provided for use in connection with the initial sale of the Series 2018A Bonds.

The District

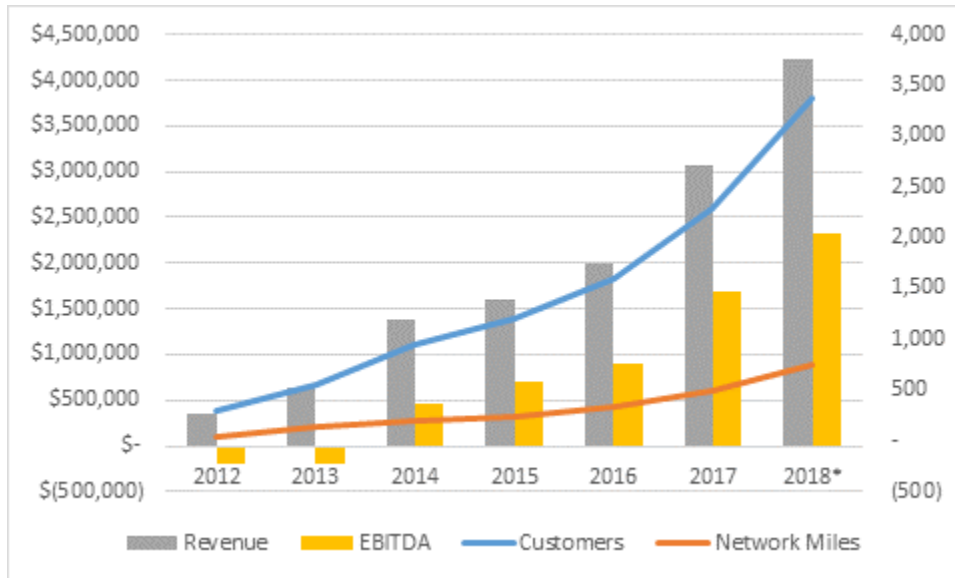
The District provides internet and telephone services to 2,693 customers over 565 miles of broadband lines as of June 30, 2018. 2,467 additional residents and businesses have requested services from the District. The District plans to use the proceeds of the Series 2018A Bonds to extend service to those requesting it and expand its network.

Customers Connected & Miles of Lit Fiber Constructed
Since Inception (as of December 31, 2011-2017 and June 30, 2018)

| Date | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | June 30, 2018 |
|-------------------------|------|--------|--------|-------|-------|-------|-------|------------------|
| Number of Customers | 126 | 298 | 552 | 947 | 1,201 | 1,589 | 2,282 | 2,693 |
| % Increase of Customers | | 136.5% | 85.2% | 71.6% | 26.8% | 32.3% | 43.6% | 18.0% |
| Miles of Lit Fiber | 22 | 41 | 135 | 189 | 235 | 326 | 499 | 565 |
| % Increase of Miles | | 86.4% | 229.3% | 40.0% | 24.3% | 38.7% | 53.1% | 13.2% |
| Customers per Mile | 5.7 | 7.3 | 4.1 | 5.0 | 5.1 | 4.9 | 4.6 | 4.8 |

Historical Results¹ (see summary of financial results on pages 21-22).)

The District has experienced several years of steady growth in revenue and profitability. The organization has been able to translate most of its revenue growth over the past three years into increased earnings before interest, taxes, depreciation and amortization (EBITDA).



*Projected

In 2008, 23 Vermont municipalities mutually agreed to construct and operate a fiber-to-the home (“FTTH”) telecommunications network (the “Network”) to serve residents and businesses located within their boundaries. (A 24th member joined at a later date.) Their joint action entity, East Central Vermont Community Fiber and its wholly-owned subsidiary ECF Holding, LLC (collectively referred to herein as “ECF”), began providing telecommunication services in 2011. The District was formed in 2015 by the same municipalities, and succeeded to all of the assets and liabilities of ECF pursuant to an Assignment and Assumption Agreement and a Bill of Sale and Assignment effective January 1, 2016. All references to the District herein shall include instances where the assets and liabilities were previously ECF’s, except where necessary for clarity. See “THE DISTRICT” herein for more information regarding the District and the Network.

The Series 2018A Bonds

The Series 2018A Bonds are to be issued pursuant to the Act and other applicable provisions of law and will be secured and issued in accordance with the Resolution. The Series 2018A Bonds initially will be issued in the form of a single registered bond for each maturity, and will be delivered to Cede & Co. as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”). See APPENDIX F – “Book-Entry Only System.”

The Series 2018A Bonds will be dated their date of initial delivery and will bear interest from such date, payable on December 1, 2018 and on each June 1 and December 1 thereafter, at the rates and maturing on the dates set forth on the inside cover page of this Limited Offering Memorandum. The Series 2018A Bonds will be subject to optional, mandatory and special redemption, as described herein. See “THE SERIES 2018A BONDS” herein.

¹2016 and 2017 figures are District results. All results prior to 2016 are ECF.

Sources of Payment and Security for the Series 2018A Bonds

The Series 2018A Bonds will be special obligations of the District payable solely from and secured solely by the Revenues or moneys and securities of the District pledged under the Resolution for the payment thereof. The Series 2018A Bonds, together with any Additional Indebtedness that has been or will be issued on parity with the Series 2018A Bonds under the General Resolution, are equally and ratably secured by the pledge of the Resolution, and the undertakings of the District in the Resolution are for the equal and proportionate benefit of the Bondowners, except as otherwise expressly provided in the Resolution. The Series 2018A Bonds are on parity with the District's \$9,225,000 aggregate original principal amount of Project Revenue Bonds, Series 2016A (the "Series 2016A Bonds") and the District's \$14,580,000 aggregate original principal amount of Project Revenue Bonds, Series 2017A (the "Series 2017A Bonds" and together with the Series 2016A Bonds, the "Outstanding Bonds") and any Additional Indebtedness issued on a parity with the Series 2018A Bonds. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2018A BONDS."

Use of Proceeds

The proceeds of the Series 2018A Bonds will be used by the District to (i) design, build, construct, improve, and acquire additional telecommunication network and capital equipment; (ii) pay accrued liabilities; (iii) fund the Debt Service Reserve Fund for the Series 2018A Bonds; and (iv) pay the costs of issuing the Series 2018A Bonds, including Underwriter's discount. A more detailed description of the use of proceeds of the Series 2018A Bonds, including approximate amounts and purposes, is included herein under "THE DISTRICT– The 2018 Project – Estimated Sources of Funds and Uses of Proceeds."

Certain Information Relating to this Limited Offering Memorandum and the Series 2018A Bonds

The descriptions herein of the Resolution and other documents relating to the Series 2018A Bonds do not purport to be complete and are qualified in their entirety by reference to such documents, and the description herein of the Series 2018A Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. Copies of such documents may be obtained from the District, through a request made to the Underwriter. See APPENDIX B-1 and APPENDIX B-2 – "The General Resolution" and "Proposed Form of the Supplemental Resolution."

All capitalized terms used in this Limited Offering Memorandum and not otherwise defined herein have the same meanings as in the Resolution. See APPENDIX B-1 and APPENDIX B-2 – "The General Resolution" and "Proposed Form of the Supplemental Resolution", respectively, for definitions of certain words and terms used but not otherwise defined herein.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Limited Offering Memorandum nor any sale made hereunder nor any future use of this Limited Offering Memorandum will, under any circumstances, create any implication that there has been no change in the affairs of the District.

THE BONDS WILL BE OFFERED ONLY TO "ACCREDITED INVESTORS" (AS DEFINED IN THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") TO WHOM THIS LIMITED OFFERING MEMORANDUM HAS BEEN FURNISHED. THE SERIES 2018A BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS.

THIS LIMITED OFFERING MEMORANDUM IS BEING FURNISHED SOLELY FOR CONSIDERATION BY ACCREDITED INVESTORS WITH SUBSTANTIAL FINANCIAL RESOURCES AND THE EXPERIENCE AND FINANCIAL EXPERTISE TO UNDERSTAND AND EVALUATE THE HIGH DEGREE OF RISK INHERENT IN THIS INVESTMENT, INCLUDING THE RISK OF NON-PAYMENT OF PRINCIPAL AND INTEREST. SEE "CERTAIN BONDOWNERS' RISKS" HEREIN.

THIS LIMITED OFFERING MEMORANDUM PRESENTS ONLY LIMITED INFORMATION RELATED TO THE DISTRICT, THE PLAN OF FINANCE AND MATTERS PERTINENT TO THE EXPECTED REPAYMENT OF THE SERIES 2018A BONDS. PROSPECTIVE PURCHASERS OF THE

SERIES 2018A BONDS ARE EXPECTED TO CONDUCT THEIR OWN INDEPENDENT DUE DILIGENCE INVESTIGATIONS WITH RESPECT TO THE SERIES 2018A BONDS AND THE DISTRICT. DOCUMENTS AND MATERIALS ARE AVAILABLE TO SUCH PROSPECTIVE PURCHASERS UPON REQUEST.

THE SERIES 2018A BONDS

General

The Series 2018A Bonds will be dated their date of initial delivery and will bear interest from such date, payable on December 1, 2018 and on each June 1 and December 1 thereafter, at the rates and maturing on the dates set forth on the inside cover page of this Limited Offering Memorandum.

Subject to the provisions discussed under APPENDIX F – “Book-Entry Only System”, the Series 2018A Bonds are issuable as fully registered bonds without coupons in the minimum denomination of \$5,000 or any multiple of \$5,000 in excess thereof. Principal or redemption premium, if any, of the Series 2018A Bonds will be payable at the corporate trust office of the Trustee and interest on the Series 2018A Bonds will be paid by check or draft mailed, or by wire to the registered owners as of the fifteenth day of the month preceding the date on which interest is to be paid.

Redemption Provisions

Optional Redemption

The Series 2018A Bonds (except the Series 2018A Bonds maturing on or before December 1, 2024, which are not subject to redemption prior to maturity) are redeemable, on any semi-annual payment date, at the option of the District, on or after December 1, 2024, as a whole or in part at any time, prior to maturity at a redemption price equal to 100% of their principal amount, plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2018A Bonds maturing on December 1, 2025 are subject to mandatory redemption from sinking fund installments on each December 1 at their principal amounts without premium as follows:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2021 | \$185,000 |
| 2022 | 195,000 |
| 2023 | 205,000 |
| 2024 | 215,000 |
| 2025† | 230,000 |

† Maturity Date.

The Series 2018A Bonds maturing on December 1, 2030 are subject to mandatory redemption from sinking fund installments on each December 1 at their principal amounts without premium as follows:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2026 | \$250,000 |
| 2027 | 260,000 |
| 2028 | 275,000 |
| 2029 | 290,000 |
| 2030† | 305,000 |

† Maturity Date.

The Series 2018A Bonds maturing on December 1, 2036 are subject to mandatory redemption from sinking fund installments on each December 1 at their principal amounts without premium as follows:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2031 | \$320,000 |
| 2032 | 335,000 |
| 2033 | 350,000 |
| 2034 | 370,000 |
| 2035 | 390,000 |
| 2036† | 415,000 |

† Maturity Date.

The Series 2018A Bonds maturing on December 1, 2040 are subject to mandatory redemption from sinking fund installments on each December 1 at their principal amounts without premium as follows:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2037 | \$440,000 |
| 2038 | 465,000 |
| 2039 | 490,000 |
| 2040† | 515,000 |

† Maturity Date.

The Series 2018A Bonds maturing on December 1, 2043 are subject to mandatory redemption from sinking fund installments on each December 1 at their principal amounts without premium as follows:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2041 | \$545,000 |
| 2042 | 575,000 |
| 2043† | 880,000 |

† Maturity Date.

Moneys on deposit in the Sinking Fund Account for a sinking fund installment of a maturity may, and if so directed by an Authorized Officer shall, be applied to the purchase of such maturity, at a price not exceeding the applicable redemption price, at least 60 days before the sinking fund installment date, and these purchases shall be credited against the sinking fund installment at the applicable redemption price. The District may also purchase Series 2018A Bonds of a maturity with other available funds (excluding funds in the Special Redemption Account) and credit them against a sinking fund installment applicable to them at the applicable redemption price by delivering them to the Trustee for cancellation at least 60 days before the sinking fund installment date.

Redemption in the Event of Determination of Taxability

The Series 2018A Bonds are subject to redemption prior to maturity, as a whole at any time, on the earliest available redemption date, without premium, plus accrued interest to the redemption date, in the event of a Determination of Taxability. See APPENDIX B-1 and APPENDIX B-2 – “The General Resolution” and “Proposed Form of the Supplemental Resolution”, respectively.

Selection of Bonds

If less than all of the Outstanding Series 2018A Bonds of any maturity are to be called for redemption, the Series 2018A Bonds of that maturity (or portions thereof) to be redeemed will be selected by the Trustee in a manner which it deems fair, provided that while the Book-Entry-Only System is in effect, the Series 2018A Bonds or any portions thereof to be redeemed within a maturity will be selected by The Depository Trust Company (“DTC”), in such manner as DTC may determine.

Notice of Redemption

So long as DTC or its nominee is the Bondowner, the District and the Trustee will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants (as defined herein), by Direct Participants to Indirect Participants (as defined herein), and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements which may be in effect from time to time.

When Series 2018A Bonds are to be redeemed, the Trustee shall give notice in the name of the District, mailed not less than thirty (30) days prior to the redemption date, to the registered holder at his or her address as shown on the books of registry.

Effect of Redemption

On the redemption date, subject to the conditionality of the redemption notice, the redemption price of each Series 2018A Bond to be redeemed will become due and payable, and from and after such date, notice having been properly given and amounts having been made available and set aside for such redemption in accordance with the provisions of the Resolution, notwithstanding that any such Series 2018A Bonds called for redemption have not been surrendered, no further interest will accrue on any Series 2018A Bonds called for redemption.

Acceleration

In addition to the foregoing redemption provisions, the Trustee may declare all of the Bonds due and payable at par prior to maturity upon the occurrence of an Event of Default under the Resolution. See APPENDIX B-1 – “The General Resolution.”

Book-Entry-Only System

DTC will act a securities depository for the Bonds. Certain information regarding the DTC and the book-entry only system is set forth in APPENDIX F – “Book-Entry Only System.” The information contained in APPENDIX F is based upon information furnished by DTC. None of the District, the Trustee or the Underwriter makes any representation as to the completeness or the accuracy of such information or as to the absence of a material change in such information subsequent to the date hereof.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2018A BONDS

General

The following summary of the security for the Series 2018A Bonds is qualified in its entirety and reference is hereby made to APPENDIX B-1 and APPENDIX B-2 – “The General Resolution” and “Proposed Form of the Supplemental Resolution”, respectively. For definitions of certain capitalized terms used but not defined herein, see APPENDIX B-1 and APPENDIX B-2 for such definitions.

The Series 2018A Bonds constitute valid and binding special obligations of the District for which the Revenues of the District are pledged to the payment of the principal and redemption price of and interest on the Series 2018A Bonds. The District is subject to suit, but its property is not generally subject to attachment or levy by execution to satisfy a judgment on the Series 2018A Bonds. The District has no taxing power. In addition, the Vermont General Assembly has not enacted nor is it considering at this time legislation that would authorize a municipality to seek protection under Chapter 9 of the federal Bankruptcy Code. Therefore, in the opinion of Primmer Piper Eggleston & Cramer PC, Bond Counsel to the District, the District is not eligible to seek protection under the federal Bankruptcy Code at this time.

Neither the State of Vermont nor any political subdivision thereof shall be obligated to pay the principal of or premium or interest on any Series 2018A Bond, and neither the faith and credit nor taxing power of the State of Vermont or of any political subdivision thereof is pledged to such payment.

The District may issue Additional Bonds, Notes or other evidence of indebtedness on a parity with the Series 2018A Bonds (collectively, "Bonds") upon the satisfaction of certain conditions. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2018A BONDS – Outstanding Indebtedness," and "– Additional Indebtedness," and APPENDIX B-1 – "The General Resolution." All Bonds are equally and ratably secured under the provisions of the Resolution and by the Funds and Accounts established thereunder and all Bonds will be on parity with the Series 2018A Bonds. The District has previously issued the Series 2016A Bonds and the Series 2017A Bonds, which constitute Bonds under the Resolution.

The Resolution also permits the issuance of bonds, notes or other evidences of indebtedness payable from the Revenue Fund and the Revenues subordinate to Bonds ("Subordinate Indebtedness). In the event of any Event of Default under the Resolution, so long as there are any Bonds Outstanding, directions to the Trustee with respect to remedies shall be given by a majority of the holders of the Outstanding Bonds, excluding the holders of any subordinated obligations. See APPENDIX B-1 – "The General Resolution."

Revenue Pledge

In the Resolution, the District pledges as security for Bonds, including the Series 2018A Bonds, (i) all Revenues, and (ii) all moneys and securities in all Funds and Accounts created by or pursuant to the Resolution and the proceeds thereof, whether any of the foregoing are existing when Bonds are issued or are thereafter acquired, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. The provisions of the Resolution shall be a part of and shall constitute a contract by the District with the Bondholders.

"Revenues" means all payments, fees, charges, proceeds, rents, receipts, profits and other income derived by or for the account of the District from or related to a Project and the sale of communications services therefrom including without limit: (a) all interest, profits or other income from the investment of any moneys held pursuant to the Resolution; (b) proceeds from any sale, lease, decommissioning or other disposition of the Network or a portion thereof; (c) all grant revenues received by the District for capital projects that have been completed by the District provided the grant proceeds are not donor restricted; and (d) proceeds of insurance and condemnation awards in respect of any portion of the Network.

The Bonds shall be special obligations of the District payable solely from and secured solely by the Revenues or moneys and securities of the District pledged hereunder for the payment thereof. The Bonds are equally and ratably secured by the pledge of the Resolution, and the undertakings of the District in the Resolution are for the equal and proportionate benefit of the Bondholders, except as otherwise expressly provided in the Resolution. Currently, the District has outstanding \$9,225,000 aggregate principal amount of its Series 2016A Bonds and \$14,580,000 aggregate original principal amount of its Series 2017A Bonds pursuant to the General Resolutions. The Series 2018A Bonds, when issued, will be issued on parity with the Outstanding Bonds.

The General Resolution provides that the District shall promptly as practicable after receipt cause all Revenues received (other than the Revenues expressly required or permitted by the Resolution to be credited to or deposited in any other Fund or Account) to be applied in the following order of priority:

- First, to payment of the amounts required to be paid from the Revenue Fund into the Debt Service Fund and Debt Service Reserve Fund;
- Second, to payment to the District to pay Operating Expenses;
- Third, to payment of the amounts (if any) required to be paid from the Revenue Fund into the Reserve and Contingency Fund;
- Fourth, to payment of the amounts required to be paid from the Revenue Fund into the Redemption Fund and the Rebate Fund;

- Fifth, in accordance with, and to purposes permitted by Section 5.6 of the General Resolution, including the pledging of the same to secure other obligations or payment to the District free and clear of the lien of the Resolution. Section 5.6 of the General Resolution provides that if, after the District has made the required transfers from the Revenue Fund, the amount on deposit in the Revenue Fund exceeds the reserve (if any) for operating expenses pursuant to the provisions of the Resolution, the District may apply the excess (a) to pay costs of modifications, additions and betterments to the Network, (b) to redeem Bonds by deposit to the Optional Redemption Account, or (c) to any other lawful purpose of the District, including deposits in any Funds or Accounts (other than the Special Redemption Account) and expansion of the telecommunications services offered by the District in accordance with, and to purposes permitted by the Resolution;
- Sixth, to payment to the District to pay principal and interest, if any, due on other subordinated debt that may be issued by the District; and
- Seventh, to payment to the District to pay the direct compensation due the management company under the Operating Agreement. See APPENDIX E – “Form of the Operating Agreement” for information regarding the Operating Agreement including terms of compensation.

Before applying moneys in the Revenue Fund in any month for any purpose having a lower priority as provided in the immediately preceding paragraph, the District shall provide for all payments having a higher priority to be made within such month. Before applying moneys in the Revenue Fund for any purpose having lower priority than Operating Expenses as provided in the immediately preceding paragraph, the District may reserve sufficient moneys, together with reasonably expected Revenues, to meet estimated Operating Expenses for a reasonable period not to exceed six months.

All moneys held by the District in the Revenue Fund shall, until otherwise invested or applied as provided in the Resolution, be deposited by the District in its own name, for the account of the Revenue Fund with the Trustee. Monthly, the Trustee shall deduct all amounts to be paid to the Debt Service Fund, the Debt Service Reserve Fund, the Rebate Fund, Redemption Fund and the Reserve and Contingency Fund from the Revenue Fund. All remaining amounts shall be promptly transferred to the District and deposited in such depository or depositories as the District shall at any time or from time to time appoint for the purpose. Any depository so appointed shall be a bank or trust company within or outside of Vermont eligible to receive deposits of public moneys and which is a member of the Federal Deposit Insurance Corporation and has a capital and surplus not less than ten million dollars (\$10,000,000).

Additional Indebtedness: Subordinate Bonds and Notes and Other Indebtedness

The Series 2018A Bonds are Bonds to be issued under the Resolution. Any Additional Bonds, Notes or other Indebtedness to be issued may be on a parity with (but not senior to) the Series 2018A Bonds provided the District can demonstrate in a certificate filed with the Trustee that the District’s Operating Earnings for the prior fiscal year exceeds by 125% the annual debt service due in the District’s next fiscal year on (1) the Outstanding Bonds, (2) all other outstanding parity indebtedness, and (3) the Additional Bonds to be issued. For purposes of this test, Operating Earnings may include pro forma annual Operating Earnings reasonably anticipated to be earned as a result of completion of a Project expansion or extension financed with the proceeds of Additional Bonds.

“Operating Earnings” in the Resolution means Revenues less Operating Expenses. The Resolution defines “Operating Expenses” as the ordinary costs and expenses of the District for the operation, maintenance and repair of the Network, except capital expenditures, interest, income taxes, depreciation, amortization and direct compensation due the management company under the Operating Agreement.

Nothing in the Resolution shall prohibit the District from issuing bonds, notes or other evidences of Indebtedness payable from the Revenue Fund and the Revenues for any of its corporate purposes, subordinate to the deposits and credits required to be made from the Revenue Fund to other Funds and Accounts under the Resolution and to the payments required for Operating Expenses, and may secure the bonds, notes or other evidences of Indebtedness by a pledge of the Revenues subordinate and inferior to the pledge of the Revenues created by the Resolution. The proceeds of the subordinate obligations may be pledged as security for the subordinate obligations free and clear of the lien of the Resolution.

In the Resolution, the District expressly reserves the right to adopt one or more other general bond resolutions and reserves the right to issue other obligations so long as the same are not a charge or lien on the Revenues and other moneys or securities pledged under the Resolution.

Under the Resolution, the District may also establish lines of credit secured by subordinated liens upon Revenues.

No bonds, notes or other evidences of indebtedness may be issued that are senior to the Series 2018A Bonds as to the lien on Revenues.

Coverage Covenants

Under the Resolution, the District is required to meet the following two covenants with respect to Rates and Charges:

(1) The District shall establish, revise, levy and collect Revenues at least sufficient to meet the Operating Expenses of the District, an amount equal to 125% of the current Fiscal Year's interest and principal payments, including payments into sinking funds for the retirement of principal, and an amount equal to the other requirements of any trust agreement or resolution securing bonds or notes of the District, including the Bonds and the Resolution.

(2) Without limiting the generality of the foregoing, the District shall establish and collect rates and charges, whether or not the construction of the Network is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the output of the Network, which will provide the District with Revenues sufficient to pay:

- (a) Operating Expenses and all other costs of the proper operation and maintenance of, and repairs, renewals and replacements to, the Network in order to keep the Network in good operating condition and all taxes, assessments or other governmental charges lawfully imposed on the Network or the revenues therefrom, or payments in lieu thereof, payable by the District;
- (b) amounts which the District is obligated to pay to the Trustee for deposit to the Debt Service Fund, the Debt Service Reserve Fund, the Reserve and Contingency Fund and the Rebate Fund, pursuant to the Resolution;
- (c) costs to the District of prevention or correction of any unusual loss or damage and of major repairs, renewals and replacements and of capital additions, betterments, improvements, extensions and decommissioning less that part, if any, of such costs as is provided for from insurance, from amounts available therefor in the Reserve and Contingency Fund and from Additional Bonds issued in accordance with the Resolution; and
- (d) all other charges or obligations against the Revenues of whatever nature and whether now or hereafter imposed by the Resolution or by law or contract.

No Free Service; Enforcement of Accounts Owning

Except for promotional purposes and for discounted services furnished to public institutions, and for in-kind compensation, so long as any Bonds are Outstanding, the District will not furnish or supply any commodity, service or facility furnished by or in connection with the Network free of charge to any person, firm or corporation, public or private, and the District will promptly enforce the payment of any and all accounts owing to the District by reason of the Network.

Annual Budget

The District shall file with the Trustee and make available on the District's website a preliminary annual operating budget within 30 days of its approval in conformance with the Act. The District may at any time adopt and file with the Trustee an amended or supplemental operating budget for the Fiscal Year then in progress. The budget shall show projected Operating Expenses, Debt Service and other payments from the Revenue Fund and the Revenues to be available to pay the same. If the District incurs aggregate Operating Expenses in any Fiscal Year in excess of the aggregate amount shown in the annual budget as amended and supplemented then the District shall promptly file a written report of any such excess expenditure with the Trustee and make such report available on the District's website.

Debt Service Reserve Fund

The Resolution establishes a Debt Service Reserve Fund Requirement limited to, as of any date of calculation, an amount equal to the sum of the amounts determined at the time of issue of each Series of Bonds issued under the Resolution (but only including the Series of Bonds Outstanding at the time of calculation) as the lesser of (i) maximum annual Debt Service on Outstanding Bonds during the then current or any future Fiscal Year, (ii) 125% of the average annual Debt Service on Outstanding Bonds, or (iii) 10% of the aggregate proceeds of all Outstanding Bonds upon original issuance thereof, or a lesser amount as established in a Supplemental Resolution. The Supplemental Resolution under which the Series 2018A Bonds will be issued sets a Debt Service Reserve Fund Requirement of \$270,000 to be initially capitalized from Series 2018A Bond proceeds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein and APPENDIX B-1 and APPENDIX B-2 – "The General Resolution" and "Proposed Form of the Supplemental Resolution", respectively.

Moneys in the Debt Service Reserve Fund are available for the payment of principal, redemption price of and interest on all Bonds, excluding the payment of any principal of, interest on or premium if any on any subordinate obligations issued under the Resolution, equally and ratably. Provided no Event of Default has occurred, if on any date when an installment of interest or principal or a sinking fund installment becomes due the amount on deposit in the Debt Service Fund is insufficient to pay such installment of interest or principal or sinking fund installment, the Trustee shall make up the deficiency by transfer from the Debt Service Reserve Fund. If at any time the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall forthwith make up the deficiency from the Reserve and Contingency Fund, and any remaining deficiency shall be made up by six approximately equal monthly transfers by the Trustee from the Revenue Fund. For purposes of determining the amount in the Debt Service Reserve Fund, the fair market value of investments shall be determined as of December 31 in each year or when required in connection with a deposit or transfer (including in connection with the issuance of a Series of Bonds). If the amount in the Debt Service Reserve Fund is greater than the Debt Service Reserve Fund Requirement on June 30 or December 31 of any year or upon the issuance of a Series of Bonds, the excess shall be dealt with in the manner provided for earnings from investment of the Debt Service Reserve Fund or, in the case of an excess upon the issuance of a Series of Bonds, as otherwise provided in the Supplemental Resolution providing for such issuance. If an Event of Default has occurred, the Trustee may, at the direction of the Bondholders, use the balance of the Debt Service Reserve Fund to: preserve the lien on the Revenues and assets of the District, pay counsel, sell or lease the District's assets, insure the District's assets, collect Revenues due from the District's ratepayers, and pay Operating Expenses. See APPENDIX B-1 – "The General Resolution."

Reserve and Contingency Fund

The Resolution establishes a Reserve and Contingency Fund. The Reserve and Contingency Fund Requirement" means an amount equal to \$50,000 plus \$200 per mile of telecommunications service line in excess of 235 miles. The Reserve and Contingency Fund shall be used to pay, as the District, at its sole discretion determines for (1) necessary renewals, replacements, modifications, capital additions, betterments and extraordinary repairs to the Network, (2) costs of the retirement from service, decommissioning, disposal and termination of the Network, and (3) extraordinary operation and maintenance costs and the costs of preventing or correcting any unusual loss or damage (including major repairs and insurance deductible payments). Any Supplemental Resolution providing for the issuance of a Series of Bonds may provide for a deposit from the proceeds of the Bonds into the Reserve and Contingency Fund. Commencing on the Date of Commercial Operation, the District shall pay from the Revenue

Fund into the Reserve and Contingency Fund on or before the sixth business day prior to the end of each month an amount equal to 5% of the amount required to be deposited at that time in the Debt Service Fund pursuant to the Resolution. If on the last day of any Bond Year the amount in the Reserve and Contingency Fund, after deducting any amount committed or obligated for the purposes for which the Reserve and Contingency Fund may be used but not yet paid, is greater than the Reserve and Contingency Fund Requirement, the Trustee, after making any payment required by the Resolution to the Debt Service Reserve Fund, shall pay the excess to the Revenue Fund. If there is a deficiency in the Debt Service Reserve Fund after a transfer is made to the Debt Service Fund, funds shall be transferred from the Reserve and Contingency Fund to make up such deficiency. See APPENDIX B-1 and APPENDIX B-2 – “The General Resolution” and “Proposed Form of the Supplemental Resolution”, respectively.

The Reserve and Contingency Fund was initially funded in the amount of \$50,000. As a result of Network miles built, pursuant to the requirements of the Resolution, as of October 31, 2017, the required amount of the Reserve and Contingency Fund increased by \$23,800 based on 369 lit miles. Currently, the District has \$73,846 on deposit in the Reserve and Contingency Fund. The District expects that as of January 1, 2019, pursuant to the requirements of the Resolution, a deposit of approximately \$76,800 will be made to the Reserve and Contingency Fund based on 384 additional Network miles built.

Outstanding Indebtedness

The District is indebted under an operating lease obligation to the Town of West Windsor (the “West Windsor Lease”). The West Windsor Lease is a 20-year lease, terminating in 2035, requiring fixed semi-annual rent payments in the approximate amount of \$4,513. The West Windsor Lease was used to pay certain costs of modifications, additions and betterments to the Network and expansion of the telecommunications services offered by the District through its predecessor. The District also has five vehicle loans that are each secured by the vehicle purchased. The aggregate annual payment on the vehicle loans is approximately \$57,800 and the loans mature in October 2020, November 2020, November 2021, November 2021 and April 2022, respectively.

Included in the long-term liabilities of the District is an obligation to pay deferred compensation to a former Chief Executive Officer and Chief Administrative Officer of ValleyNet, Inc., (“ValleyNet”) the outside not-for-profit management company that operates the network and performs certain capital construction for the District. These officers deferred a portion of their compensation due from the predecessor to the District during the first five years of operations. The District has assumed these liabilities. Below is a list of the remaining deferred compensation payments due:

Deferred Compensation Payable

| <u>Year</u> | <u>Amount Due</u> |
|----------------|-------------------|
| Remainder 2018 | \$48,000 |
| 2019 | \$88,215 |

Interested Parties

The District sold Series 2016A Bonds and Series 2017A Bonds to individuals who are current members of the District Governing Board, or ValleyNet staff or Board members, or their immediate family (spouse, sibling, parent, or child), including:

- Martin Blumberg, District Treasurer
- Daniel Childs, District Board Member (Town of Brookfield)
- Marda Donner, spouse of District Board Member
- John Roy, ValleyNet Board Member
- Irv Thomae, District Board Chair
- Stan Williams, ValleyNet Board Chair and CFO

ESTIMATED SOURCES OF FUNDS AND USE OF PROCEEDS

The District expects that the proceeds of the Series 2018A Bonds will be used to fund the Debt Service Reserve Fund and the Reserve and Contingency Fund and to pay certain costs of issuing the Series 2018A Bonds. The District also expects that the proceeds of the Series 2018A Bonds will be used for the following capital projects:

1. customer connections to the existing network and network extensions;
2. required additions to the District’s Network Operating Center located at Interstate 89 Exit 3;
3. capital expenditures for approximately 250 miles of FTTH broadband fiber and associated expenses; and
4. network design expenses for over 700 remaining unbuilt miles within the District’s service area; and
5. utility pole make-ready expenses related to approximately 250 miles of construction planned for 2019.

The tables below shows the estimated sources and uses for the Series 2018A Bond proceeds.

Sources of Funds

| | |
|-----------------------------------|---------------------------|
| Par Amount of 2018A Bonds | \$8,500,000 |
| Less: Net Original Issue Discount | <u>(37,350)</u> |
| Total Sources of Funds | <u>\$8,462,650</u> |

Uses of Funds

| | |
|--------------------------------------|---------------------------|
| Deposit to Construction Fund | \$7,954,897 |
| Deposit to Debt Service Reserve Fund | 270,000 |
| Underwriter’s Discount | 169,253 |
| Other costs of issuance | <u>68,500</u> |
| Total Uses of Funds | <u>\$8,462,650</u> |

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DEBT SERVICE REQUIREMENTS

The following table sets forth debt service on the Series 2018A Bonds in the principal amounts set forth on the inside cover of this Limited Offering Memorandum, as well as debt service on other Indebtedness of the District for each Fiscal Year in which such Series 2018A Bonds will be Outstanding. The District also has five vehicle loans that are each secured by the vehicle purchased. The aggregate annual payment on the vehicle loans is approximately \$57,800 and the loans mature in October 2020, November 2020, November 2021, November 2021 and April 2022, respectively. Such loans are not included in the debt service requirements below.

| Fiscal Year | Series 2018A Bonds | | Outstanding Bonds | | West Windsor Operating Rent [†] | Total Debt Service & Rent |
|-------------|--------------------|-----------|-------------------|-----------|--|---------------------------|
| | Interest | Principal | Interest | Principal | | |
| 2018 | \$128,360 | | \$1,302,713 | | \$9,025 | \$1,440,098 |
| 2019 | 466,763 | | 1,302,713 | \$195,000 | 9,025 | 1,973,501 |
| 2020 | 466,763 | | 1,294,913 | 460,000 | 9,025 | 2,230,701 |
| 2021 | 466,763 | \$185,000 | 1,275,213 | 590,000 | 9,025 | 2,526,001 |
| 2022 | 456,819 | 195,000 | 1,249,763 | 640,000 | 9,025 | 2,550,607 |
| 2023 | 446,338 | 205,000 | 1,222,163 | 705,000 | 9,025 | 2,587,526 |
| 2024 | 435,319 | 215,000 | 1,187,900 | 760,000 | 9,025 | 2,607,244 |
| 2025 | 423,763 | 230,000 | 1,150,950 | 805,000 | 9,025 | 2,618,738 |
| 2026 | 411,400 | 250,000 | 1,111,838 | 860,000 | 9,025 | 2,642,263 |
| 2027 | 398,900 | 260,000 | 1,069,238 | 915,000 | 9,025 | 2,652,163 |
| 2028 | 385,900 | 275,000 | 1,021,188 | 960,000 | 9,025 | 2,651,113 |
| 2029 | 372,150 | 290,000 | 970,988 | 1,020,000 | 9,025 | 2,662,163 |
| 2030 | 357,650 | 305,000 | 917,588 | 1,090,000 | 9,025 | 2,679,263 |
| 2031 | 342,400 | 320,000 | 860,538 | 1,155,000 | 9,025 | 2,686,963 |
| 2032 | 324,000 | 335,000 | 795,063 | 1,210,000 | 9,025 | 2,673,088 |
| 2033 | 304,738 | 350,000 | 723,913 | 1,280,000 | 9,025 | 2,667,676 |
| 2034 | 284,613 | 370,000 | 648,663 | 1,345,000 | 9,025 | 2,657,301 |
| 2035 | 263,338 | 390,000 | 569,563 | 1,420,000 | 9,025 | 2,651,926 |
| 2036 | 240,913 | 415,000 | 489,169 | 1,495,000 | | 2,640,082 |
| 2037 | 217,050 | 440,000 | 402,938 | 1,570,000 | | 2,629,988 |
| 2038 | 192,850 | 465,000 | 312,331 | 1,665,000 | | 2,635,181 |
| 2039 | 167,275 | 490,000 | 216,169 | 2,005,000 | | 2,878,444 |
| 2040 | 140,325 | 515,000 | 101,675 | 1,660,000 | | 2,417,000 |
| 2041 | 112,000 | 545,000 | | | | 657,000 |
| 2042 | 81,480 | 575,000 | | | | 656,480 |
| 2043 | 49,280 | 880,000 | | | | 929,280 |

[†] The West Windsor portion of the Network is owned by and leased from the Town of West Windsor.

Based on the District's Fiscal Year 2018 budget and five-year forecast (see "THE DISTRICT - Management Discussion and Analysis" herein), the District currently projects that to achieve the completion of 1,400 total miles of Network necessary to cover the majority of its underserved area, it will need to incur an additional approximately \$14-18 million of Indebtedness either through the issuance of Additional Bonds or other Indebtedness from Fiscal Years 2019 and 2020. The Series 2018A Bonds are part of the planned incurrence of Indebtedness required to complete the 1,400 total miles of Network. The completion of the full 1,400 miles of Network and the incurrence of such additional Indebtedness is subject to the District successfully connecting additional customers to produce sufficient Operating Earnings to adequately cover the additional debt service. The

five-year forecast incorporates various assumptions, including assumptions as to penetration rates, revenues, expenses, interest rates on indebtedness and investments, refinancing of existing debt, inflation rates and the size and timing of capital expenditures. Under the terms of the Resolution, the District may issue subordinate debt without meeting the Additional Bonds parity test. The District may offer subordinate debt in the future.

THE DISTRICT

Background

In 2008, twenty-three municipalities in Vermont organized ECF (a twenty-fourth joined at a later date). SEE “INTRODUCTORY STATEMENT – The District” herein. The member municipalities are set forth in the fourth paragraph below. The purpose of ECF was to construct and operate a state-of-the-art telecommunication network (the “Network”) to serve residents and businesses located in the member municipalities. The member municipalities are located in Addison, Orange, Rutland, and Windsor Counties.

On June 1, 2015, legislation was adopted by the state of Vermont (30 V.S.A. §§ 3051-3083) that among other things, authorizes two or more cities or towns to form a “Communications Union District” to deliver communications services and operate a communications plant. Once a district is formed it may take on new members, existing members may choose to leave, and the district may also be dissolved. These new Communication Union Districts were authorized in response to requests for more broadband build-out in rural areas of Vermont to provide high-speed internet to residents and businesses. A Communication Union District is empowered to operate or contract for construction, ownership, management, and operation of a communications plant and to provide communications services to members. A communications plant includes all parts of a communications system owned by a district including wires, cables, fiber optics, wireless or other technologies used to transport or store information, facilities, and equipment. A district will include all land and residents within the member municipalities and any others subsequently admitted.

Once formed, Communication Union Districts are municipal entities with a governing board made up of one representative from each member municipality, an appointed union district clerk, and an appointed treasurer. The districts have the authority to purchase, sell, and lease real estate, hire and fix the compensation of employees, and enter into contracts. Under 30 V.S.A. §§3051-3083 taxpayers are not liable for debts incurred by the districts. A district does not have taxing authority; rather, all necessary revenues must come from selling the communications services, such as running internet cables to homes and businesses and charging monthly fees for internet services. Additionally, communications union districts are eligible to receive loans from the Vermont Economic Development Authority and incur debt from other entities.

On March 3, 2015, East Central Vermont Telecommunications District was approved by the voters of the municipalities of Norwich, Randolph, Sharon, Strafford, and Woodstock (the “Original Municipalities”), as the first communications union district in Vermont and pursuant to Chapter 82 of Title 30 the District was later established. Nineteen other municipalities, including Barnard, Bethel, Braintree, Brookfield, Chelsea, Granville, Hancock, Hartford, Montpelier, Pittsfield, Pomfret, Reading, Rochester, Royalton, Stockbridge, Thetford, Tunbridge, Vershire, and West Windsor, subsequently joined the District through actions of their selectboards. Effective January 1, 2016, the District succeeded to all of the assets and liabilities of ECF pursuant to an Assignment and Assumption Agreement and a Bill of Sale and Assignment. The District continues to market its services under the ECFiber, ECFiber.net and East-Central Vermont Community Fiber-Optic Network trade names that had previously been used by ECF.

The District is authorized and empowered under the laws of Vermont, including the Act, to issue the Series 2018A Bonds for the purposes described herein and to adopt the Resolution and other agreements and instruments necessary to issue and secure the Series 2018A Bonds.

Vermont law specifically provides that any losses associated with the construction or operation of a communications plant by the District are not to be borne by any of the municipality’s (or municipalities’) taxpayers. Payment of amounts due will be made only from available revenues of the District.

PURCHASERS OF SERIES 2018A BONDS SHOULD BE AWARE THAT THIS IS A HIGH-RISK INVESTMENT WITH NO GUARANTEE THAT THE DISTRICT'S BUSINESS PLAN WILL BE REALIZED AS PRESENTED OR THAT PROJECTED RETURNS TO SUCH PURCHASERS CAN BE MET.

Existing Network

At June 30, 2018, the District had approximately 565 miles of fiber optic broadband lines serving 2,693 customers with internet service. The Network passes a total of approximately 7,190 residents and businesses resulting in year ended June 30, 2018 penetration rate of approximately 37.5%. Approximately 80% of the customers also purchase VOIP telephone service. At December 31, 2017, utility plant, net of depreciation, was valued at cost approximately \$12.4 million. Approximately eight miles of fiber optic broadband lines has been leased from the Town of West Windsor for an annual rent of \$9,025 under an inter-local agreement. The lines were constructed by the District at the expense of West Windsor and have been leased to the District in order to receive internet and VOIP services. The District is obligated to maintain the lines.

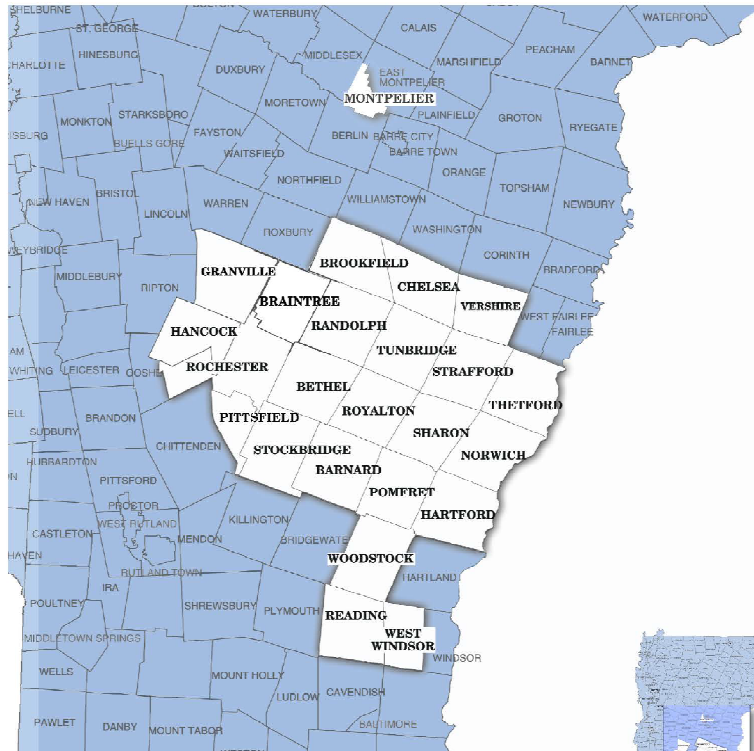
On two segments of broadband fiber lines, the Orange County Fiber Connection and the Business Broadband Improvement District, the District shares strands of fiber on each segment with the State. For the Orange County Fiber Connection, the District has an Indefeasible Right of Use (IRU) for 30 years beginning September 26, 2012 for 36 strands of fiber across 35.14 miles. The District pays the State 1/3 of the costs to maintain the network, including annual pole rental, regular maintenance, and outage repair. Additional strands are available for lease. For the Business Broadband Improvement District, the District owns the 80 miles of network and the State has an IRU for 96 strands on 80 miles to be available to other carriers. The District has access to 48 strands of fiber along the route. It charges back to the State its share of pole rentals and maintenance costs. The miles described in the Orange County Fiber Connection and the Business Broadband Improvement District are included in the District's total miles. See – "THE NETWORK – Orange County Fiber Connection and Business Broadband Improvement District."

In January 2011, the District secured its initial capital financing by issuing tax-exempt Notes to individual investors, many of whom lived within the participating municipalities. At that time, the District began construction of a fiber-to-the-home (FTTH) broadband network to provide internet and voice-over-internet-protocol (VOIP) telephone services. From 2011 through 2015, ECF issued notes and other indebtedness, which have been repaid, to construct and equip additional Network mileage and connect additional customers. The District elected not to provide cable television because most residents had adequate television service, and the additional investment in constructing and equipping a television signal receiving headend and purchasing programming was not deemed to be commercially viable. Today, increasing television programming is available through the internet (including the internet service delivered by the District) via a growing number of providers commonly referred to as over-the-top television.

A General Description of the District Service Area

The District's mission is to complete the Network to eventually cover all homes and businesses in its 24 member municipalities. This is one of the most rural areas in a rural state. The area is characterized by wooded, mountainous topography with narrow valleys. Below is a map of the towns in the District service area (the "Service Area").

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State of Vermont

ECFiber Towns and Cities

Source: The District.

Open Access Network

While the Network provides retail internet and VOIP services directly to its customers, it is also available on non-discriminatory and non-exclusive terms to any other service providers who wish to use it to deliver their services. The other service providers are required to pay the District a fee for usage of the Network but could avoid incurring the cost and delay of constructing their own network. Other service providers could include internet service providers, phone providers, television providers and security monitoring services. The District currently has two other service providers using the Network for a fee.

District Operations and Services

The District has no employees. It is operated exclusively by ValleyNet, Inc. (“ValleyNet”), a Vermont nonprofit corporation under an Operating Agreement, a copy of which is attached in APPENDIX E. Under the Operating Agreement, ValleyNet provides a staff to operate the Network and performs all repairs, maintenance and operations on behalf of the District. ValleyNet also performs certain capital construction and oversees the work of outside engineering firms, consultants and contractors. The District pays ValleyNet’s actual costs that it incurs for all services provided plus a fee of \$10 per customer per year. The term of the Operating Agreement is ten years from January, 2016. In the opinion of bond counsel, the Operating Agreement is in compliance with the U.S. Treasury regulation for tax-exempt debt issuers on management contracts. ValleyNet has provided these services to the District since the date of its organization. See the caption “Governance of the District and ValleyNet” below for more information regarding ValleyNet.

Under the current Operating Agreement, approved by the District on February 9, 2016, ValleyNet undertakes the development, design, construction, equipping and installation of the Network, and the operation and management of the Network, subject to policy guidelines and operating protocols established by the District. Under the Operating Agreement, ValleyNet will be responsible for the development, design, construction and installation of the Network, as well as the management, operation and maintenance of the Network, in accordance with policies established by the District and all regulatory requirements. In particular, ValleyNet employees will be responsible for:

- Managing the design and construction process, including selecting, hiring and overseeing contractors, ensuring performance and certifying completion;
- Maintaining the Network, including the fiber-optic cable and electronic equipment in support thereof;
- Operating the Network;
- Providing retail and wholesale services utilizing the network, subject to policy guidelines established by the District — including selection and specification of services provided and pricing for service;
- Conducting all marketing, customer service, help desk and customer care functions;
- Conducting all customer billing and collection activities, including selection and oversight of any outsourced billing functions; and
- Providing all required reporting to the District, governmental authorities and the District Treasurer.

ValleyNet, on behalf of the District, has executed a lease for the Network Operating Center, which occupies a facility adjacent to Interstate 89 Exit 3. Other tenants sub-lease portions of this building. This lease provides a right of first refusal for the District to purchase the facility should the owner receive an offer from a person interested in purchasing the facility. The District may also offer to purchase the facility at such time as financing becomes available. At this time, the District believes that the amount of space it currently leases is sufficient for the equipment and staffing levels of its operations.

The District offers internet (a *minimum* of “always-on” symmetrical 17 Mbps) and VOIP telephone (with unlimited USA and Canada long distance and all features except voice mail, which is available for an additional fee). It also offers a range of higher-speed connectivity options (40 Mbps to 700 Mbps) for those customers (mostly business and institutional) who have additional needs. The District operates a FTTH network based on the latest Gigabit Passive Optical Network (GPON) technology, which is capable of providing symmetrical speeds up to 1 Gigabit per second. The construction and design/make ready work to be financed by the Series 2018A Bonds will be an extension of the District’s existing network.

The applicable fees for services for calendar year 2018 offered by the District are set forth in the table below.

Service Tiers and Rates**

| | BUSINESS SERVICE Per Month | RESIDENTIAL SERVICE Per Month |
|--------------------------|---------------------------------------|--|
| INTERNET | | |
| Basic: 17 Mbps | \$72 | \$66 |
| Standard: 40Mbps | 101 | 91 |
| Ultra: 200Mbps | 126 | 116 |
| Wicked: 700Mbps | 199 | 149 |
| Phone Lines *** | 30 | 20 |
| Static IP Address | 7 | NA |
| Voicemail | 3 | 3 |

** One time installation charge is \$150 for business service and \$99 for residential service. There is also an \$8 monthly charge on all levels of service for equipment rental.

*** Additional Federal and State taxes apply.

Below is a table showing the history of customers added, disconnected and the resulting churn rate experience by the District and ValleyNet.

| Premises Connections & Disconnections | | | | | | | |
|--|------------------|------------|------------|----------------------------------|------------------------|--|-------------------|
| Year | Customers | | | Net Premises Disconnected | | Churn Rate Based on Avg Customers | |
| | Beginning | End | New | Cumulative Total | Per year/Period | Monthly | Annualized |
| 2011 | - | 126 | 126 | 0 | 0 | 0.00% | 0.00% |
| 2012 | 126 | 298 | 172 | -9 | -9 | -0.35% | -4.25% |
| 2013 | 298 | 552 | 254 | -13 | -4 | -0.08% | -0.94% |
| 2014 | 552 | 947 | 395 | -41 | -28 | -0.31% | -3.74% |
| 2015 | 947 | 1,201 | 254 | -40 | 1 | 0.01% | 0.09% |
| 2016 | 1,201 | 1,589 | 388 | -37 | 3 | 0.02% | 0.22% |
| 2017 | 1,589 | 2,282 | 693 | -43 | -6 | -0.03% | -0.31% |
| 2018 (first half) | 2,282 | 2,693 | 411 | -95 | -52 | -0.35% | -4.18% |
| 2012-2018 (first half) | - | 2,693 | 2,693 | -95 | | -0.08% | -0.94% |

The District experiences very few disconnections each year. For those premises which disconnect service due to a move, the new owners or tenants typically subscribe for service within a very short period of time. The District recently tightened the procedures with regards to overdue payments and now the District terminates service when the account is 90 days delinquent unless other payment arrangements are made.

District Demographic Information

The 24 member municipalities of the District are located in the upper Connecticut and White River Valleys of East Central Vermont, including the City of Montpelier* at the northernmost part of the District. The municipalities have a combined current estimated population of approximately 50,335. The local economy of the municipalities is very diverse, and includes agriculture, small-scale manufacturing, tourism, information technology, health and education. A significant portion of the municipalities' population commutes for work either to Montpelier, Vermont, Chittenden County, Vermont or to the Hanover/Lebanon area of New Hampshire. According to the U.S. Bureau of Economic Analysis data for 2017, Vermont ranked 50th in gross domestic product per capita in the United States. Median household income in Vermont traditionally has been close to the national average. According to U.S. Census data for 2016, median household income in Vermont, at \$57,677, was approximately 1% above that for the U.S. as a whole. Based on the most recent data available for the Service Area (U.S. Census figures for 2016), the median household income in the Service Area was approximately 4% below the Vermont average. Based on the Vermont Department of Labor Statistics data for June, 2018, average unemployment (2.8%) for Vermont as a whole was lower than the US Bureau of Labor national average (4.2% at June, 2018). The table below shows comparative demographic data of the five counties in which the 24 municipalities participating in the District are located versus the state of Vermont and the United States.

| | Population 2017 <u>Estimate</u> | Median Household Income 2016 | Housing Units 2017 | <u>Median Value 2016</u> | Unemployment Rate 2018 | Bachelor's Degree or Higher 2016 |
|----------------|---------------------------------------|---------------------------------------|--------------------------|------------------------------|------------------------------|---|
| U.S. | 325,719,178 | \$57,617 | 137,403,460 | \$184,700 | 4.2% | 30.3% |
| Vermont | 623,657 | \$57,677 | 335,224 | \$218,900 | 2.8% | 36.2% |
| Addison Co. | 36,776 | \$61,020 | 17,450 | \$236,400 | 2.7% | 35.8% |
| Orange Co. | 28,974 | \$54,263 | 15,457 | \$191,700 | 2.7% | 30.2% |
| Rutland Co. | 59,087 | \$50,029 | 34,459 | \$179,200 | 3.7% | 29.2% |
| Washington Co. | 58,290 | \$58,171 | 30,142 | \$213,200 | 2.9% | 40.5% |
| Windsor Co. | 55,100 | \$54,763 | 34,910 | \$215,800 | 2.6% | 35.2% |

Source: U.S. Census Bureau, U.S. Bureau of Labor Statistics and Vermont Department of Labor. The unemployment rates for the U.S., for Vermont and Vermont counties are for June, 2018.

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* In 2018, Montpelier's City Council voted to affiliate with a newly-formed Communication Union District whose territory, unlike the District's, is contiguous with Montpelier. Montpelier is not currently part of the District's service area.

The following table shows 2017 estimated data on the population, 2018 estimated number of premises, total road miles, premises per road mile and 2016 median household income for each of the 24 municipalities in the District (except for Montpelier).

| Town | Population 2017 Estimate | 2018 Premises | 2018 Road Miles | 2018 Premises Per Mile | 2016 Median Household Income |
|----------------|---|--------------------------|----------------------------|---------------------------------------|---|
| Barnard | 918 | 778 | 68 | 11.4 | \$60,729 |
| Bethel | 1,961 | 1,048 | 83 | 12.6 | \$55,139 |
| Braintree | 1,206 | 725 | 51 | 14.2 | \$53,000 |
| Brookfield | 1,326 | 719 | 85 | 8.5 | \$56,818 |
| Chelsea | 1,281 | 744 | 71 | 10.5 | \$31,827 |
| Granville | 306 | 287 | 29 | 9.9 | \$53,750 |
| Hancock | 332 | 260 | 18 | 14.4 | \$48,750 |
| Hartford | 9,612 | 9,828 | 175 | 56.2 | \$59,365 |
| Norwich | 3,317 | 1,549 | 94 | 16.5 | \$106,359 |
| Pittsfield | 549 | 423 | 20 | 21.2 | \$58,558 |
| Pomfret | 865 | 583 | 64 | 9.1 | \$64,844 |
| Randolph | 4,693 | 2,076 | 120 | 17.3 | \$50,907 |
| Reading | 644 | 531 | 47 | 11.3 | \$49,861 |
| Rochester | 1,094 | 880 | 68 | 12.9 | \$46,193 |
| Royalton | 2,829 | 1,346 | 94 | 14.3 | \$45,280 |
| Sharon | 1,519 | 792 | 64 | 12.4 | \$64,479 |
| Stockbridge | 712 | 617 | 50 | 12.3 | \$54,167 |
| Strafford | 1,079 | 675 | 68 | 9.9 | \$71,964 |
| Thetford | 2,561 | 1,506 | 90 | 16.7 | \$67,888 |
| Tunbridge | 1,324 | 782 | 79 | 9.9 | \$54,808 |
| Vershire | 741 | 480 | 40 | 12.0 | \$55,938 |
| West Windsor | 1,050 | 1,548 | 53 | 29.2 | \$65,114 |
| Woodstock | 2,932 | 2,636 | 98 | 26.9 | \$75,482 |
| Vermont | 623,657 | | | | \$57,667 |

Source: U.S. Census Bureau, the Vermont Agency of Transportation and the Vermont E9-1-1 GIS data.

Financial Statements

The District prepares annual financial statements in accordance with generally accepted accounting principles. The audited financial statements as of December 31, 2017 are attached hereto as APPENDIX A. The audited financial statements should be read in their entirety. The unaudited financial statements as of June 30, 2018 are also included in this Limited Offering Memorandum. The unaudited financial statements are not final and are subject to change.

See the tables below for a summary of the statement of revenues, expenses and changes in net position from the audited financial statements of ECF for years ended December 31, 2013, 2014, 2015, from the audited financial statements of the District for years ending December 31, 2017 and December 31, 2016 and from the unaudited financial statements of the District for the six months June 30, 2018. The unaudited financial statements are not final and are subject to change.

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

| INCOME STATEMENT | 2014 ECF LLC | 2015 ECF LLC | 2016 ECVTD | 2017 ECVTD | 2018 First Half ECVTD* |
|--|--------------------|---------------------|---------------------|---------------------|---------------------------|
| OPERATING REVENUES: | | | | | |
| Service revenue | \$ 963,394 | \$ 1,403,055 | \$ 1,756,811 | \$ 2,394,244 | \$ 1,568,940 |
| Installation and activation revenue | 126,075 | 112,326 | 154,128 | 343,522 | 73,603 |
| Grant Income | 269,624 | 74,691 | 59,484 | 311,920 | 123,427 |
| Miscellaneous income | 8,585 | 2,847 | 15,466 | 22,866 | 2,400 |
| Total operating revenue | <u>1,367,678</u> | <u>1,592,919</u> | <u>1,985,888</u> | <u>3,072,552</u> | <u>1,768,369</u> |
| OPERATING EXPENSES: | | | | | |
| Cost of Goods Sold | 191,723 | 271,346 | 342,688 | 453,447 | 297,755 |
| Labor | 466,611 | 404,592 | 457,831 | 588,941 | 316,028 |
| Other Operating Expense | 257,680 | 221,710 | 276,329 | 349,297 | 206,314 |
| Depreciation and amortization expense | 266,985 | 308,197 | 380,887 | 557,503 | 425,000 |
| Total operating expense | <u>1,182,999</u> | <u>1,205,844</u> | <u>1,457,734</u> | <u>1,949,187</u> | <u>1,245,097</u> |
| Operating income (loss) | <u>184,679</u> | <u>387,075</u> | <u>528,154</u> | <u>1,123,365</u> | <u>523,272</u> |
| Recurring Gross Margin | 771,671 | 1,131,709 | 1,414,123 | 1,940,798 | 1,271,185 |
| as % of svc revenue | 80% | 81% | 80% | 81% | 81% |
| EBITDA | 451,664 | 695,272 | 909,041 | 1,680,868 | 948,272 |
| EBITDA excl Grants/Other | 173,455 | 617,734 | 834,091 | 1,346,082 | 822,446 |
| as % of svc/install revenue | 16% | 41% | 44% | 49% | 50% |
| Recurring EBITDA | 47,380 | 505,408 | 679,964 | 1,002,560 | 748,843 |
| as % of svc revenue | 5% | 36% | 39% | 42% | 48% |
| NON OPERATING | | | | | |
| INCOME(EXPENSE): | | | | | |
| Interest income | 109 | 184 | 4,727 | 40,100 | 39,158 |
| Interest expense | (340,769) | (413,537) | (640,472) | (1,193,124) | (649,956) |
| Bond origination fees | 0 | 0 | (326,750) | (409,500) | 0 |
| Original issue discount | 0 | 0 | (211,389) | (62,003) | 0 |
| Amortization, note prepayment premium | 0 | 0 | (28,239) | (95,476) | 0 |
| Gain (loss) on debt forgiveness | 436,503 | 0 | 0 | 0 | 0 |
| Gain (loss) on asset disposition | (208,716) | 0 | (0) | 0 | 0 |
| Increase(decrease) in fund net position | <u>71,806</u> | <u>(26,278)</u> | <u>(673,969)</u> | <u>(596,638)</u> | <u>(87,526)</u> |
| Fund net position, beginning of year | <u>(2,147,484)</u> | <u>(2,075,679)</u> | <u>(2,101,956)</u> | <u>(2,775,925)</u> | <u>(3,372,563)</u> |
| Fund net position, end of year | <u>(2,075,679)</u> | <u>(2,101,956)</u> | <u>(2,775,925)</u> | <u>(3,372,563)</u> | <u>(3,460,089)</u> |
| Fund net position, end of year change | <u>\$ 71,806</u> | <u>\$ (26,278)</u> | <u>\$ (673,969)</u> | <u>\$ (596,638)</u> | <u>\$ (87,526)</u> |

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* The unaudited financial statements are not final and are subject to change.

BALANCE SHEET

| BALANCE SHEET | 2014 | 2015 | 2016 | 2017 | 2018 First Half |
|--|---------------------|---------------------|----------------------|----------------------|------------------------|
| | ECF LLC | ECF LLC | ECVTD | ECVTD | ECVTD* |
| CURRENT ASSETS | | | | | |
| Cash | \$ 668,414 | \$ 145,648 | \$ 2,037,616 | \$ 7,079,795 | \$ 3,925,000 |
| Accounts Receivable, net of allowance | 48,398 | 63,017 | 73,057 | 158,863 | 73,034 |
| Materials & Supplies Inventory | 0 | 0 | 0 | 0 | 0 |
| Other receivable | 0 | 0 | 0 | 0 | 0 |
| Accounts Receivable, grants | | 0 | 51,484 | 0 | 0 |
| Due from (to) ValleyNet, Inc. | (53,751) | 95,850 | 317,904 | 336,785 | (152,447) |
| TOTAL CURRENT ASSETS | 663,061 | 304,514 | 2,480,061 | 7,575,443 | 3,998,094 |
| LOSS ON REFUNDED DEBT - net of amortization | | | | | |
| | 3,580 | 0 | 499,685 | 1,056,000 | 1,056,000 |
| PROPERTY AND EQUIPMENT | | | | | |
| Gross | 5,192,150 | 6,763,327 | 9,091,019 | 14,115,414 | 18,007,284 |
| Accumulated Depreciation | (470,939) | (780,080) | (1,153,626) | (1,711,129) | (2,136,129) |
| Net | 4,721,211 | 5,983,247 | 7,937,393 | 12,404,285 | 15,871,155 |
| TOTAL ASSETS | 5,387,852 | 6,287,761 | 10,917,139 | 21,035,728 | 20,925,249 |
| CURRENT LIABILITIES | | | | | |
| Notes payable to investors, current | 88,151 | 88,151 | 29,832 | 700 | 0 |
| Accrued liabilities | | | 96,000 | 96,000 | 96,000 |
| Accounts payable | 0 | 0 | 0 | 202,999 | 0 |
| Accrued interest | 20,392 | 40,670 | 43,618 | 107,900 | 107,901 |
| Loans payable, current | 35,519 | 111,828 | 13,707 | 28,820 | 20,000 |
| TOTAL CURRENT LIABILITIES | 144,062 | 240,649 | 183,157 | 436,419 | 376,348 |
| LONG TERM LIABILITIES | | | | | |
| Notes payable to investors, less current portion | 6,458,375 | 7,443,337 | 3,915,906 | 4,397 | 0 |
| Bonds payable | 0 | 0 | 9,225,000 | 23,805,000 | 23,805,000 |
| Accrued expenses | 156,141 | 0 | 0 | 0 | 0 |
| Loans payable, less current portion | 162,341 | 50,512 | 42,598 | 74,259 | 163,774 |
| Deferred Compensation | 411,871 | 361,882 | 184,216 | 88,216 | 40,216 |
| Contingent Liabilities | 296,768 | 293,337 | 142,186 | 0 | 0 |
| TOTAL LONG TERM LIABILITIES | 7,485,496 | 8,149,068 | 13,509,906 | 23,971,872 | 24,008,989 |
| FUND NET POSITION | | | | | |
| Invested in capital assets | 4,721,211 | 5,983,247 | 7,937,393 | 12,404,285 | 15,871,155 |
| Unrestricted deficit | (6,962,917) | (8,085,203) | (10,713,318) | (15,776,848) | (19,331,243) |
| | (2,241,706) | (2,101,956) | (2,775,925) | (3,372,563) | (3,460,088) |
| TOTAL LIABILITIES AND FUND NET POSITION | \$ 5,387,852 | \$ 6,287,761 | \$ 10,917,138 | \$ 21,035,728 | \$ 20,925,249 |

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* The unaudited financial statements are not final and are subject to change.

Governance of the District and ValleyNet

On January 1, 2016, the District succeeded to all of the assets and liabilities of ECF pursuant to an Assignment and Assumption Agreement and a Bill of Sale and Assignment.

The District was formed pursuant to Chapter 82 of Title 30 on March 3, 2015 as a municipal entity with a governing board made up of one representative from each member municipality, an appointed union district clerk, and an appointed treasurer. The District has the authority to purchase, sell, and lease real estate, hire and fix the compensation of employees, and enter into contracts. The District has no taxing authority under the Act.

The District is authorized and empowered under the laws of Vermont, including the Act, to issue the Series 2018A Bonds for the purposes described herein and to adopt the Resolution and other agreements and instruments necessary to issue and secure the Series 2018A Bonds.

ALL OBLIGATIONS OF THE DISTRICT ARE SOLELY THE OBLIGATION OF THE DISTRICT AND NOT OF ANY OF THE MUNICIPALITIES. THE MUNICIPALITIES' TAX BASE IS NOT SUBJECT TO ANY CLAIM ARISING FROM ANY INDEBTEDNESS OF THE DISTRICT. INVESTORS WILL HAVE NO RECOURSE TO ANY MUNICIPALITY FOR ANY FAILURE TO PAY INTEREST ON THE BONDS OR FOR ANY OTHER REASON.

THE SERIES 2018A BONDS SHALL BE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES OR MONEY AND SECURITIES OF THE DISTRICT, INCLUDING PAYMENTS TO THE TRUSTEE BY THE DISTRICT IN ACCORDANCE WITH THE PROVISIONS OF THE RESOLUTION. NEITHER THE STATE OF VERMONT NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON ANY SERIES 2018A BOND, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF VERMONT OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT. THE DISTRICT HAS NO TAXING POWER.

The District Governing Board

Elected Officers

IRV THOMAE, Chair, is the delegate from the Town of Norwich. He holds undergraduate and doctoral degrees from MIT, and two US patents. Mr. Thomae's professional life has alternated between academia and industry. Ten years teaching electrical and computer engineering at Dartmouth College's Thayer School were followed in 1974 by seventeen years as an independent software developer and consultant. From 2001-06, at Dartmouth's Institute for Security Technology Studies, he participated in research on methods to detect and limit internet malware and "phishing" financial frauds. Mr. Thomae's community service includes a total of sixteen years on the Norwich Finance Committee between 1990 and 2008. He retired from Dartmouth in 2006, but continues to be actively involved in state issues such as tax policy and infrastructure for economic development. He is also a former Trustee of the Good Neighbor Health Clinic.

F. X. FLINN, Vice Chair, is the delegate from the Town of Hartford. He holds a B.S. in Industrial and Labor Relations from Cornell University. Mr. Flinn spent a decade in mass market publishing and served five years as Managing Editor for Hardcover and Trade Paperbacks at Bantam, and then transitioned to information technology services in the late 1980s. His consulting firm, Expert Systems Development Corp, was established in 1990 and counts among its customers Harley Davidson, Siemens-Westinghouse, Narraganset Bay Insurance Co and scores of smaller firms. He has served Hartford for nearly 20 years as a Justice of the Peace or member of the Selectboard. Mr. Flinn played a key role in the development of fantasy sports and has served on the Board of Directors of the Society for American Baseball Research as Treasurer since 2001.

Appointed Officers (appointed by the Governing Board)

DANIEL L. LEAVITT, District Clerk, is the delegate from the Town of Barnard. Mr. Leavitt grew up in Barnard, attended public schools in Barnard and Woodstock, Vermont and graduated as an Electrical Engineer from Northeastern University in Boston, MA. He has worked at a number of engineering companies in Vermont, New Jersey, New Hampshire and Massachusetts before returning with his wife to Vermont to raise their family. He has been working in the software industry for over thirty years. Since returning to Vermont he has served as a volunteer on a local fire department, on the Barnard School Board and with various other organizations such as the Boy Scouts, FIRST Robotics and Woodstock Ski Runners. Mr. Leavitt has been involved with ECFiber since its beginning when dial-up and satellite internet were the only options available in Barnard. As a five-year ECFiber customer, he is proud to proclaim the wonders of having Fiber-To-The-Home service at his home, more than five miles from the nearest paved road.

MARTIN J. BLUMBERG, District Treasurer, was previously an alternate delegate from the town of Thetford. He spent most of his professional career as a Partner of Price Waterhouse, a predecessor firm to PricewaterhouseCoopers, with a focus on Accounting and Audit Assurance. He is a Certified Public Accountant and a life member of the American and Pennsylvania Institutes of CPA's. His work experience was quite diversified between companies, large and small; publicly-owned and private; corporate, non-profit and governmental. In addition, he also coordinated accounting and auditing support to lawyers, including document management and frequent expert witness testimony.

His community activities have been similarly diversified. Board Member and Chairman of the Southeastern Pennsylvania and South Jersey Blood Region of the American Red Cross; Board Member and Treasurer of the Southeastern Pennsylvania Chapter of the American Red Cross; Treasurer of the Pittsburgh Public Theater; Board Member UMPC Montefiore Hospital; Treasurer of Jewish Family and Children Service of Greater Philadelphia. More recently, Treasurer and Leadership Council of Osher Lifelong Learning Institute at Dartmouth.

GOVERNING BOARD. Each participating town has a seat on the District's Governing Board, appointed by the Selectboards of each town. Additionally the Selectboards appoint one or two alternate delegates. Delegates and alternates are considered members of the Governing Board, but each town has one vote.

| | | |
|-----------------------------------|------------------------------------|---------------------------------------|
| Barnard Daniel Leavitt | Montpelier Vacant | Sharon Dave Karon |
| Bethel Matthew Washburn | Norwich Irv Thomae | Stockbridge Joshua Trudeau |
| Braintree Jackson Evans | Pittsfield Marion Abrams | Strafford Stephen Willbanks |
| Brookfield Dan Childs | Pomfret Bob Merrill | Thetford Jim Masland |
| Chelsea (vacant) | Randolph Jeff Tolbert | Tunbridge Vacant |
| Granville Richard Poole | Reading John Malcolm | Vershire Nate Thames |
| Hancock Scott Gillette | Rochester John White | West Windsor Ken Parrot |
| Hartford F.X. Flinn | Royalton Dan Kinney | Woodstock George Sadowsky |

ValleyNet, Inc. Governance

Founded in November 1994, ValleyNet is governed by a Board of Directors, comprising not less than seven nor more than fifteen members. The primary corporate purpose of ValleyNet is to provide and facilitate community-based information resources for the Upper Connecticut River Valley region of New Hampshire and Vermont (the “Upper Valley”). Its offices are located in Royalton, Vermont. ValleyNet’s initial operations included offering dial-up internet services as a commercial internet service provider, managing over 6,000 accounts. ValleyNet sold this portion of its business in 2006. Since then, ValleyNet’s predominant focus has been on assisting in the development of community-based broadband (primarily FTTH) infrastructure for the Upper Valley and White River Valley areas of Vermont.

ValleyNet was instrumental in forming ECF, and advanced certain development costs on behalf of ECF, and now the District, including retaining the services of consultants to undertake the initial and continual planning and the financing of the Network.

ValleyNet Management Team Resumes

Many ValleyNet board members and staff have substantial experience in building and operating telecommunications networks from start-up to fully operational status.

STANTON WILLIAMS, ValleyNet Board Chair and CFO, has 30 years of international telecommunications experience. As its Chief Financial Officer, Mr. Williams oversees all treasury, accounting and reporting functions, prepares budgets and projections, supervises the Chief Information Officer and participates in management team business strategy development. His telecoms career began with Cellular Communications, Inc. (one of the original applicants for US cellular licenses) in 1988, and continued with various publicly traded spinoff companies, including Cellular Communications of Puerto Rico (CCPR), Cellular Communications International (CCIL), and NTL (now Virgin Media), all based in New York, New York. Mr. Williams was Chief Financial Officer of both CCPR and CCIL when they were sold to SBC/Cingular (now AT&T) and Mannesmann/Vodafone, respectively, in 1999. CCPR was a cellular operator in Puerto Rico, and CCIL was instrumental in helping the Omnitel Pronto Italia consortium secure the second Italian cellular license in 1994. NTL, now Virgin Media, is the largest cable company in the United Kingdom. Mr. Williams lives in Norwich, Vermont. He is a former member of the school boards of Norwich, Vermont and the Dresden School District, Hanover, New Hampshire. Mr. Williams received an A.B. in Physics from Dartmouth College, Hanover, New Hampshire, and a Master’s in Business Administration from Harvard Business School, Allston, Massachusetts.

CAROLE MONROE, ValleyNet CEO and Board Member, has 30 years of technology and leadership experience. As its Chief Executive Officer, Ms. Monroe is responsible for oversight of all activities, financial commitments and contracts and has full responsibility for the profit and loss of the operations as well as staffing of senior managers and leads the management team and business strategy development. As a Broadband Consultant, Carole worked with the City of Keene, NH on a Gigabit City vision. As the Executive Director of New Hampshire FastRoads, she lead the build of the regional fiber-optic network in western New Hampshire delivering gigabit broadband to community anchor institutions, businesses, and residents. Prior to her work with New Hampshire FastRoads, she spent ten years as the CIO for Franklin Pierce University in Rindge, N.H. and the previous two decades at BankBoston as a Vice President and Sr. Technical Manager Networking Services. Carole Monroe was co-chair of Monadnock Connect, a predecessor to New Hampshire FastRoads, founded in 2001. She was a member of the Monadnock Economic Development Corporation board of directors and the Monadnock Community Hospital board. She holds a MBA in finance from the University of Connecticut and a bachelor’s degree in marketing from Western Connecticut University.

ValleyNet Board Members

Fletcher Kittredge, Biddeford, ME
Paul Millman, Bellows Falls, VT
Andrew Montroll, Burlington, VT
Leslie Nulty, Jericho, VT
Timothy Nulty, Jericho, VT
John Roy, Boston, MA
Charles Sherman, Strafford, VT
Donny Smith, Blooming Prairie, MN

ValleyNet Management

DANNIELLE MUMMA, Outside Plant Officer: Dannielle Mumma has over 15 years of experience in broadband telecommunications network fieldwork, testing, survey, contractor coordination, project management, and make-ready facilitation. She has a bachelor's degree from Castleton State College. As ValleyNet's Outside Plant Officer, Mr. Mumma is responsible for the day-to-day operation of the outside plant and associated activities, including oversight of customer drops, new build, line maintenance, power, and all such related plant activities.

COREY KLINCK, Chief Technical Officer: Mr. Klinck began employment with the District in 2011. Initially hired as an installation technician, his proficiency in network administration quickly lead to a position as Assistant Network Operations Manager. While employed at ValleyNet, Mr. Klinck completed a course in Cisco networking equipment, at Community College of Vermont, at the top of his class. Following the departure of the District's former Chief Technical Officer, Mr. Klinck was selected as a replacement based on prior performance and complete knowledge of the existing District network. As its Chief Technical Officer, Mr. Klinck is responsible for design, engineering and operation of network systems and the Network Operating Center of the District (including the voice switch partition), evaluation and selection of equipment and software, negotiation with vendors, assistance with customer provisioning.

JOHN VAN VUGHT, Chief Information Officer: John Van Vught serves as a consulting accounting administrator to outside firms. He has 37 years of accounting experience, 30 years of management experience and 20 years of telecommunications experience. Prior to joining ValleyNet, Mr. Van Vught served as CFO of Burlington Telecom for 8 years, following 12 years as Regional Accounting Manager for TDS Telecom, Northfield, VT. He holds a B.S. in Accounting from Fairleigh Dickinson University. As its Chief Information Officer, Mr. Van Vught is responsible for setting up and managing customer accounts and database information systems, maintaining accounts and handling billing.

MANAGEMENT DISCUSSION AND ANALYSIS

PURCHASERS OF SERIES 2018A BONDS SHOULD BE AWARE THAT THIS IS A HIGH-RISK INVESTMENT WITH NO GUARANTEE THAT THE DISTRICT'S BUSINESS PLAN WILL BE REALIZED AS PRESENTED OR THAT PROJECTED RETURNS TO SUCH PURCHASERS CAN BE MET.

Expansion of the Network

The Network has a total of approximately 565 fully operational miles of fiber and will have approximately 750 total miles of network by year end and 920 miles by June 2019. Proceeds from the Series 2018A Bonds will be used for the purchase and installation of fiber on the approximately 354 miles of utility poles made ready in 2017 and early 2018. This could add an additional 1,300 customers for a total of 4,000 customers and 920 miles of fully operational Network passing 12,800 premises over the next twelve months, more than tripling the Network's customers and miles of lines in the three and one half years since the District began operation. If the historic rate of 5 customers per mile holds, the District could eventually have over 4,600 customers on these 920 miles of fiber. Each succeeding year, the District plans to install fiber on the utility poles made ready in the prior year and to perform additional miles of utility pole make-ready work until all of the municipalities in the District have service.

The District plans to select the areas where the estimated 250 miles of utility pole make-ready work over the next twelve months will be performed based largely on the number of prospective customers that have expressed an interest in connecting to the Network. In order to gauge potential customers' interest, the District has set up a web site where prospective customers can register their interest. The web site is www.ecfiber.net/subscribe. There is no obligation on those expressing an interest in services to actually purchase any services. In the District's experience, 75% of those who subscribe become customers when service is available.

These numbers may vary significantly depending on the District's ability to timely complete construction, weather, the availability of material and labor, and the willingness of potential customers to subscribe to the District's services. The estimates contained herein, including the 2018 budget and five-year financial pro-formas below, are based on several assumptions, including but not limited to that the District will successfully raise \$8,500,000 from the sale of Series 2018A Bonds and incur additional indebtedness in future years totaling over \$14-18 million to continue its expansion program.

Management believes that expansion of the Network on the scale described is possible because: (i) the Network is not over-building existing commercial cable companies; (ii) the Network's pricing is competitive with other available internet and telephone services; (iii) the District offers a service superior to all other existing internet and telephone services available within the District; (iv) ValleyNet has an experienced staff both in the construction and operation of this Network and in the broader telecommunication industry, (v) the District does not offer television and thus has saved the capital and programming costs; (vi) the District is a community-based not-for-profit service; (vii) the District does not pay property taxes on its facility plant; and (viii) operating the Network as an open access system allows any other service provider the opportunity to supply a service for a fee without making a large capital investment.

Overview

2017 marked the seventh year (sixth full year) of operations for the District and the fourth year of steadily increasing Earnings Before Interest Taxes and Depreciation ("EBITDA") margins. The District has now moved well beyond its start-up phase and is planning to finance and build all unserved locations in its 24-municipal member area by 2020. The District again met its financial goals of positive operating cash flow (before capital expenditures) sufficient to more than cover its interest and principal payments. The District ended 2017 with 2,282 customers, an increase of 693 over the period year-end. The District ended Q2 2018 with 2,693 customers. The District was again close to its subscriber per mile target of 5 with approximately 4.8 customers per mile.

The District competes effectively by providing:

1. Reliable high internet speeds which are symmetrical (the same up and download speeds) and are realistic, not "up to" (that is, the District strives to actually provide the speeds for which its customers are paying at ALL times, unlike most of its competitors);
2. Simple, stable pricing. Over the last six years the District has increased its speeds but not its prices, with no contracts, fine print, or data caps (limits on the amount of data that can be downloaded in a month). (For example, the District's basic speed increased from 5 Mbps to 17 Mbps over that period and will increase further to 25 Mbps within 12 months);
3. Local and personable customer service. Phones are answered by an employee during business hours without an automated queue, including weekend on call service;
4. Local ownership and control. Governing Board members meet monthly to set policy and are actively involved in promoting ECFiber within the community; and
5. Valued community services. The District offers over 50 community anchor institutions (schools, town facilities, and libraries) its highest level of service for its lowest monthly fee. (One high school is reportedly paying a private operator \$2,000 per month for 1 Gbps service and a multi-year contract. When the District reaches this school it expects to offer the same service for \$74/month and no contract).

Revenues

The District offers two principal services: Internet connectivity (currently 17, 40, 200 and 700 Mbps) and VOIP-based voice phone service with unlimited long distance calling throughout the United States and Canada (and a comprehensive package of features). The District also offers limited ancillary services such as voicemail, static IP addresses and dark fiber/wholesale connections.

The two most important variables determining revenue are:

- i) The number of actual connections per mile of fiber infrastructure, and
- ii) Average Revenue Per User per month (“ARPU”).

The District’s financial plan has as its primary goal of connecting approximately 5 customers per mile on plant in service for more than two years. As of December 31, 2017, the overall average was 4.6 per mile; however, at June 30, 2018, the customers per mile were 4.8, closer to the District’s historic average of 5 per mile. In 2017, the District experienced steady growth to end the year at 2,282 customers, slightly below the goal of 2,482 customers stated in its April 2017 revenue bond offering memorandum projections (“projections”), despite having fully completed only 499 miles of network versus its projected goal of 650 miles.

Residential ARPU was stable in 2017 at \$100 and Business ARPU was also stable at \$134. The ARPU for the first half of 2018 was \$102/140 per month for residential/business customers respectively. ARPU includes VOIP telephone service which is taken by approximately 80% of customers and costs \$20 per month for residential and \$30 per month for businesses.

As of December 31, 2017, revenues of \$3,072,522 were \$11,061 more than projections. Service Revenue for the first half of 2018 increased by 47% over the same period in 2016.

Cost Of Goods Sold, Gross Margin and Operating Expenses

In 2017 the District’s total operating expense (excluding depreciation) was \$1,391,684, \$103,141 below projections. Its operating expense growth was 29% compared to 2016, well below its service revenue growth of 36%. Operating expense growth (excluding depreciation) was 24% for the first half of 2017 as compared to the same period in 2016.

Cost of Goods Sold (i.e., the direct inputs – bandwidth and telephone connections purchased to provide the services plus pole rental) in 2017 was \$15,303 lower than projected, at \$453,447 (approximately 19% of service revenue.) Cost of Goods Sold (i.e., the direct inputs – bandwidth and telephone connections purchased to provide the services plus pole rental) in the first half of 2018 was 17% of service revenue.

Labor and Other Operating Expenses for 2017 increased by 29% and 26% respectively and 18% and 13% respectively in the first half of 2018.

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is calculated as gross revenues less all operating expenses (excluding depreciation) and was significantly positive in 2017 as the District was able to achieve further economies of scale in its operations (i.e., it was able to add more customers without increasing its operating expenses proportionally). The District achieved significant positive EBITDA of \$1,680,868 in 2017, \$114,103 better than projected. Excluding capital grants, the District EBITDA was higher than projected by \$92,833.

Balance Sheet

The District’s Net Fund Position at year end 2017 was negative \$3,372,562, a decrease of \$596,638 compared to the previous year. The decrease in 2017 was due to interest expense and bond origination fees. The District has assumed the negative Net Fund Position from ECFiber LLC. The accumulated losses from the first 7 years of operations are characteristic of the early years of capital-intensive undertakings of this sort and are consistent with the long-term business model.

Discussion Of Key Performance Indicators

1. CapEx (Capital Expenditures) per connected customer: This measure increased slightly to \$6,200 per customer in 2017 versus just over \$5,800 over 2016 as significant capital was spent on fiber that is planned to be lit in 2018.
2. CapEx (Capital Expenditures) per lit fiber mile: The District's target for capital expenditures per lit fiber mile is \$30,000. CapEx per lit fiber mile was stable in 2017 at \$28,600 even as significant capital was spent on fiber that is planned to be lit in 2018.
3. Connected customers per mile of installed fiber plant: The business plan calls for a minimum average of 5 connected customers per mile (after two years of service) of plant and the District has maintained this level in the past. This indicator declined to 4.8 in June 2018 as large pieces of network mileage were activated because new plant initially has relatively few customers per mile and it takes some time for connections to "catch up" with newly extended plant. Increasing penetration over 5 per mile will reduce the capital cost per customer.
4. Customer Accounts Receivable - Days: This is an indicator of the ability of the District to realize revenue in a timely manner. High receivables can also be a sign of customer dis-satisfaction. Days receivable increased to 19.2 days in 2017 due to non-customer receivables, which have since been paid. Customer receivables were in the normal range of 11.4 days.
5. Net customers lost (or gained) or "Churn" or net premises lost (or gained) mostly includes customers (premises) who 1) move and the replacement resident does not immediately take service or 2) are disconnected for non-payment. The District disconnects some customers each month, but most are reconnected when they pay their bill, arrange for a payment plan or a new owner or tenant moves in. The District's net premises disconnected increased by 6 in 2017 and by the end of 2017 the organization had only disconnected 48 net premises in total since inception. This low historical "churn" rate demonstrates the quality of the District's services and their importance to its customers. See – "THE DISTRICT – Premises Connections & Disconnections" table for an historic list of net customers lost or gained.
6. Customer and Subscribers added per week: The District added 13.3 customers per week in 2017. Subscribers (defined as potential customers wanting service but not yet connected) were added at a rate of 40.4 per week – this figure is higher than customers added because many of the subscribers live outside the current range of the District's lit network.

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| | actual | | | | | projected | | | |
|---------------------------------------|----------|----------|----------|----------|----------|-----------|----------|----------|----------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| (unaudited) | | | | | | | | | |
| Customers | 552 | 947 | 1,201 | 1,589 | 2,282 | 3,362 | 5,026 | 6,839 | 8,388 |
| change | 254 | 395 | 254 | 388 | 693 | 1,080 | 1,664 | 1,813 | 1,549 |
| Capex per LitFiber Mile | \$33,098 | \$25,797 | \$28,200 | \$31,871 | \$28,287 | \$31,889 | \$31,720 | \$31,547 | \$33,593 |
| Capex per Customer | \$7,987 | \$5,176 | \$5,518 | \$5,806 | \$6,186 | \$7,141 | \$7,068 | \$6,550 | \$5,687 |
| Capex per Passing | \$2,364 | \$1,843 | \$2,014 | \$2,021 | \$2,021 | \$2,278 | \$2,266 | \$2,253 | \$2,400 |
| Customers per Mile | 4.1 | 5.0 | 5.1 | 4.9 | 4.6 | 4.5 | 4.5 | 4.8 | 5.9 |
| Miles | 133 | 190 | 235 | 326 | 499 | 753 | 1,120 | 1,420 | 1,420 |
| passings | 1,865 | 2,660 | 3,290 | 4,564 | 6,986 | 10,542 | 15,680 | 19,880 | 19,880 |
| Avg Rev per Customer per Month | | | | | | | | | |
| Residential | \$87 | \$101 | \$103 | \$101 | \$100 | \$101 | \$101 | \$101 | \$101 |
| Business | \$122 | \$146 | \$158 | \$138 | \$134 | \$134 | \$135 | \$135 | \$135 |
| Customer Accts Receivable-Days | 17.5 | 11.3 | 12.7 | 11.4 | 17.4 | 13.0 | 13.0 | 13.0 | 13.0 |
| Net Premises(Lost)/Gained cumulative | (4) | (28) | 1 | 3 | (6) | (57) | (25) | (34) | (42) |
| | (13) | (41) | (40) | (37) | (43) | (100) | (125) | (159) | (201) |
| Gross Margin % Recurring Rev | 65% | 80% | 86% | 83% | 81% | 82% | 84% | 82% | 81% |
| Recurring EBITDA Margin | | 22% | 36% | 39% | 42% | 48% | 53% | 54% | 58% |
| Customers added per week | 4.9 | 7.6 | 4.9 | 7.5 | 13.3 | 20.8 | 32.0 | 34.9 | 29.8 |
| Subscribers added per week | 9.7 | 7.3 | 9.1 | 15.2 | 40.4 | 25.6 | 27.9 | 23.8 | 10.0 |

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Nearly 2,467 subscribers are waiting for service in the 12 towns to be constructed in 2018.

| | Subscribers |
|------------------------------|-------------|
| BARNARD | 93 |
| PITTSFIELD | 58 |
| POMFRET | 84 |
| STRAFFORD | 117 |
| THETFORD | 347 |
| WEST WINDSOR | 103 |
| TOTAL 2017 BUILD | 802 |
| | |
| 2018 Build | |
| BRAINTREE | 75 |
| BROOKFIELD | 149 |
| GRANVILLE | 36 |
| HANCOCK | 25 |
| ROCHESTER | 105 |
| STOCKBRIDGE | 100 |
| WOODSTOCK* | 102 |
| TOTAL 2018 BUILD | 592 |
| | |
| TOWNS FULLY BUILT IN 2017/18 | 1,394 |
| OTHER 10 TOWNS | 1,073 |
| TOTAL | 2,467 |

*partial build 30 miles

In the District's experience, 75% of those who subscribe become customers when service is available.

Outlook for 2018 and Beyond

Phase I of the District's plan is to complete the build out of the unserved regions of its 24 member municipalities (approximately 1,400 miles of the District's 1,700 miles of roads) by 2020.

Operationally, the District plans to continue to focus on the following:

1. increasing revenues faster than costs,
2. maximizing the number of connected customers,
3. increasing speeds but not prices,
4. continuing to build increased network redundancy by implementing self-healing 10 Gbps rings such that the majority of customers are fed from hubs with 2 network connections,
5. completing design of the entire remainder of the 24 towns,
6. completing make ready on the 281 miles for 2019 build projects, and developing capabilities to complete a total of 1,400 miles of network by 2020, and
7. connecting approximately 1,300 customers over the next twelve months.

Financially, the District continues to be on track to generate sufficient positive operating cash flow to cover its 2018 and future debt service requirements. Projections for 2018 and beyond generally extrapolate existing metrics regarding capital expense (build cost per mile and subscriber), revenues (penetration rates and ARPU), and expenses (cost of goods sold, labor, pole rental, other). The District has had substantial experience projecting operating expense and capital expense since the inception of service in August of 2011 and most of these metrics are stable and well-known. The major unproven metric is the ability to increase penetration rates above the current level of 4.8 customers per mile. The District does not intend to raise prices for internet and phone service in the future but, if demand is sufficiently robust to maintain bond coverage covenants, some price decreases may be possible in the future.

Completion of 1,400 miles of network and increased market penetration per mile will require a total of \$14-18 million additional financing in 2019 and 2020. In 2017 and early 2018 the District completed the design and make ready for 250 miles of construction in 2018. Now the District (including ValleyNet) faces the challenge of continuing to ramp up its operations to connect customers on these miles in 2018 and 2019.

The following table contains the five-year projection based on the District's current metrics, as discussed above.

| FIVE YEAR FORECAST | | | | | | |
|---|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 2017 audited | 2018 projected | 2019 projected | 2020 projected | 2021 projected | 2022 projected |
| Miles of FITH Broadband | | | | | | |
| Lines | 499 | 753 | 1,120 | 1,420 | 1,420 | 1,420 |
| Customers | 2,282 | 3,362 | 5,026 | 6,839 | 8,388 | 9,040 |
| <i>per mile</i> | 4.6 | 4.5 | 4.5 | 4.8 | 5.9 | 6.4 |
| <i>Penetration</i> | 32% | 31% | 31% | 34% | 41% | 45% |
| <i>ARPU – Residential</i> | \$99.75 | \$100.92 | \$99.91 | \$98.88 | \$98.62 | \$98.37 |
| <i>ARPU – Commercial</i> | \$133.57 | \$144.34 | \$134.34 | \$135.00 | \$135.00 | \$135.00 |
| Gross Revenues | 3,072,552 | 4,222,979 | 5,427,453 | 7,482,729 | 9,420,150 | 10,548,954 |
| Cost of Goods Sold | 453,447 | 645,320 | 834,681 | 1,291,501 | 1,715,597 | 1,870,673 |
| Labor | 588,941 | 665,197 | 875,666 | 1,148,927 | 1,241,496 | 1,425,578 |
| Other Expense | 349,297 | 590,204 | 705,883 | 851,278 | 926,002 | 947,816 |
| Operating Earnings/EBITDA | 1,680,868 | 2,322,258 | 3,011,223 | 4,191,023 | 5,537,056 | 6,304,887 |
| <i>EBITDA as % of</i> | | | | | | |
| <i>Revenue</i> | 55% | 55% | 55% | 56% | 59% | 60% |
| Debt Service (P&I) | | | | | | |
| Series 2016 A Bonds | 440,938 | 440,938 | 635,938 | 633,138 | 645,138 | 656,338 |
| Series 2015 Notes (Refunded in Q2 2017) | 3,260 | | | | | |
| Series 2017 A Bonds | 597,708 | 853,869 | 853,869 | 1,113,869 | 1,212,169 | 1,225,519 |
| Series 2018 A Bonds | | 128,360 | 466,763 | 466,763 | 651,763 | 651,819 |
| Series 2019 A Bonds | | | 182,568 | 438,164 | 438,164 | 580,825 |
| Series 2020 A Bonds | | | | 193,979 | 465,549 | 465,549 |
| Total Parity Debt | | | | | | |
| Service | 1,041,905 | 1,423,166 | 2,139,137 | 2,845,911 | 3,412,782 | 3,580,049 |
| Cash Flow After Debt Service | 638,962 | 899,092 | 872,086 | 1,345,112 | 2,124,274 | 2,724,837 |
| EBITDA Coverage of Parity | | | | | | |
| Debt Svc | 1.61 | 1.63 | 1.41 | 1.47 | 1.62 | 1.76 |
| Revenue Coverage of Parity | | | | | | |
| Debt Svc | 2.95 | 2.97 | 2.54 | 2.63 | 2.76 | 2.95 |

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| Pro Forma Balance Sheet, Year Ended: | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | | | |
| Cash - Unrestricted | \$ 6,229,795 | \$ 4,788,479 | \$ 1,344,382 | \$ 1,301,276 | \$ 397,979 | \$ 1,270,269 |
| Accounts Receivable | 158,863 | 173,547 | 223,046 | 307,509 | 387,129 | 433,519 |
| Debt Reserve Fund | 800,000 | 1,070,000 | 1,340,000 | 1,570,352 | 1,570,352 | 1,570,352 |
| Reserve Contingency Fund | 50,000 | 188,600 | 347,800 | 407,800 | 407,800 | 407,800 |
| Due from ValleyNet | 336,785 | 238,332 | 238,332 | 238,332 | 238,332 | 238,332 |
| Total Current Assets | 7,575,443 | 6,459,958 | 3,493,560 | 3,825,270 | 3,001,592 | 3,920,272 |
| Fixed Assets (net) | 12,404,285 | 21,101,205 | 30,955,135 | 38,194,470 | 38,952,993 | 38,533,466 |
| Note Prepayment Costs, net of amortization | 1,056,000 | 960,524 | 831,776 | 703,028 | 574,831 | 476,468 |
| TOTAL ASSETS | \$21,035,728 | \$28,520,687 | \$35,280,471 | \$42,722,767 | \$42,529,416 | \$42,930,206 |
| LIABILITIES AND NET FUND POSITION | | | | | | |
| Accounts Payable | 202,999 | - | - | - | - | - |
| Accrued Interest | | | | | | - |
| Loans Payable Current | | | | | | - |
| Total Current Liabilities | 202,999 | - | - | - | - | - |
| Existing Parity Notes | - | - | - | - | - | - |
| New Bonds | 23,805,000 | 32,305,000 | 40,110,000 | 48,150,000 | 47,375,000 | 46,397,339 |
| Loans Payable | 103,079 | 158,527 | 113,159 | 67,945 | 27,006 | 27,006 |
| Deferred Compensation Contingent Liabilities/Accrued Expenses | 184,216 | 88,216 | - | - | - | - |
| | - | - | - | - | - | - |
| Total Long Term liabilities | 24,092,295 | 32,551,743 | 40,223,159 | 48,217,945 | 47,402,006 | 46,424,345 |
| Invested in Capital Assets | 12,404,285 | 21,101,205 | 30,955,135 | 38,194,470 | 38,952,993 | 38,533,466 |
| Unrestricted deficit | (15,663,851) | (25,132,261) | (35,897,824) | (43,689,648) | (43,825,582) | (42,027,605) |
| Total Fund Net Position | (3,259,566) | (4,031,056) | (4,942,688) | (5,495,178) | (4,872,590) | (3,494,138) |
| LIABILITIES AND NET FUND POSITION | \$21,035,728 | \$28,520,687 | \$35,280,471 | \$42,722,767 | \$42,529,416 | \$42,930,206 |

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The information in this section, including but not limited to the information and data in the tables and charts, and all financial and economic information contains statements that should be considered “forward-looking statements,” meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as “plan,” “hope,” “expect,” “estimate,” “project,” “budget” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements expressed or implied by such forward-looking statements to differ from such forward-looking statements, and such differences may be material. Neither the District nor ValleyNet expect or intend to update or revise any forward-looking statements contained herein if or when expectations, or events, conditions or circumstances on which such statements are based occur or change.

THE NETWORK

The District will undertake the current and future phases of the construction of the Network, and operate and manage the Network with ValleyNet under the Operating Agreement, described below and attached as APPENDIX E.

Overview of the Network

The Network is designed to be:

Universal: Every location, including residential, business and institutional, along the routes selected within the Service Area will have access to the network. Further, it is the policy and commitment of the District ultimately to provide access to its service to 100% of the premises within the entire territory of the 24 member municipalities of the District. Until this goal is achieved no funds will be paid by the District to the municipal constituents of the District.

Open Access: While the Network will provide retail services (internet and telephone) directly, the Network also will be available on non-discriminatory terms, for a fee, to any other qualified service provider who wishes to use it to deliver retail communications services.

Financially Self-Supporting: The Network operations are funded solely from the District’s revenues after the payment of its bond obligations, without tax revenues or the financial resources of the member municipalities. The Network’s capital expenditures are funded by the sales of bonds and the District’s free cash flow, also without taxing authority and member resources.

Upgradeability. The District is confident that its Network can be upgraded in the future. The optical fiber installed by the District has virtually infinite capacity. The only limits are those imposed by the electronics that are attached to the fiber. The current GPON standard equipment, such as the District has installed, is already beyond the realistic limits of copper-based technologies available to premises that will be passed by the Network. Further, with minor upgrades the current system can deliver 1 Gigabit per second to every customer. To upgrade the Network to deliver 10 Gigabits per second would require replacement of only the Network’s electronics at the Network Operating Center and hubs and at each customer premise at an estimated cost of only \$500-1000 per customer because no fiber replacement would be necessary. Even higher speed GPON standards are currently under development. The useful life of the fiber optic portion of the Network is believed to exceed that of any known alternative network infrastructure.

Construction of the Network

A significant cost of the construction is the preparation of utility poles for installation of the fiber cable (known as utility pole “make-ready”). This work is undertaken by the utility companies that own the poles (local electric or telephone companies), with costs passed from them to the District. Vermont law regulates the availability of poles and costs that can be charged for the make-ready work. See “Pole Attachments” below. The “make ready” costs incurred under the previous phases have formed the basis for the estimates of these costs in the business plan for the 2018 and beyond. See “Regulatory Factors” below. During 2018, the District plans to have 250 miles of utility poles made ready for installation of optical fiber in 2019. To install fiber on these poles and connect customers, the District will need to sell additional bonds in 2019.

Construction begins only once the District has received pole attachment licenses from the utility company pole owners. Pole attachment licenses have already been received for certain sections of the 250 miles made ready in 2017. Experience to date is that this can take 9-12 (and sometimes more) months from the date of application, to allow for the required survey of pole routes, and the application and “make ready” process. Once make-ready is complete, fiber is attached to the poles and spliced. Depending on the length of the specific network section, this work is done by either in-house crew (for shorter builds) or by contractors. By the end of 2018 the District intends to construct approximately 188 new miles of fiber infrastructure bringing the total to approximately 753 miles and expects to have passed approximately 10,500 premises.

Customer Connections

The District is planning to complete approximately 1,200 new customer connections in 2018. Customer connections require cutting into the fiber network to install a fiber access point (“FAP”), splicing and attaching a fiber-optic “drop wire” from the FAP to a network interface device at the residence or business, splicing the drop wire to the network interface device, battery installation, and wiring an Ethernet and phone connection from the network interface device to new or existing wiring in the residence or business, and installing a router. The cost of this work is approximately \$1,200 per connection to be paid from the proceeds of the 2018A Bonds. This work is done by in-house crew and technicians as well as outside contractors. The District has been operating in portions of the Service Area since the end of August, 2011 and has achieved penetration rates of an average of 5 customers per mile. This experience has been incorporated into the business forecast and pro forma projections (see “MANAGEMENT DISCUSSION AND ANALYSIS” above).

Technology

The Network utilizes the latest International Telecommunications Union (ITU) standard GPON transport platform (ITU-T G984 GPON 2.4/1.2). The network is configured using the 2.4/1.2 Gigabit GPON rate. Speeds for access to the global “internet cloud” depend on purchasing “upstream bandwidth” from Tier 1 and Tier 2 carriers. internet access is provided using high packet throughput switches and routers chosen from any of several recognized vendors of such equipment. Customers have a number of speed choices depending on their individual needs and appetites.

Voice telephone service is being provided through the use of a telephone switch partition managed by a reliable provider of VOIP.

At this time the District does not plan to provide traditional multi-channel cable television services. Various types of video programming delivery services are available via the internet. With the superior internet access service provided by the Network, management believes that many customers will opt to obtain video programming from an “over-the-top” service. Many large media companies currently are or are planning to provide video content over-the-top. Because of the significant expense of configuring a headend facility for reception of traditional cable television signals, and the increasing costs of acquiring programming, it is believed that providing a traditional cable service is unlikely to be financially sound.

Physical Security

The Network Operating Center has alarm point devices capable of sending Simple Network Management Protocol (SNMP) alarm messages to dedicated servers for network surveillance. The Network Operating Center is manned during working hours and is backed up by technicians with instant messaging and after-hours call support. In addition, certain technicians have the ability to “see” the Network from home over the internet to facilitate certain maintenance/repair functions. Network security is provided by a variety of methods, including industry-standard hardware and software. These provide a barrier between the Network and outsiders by blocking physical access to sensitive areas and equipment, and electronic access by or to certain types of internet traffic. The Network Operating Center and key Network equipment are enclosed within a secure “envelope” within the main hub building, providing additional physical security. Entrance to this “envelope” is strictly controlled. At the Network Operating Center, adequate alternative current (AC) power already exists. This is converted to 48-volt direct current (DC) for the DC equipment, with a 30Kva inverter reconverts the DC back for the AC equipment. These are backed up by redundant batteries capable of providing 8 hours of backup for essential telecommunication functions. A back-up generator provides additional security for the power source.

Customer Billings and Collection

ValleyNet, under the Operating Agreement, performs customer billing and collections functions utilizing a combination of industry-standard outsourced and purpose-created internal systems. All customer revenues will be deposited with the Bond Trustee. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2018A BONDS – Revenue Pledge” herein. The average age of receivables has been stable at approximately 15-days.

Customer Service

ValleyNet provides customer service representatives who are responsible for incoming calls, initiation of service calls and follow-up, walk-in customer service, change of service and upgrade requests, and information calls. They are trained to assist customers in choosing the most appropriate service mix. Customer service representatives provide basic technical assistance, turning customers over to the technical support group when they are unable to resolve a problem. ValleyNet employs local residents as customer service representatives, and provides such individuals with adequate training and authority to solve problems immediately. The District believes that providing an adequate number of local, well-trained personnel to address customer needs provides it with a competitive advantage in the local and rural environment in which it operates, and is cost-effective in the overall provision of the Services.

Products and Services

The District provides retail communications services on its own account: internet access, and voice telephone service. The District may offer customized services to other customers including “dark fiber,” “connectivity” (“pure” circuit capacity of various speeds and specifications), and “local loops”.

Internet Access

The Network provides high-speed internet access service to customers, enabling customers to access and use the internet at higher speeds than otherwise available from the incumbent providers in the Service Area. The basic data service for residences is symmetrical (the same upload and download speed) 17 Mbps, with the option to purchase additional connectivity up to 700 Mbps at additional cost

Currently, many households that will be passed by the Network have only dial-up, satellite, fixed wireless, or cellular connectivity. Even in those areas where some broadband service is available, the District believes that its services are markedly superior to many of those that rely on copper-based infrastructure for any significant part of their systems. DSL, wireless and some cable modem networks have far less local distribution capacity and frequently constrain the speeds that can be delivered to customers to below what customers have ordered and are paying for. Certain competitive providers - primarily satellite and fixed wireless and some cable) also impose data caps on the total amount of data that can be downloaded in a given month. The District imposes no such caps. As a result, while, the District’s regular download speeds from outside of the Network may not appear to be significantly faster than those provided by some other carriers, the superiority of the District’s local network enables the District’s customers to experience higher actual internet access speeds and superior reliability compared to the internet services that may otherwise be available to them. The District is confident that its Network can be upgraded in the future. See “Upgradeability” above.

Telephone Services

The District provides a comprehensive package of VOIP telephone services. All advanced calling features and unlimited long distance to Canada and the US are included. Voicemail is charged at an extra cost but it includes the capability to deliver each received voicemail message via email. Currently, approximately 80% of customers receive VOIP service from the District for an additional charge.

Marketing and Sales Plans

The local nature of the District and its municipal membership affords the opportunity for a marketing strategy that is less expensive than a traditional advertising campaign. The experience of other similar municipal

FTTH overbuilds, and the District's experience to date, have demonstrated that community-owned communication networks have the advantage of being able to readily access word-of-mouth, community and town events, and volunteer efforts to market the new services. The District and ValleyNet believe that there has been and will continue to be strong support and appeal within the member municipalities, and among potential customers, of a municipal-owned telecommunications provider, whose revenues are generated by and stay in the community, which is controlled by the municipalities, and which provides locally staffed customer service. The District has set up a web site where prospective customers can register their interest in service. The web site is www.ecfiber.net/subscribe.

The District has been able to obtain substantial local press and television coverage including supportive editorials from widely read local newspapers. Volunteers have provided presentations at local civic events, sports competitions, and similar local gatherings. Further, The District submits an annual report to every municipality that is included in the "Town Report" distributed to all town citizens as part of annual Town Meeting Day. The District delegates are often called upon to answer questions and/or report verbally at their Town Meetings. As a result, the District has an established and well-recognized brand throughout its 24-municipality area.

The District also currently provides discounted bandwidth to over 55 municipal facilities (town halls, garages, police stations), libraries, schools, and other town-related institutions (community centers, etc.). For the lowest residential price (\$74 per month), these institutions receive the District's fastest speed (currently 700 Mbps). This has resulted in substantial goodwill towards the District.

Initial marketing continues to be done by word of mouth and door hanger/door-to-door canvassing for initial subscriber acquisition within the designated new build-out areas. A referral program has also been developed to encourage existing customers to refer their neighbors. Annual or bi-annual postcards are sent to entire towns within the District to encourage new subscriptions and referrals. The District maintains an active Facebook page with nearly 1,000 followers through which both industry and Network news are disseminated. Broadcast and print advertisements, and sponsorship of local activities are also used selectively.

Regulatory Factors

State and Federal Jurisdiction

The State of Vermont Public Utility Commission (formerly known as the Vermont Public Service Board, the "PUC") possesses jurisdiction over providers of "telecommunications services," and operators of "cable television systems." 30 V.S.A. §§ 203, 502. It does not regulate internet access service. Any person or entity wishing to provide telecommunications or cable television services (but not internet access) must obtain a separate Certificate of Public Good (a "CPG") for each of these two classes of service from the PUC. This applies equally to municipalities, such as the member municipalities, as well as private entities.

The District does not currently operate a "cable television system" as defined by the law. In addition, the District believes that VOIP does not constitute "telecommunications service" under the relevant legal definitions. Nonetheless, as the PUC has not conclusively determined the status of VOIP services, the District and ValleyNet have decided to voluntarily operate the Network consistent with many of the obligations of a fully regulated telecommunications service provider (e.g., provide universal service). Consequently, ValleyNet, as the operator of the Network, sought and was awarded a CPG for telecommunications services (CPG No. 880-CR, June 4, 2008) as a "non-dominant telecommunications carrier," subject to the regulatory requirements applicable to that carrier class. These requirements are less restrictive than those for an "incumbent local exchange company" (an "ILEC"). The District has also chosen, at its own discretion, to obtain a Telecommunications CPG because it believes that its position within its Service Area may become such that the PUC may wish to exercise jurisdiction in order to protect the public good. (The District also sought and was awarded a CPG for telecommunications services). By obtaining a CPG now, the District will be better prepared for the expected day when it will take on the duties and responsibilities of a regulated entity.

District's Rates Not Subject to PUC Regulation

The District's internet access services and telecommunications services are not subject to rate or price regulation by the PUC. As noted above, the PUC does not regulate internet access services. With respect to telecommunications services, pursuant to PUC Rule 7.500, the PUC specifically exempts non-dominant carriers like the District from rate regulations or any requirements to file rate tariffs with the PUC (the previous PUC orders that granted CPGs to ValleyNet and ECF Holding LLC for the provision of telecommunication services specifically noted that they are non-dominant carriers).

The District's internet access services and telecommunications services are not subject to rate or price regulation by the PUC. At the federal level, neither Congress nor the FCC have opined whether VOIP is or is not a "telecommunications service" directly subject to regulation under Title II. However, VOIP is subject to a variety of FCC regulations adopted in piecemeal fashion, with the practical result that VOIP service is in some respects regulated very much like telecommunication service. For example, VOIP revenues are subject to assessment under the federal Universal Service Fund, as are revenues from the provision of "telecommunications" and "telecommunications service" (the latter being "telecommunications" offered on a common carriage basis).

Pole Attachments

Most of the Network is constructed as "aerial plant," through connection to existing utility poles. Federal law requires that certified carriers be permitted to attach their cables to existing utility poles. This requirement is further regulated in Vermont pursuant to Rule 3.7 of the PUC. Rule 3.7 requires that access to existing utility poles must be provided to bona fide carriers (i.e., those holding CPGs and broadband service providers) and sets out the terms and procedures for obtaining such access. Rule 3.7 prescribes the time that can be taken by the pole owner to make ready (or prepare) the poles, the amount that can be charged by the pole owner to make ready the poles, and the annual rental for pole attachments. Despite these regulatory protections, the District has historically experienced certain delays (beyond those specified by regulations) in utility pole make-ready work by incumbent utilities, but is working cooperatively with the utilities to improve this process. On unusual occasion, a private easement is required, which may cause delays in constructing short network segments.

Other Matters

The Vermont Statutes include provisions imposing certain conditions on the offering of telecommunications services by a municipality. In particular, any losses which may occur from such activities must not be paid by taxpayers, and any services provided by municipalities to facilitate such activities (e.g., access to municipal property) must be paid for on fair market basis. 24 V.S.A. § 1913.

Support From the State of Vermont

Neither the District nor its predecessor, ECF, has received any financial assistance from the United States Federal government up to this point. The District (and ECF before it) has received assistance in the form of grants and certain dark fiber made available to the District by the state acting through the Department of Public Service ("DPS") (and prior to June 30, 2015 the Vermont Telecommunications Authority or "VTA").

Since 2013, the District has benefitted from two different state programs: "dark fiber" infrastructure and grants to help build fiber-optic facilities and offer broadband internet services to locations currently without access. In 2014, the VTA awarded a grant totaling \$215,000 to help the District build fiber-optic facilities and offer broadband internet services to locations within the Towns of Bethel, Norwich, Randolph and Thetford, which the District has now completed. In 2015, the DPS awarded \$365,000 in Connectivity Grants to the District (payable upon project completion) for partially served census blocks in the Towns of Norwich, Pittsfield, Randolph, and Royalton. These projects were completed by the District and the funds were received in the first quarter of 2017. In 2016, the DPS awarded the District a Connectivity Grants of \$165,000 (payable upon project completion) for Network expansion, which was completed in the first quarter of 2018.

Orange County Fiber Connector

In late 2012, the District entered into an agreement with the VTA to lease strands of fiber on the Orange County Fiber Connector (OCFC). The VTA constructed this dark fiber project to be “lit” by broadband and mobile service providers. The District is among the providers who have leased fiber strands.

For the Orange County Fiber Connection, the District has an Indefeasible Right of Use (IRU) for 30 years beginning September 26, 2012 for 36 strands of fiber across 35.14 miles. The District pays the State 1/3 of the costs to maintain the network, including annual pole rental, regular maintenance, and outage repair. Additional strands are available for lease.

The route of the 36 mile OCFC includes sections within the Towns of Chelsea, Vershire, West Fairlee, Thetford, Strafford, and Sharon. Construction began in 2013 and was completed in 2014. Although the District did not bear the cost of building the line, there were significant sections of the line which the District would not have built on its own, due to the low density of potential consumers. Also, the District did incur certain notable costs, including the design and installation of Fiber Access Points which are necessary to gain access to the leased fiber strands to be able to connect customers or to build spurs from off the OCFC. In order to avoid ongoing lease payments for this mileage, the District was required to invest more than \$330,000 in connections and spur roads by May 2014, which was met.

Other State of Vermont Dark Fiber

In 2017, the State of Vermont completed 80 miles of dark fiber construction to connect Business Broadband Improvement Districts in very rural areas and to provide fiber to micro-cell sites to enhance cellular communications through sparsely populated areas. In lieu of ongoing fiber lease charges on 48 strands of fiber along the 80 miles, the District agreed to invest \$200,000 at that time and an additional \$546,078 in additional fiber construction over ten years. These commitments have already been met. As with the OCFC, the major value to the District is the ability to pass through sparsely populated areas getting to clusters of potential customers who are interested in service. The Vermont Department of Public Service (“DPS”), as successor to the VTA, made this dark fiber run available for customer connection in the second quarter of 2017.

The terms of the District and State of Vermont Agreement allow for the District to own the 80 miles of 144 strand fiber with an IRU to the State of Vermont of 96 strands. The District has access to 48 strands of fiber along the route. It charges back to the State its share of pole rentals and maintenance costs. The District plans to invest additional funds to be paid from operations or proceeds of the Series 2018A Bonds or additional Bonds, for connections and spur roads along these 80 miles of dark fiber and believes it will be able to do so, as it did with the OCFC (see “Orange County Fiber Connector” above).

RISK FACTORS

In making investment decisions, investors must rely on their own investigations and evaluation of the merits of a particular investment. Any investment, including purchasing any of the Series 2018A Bonds, has particular risk factors an investor should review and evaluate. The following is a summary, which does not purport to be comprehensive or definitive, of some of the risk factors an investor should consider before purchasing any of the Series 2018A Bonds.

Technological and Market-related Trends

The District’s business model is based on total anticipated revenue streams from each prospective customer, the ARPU. The District offers residential telephone services including unlimited calling anywhere in North America plus 17, 40, 200, 700 Mbps symmetrical internet connectivity for between \$66 and \$149 per month (plus equipment rental fees). Business rates are slightly higher. Internet-only service is also available.

In developing the financial model for the Network, ARPU projections are based on the expected average of all purchased services. The District and ValleyNet anticipate that these revenue streams will continue for the

foreseeable future (approximately five years). However, the composition and mix of the revenue stream may change over time, and in potentially significant ways that make it difficult to project the precise source of the Network's overall ARPU. Over the longer term the availability of high speed internet connectivity to customers is expected to result in migration of many services (in particular phone service) to general availability on the internet. The Network's service offering and pricing have been structured to anticipate this development. Nevertheless, ValleyNet and the District will have to manage the potential migration of customers from purchasing bundles of specific services to purchasing undifferentiated "big pipe" connectivity so as to maintain an adequate revenue stream to meet the financial obligations of the District for the Network, including debt service payments. It is possible that in managing this transition there may be some erosion of the District's customer base or the Network's ARPU, or both, that could have an adverse effect on the District's business and its financial condition.

Competition

Internet Services. The internet access market is not fully developed in many portions of the full 24-municipality Service Area. Moreover, in choosing which routes to build with funds raised, the District gives top priority to unserved areas where residents and business have few competitive alternatives. However, the environment is becoming more competitive through foreseen and unforeseen developments at the national, regional and local levels including those described below.

The District's current and possible future competitors include:

- Cable companies: Cable companies, offering cable television services along with high-speed internet connectivity services and voice services, currently cover substantially less than half of the entire 24-municipality Service Area. Cable operators have not indicated any intention of expanding significantly outside their established bases in town centers, but within the portions of the 24-municipality Service Area they serve, these providers will compete directly with the Network and the services. The District's business plan assumes a relatively low take-rate in areas served by cable.
- Incumbent telephone companies: The incumbent telephone company, Consolidated Communications Inc., offers Digital Subscriber Line (DSL) services over much of the full 24-municipality Service Area. The actual availability and quality of DSL varies widely both according to the user's distance from the optical/electrical interface and with the quality of the copper plant. In some portions of the Service Area the distances are long and the copper quality is generally poor. The District has experienced the loss of a few subscriptions where DSL has become available to a household prior to the District being able to connect the household.
- Wireless providers and 5G: The District faces competition from two or more cellular-based wireless providers offering wireless broadband services, but currently have a relatively small presence due to limited geographic coverage. However, these are expected to expand in the future. Many providers of this service have restrictive monthly usage caps that limit the amount of internet access a subscriber can obtain at an affordable cost. Although these providers have been upgrading the speeds they provide nationally by migrating from 1X/2G to 3G to 4G to 5G equipment, in many areas of the Service Area the maximum speeds provided are still limited by 3G (or even 1X/2G) equipment. Although portions of the U.S. have seen the rollout of 5G in densely populated areas, it is unlikely that 5G will be available in areas like the District for many years.
- 4G LTE fixed wireless services: As a result of a large Federal grant, these services began competing in the Service Area in mid-2015. This wireless service faces the normal wireless coverage and reliability issues in the hilly, heavily forested terrain of the Service Area. The service is attractively priced but does include data caps. Nonetheless, the service could be competing with the District for customers who only want internet access.

- Non-cellular wireless internet: These companies utilize older technologies than 4G LTE and have limited coverage in some parts of the Service Area. Their services are generally similar to or slower than DSL and they face the same wireless coverage issues mentioned above.
- Satellite internet: These providers cover most of the District's Service Area. The District's experience indicates that most customers find pure satellite-based internet services to be of high cost and of poor and unreliable quality, including significant latency or delay which limits the use of certain internet services. Most providers of this service have restrictive monthly usage caps that severely limit the amount of internet access a subscriber can obtain at affordable cost. In some cases, satellite video providers have developed joint marketing arrangements with wireline carriers ("bundles") who offer DSL-based internet services which enhance the attractiveness of the latter.

Voice Services. For residential voice services, the District primarily faces competition from a single large incumbent wireline telephone operator. For business services, to the District faces competition from the same operator, as well as resellers of the operator's network. Other competitors include cellular operators (directly and through home base-stations) and VOIP services using internet connectivity.

Payment: Limited Obligation

The payment of interest on and principal and redemption price of, the Series 2018A Bonds will be payable by the District solely from the Revenues. No other revenues of the District or any of the municipalities that make up the District are obligated or expected to be available to make any payments of interest on or principal or redemption price of the Series 2018A Bonds. No assurance can be provided that the Revenues will be sufficient to pay the interest on and the principal and redemption price of the Series 2018A Bonds when due.

Additional Parity Debt

The District may incur additional obligations to fund projects and such additional obligations may be on a parity basis with the Series 2018A Bonds. Such debt would be subject to compliance with the covenants regarding Additional Indebtedness (see "**Additional Indebtedness: Subordinate Bonds and Notes and Other Indebtedness**" above.)

Additional Subordinated Debt

The District may incur additional obligations to fund projects and such additional obligations may be on a subordinate basis with the Series 2018A Bonds.

Financing Risk

The final construction of the 284 miles of planned utility pole make-ready work in the next twelve months will require significant additional financing to purchase, install, and splice the fiber optic cable and connect customers. The provision of FTTH services is capital intensive, particularly in rural areas where subscriber density is lower than in urban and suburban areas. In 2019 and 2020 the District will require \$14-18M to complete its construction of 1400 miles of unserved territory. There is the possibility that District may be unable to borrow sufficient funds to finance those costs.

Diseconomies of Scale

The District is much smaller than its competitors and most facilities-based telecommunications carriers. This fact results in somewhat higher per subscriber costs (both operating and capital) than its competitors. The Network also requires a fixed amount of administrative personnel despite currently having a relatively small number of customers over which to spread these costs. Both of these factors increase the Network's costs relative to its competitors.

The District and the Network

Potential Institutional and Administrative Complexity. The District is undertaking the construction of the Network and owns and operates the Network within a complex institutional structure. The District is governed by a Governing Board comprising 24 delegates, one from each of the municipalities, and the Governing Board elects the Executive Committee from among its members. The Network is managed, operated and maintained under the

Operating Agreement between the District and ValleyNet. The District has established policy and operating protocols and ValleyNet is responsible for implementing those pursuant to the Operating Agreement. The District is itself a governmental entity, and as such its activities are subject to open meeting and public disclosure requirements that differ significantly from those of private businesses or nonprofit organizations. This may limit or hinder the District's ability to manage its business with the same efficiency and flexibility as its competitors. The complexity of this institutional structure may impose significant burdens on all its participants, and in particular on ValleyNet, to develop and put in place many practices and procedures that are uniquely tailored to the circumstances of the proposed undertaking. The unique aspects of this oversight and management structure could adversely affect decision-making or other actions that, in turn, could have an adverse impact on the completion of construction, the management and operation of the Network, and the financial condition of the District.

Rapidly Growing Enterprise. The District is an organization in its eighth year of operation and, as such, expects to incur net income losses as it connects a critical mass of customers to the Network. Operating earnings (EBITDA) from the Network became sufficient to cover debt service in 2015. Various developments, discussed here and elsewhere in this Limited Offering Memorandum, could impact the overall financial performance of the Network and the District.

These include:

- Delay in pole make-ready by incumbent electric and telecommunications providers;
- Delay in delivery of optic fiber cable or other key materials;
- Unexpected difficulties in construction, splicing, and testing;
- Increases in the cost of equipment, or delays in obtaining equipment as needed;
- Failure of the equipment to meet performance expectations; or
- ValleyNet's inability to rapidly develop and deploy the Network as planned, or provide the Services currently planned, resulting in fewer customers or lower average revenue per user, or both.

Management Team. The District will be undertaking the construction of the Network, and managing and operating the Network, under the Operating Agreement with ValleyNet. ValleyNet's ability to perform under the Operating Agreement depends largely on the expertise and reputation of its personnel. Loss of any key personnel or the inability to recruit and retain qualified individuals by ValleyNet could have an adverse effect on the development and implementation of construction projects, the management and operation of the Network, and the financial condition of the District.

Construction Risks. There are many diverse risks attendant to any construction project, including (i) the non-performance by or disputes with one or more private contractors or subcontractors on various aspects of the Network, (ii) disputes with labor unions or similar labor disputes that could disrupt the construction of the Network, including increases in labor costs, (iii) the unavailability of certain materials or products necessary for the construction of the Network, (iv) environmental risks and hazards, (v) natural disasters, (vi) acts of war or terrorism, (vii) inclement weather, (viii) shortages of, and price increases in, energy, material and skilled labor, (ix) delays in obtaining or inability to obtain necessary permits, (x) defective plans and specifications, and (xi) geological, construction, excavation, regulatory and equipment problems. These risks may cause construction delays for the Network that increase the cost of construction beyond available funds. There can be no assurance that the construction of the Network can be accomplished according to schedule and within the construction budget for the Network.

Plant additions in 2018 will involve construction of approximately 250 miles of fiber optic cable and an additional 250 miles of utility pole make-ready work. The sequencing and pace of construction of this work is based on a number of engineering/design, operational and business-related factors that will continue to be further delineated and refined following issuance of the Series 2018A Bonds, and could have a significant material adverse impact on currently projected financial results.

In the opinion of ValleyNet, the largest risk associated with construction is preparing the utility poles to which the fiber optic cable will be attached (known as pole “make-ready”). The fiber optic cable is generally attached aurally along roadways to utility poles owned predominantly by Green Mountain Power, Washington Electric Co-op, and Consolidated Communications Holdings. Some of these poles may be co-managed by Consolidated Communications Holdings and the associated power utility. Other poles may have attachments from cable companies and other competitive telecommunications carriers. ValleyNet works on a collaborative basis with all utilities within the framework of federal and State pole attachment laws and regulations. Federal law and State regulation guarantee that make ready must be done in a timely manner according to defined rules, and the timing, costs and terms contained in these rules are reflected in ValleyNet’s financial projections. Nevertheless, the make-ready task is proportionately large and represents a significant portion of the capital budget. The administrative and physical logistics associated with keeping the make-ready effort on track, on budget and on schedule poses a substantial challenge and delays are possible. Such delays may delay construction and in turn postpone the anticipated flow of revenues. Annually, ValleyNet experiences delays in make ready, which result in delays in connecting some customers and generating revenue. In addition, ValleyNet may need to obtain easements for pole access from private property owners in some sections of the existing pole runs. Failure to obtain such easements at reasonable cost and in a timely manner could delay construction, and could adversely impact the District’s financial condition.

ValleyNet, on behalf of the District, has entered into a long-term lease for a portion of the building that houses the Network Operating Center with a right of first refusal to buy the entire property. There can be no assurance that in the event a third party seeks to purchase the property, the District will be able to purchase the property pursuant to its right of first refusal and would have to seek and then move to another location. Any such event could have an adverse impact on the financial condition of the District.

Cost Overruns. While certain of the costs of the construction of the Network are reasonably well known, it is still possible for costs to vary from estimates. If there were to be material cost overruns, the scope of the construction project might have to be reduced or additional financing might be required.

Impact of Inflation. Dramatic increases in the rate of inflation could adversely affect the construction of and the operation of the Network if ValleyNet, as operator of the Network, is unable to increase charges to customers to match such increases

Network Operations. The District, through its operator ValleyNet, also may face a number of challenges in managing and operating the Network that are common to all telecommunications operators. These challenges include ensuring the availability of subscriber equipment that is compatible with the network and managing sales, advertising, customer support, and billing and collection functions, while providing reliable Services that meet customer expectations. Failure in any of these areas could adversely affect customer satisfaction, increase subscriber churn, increase costs, decrease revenues and otherwise have a material adverse effect on the District’s business and financial condition.

Like any telecommunications company, the provision of services will depend on the continuing operation of the Network’s information technology and communications systems. Any damage to or failure of these systems could result in interruptions in service. Interruptions in service could reduce revenues and profits, and the District’s reputation and standing could be damaged if people believe the Network is unreliable. The Network, in particular due to the extensive outside plant, is vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, ice and snow storms, wind events, telecommunications failures, computer viruses, computer denial of service attacks or other similar events. Not all of the Network components will be fully redundant, and the District’s disaster recovery planning may not be adequate given the nature or extent of the failure. The occurrence of a natural disaster or unanticipated problems at the Network Operating Center and administration facility could result in lengthy interruptions in service and adversely affect operating results.

Plant and Equipment Obsolescence. Technological advances in the fields of satellite and cable television, high speed internet access, telephone and related areas occur at a rapid pace. If any competitors in the Service Area implement such advances (and not with respect to the Network), such advances may render the Network, in whole or in part, at a competitive disadvantage. While the Network will include state-of-the-art fiber technology and the Network is highly scalable, (i.e., the speed and capacity of service at an increased fee rate can be provided with minimal physical changes to the Network), nevertheless there can be no assurance that future advances in technology will not render the Network (or some portion thereof) obsolete.

The District's communications plant consists primarily of fiber optic cabling and the electronics that transmit and receive optically and electronically encoded data. The substantial majority of the District's capital investment is in the optical cabling (including its design, make ready work by other utilities to allow for its placement, attachment materials, attachment labor, and splicing). The District's auditors have allowed a 30 year life for such investments but industry experience has shown that the fiber plant remains viable for well over 30 years. Each fiber strand is technically capable of transmitting many thousands of times the rates that are currently being transmitted; to effect an order of magnitude upgrade in speeds, only the electronics at each end of the strand need to be upgraded. The District Board does not believe that its fiber optic cabling is at risk of being obsolete within 30-50 years, but it has provided an adequate budget for periodic maintenance electronics and replacement/relocation of its fiber optic plant when needed.

In a GPON network, electronics are located only at the customer premise and at the regional hubs (approximately one per town). This equipment is currently capable of transmitting 1 gigabit per second in both directions. The District estimates that it replaces about 5% of these electronics each year and has incorporated that experience in its budget. The next step in the evolution of GPON is to 10 Gigabits per second, which could happen across the industry within 5-10 years. Although the District has not developed a detailed budget for such a transition, it believes that the expense will be minimal (relative to the overall cost of building the fiber optic plant) and that such a transition, when necessary, would give a fiber optic based carrier an even greater advantage over copper based or wireless alternatives which would be unlikely to achieve speeds in that range.

Aerial Plant. The vast majority of the District's fiber optic cabling is attached to telephone poles (which are owned by either the incumbent phone company or the local power utility). This is true for the majority of the power and phone systems in New England. This plant is subject to periodic disturbance due to weather and vehicular accidents, but such disturbances do not always require action by the District. The industry standard, Kevlar sheathed fiber optic cabling sits 4 feet below the lowest power infrastructure and one foot above the phone infrastructure. The District believes it has an adequate budget for periodic maintenance and replacement/relocation of its fiber optic plant. The District also carries (through ValleyNet) industry standard property insurance on its plant (with a deductible and an overall limit on catastrophic damage). The worst instance to-date of network damage was an ice storm in December 2014 which resulted in major damage to the phone and power grid in the town of Barnard, but damage to the Network was limited to one spur road and a handful of downed road-to-house connections ("drops"). This damage was 80% covered by a Federal Emergency Management Agency (FEMA) grant.

Security

Like any telecommunications enterprise, if the Network's data security measures are breached, customers may perceive the Network and its services as not secure. ValleyNet believes that the Network's security and the authentication of subscriber credentials are designed adequately to protect unauthorized access to data on the Network. However, techniques used to obtain unauthorized access to, or to sabotage networks change frequently and may not be recognized until launched against a target, and accordingly ValleyNet, as the operator of the Network, may be unable to anticipate or implement adequate preventive measures against unauthorized access or sabotage. Unauthorized parties may overcome Network security and obtain access to data on the network, including on a device connected to the network, and/or the ability to make fraudulent phone calls on the District's switch partition. Thus, the provision of phone service through the District's switch partition introduces a financial risk. In addition, because the Network will control customers' internet connectivity and phone service, unauthorized access or sabotage of the Network could result in damage to the Network and to the computers or other devices used by customers. An actual or perceived breach of Network security, regardless of the District's or ValleyNet's responsibility for the same, could harm public perception of the effectiveness of Network security measures, adversely affect the ability to attract and retain customers, impose significant liability on the District and ValleyNet, and have an adverse effect on the District's business and financial condition.

Damage or Destruction of the Network

If the Network is damaged or destroyed to such an extent that, in the best judgment of the District, the Network cannot reasonably be restored to substantially its condition immediately preceding such damage or destruction, or the Network cannot be used to carry on the purpose for which it was intended, the District may elect not to restore the Network. Such a decision could impact repayment of the Series 2018A Bonds.

Risks of Insufficient Revenues

The ability of the Network to generate revenues sufficient to allow the District to pay the obligations under the Series 2018A Bonds will be determined by the ability of the District and other parties to perform their respective contractual responsibilities under various agreements. The revenues and expenses of the District are subject to, among other things, the capabilities of the District and ValleyNet, the availability and quality of broadband and VOIP services with respect to the Network, demand and utilization of the Network by the potential users in the Service Area, the availability of financing to connect customers, changes in the population or the economic condition of the Service Area, imposition of government price controls or taxes for particular broadband services offered by the Network, competition by other providers, government regulations and licensing requirements, inflation and future economic and other conditions, all of which are unpredictable and may not be quantifiable or determinable at this time.

Risk of Non-Payment by Customers

The ability of the Network to generate revenues sufficient to allow the District to pay the obligations under the Series 2018A Bonds depends on the ability of the Network's customers to pay their bills in a timely manner. Although the District currently has a relatively low level of accounts receivable and has had limited non-payment disconnections and bad debt to date, there can be no assurance that this experience will continue in the future. ValleyNet does not check customers' credit histories before installing a connection to their homes. A general or localized economic downturn could also affect customers' ability to pay in a timely manner.

Federal and State Regulation, Approval and Oversight

The Communications Act of 1934, as amended by the Telecommunications Act of 1996 (as amended, the "Communications Act"), contains extensive provisions that are applicable to the offering of telecommunications service (Title II). Historically, internet access service was wholly exempt from federal (and state) regulation.

Neither Congress nor the FCC have opined whether VOIP is or is not a "telecommunications service" directly subject to regulation under Title II. However, VOIP is subject to a variety of FCC regulations adopted in piecemeal fashion, with the practical result that VOIP service is in some respects regulated very much like telecommunication service. For example, VOIP revenues are subject to assessment under the federal Universal Service Fund, as are revenues from the provision of "telecommunications" and "telecommunications service" (the latter being "telecommunications" offered on a common carriage basis).

State Prohibition of Local Government Providing Broadband or Telecommunication Services

In March 2004, the United States Supreme Court, in *Nixon v. Missouri Municipal League, et al*, held that Section 253 of the Communications Act, which forbids any state or local law or regulation from prohibiting "any entity" from providing any telecommunications service, did not apply to state laws which forbid political subdivisions within the state from providing telecommunications service. If such a prohibition were to be enacted in Vermont and made applicable to the Network, based on the recent Supreme Court decision, such a law might prohibit the District from providing telecommunications service. However, any such legislation would be directly contrary to Act 79, which specifically authorizes a Vermont municipality to acquire, own and operate a telecommunications plant. 24 V.S.A. § 1912. The provision of the Communications Act at issue in the Nixon case is only applicable to state or local statutes, regulations or other legal requirements prohibiting local government entities from providing telecommunications service. It is not applicable to the provision of cable television service.

Currently, several states have enacted laws that prohibit or limit municipalities from engaging in telecommunications services including, Arkansas, Colorado, Florida, Louisiana, Minnesota, Missouri, Nebraska, Nevada, North Carolina, Pennsylvania, South Carolina, Texas, Utah, Virginia, Washington and Wisconsin. It should be noted that several of these states allow local residents to vote to authorize their municipality to build a municipally owned broadband network. Further, many municipalities have received such authorization from their voters. It is not known whether other states (including Vermont) will consider enactment of such legislation or a variant of such legislation and whether any such legislation might be retroactive in effect (to date, such legislation has not been applied on a retroactive basis). The FCC recently acted to overturn state prohibitions in North Carolina and Tennessee. Those orders are on appeal.

Act 79 enacted into Vermont law in June 2007, explicitly authorizes any Vermont municipality or group of municipalities to engage in telecommunications and cable television. Any reversal or diminution of the authority granted to municipalities by that law could have a material adverse effect on the ownership, construction and/or operation of the Network.

Litigation Risks

Although there are no actions now pending or, to the knowledge of the District, threatened, affecting the District, or the Network, there always is the potential for litigation with a construction project of the size and scope of the proposed construction, including, but not limited to, disputes with contractors and suppliers, and challenges to the District's legal authority to undertake construction and own and operate the Network by competitors or others. Any such litigation could have a material adverse effect on the construction and the ownership or operation of the Network by the District.

Certain Matters Relating to the Enforceability of the Series 2018A Bonds; Enforceability of Remedies

The enforceability of the obligations of the District under the Series 2018A Bonds may be limited by insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors' rights generally. The realization of any rights upon a default by the District will depend upon the exercise of various remedies available to Owners of the Series 2018A Bonds. Certain remedies may require judicial action which is often subject to discretion and delay. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2018A BONDS – General" herein.

Legal Opinions

The various legal opinions to be delivered concurrently with the delivery of the Series 2018A Bonds will be qualified as to the enforceability of the various legal instruments by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The legal opinions to be delivered will express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Credit Rating

No rating has been obtained on the Series 2018A Bonds from any securities rating agency nor is there any present intention to do so. As a result, the Series 2018A Bonds are unrated and represent a high-risk investment. The lack of a rating may adversely affect the presence of a secondary market for the Series 2018A Bonds.

Secondary Market for the Series 2018A Bonds

There can be no assurance that there will be a secondary market for purchase or sale of the Series 2018A Bonds. From time to time there may be no market for the Series 2018A Bonds depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the municipalities and the District, and the financial condition and results of operations of the Network.

Projected Information

ValleyNet has prepared a projected five year forecast for the Network as described in the Management Discussion and Analysis section above. Such forecasted financial information is based on assumptions deemed reasonable by ValleyNet, but such assumptions, and the actual future financial impact will inevitably vary from the forecast data, and such variance may be material and adverse. *As with all assumptions about the future, no guaranty can be made that the forecasted financial information included in this Limited Offering Memorandum will correspond with the results actually achieved in the future because actual events will certainly differ from the*

assumptions made by ValleyNet, and may differ materially. With any given assumption, to the extent future experience is more favorable than the assumption, Network cash flows may increase. Conversely, to the extent future experience is less favorable than a certain assumption, Network cash flows may decrease. The Network's actual future operations and financial condition will certainly differ, and may differ substantially, from those projected, as actual future events and conditions will almost certainly differ, and may differ substantially, from those assumed by ValleyNet. Future cash flows also may vary due to factors not considered by ValleyNet in its projections and assumptions. Such differences may be material and adverse. Actual operating results may be affected by many factors, including, but not limited to, construction delays, regulatory delays, increased construction, operation and maintenance costs, lower than anticipated revenues (as a result of changes in inflation, demographic trends, insufficient market penetration rates, increased competition, technological change, changes in State or federal law, or otherwise), and local and general economic conditions.

Information Not Verified. Information with regard to the Network, and the financial projections, has been obtained from ValleyNet. Some of that information involves predictions with regard to future events, such as the expected operating expenses and revenues of the Network; such information is, by its nature, not subject to verification. None of the Municipalities nor the District has independently verified the information provided by ValleyNet regarding the Network and the information contained in the Management Discussion and Analysis section above.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District, or seeking to restrain or to enjoin the sale or delivery of the Series 2018A Bonds, the application of the proceeds thereof, or in any way contesting or affecting the validity or enforceability of the Series 2018A Bonds, the Resolution of which would have a material adverse effect on the Network, or the District's ability to perform its obligations under the Resolution or the Series 2018A Bonds., or in any way contesting the completeness or accuracy of this Limited Offering Memorandum or any amendment or supplement thereto, or contesting the powers of the District with respect to the Series 2018A Bonds, nor to the knowledge of the District, is there any basis therefore. See also "THE DISTRICT - RISK FACTORS - Litigation Risks".

TAX EXEMPTION

Primmer Piper Eggleston & Cramer, PC, Bond Counsel to the District, is of the opinion that, under existing law, interest on the Series 2018A Bonds will not be included in the gross income of Owners of the Series 2018A Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code, which must be satisfied subsequent to the date of issuance of the Series 2018A Bonds in order to assure that interest on the Series 2018A Bonds is and continues to be excludable from the gross income of Owners of the Series 2018A Bonds. Failure to comply with such requirements could cause interest on the Series 2018A Bonds to be included in the gross income of the holders of the Series 2018A Bonds retroactive to the date of issuance of the Series 2018A Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditures and investment of proceeds of the Series 2018A Bonds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. In the opinion of Bond Counsel, under existing law, since the Series 2018A Bonds are not "private activity bonds" under the Internal Revenue Code, interest on the Series 2018A Bonds will not constitute a preference item under Section 57(a)(5) of the Internal Revenue Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Series 2018A Bonds will be included in "adjusted current earnings" of corporate holders of the Series 2018A Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations. It should be noted that Public Law 115-97, signed into law by the President of the United States on December 22, 2017, repeals the federal alternative minimum tax imposed on corporations for taxable years beginning after December 31, 2017. Bond Counsel is also of the opinion that each of the Series 2018A Bonds is a "qualified tax-exempt obligation" for purposes and effect contemplated by Section 265(b)(3) of the Code ("Bank Qualified"). Bond Counsel has not opined as to other federal tax consequences resulting from holding the Series 2018A Bonds. The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2018A Bonds. Prospective purchasers of the Series 2018A Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2018A Bonds.

On the date of delivery of the Series 2018A Bonds, Bond Counsel will issue an opinion substantially in the form attached hereto as APPENDIX D – “Proposed Form of Opinion of Bond Counsel.”

UNDERWRITER

The Series 2018A Bonds are being purchased for reoffering by Municipal Capital Markets Group, Inc. (the “Underwriter”). The Underwriter is to be paid a fee of \$169,253 with respect to its purchase of the Series 2018A Bonds. The Underwriter has agreed to accept delivery and pay for all of the Series 2018A Bonds if any are delivered. The obligations of the Underwriter are subject to certain terms and conditions set forth in a Bond Placement Agreement among the District and the Underwriter. To the extent permitted by law, the District has agreed to indemnify the Underwriter against certain liabilities, including certain liabilities arising under federal and state securities laws. The Underwriter may allow concessions from the public offering price to certain dealers, banks and others. After the initial public offering at the offering price or prices set forth on the inside cover of this Limited Offering Memorandum, the public offering price or prices may be varied from time to time by the Underwriter.

FINANCIAL STATEMENTS

The audited financial statements of the District as of December 31, 2017 are included as APPENDIX A to this Limited Offering Memorandum. Nathan Wechsler & Company, the District’s independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced therein, any procedures on such financial statements of the District. Nathan Wechsler also has not performed any procedures relating to this Limited Offering Memorandum or the Series 2018A Bonds.

The unaudited financial statements of the District for the six months June 30, 2018 are also included as in this Limited Offering Memorandum. The unaudited financial statements are not final and are subject to change.

CERTAIN LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series 2018A Bonds by the District are subject to the approval of Primmer Piper Eggleston & Cramer PC, Montpelier, Vermont, Bond Counsel to the District, whose opinion approving the validity and tax exempt status of the Series 2018A Bonds will be delivered with the Series 2018A Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as APPENDIX D. Certain legal matters will be passed on for the District by its disclosure counsel Primmer Piper Eggleston & Cramer PC, Montpelier, Vermont and for the Underwriter by its counsel, McCarter & English, LLP, Boston, Massachusetts.

NO RATINGS

No application for a rating of the Series 2018A Bonds has been made to any securities rating agency, nor is there any reason to believe that the District would have been successful in obtaining an investment grade rating for the Series 2018A Bonds had application been made.

CONTINUING DISCLOSURE

The District has undertaken for the benefit of the owners of the Series 2018A Bonds to provide continuing disclosure pursuant to the provision of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (as amended, the “Rule”). Specifically, the District and Municipal Capital Markets Group, Inc., as Dissemination Agent (the “Dissemination Agent”) have executed and delivered a Continuing Disclosure Agreement dated the date of the closing of the Series 2018A Bonds, for the benefit of the owners of the Series 2018A Bonds. The District has covenanted for the benefit of holders and beneficial owners of the Series 2018A Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. These covenants have been made in order to assist the Underwriter

in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The District is obligated to comply with its prior continuing disclosure undertakings for the Series 2016A Bonds and Series 2017A Bonds and the District has complied in all material respects with such undertakings since its inception. From 2011 to 2015, ECF sold tax-exempt notes directly to individual investors without an underwriter, placement agent, or financial advisor and as such, the Rule was not applicable to such notes and ECF did not enter into a Continuing Disclosure Agreement. However, ECF annually provided the noteholders with updated information on ECF and the Network. ECF did not report to the Securities and Exchange Commission or post any material on EMMA concerning the notes either at the time of sale of the notes or on a continuing basis.

On the date of delivery of the Bonds, the Borrower and the Dissemination Agent, will enter into the Continuing Disclosure Agreement for the Series 2018A Bonds substantially in the form attached hereto as APPENDIX C - “Form of Continuing Disclosure Agreement.”

VERMONT NOT LIABLE ON THE BONDS

The Series 2018A Bonds are not a debt or liability of the state of Vermont or any political subdivision thereof, or a pledge of the faith and credit of the state of Vermont or any such political subdivision. Neither the faith and credit of the state of Vermont nor the taxing power of the state of Vermont or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2018A Bonds. The Act does not in any way create a so-called moral obligation of the state of Vermont or of any political subdivision thereof to pay debt service in the event of default by the District. The District has no taxing power under the Act.

MISCELLANEOUS

The summaries or descriptions herein of provisions of the Act, the Series 2018A Bonds, the Resolution and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. So far as any statements are made in this Limited Offering Memorandum involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the District and the Trustee.

[Signatures on following page]

The execution and delivery of this Limited Offering Memorandum have been duly authorized by the East Central Vermont Telecommunications District.

EAST CENTRAL VERMONT TELECOMMUNICATIONS
DISTRICT

By: /s/ Irv Thomae
District Chair

By: /s/ Martin J. Blumberg
Treasurer

Appendix A

Audited Financial Statements of the District

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT
d/b/a ECFIBER

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

DECEMBER 31, 2017

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

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April 30, 2018

To the 24 member towns and bond holders:

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose.

Nathan Wechsler & Company, PA, Certified Public Accountants, have issued an unmodified opinion on the East Central Vermont Telecommunication District's financial statements for the year ended December 31, 2017. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

ECFiber's mission is to provide universal service within its 24 communities. On January 1, 2016 the East Central Vermont Communications District ("the District"), Vermont's first Communications Union District as authorized by 30 V.S.A. Section 3051a, commenced operations and assumed the liabilities and assets of its predecessor ECF Holding LLC, replacing the less formal "interlocal contract" form of organization. The network is still controlled by its 24 member towns and local taxpayer funds cannot be used to subsidize the District's operations. The District continues to market its services under the tradename ECFiber. Since inception, the District and its predecessor have contracted with the local non-profit ValleyNet to design, build and operate the network.

ECFiber has experienced several years of steady growth in customer base. The organization has been able to translate most of its revenue growth over the past two years into increased Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (see page 22). 2017 marked the seventh year of operations. The organization has now moved well beyond its start-up phase and is planning to finance and build all unserved locations in its 24 town area by 2020.

ECFiber competes effectively by providing:

1. **Reliable high Internet speeds** which are symmetrical (the same in each direction) and are not "up to" (that is, ECFiber strives to actually provide the speeds for which its customers paying are at ALL times, unlike most of its competitors.)

2. **Simple, stable pricing** – over the last four years ECFiber has increased its speeds but not its prices with no contracts, fine print, or data caps (limits on the amount of data that can be downloaded in a month,)
3. **Local and personable customer service** - phones are answered by an employee during business hours without an automated queue, including weekend on call service,
4. **Local management and control** - Governing Board members meet regularly to set policy and are actively involved in promoting ECFiber within the community, and
5. **Valued community services** - ECFiber offers over 55 community anchor institutions (schools, town facilities, and libraries) its highest level of service for its lowest monthly fee.

ECFiber's Internet product offerings have been simplified in the belief it can create the most value by offering a "big pipe" to each home and letting consumers choose widely available ancillary services (such as video streaming, data backup, email, home networking, etc.) from other service providers. This strategy has had the added benefit of reducing internal staffing requirements. The one exception to this policy has been VOIP landline telephone service, which is offered to remain competitive with incumbent carriers.

ECFiber relied on locally sourced financing through 2015 – by December 2015 it had local investments of approximately \$7M from nearly 500 local investors. Locally-sourced financing allowed ECFiber to expand its network in a step-by-step organic fashion, but it made construction and management of the piecemeal network and its expansion more difficult in several ways. In 2016 ECFiber completed a \$9.225M offering of revenue bonds to refinance a portion of its debt on more favorable terms and to cover 2016 capital expenditures, including funds to complete the design and make ready for 250 miles of network it plans to construct in 2017. A similar offering of \$14.8M was completed in 2017.

During 2016 the District continued to benefit from two kinds of assistance from the State of Vermont: dark fiber infrastructure and targeted grants. During the four years ending June 30, 2015 the Vermont Telecommunications Authority (VTA) designed and contracted for the construction of 116 miles of multi-use, open-access dark fiber trunks within the District's boundaries and leased a portion of each trunk's capacity to ECFiber on a long-term basis. That infrastructure has allowed ECFiber to directly connect nearly all its hub locations, facilitated more economical purchase of bandwidth, and allowed the organization to have a presence in 21 of its 24 member towns. In 2011-2014, ECFiber received VTA grants totaling \$215,000 to extend service to specified locations. In 2015 the Department of Public Service's Connectivity Division (as successor to the VTA) awarded ECFiber additional grants totaling \$365,000 to be paid upon coverage of designated census blocks; the last of these projects was completed in 2017. In September 2016, the District was awarded further grants in two separate rounds for certain additional locations. Round one totaling \$156,500 scheduled to be completed by Q2 of 2018 and round two totaling \$72,500 scheduled to be completed by Q4 of 2018.

East Central Vermont Telecommunications District
Executive Committee
December 31, 2017

Irv Thomae
F.X. Flinn
Martin Blumberg
Daniel Leavitt
Jim Masland
Daniel Childs
C.J. Stumpf
John Bloch
George Sadowsky

Chair
Vice Chair
Treasurer
Secretary
Member at Large
Member at Large
Member at Large
Member at Large
Member at Large



NATHAN WECHSLER & COMPANY
PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Members
East Central Vermont Telecommunications District
d/b/a ECFiber
Royalton, Vermont 05068

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of East Central Vermont Telecommunications District "the District", which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue, expenses and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2017 and 2016, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on January 1, 2016, the entity commenced full operations as East Central Vermont Telecommunications District and assumed the assets and liabilities of ECF Holding, LLC. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Budgetary Comparison information on pages 6, 7, 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Nathan Wechsler & Company

Concord, New Hampshire
April 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2017. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

The District offers two principal services: Internet connectivity (currently 17, 40, 200 and 700 Mbps) and Voice Over Internet Protocol (VOIP)-based voice phone service (with unlimited long distance calling throughout the U.S. and Canada (and a comprehensive package of features). It also offers limited ancillary services such as voicemail, static IP addresses and dark fiber/wholesale connections.

The District's financial plan has as its primary goal the connection of more than 5 customers per mile on plant in service for more than two years. As of December 31, 2017, the overall average was 4.6 per mile, due to the large number of network miles added late in the year.

In 2017, the District experienced steady growth consistent with its average of 5 customers per mile of network to end the year at 2,282 customers, but it did not meet its budgetary goal of 2,482 customers due primarily to delays on 132 miles of network caused by late make-ready work on poles owned by the incumbent telephone and power utilities.

Average Revenue per Month per Customer ("ARPU") declined slightly. Residential ARPU declined slightly to \$99.75 per month due to the large number of customer added in Q3 and Q4, but, quarterly ARPU was stable between \$102.62 and \$105 per month in 2017. Business ARPU was \$134, down from \$138 in 2016. ARPU includes VOIP telephone service which is taken by approximately 80% of customers and costs \$20 per month.

Recurring service revenues (revenue excluding grants/installations) of \$2.39M were 36% higher than the level a year ago. For the full year 2017, recurring service revenue was below budget by approximately \$91,000 (less than 4% of budget).

Installation revenues of \$334,000 were \$87,000 higher than budgeted due to extra charges for long or difficult installations - regular installations cost \$99.

The District kept its overall expense growth (excluding depreciation) to 29%, well below its recurring service revenue growth of 36%.

Cost of Goods Sold (i.e., bandwidth and telephone connections purchased to provide the services plus pole rental) in 2017 was 30% higher than in 2016 and was \$16,000 lower than forecast, at \$453,000 (approximately 19% of service revenue) compared to a budget of \$469,000. (In the financials below Cost of Goods Sold was restated for 2015 and 2016 to include pole rental expense - the years 2013 and 2014 are not directly comparable because they do not include pole rental in Cost of Goods Sold.)

Labor and Other Operating Expenses for 2017 increased by 26% and 30% respectively (see Note 7). Labor was over budget by \$76,000 (15%) due to an unbudgeted year end bonus and hires in late 2017 which were originally planned for early 2018 (the labor market is tight with unemployment in the area at 3-4% so we hire when we can.) Other Operating expense was \$176,000 (34%) below budget primarily because ECFiber did not need to use any of its budgeted expense contingency.

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

MANAGEMENT'S DISCUSSION AND ANALYSIS

EBITDA is calculated as gross revenues less all operating expenses and again increased significantly in 2017 as the District was able to achieve further scale economies in its operations (i.e., it was able to add more customers without increasing its operating expenses proportionally). EBITDA increased 85% to \$1,684,000 in 2017. Installation and grant revenues will be eliminated or substantially reduced once network construction in unserved areas of the member communities is substantially completed in 2020.

Recurring EBITDA (EBITDA without non-recurring revenues such as grants or installations) increased 49% to \$1,014,000 in 2017 versus a budget of \$1,060,000 - \$46,000 lower than budgeted due to lower customers than budgeted.

The District's Net Fund Position at year end 2017 was negative \$3,276,586 (the District assumed the negative Net Fund Position from ECFiber LLC), compared to negative \$2,775,924 in the previous year. The accumulated losses from the first 7 years of operations are characteristic of the early years of capital-intensive undertakings of this sort and are consistent with the long-term business model.

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

BALANCE SHEETS
December 31, 2017 and 2016

| | | <i>ASSETS</i> | |
|--|-----------|-------------------|----------------------|
| | | 2017 | 2016 |
| CURRENT ASSETS | | | |
| Cash | \$ | 6,229,795 | \$ 1,737,616 |
| Restricted cash, bond debt service reserve and reserve and contingency fund | | 850,000 | 300,000 |
| Accounts receivable, net of allowance for doubtful accounts for 2017 of 5,000 and 2016 of \$2,501 | | 158,863 | 73,057 |
| Accounts receivable, grant | | 0 | 51,484 |
| Due from ValleyNet, Inc. | | 336,785 | 317,904 |
| | | <hr/> | <hr/> |
| <i>Total current assets</i> | | 7,575,443 | 2,480,061 |
| | | <hr/> | <hr/> |
| PROPERTY AND EQUIPMENT, net | | 12,404,285 | 7,937,393 |
| | | <hr/> | <hr/> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Note prepayment premium, net of accumulated amortization for 2017 \$123,714 and 2016 \$28,238 | | 1,056,000 | 499,685 |
| | | <hr/> | <hr/> |
| <i>Total assets</i> | \$ | 21,035,728 | \$ 10,917,139 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| LIABILITIES AND FUND NET POSITION | | | |
| | | 2017 | 2016 |
| CURRENT LIABILITIES | | | |
| Notes payable to investors | \$ | 700 | \$ 29,832 |
| Accrued liabilities | | 298,999 | 96,000 |
| Accrued interest | | 107,900 | 43,618 |
| Notes payable | | 28,820 | 13,707 |
| | | <hr/> | <hr/> |
| <i>Total current liabilities</i> | | 436,419 | 183,157 |
| | | <hr/> | <hr/> |
| LONG TERM LIABILITIES | | | |
| Bond payable | | 23,805,000 | 9,225,000 |
| Notes payable to investors, less current portion | | 4,396 | 3,915,906 |
| Notes payable, less current portion | | 74,259 | 42,598 |
| Accrued liabilities, less current portion | | 88,216 | 326,402 |
| | | <hr/> | <hr/> |
| <i>Total long term liabilities</i> | | 23,971,871 | 13,509,906 |
| | | <hr/> | <hr/> |
| FUND NET POSITION | | | |
| Invested in capital assets | | 12,404,285 | 7,937,393 |
| Unrestricted deficit | | (15,776,847) | (10,713,317) |
| | | <hr/> | <hr/> |
| <i>Total fund net position</i> | | (3,372,562) | (2,775,924) |
| | | <hr/> | <hr/> |
| <i>Total liabilities and fund net position</i> | \$ | 21,035,728 | \$ 10,917,139 |
| | | <hr/> <hr/> | <hr/> <hr/> |

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|----------------|----------------|
| OPERATING REVENUES | | |
| Service revenue | \$ 2,394,244 | \$ 1,756,811 |
| Installation and activation revenue | 343,522 | 154,128 |
| Grant income | 311,920 | 59,484 |
| Miscellaneous income | 22,866 | 15,466 |
| | <hr/> | <hr/> |
| <i>Total operating revenue</i> | 3,072,552 | 1,985,889 |
| OPERATING EXPENSES | | |
| Subcontract expense, ValleyNet, Inc. (Note 7) | 1,369,906 | 1,072,352 |
| Depreciation expense | 557,503 | 380,887 |
| Miscellaneous direct expenses | 21,778 | 4,495 |
| | <hr/> | <hr/> |
| <i>Total operating expenses</i> | 1,949,187 | 1,457,734 |
| <i>Operating income</i> | <hr/> | <hr/> |
| | 1,123,365 | 528,155 |
| NONOPERATING INCOME (EXPENSE) | | |
| Interest income | 40,100 | 4,727 |
| Bond origination fees | (409,500) | (326,750) |
| Original issue discount | (62,003) | (211,389) |
| Amortization, note prepayment premium | (95,476) | (28,239) |
| Interest expense, bonds | (1,005,440) | (297,633) |
| Interest expense, notes | (187,684) | (342,839) |
| | <hr/> | <hr/> |
| <i>Total nonoperating expense</i> | (1,720,003) | (1,202,123) |
| <i>Decrease in fund net position</i> | (596,638) | (673,968) |
| Fund net position, beginning of year | <hr/> | <hr/> |
| | (2,775,924) | (2,101,956) |
| Fund net position, end of year | <hr/> | <hr/> |
| | \$ (3,372,562) | \$ (2,775,924) |

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers and grants | \$ 3,133,706 | \$ 1,952,605 |
| Cash paid to suppliers and subcontractors | (1,523,997) | (1,331,438) |
| | <u>1,609,709</u> | <u>621,167</u> |
| <i>Net cash provided by operating activities</i> | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 40,100 | 4,727 |
| Increase in restricted cash | (550,000) | (300,000) |
| Purchase of property and equipment | (4,962,725) | (2,277,060) |
| | <u>(5,472,625)</u> | <u>(2,572,333)</u> |
| <i>Net cash used in investing activities</i> | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from bond issue, net of bond origination fees | | |
| 2017 \$471,503; 2016 \$538,139 | 14,108,497 | 8,686,861 |
| Note prepayment premium | (651,791) | (527,924) |
| Interest paid, bonds | (934,284) | (260,888) |
| Interest paid, notes | (192,908) | (376,636) |
| Repayment on long-term debt | (14,896) | (164,009) |
| Decrease in notes payable to investors | (3,940,642) | (3,592,216) |
| Increase in amount due from ValleyNet, Inc. | (18,881) | (222,054) |
| | <u>8,355,095</u> | <u>3,543,134</u> |
| <i>Net cash provided by financing activities</i> | | |
| | 4,492,179 | 1,591,968 |
| <i>Net increase in cash</i> | | |
| Cash, beginning of year | <u>1,737,616</u> | <u>145,648</u> |
| | <u>\$ 6,229,795</u> | <u>\$ 1,737,616</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 1,123,365 | \$ 528,155 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 557,503 | 380,887 |
| Increase in accounts receivable | (85,806) | (10,039) |
| Decrease (increase) in accounts receivable, grant | 51,484 | (51,484) |
| Decrease in accrued liabilities | (36,837) | (226,352) |
| | <u>\$ 1,609,709</u> | <u>\$ 621,167</u> |
| <i>Net cash provided by operating activities</i> | | |

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Acquisition of property and equipment | | |
| Cost of property and equipment | \$ 5,024,395 | \$ 2,335,034 |
| Amount financed | (61,670) | (57,974) |
| | <u>\$ 4,962,725</u> | <u>\$ 2,277,060</u> |

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities

On January 1, 2016, the East Central Vermont Telecommunications District (“the District”), commenced full operations as authorized by 30 V.S.A. section 3051a under the laws of the State of Vermont and assumed all the assets and liabilities of ECF Holding, LLC. The District was formed by a consortium of 24 municipalities seeking to build and operate a municipally-owned universal, open access, fiber optic telecommunications network throughout its territory and continues to market its services as ECFiber.

Note 2. Significant Accounting Policies

Basis of financial statements: The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the *Governmental Accounting Standards Board (GASB)*. The District follows the “business-type activities” reporting requirements of GASB Cod. Sp20.107. Accordingly, the District’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows.

Installation and service revenue: The District offers two principal services: Several tiers of Internet connectivity and Internet Protocol (IP)-based voice telephone service. The District also has a one-time charge for installation of service. The District bills its customers monthly and recognizes revenue when earned.

Estimates and assumptions: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: For purposes of reporting cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. At December 31, 2017 the District had no cash equivalents. Restricted cash has been excluded from cash equivalents for purposes of the cash flow statement.

Accounts receivable: The District extends unsecured credit to their customers in the ordinary course of business but mitigates the associated risk by actively pursuing past due accounts. An allowance for uncollectible accounts has been established. Actual bad debt expense was \$14,475 and \$- for the years ended December 31, 2017 and 2016, respectively.

Property and equipment: Property and equipment are recorded at cost and are being depreciated using the straight-line method over estimated useful lives as follows:

| | Years |
|--|--------------|
| Central office: office equipment and software..... | 3-10 |
| Furniture and fixtures | 7 |
| Leasehold improvements | 10 |
| Vehicles | 5 |
| Telecommunications, fiber optic cable | 30 |
| Telecommunications, electronic equipment | 15 |

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

Amortization: Per GASB No. 65, the District is amortizing the note prepayment premium paid using the straight-line method over the shorter of the original maturity of the debt repaid or the new debt acquired, per issuance.

Subcontract expense: The District has entered into a design, build, and operate agreement with ValleyNet, Inc. to design, construct and operate a communication plant for the delivery of broadband communications services to and among the District's subscribers. The District is charged under this subcontract agreement, amounts that represent the cost of construction of the District's property and equipment as well as the operating expenses for the services provided.

Income taxes: The District is a body corporate and politic and is considered a municipality and is therefore exempt from tax.

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

| December 31, | 2017 | 2016 |
|--|-----------------------------|----------------------------|
| Central office | \$ 178,659 | \$ 178,119 |
| Office equipment | 42,294 | 33,887 |
| Software | 33,487 | 24,976 |
| Furniture and fixtures | 9,956 | 6,012 |
| Leasehold improvements | 24,667 | 19,277 |
| Vehicles | 244,618 | 180,008 |
| Telecommunications: | | |
| Fiber pass | 8,933,975 | 5,682,884 |
| Drops | 2,421,285 | 1,638,648 |
| Customer premises equipment | 890,594 | 590,191 |
| Hubs | 1,121,306 | 533,015 |
| Other | 214,573 | 204,002 |
| <i>Total property and equipment</i> | <u>14,115,414</u> | <u>9,091,019</u> |
| Less accumulated depreciation | 1,711,129 | 1,153,626 |
| <i>Total property and equipment, net</i> | <u><u>\$ 12,404,285</u></u> | <u><u>\$ 7,937,393</u></u> |

Note 4. Concentration of Credit Risk

The District maintains cash accounts with three financial institutions. The District's accounts are insured up to \$250,000, per depositor at each financial institution. The District had amounts on deposit in excess of federally insured limits of approximately \$6,480,000 at December 31, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 5. Bonds Payable

The District is authorized and empowered under the laws of Vermont to issue bonds for the purpose of constructing a fiber optic network.

In 2016 the District issued \$9.225 million in revenue bonds to refinance a portion of its debt on more favorable terms and to cover 2016 capital expenditures, including the design and make ready for 250 miles of construction in 2017. As part of this issuance, notes payable of \$3,809,498 were repaid. The interest rate on the repaid notes averaged 6.78%. The average interest rate on the 2016 bonds is 5.00%.

In 2017 the District issued \$14.580 million in revenue bonds to refinance the remaining portion of its notes payable on more favorable terms and to cover 2017 capital expenditures, including design and make ready for 250 miles of construction in 2018. As part of this issuance, notes payable of \$3,939,982 were repaid. The interest rate on the repaid notes averaged 8.46%. The average interest rate on the 2017 bonds is 5.84%.

The estimated sources and uses of the Series 2017A and 2016A bond proceeds were as follows:

| | 2017A | 2016A |
|---|----------------------|---------------------|
| Sources of Funds: | | |
| Par amount of bonds | \$ 14,580,000 | \$ 9,225,000 |
| Original issue discount and underwriter's discount | <u>(62,003)</u> | <u>(211,389)</u> |
| <i>Total Sources of Funds</i> | <u>\$ 14,517,997</u> | <u>\$ 9,013,611</u> |
| Uses of Funds: | | |
| Capital improvements & equipment | \$ 7,138,073 | \$ 2,035,179 |
| Design and Make Ready for up to 250 miles | 1,500,000 | 1,500,000 |
| Refinance existing debt, with premiums & accrued interest | 4,920,424 | 4,838,058 |
| Administrative Fee | 0 | 13,624 |
| Reserve contingency fund | 0 | 50,000 |
| Debt service reserve fund | 550,000 | 250,000 |
| Underwriter's discount | 341,000 | 276,750 |
| Other costs of issuance | <u>68,500</u> | <u>50,000</u> |
| <i>Total Uses of Funds</i> | <u>\$ 14,517,997</u> | <u>\$ 9,013,611</u> |

The bond payable balance of \$23,805,000 is considered long term debt and were issued at an overall discount of \$273,392. Both series of bonds are broken up into six separate term bonds with varying maturity amounts, interest rates and yields. The final term bonds of the group matures December 1, 2040. There is no short term debt balance for the years ending December 31, 2017 and 2016, as principal payments on the first term bond of Series 2016A do not begin until the year ending December 31, 2019.

The District must meet certain financial and non-financial covenants to maintain compliance with the bond agreement.

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

Maturities of bond payable at December 31, 2017 are as follows:

| | 2017A | 2016A | Total |
|--------------|----------------------|---------------------|----------------------|
| 2018 | \$ 0 | \$ 0 | \$ 0 |
| 2019 | 0 | 195,000 | 195,000 |
| 2020 | 260,000 | 200,000 | 460,000 |
| 2021 | 370,000 | 220,000 | 590,000 |
| 2022 | 400,000 | 240,000 | 640,000 |
| Thereafter | 13,550,000 | 8,370,000 | 21,920,000 |
| <i>Total</i> | <u>\$ 14,580,000</u> | <u>\$ 9,225,000</u> | <u>\$ 23,805,000</u> |

Note 6. Notes Payable

Prior to 2016, the District's other source of financing was through the issuance of tax-exempt notes. Note holders consist primarily of residents in rural Vermont that will benefit from the network established. The Series C Notes were subordinate to all other notes and the bonds.

Details of outstanding notes payable to investors are as follows as of:

| December 31, | 2017 | 2016 |
|---|-------|--------------|
| Series C - 2011 notes payable to 3 note holders, with interest at 11.00%, interest begins to accrue September 1, 2012, includes accrued interest of \$443,219 at December 31, 2016. | \$ 0 | \$ 1,193,219 |
| Series 2011 notes payable to 18 note holders, with interest at 7.65%, interest begins to accrue December 1, 2011, includes accrued interest of \$54,614 at December 31, 2016. | 0 | 172,114 |
| Series 2012-04 notes payable to 76 note holders, with interest at 7.65%, interest begins to accrue April 1, 2012, includes accrued interest of \$227,218 at December 31, 2016. | 0 | 757,218 |
| Series 2012-08 notes payable to 24 note holders, with interest at 7.65%, interest begins to accrue August 1, 2012, includes accrued interest of \$52,111 at December 31, 2016. | 0 | 184,611 |
| Series 2012-12 notes payable to 24 note holders, with interest at 7.65%, interest begins to accrue December 1, 2012, includes accrued interest of \$40,372 at December 31, 2016. | 0 | 152,872 |
| Sayer Road notes payable, no stated interest, no stated maturity, repaid through a reduction in monthly/annual service costs. | 5,096 | 5,757 |
| Series 2013-05 notes payable to 28 note holders, with interest at 7.65%, interest begins to accrue on May 1, 2013, includes accrued interest of \$97,506 at December 31, 2016. | 0 | 405,006 |

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

| December 31, | 2017 | 2016 |
|--|-----------------|---------------------|
| Series 2013-07 notes payable to 26 note holders, with interest at 7.65%, interest begins to accrue on July 1, 2013, includes accrued interest of \$42,071 at December 31, 2016. | \$ 0 | \$ 182,071 |
| Series 2013-10 notes payable to 4 note holders, with interest at 7.65%, interest begins to accrue on April 1, 2014, includes accrued interest of \$10,371 at December 31, 2016. | 0 | 47,870 |
| Series 2015-2 notes payable to 9 note holders, with interest at 6.65%, interest begins to accrue August 1, 2016, semi-annual payments of principal and interest on February 1 and August 1 beginning February 1, 2017. | 0 | 57,500 |
| Series 2015-5 notes payable to 15 note holders, with interest at 6.65%, interest begins to accrue November 1, 2016, semi-annual payments of principal and interest on May 1 and November 1 beginning May 1, 2017. | 0 | 327,500 |
| Series 2015-7 notes payable to 10 note holders, with interest at 6.65%, interest begins to accrue January 1, 2017, semi-annual payments of principal and interest on January 1 and July 1 beginning July 1, 2017. | 0 | 137,500 |
| Series 2015-10 notes payable to 15 note holders, with interest at 6.65%, interest begins to accrue April 1, 2017, semi-annual payments of principal and interest on April 1 and October 1 beginning October 1, 2017. | 0 | 120,000 |
| Series 2015-12 notes payable to 19 note holders, with interest at 6.65%, interest begins to accrue June 1, 2017, semi-annual payments of principal and interest on June 1 and December 1 beginning December 1, 2017. | 0 | 202,500 |
| | <u>5,096</u> | <u>3,945,738</u> |
| Less amounts due within one year | <u>700</u> | <u>29,832</u> |
| <i>Notes payable to investors, long term</i> | <u>\$ 4,396</u> | <u>\$ 3,915,906</u> |

The above notes were eligible for prepayment at the option of the issuer. Under this scenario, the District repaid the full balance of the note due at the time of repayment plus interest in an amount equal to the stated interest rate per annum of the original face value for a period ranging from eighteen months to two years. For certain issuances, the holder was eligible to receive an additional 2% of the total aggregate amount. During the years ended December 31, 2017 and 2016, the District prepaid virtually all notes and paid the prepayment penalties of \$651,791 and \$527,923, respectively which are included on the accompanying balance sheet as deferred outflow of resources.

The notes payable above include amounts due to members of the governing board of the District amounting to \$0 and \$115,000 at December 31, 2017 and 2016, respectively. Accrued interest on these notes amounted to \$0 and \$42,164 at December 31, 2017 and 2016, respectively.

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

Details of other outstanding notes payable are as follows as of:

| December 31, | 2017 | 2016 |
|---|------------------|------------------|
| Note payable, collateralized by vehicle, with interest at 3.99%, monthly payments of principal and interest of approximately \$645, due October 2020 | \$ 20,711 | \$ 27,480 |
| Note payable, collateralized by vehicle, with interest at 3.99%, monthly payments of principal and interest of approximately \$664, due November 2020 | 21,888 | 28,825 |
| Note payable, collateralized by vehicle, with interest at 3.99%, monthly payments of principal and interest of approximately \$696, due November 2021 | 30,240 | 0 |
| Note payable, collateralized by vehicle, with interest at 3.99%, monthly payments of principal and interest of approximately \$696, due November 2021 | 30,240 | 0 |
| | <u>103,079</u> | <u>56,305</u> |
| Less amounts due within one year | <u>28,820</u> | <u>13,707</u> |
| <i>Notes payable, long term</i> | <u>\$ 74,259</u> | <u>\$ 42,598</u> |

Maturities of notes payable at December 31, 2017 are as follows:

| | Notes Payable to Investors | Notes Payable | Total |
|------------|----------------------------|-------------------|-------------------|
| 2018 | \$ 700 | \$ 28,820 | \$ 29,520 |
| 2019 | 700 | 29,992 | 30,692 |
| 2020 | 700 | 29,255 | 29,955 |
| 2021 | 700 | 15,012 | 15,712 |
| 2022 | 700 | 0 | 700 |
| Thereafter | 1,596 | 0 | 1,596 |
| | <u>\$ 5,096</u> | <u>\$ 103,079</u> | <u>\$ 108,175</u> |

Interest expense related to notes and bonds payable at December 31, 2017 breaks down as follows:

| | Bond Payable | Notes Payable | Total |
|---|---------------------|-------------------|---------------------|
| Cash paid for interest | \$ 934,284 | \$ 192,907 | \$ 1,127,191 |
| Increase (decrease) in accrued interest | 71,156 | (5,223) | 65,933 |
| | <u>\$ 1,005,440</u> | <u>\$ 187,684</u> | <u>\$ 1,193,124</u> |

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

Interest expense related to notes and bonds payable at December 31, 2016 breaks down as follows:

| | Bond Payable | Notes Payable | Total |
|------------------------------|-------------------|-------------------|-------------------|
| Cash paid for interest | \$ 260,888 | \$ 119,574 | \$ 380,462 |
| Increase in accrued interest | 36,745 | 223,265 | 260,010 |
| | <u>\$ 297,633</u> | <u>\$ 342,839</u> | <u>\$ 640,472</u> |

Note 7. Concentration

The District has a subcontract agreement with ValleyNet, Inc. to design, construct and operate one or more communication plants for the delivery of broadband communications services to and among the District's subscribers. The District is charged under this subcontract agreement, amounts that represent the cost of construction of the District's property and equipment as well as the operating expenses for the services provided. As a result of this subcontract agreement, nearly 77% of the District's total expenses are paid to ValleyNet, Inc.

Subcontract expense related to the ValleyNet, Inc. contract for the years ended December 31, 2017 consisted of the following:

| December 31, | 2017 | 2016 |
|--|---------------------|---------------------|
| Cost of goods sold | \$ 457,759 | \$ 356,278 |
| Contracted labor and employee expenses | 623,394 | 480,833 |
| Occupancy | 36,988 | 29,763 |
| Professional fees | 39,258 | 46,879 |
| Utilities | 73,589 | 31,925 |
| Insurance | 35,572 | 44,418 |
| Office supplies | 31,890 | 27,169 |
| Miscellaneous operating expense | 52,611 | 42,194 |
| Vehicle expenses | 18,845 | 12,893 |
| | <u>\$ 1,369,906</u> | <u>\$ 1,072,352</u> |

The District relied on ValleyNet, Inc. to purchase property and equipment on its behalf amounting to \$4,962,725 and \$2,277,060 for the years ended December 31, 2017 and 2016, respectively.

Over the past several years, a number of firms and individuals advanced resources to ValleyNet, Inc. on behalf of the Organization on the condition that these would be repaid when the Organization becomes financially able to do so. These amounts have been included in the accrued liabilities listed below. Two individuals that advanced resources to ValleyNet, Inc. have entered into repayment agreements effective January 1, 2014. The amount repaid to these two individuals during the years ended December 31, 2017 and 2016 was \$96,000 and \$81,667, respectively.

(continued on next page)

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

NOTES TO FINANCIAL STATEMENTS

The amounts included in accrued liabilities include the following costs incurred by ValleyNet, Inc. and assumed by the Organization. At December 31, 2017 the balances are comprised of the following:

| December 31, | 2017 | 2016 |
|---|------------------|-------------------|
| Deferred compensation to former ValleyNet, Inc. employees | \$ 184,216 | \$ 280,216 |
| Independent contractors | 202,999 | 142,186 |
| | <u>387,215</u> | <u>422,402</u> |
| <i>Less current portion</i> | <u>298,999</u> | <u>96,000</u> |
| <i>Accrued liabilities, less current portion</i> | <u>\$ 88,216</u> | <u>\$ 326,402</u> |

The schedule of amounts to be paid to these individuals in future years is as follows:

| | |
|------|-------------------|
| 2018 | \$ 298,999 |
| 2019 | 88,216 |
| | <u>\$ 387,215</u> |

The above accrued liabilities are subordinate to all notes and the bonds that the district is obligated to pay.

In 2014 the VTA also announced plans to construct 80 additional miles of fiber in the District’s service area. The Vermont Department of Public Service (“DPS”) inherited this commitment in 2015. The District has access to 48 strands of fiber along these routes. All eighty miles were complete as of December 31, 2017. This represents an asset that would have cost the District \$1.6 million were it to have built that portion of the network with its own funds.

Note 8. Subsequent Events

The District has evaluated subsequent events through April 30, 2018 the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. The District anticipates to issue and sell another series of revenue bonds in July 2018 of approximately \$8,000,000. No additional subsequent events were identified that would require disclosure in the financial statements for the year ended December 31, 2017.

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATEMENT OF BUDGETARY COMPARISON
Year Ended December 31, 2017

| | Budget | Actual |
|---------------------------------------|--------------|--------------|
| OPERATING REVENUES: | | |
| Service revenue | \$ 2,484,915 | \$ 2,394,244 |
| Installation and activation revenue | 249,352 | 343,522 |
| Grant income | 365,000 | 311,920 |
| Miscellaneous income | 0 | 22,866 |
| | <hr/> | <hr/> |
| | 3,099,267 | 3,072,552 |
| OPERATING EXPENSES: | | |
| Subcontractor expense | 1,494,726 | 1,369,906 |
| Depreciation expense | 764,677 | 557,503 |
| Miscellaneous direct expenses | 0 | 21,778 |
| | <hr/> | <hr/> |
| <i>Total operating expenses</i> | 2,259,403 | 1,949,187 |
| | <hr/> | <hr/> |
| <i>Operating income</i> | 839,864 | 1,123,365 |
| NONOPERATING INCOME (EXPENSE): | | |
| Interest income | 0 | 40,100 |
| Bond origination fees | 0 | (409,500) |
| Original issue discount | 0 | (62,003) |
| Amortization, note prepayment premium | (80,129) | (95,476) |
| Interest expense, bond | (1,020,725) | (1,005,440) |
| Interest expense, notes | (69,179) | (187,684) |
| | <hr/> | <hr/> |
| <i>Decrease in fund net position</i> | \$ (330,169) | \$ (596,638) |
| | <hr/> <hr/> | <hr/> <hr/> |

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATEMENT OF BUDGETARY COMPARISON
Year Ended December 31, 2016

| | Budget | Actual |
|---------------------------------------|--------------|--------------|
| OPERATING REVENUES: | | |
| Service revenue | \$ 1,809,499 | \$ 1,756,811 |
| Installation and activation revenue | 111,097 | 154,128 |
| Grant income | 365,000 | 59,484 |
| Miscellaneous income | 0 | 15,466 |
| | <hr/> | <hr/> |
| | 2,285,596 | 1,985,889 |
| OPERATING EXPENSES: | | |
| Subcontractor expense | 1,199,403 | 1,072,352 |
| Depreciation expense | 404,485 | 380,887 |
| Miscellaneous direct expenses | 0 | 4,495 |
| | <hr/> | <hr/> |
| <i>Total operating expenses</i> | 1,603,888 | 1,457,734 |
| | <hr/> | <hr/> |
| <i>Operating income</i> | 681,708 | 528,155 |
| NONOPERATING INCOME (EXPENSE): | | |
| Interest income | 0 | 4,727 |
| Bond origination fees | (422,500) | (326,750) |
| Original issue discount | 0 | (211,389) |
| Amortization, note prepayment premium | 0 | (28,239) |
| Interest expense, bond | (178,969) | (297,633) |
| Interest expense, notes | (368,817) | (342,839) |
| | <hr/> | <hr/> |
| <i>Decrease in fund net position</i> | \$ (288,578) | \$ (673,968) |
| | <hr/> | <hr/> |

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
d/b/a ECFiber

STATISTICAL SECTION - FINANCIAL TRENDS
For the Five Years Ended December 31, 2017

| | ECF Holding, LLC | | | District | |
|---|---------------------|-------------------|-------------------|-------------------|---------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Operating revenues | \$ 630,502 | \$ 1,367,678 | \$ 1,592,919 | \$ 1,985,888 | \$ 3,072,552 |
| Operating expenses | 969,055 | 1,182,999 | 1,205,842 | 1,457,734 | 1,949,187 |
| Nonoperating expenses | 253,795 | 278,901 | 413,353 | 1,202,123 | 1,720,003 |
| <i>Decrease in fund net position</i> | (592,348) | (94,222) | (26,276) | (673,969) | (596,638) |
| Depreciation and amortization expense | 140,748 | 266,985 | 308,197 | 409,126 | 652,979 |
| Interest expense | 254,348 | 340,770 | 413,537 | 640,472 | 1,193,124 |
| <i>Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA)</i> | <u>\$ (197,252)</u> | <u>\$ 513,533</u> | <u>\$ 695,458</u> | <u>\$ 375,629</u> | <u>\$ 1,249,465</u> |
| Number of customers | 552 | 947 | 1,201 | 1,589 | 2,282 |
| Number of Lit fiber miles | 128 | 190 | 235 | 326 | 499 |
| Gross capital expenditures per year, net of disposals | \$ 2,559,887 | \$ 708,891 | \$ 1,566,652 | \$ 2,332,217 | \$ 5,024,395 |
| Gross capital expenditures - cumulative | \$ 4,483,259 | \$ 5,192,150 | \$ 6,758,802 | \$ 9,091,019 | \$ 14,115,414 |
| Capital expenditures per mile | \$ 35,025 | \$ 27,327 | \$ 28,761 | \$ 27,887 | \$ 28,287 |
| Capital expenditures per customer | \$ 8,122 | \$ 5,483 | \$ 5,628 | \$ 5,721 | \$ 6,186 |

¹ Prior to the formation of the District, operational results were reported by ECF Holding, LLC (see Note 1).
There have been no changes to operations or to the customer base upon transition to the District.

Appendix B-1
General Bond Resolution

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT

GENERAL BOND RESOLUTION

Adopted March 8, 2016

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EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT

GENERAL BOND RESOLUTION

Be It Resolved by the East Central Vermont Telecommunications District and the Governing Board thereof as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context clearly indicates some other meaning, the terms defined in this Section, when used in this Resolution or any Supplemental Resolution, have the following meanings:

(A) “Act” means collectively, Chapter 82 of Title 30, Vermont Statutes Annotated, Section 21 of No. 41 of the Acts of 2015, and Subchapter 2 of Chapter 53 of Title 24, Vermont Statutes Annotated.

(B) “Additional Bonds” means Bonds other than the initial Series of Bonds issued under the Resolution.

(C) “Authorized Officer” means the Chair, Vice-Chair or General Manager of the District or any other person designated by the Board.

(D) “Board” means the Governing Board of the District or an officer or board succeeding to its powers.

(E) “Bonds” means the Project Revenue Bonds issued from time to time under Sections 2.1, 2.2 and 2.3.

(F) “Bondholder” or “holder of a Bond” means any person who shall be the registered owner of any Outstanding Bond or Bonds.

(G) “Bond Insurer” means with respect to any Series of Bonds, the municipal bond insurance company (if any) identified in a Supplemental Resolution, and its successors and assigns.

(H) “Bond Insurance” means with respect to any Series of Bonds, the municipal bond insurance policy (if any) identified in a Supplemental Resolution.

(I) “Bond Year” means the twelve-month period commencing on January 1 of each year.

(J) “Code” means the Internal Revenue Code of 1986, as amended, and the Regulations promulgated thereunder.

(K) “Construction Fund” means the Project Construction Fund created by Section 5.7.

(L) “Costs of Acquisition and Construction” means all costs of determining the feasibility of and acquiring, constructing, financing, carrying out and placing in operation or disposing of the Project paid or incurred by the District, including without limit:

(1) reserves for capital or current expenses deemed necessary or desirable by the District, including working capital;

(2) interest accruing in whole or in part on Bonds or Notes prior to and during the acquisition and construction of the Project and for such additional period as the District may determine in accordance with the Resolution;

(3) costs of energy, energy assemblies and components, or interests therein, equipment and supplies, and reserves therefor;

(4) deposits in any fund or account to meet requirements established pursuant to the Resolution for reserves for debt service, renewals, replacements and contingencies, and for decommissioning or termination;

(5) taxes and payments in lieu of taxes and costs relating to injury and damage claims arising out of the acquisition and construction of the Project;

(6) payment of the principal of, premium, if any, and interest on Notes;

(7) payments to public agencies, fees and expenses of trustees, legal, insurance, administrative, engineering, consulting and financing costs (including premiums for Bond Insurance or other municipal bond insurance), and any other costs properly attributable to the acquisition and construction of the Project and carrying out and placing the same in operation; and

(8) payment of or reimbursement for capital expenditures payable in respect of the Project.

(M) “Date of Commercial Operation” means the date a Project is first ready for normal continuous operation, as determined by the District.

(N) “Debt Service” means with respect to each Bond Year or other period the aggregate of the amounts to be set aside (or estimated to be required to be set aside) in the Debt Service Fund pursuant to Section 5.2(A), (B) and (C) in the Bond Year or such other period for the payment of the principal or redemption price of and interest on Bonds, excluding amounts paid or to be paid from Bond proceeds or from earnings thereon.

(O) “Debt Service Fund” means the Project Debt Service Fund created by Section 5.2.

(P) “Debt Service Reserve Fund” means the Project Debt Service Reserve Fund created by Section 5.3.

(Q) “Debt Service Reserve Fund Requirement” means as of any date of calculation an amount equal to the sum of the amounts determined at the time of issue of each Series of Bonds

issued hereunder (but only including the Series of Bonds Outstanding at the time of calculation) as the lesser of (i) maximum annual Debt Service on Outstanding Bonds during the then current or any future Fiscal Year, (ii) 125% of the average annual Debt Service on Outstanding Bonds, or (iii) 10% of the aggregate proceeds of all Outstanding Bonds upon original issuance thereof, or a lesser amount as established in a Supplemental Resolution. With regard to Debt Service on Variable Rate Bonds, see Section 2.7.

(R) “District” means the East Central Vermont Telecommunications District, a body corporate and politic, or any other instrumentality of the State which hereafter shall succeed to the powers of the District.

(S) “Event of Default” means an Event of Default as defined in Section 8.1.

(T) “Exempt Obligations” means any of the following:

(1) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least one Rating Service;

(2) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(3) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

(U) “Federal Agency Obligation” means any of the following:

(1) an obligation issued by any federal agency or instrumentality approved by the District;

(2) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the District;

(3) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(4) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a – 7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

(V) “Fiscal Year” means the fiscal year of the District as established from time to time. The Fiscal Year is now the twelve-month period ending December 31.

(W) “Government Obligation” means any of the following:

(1) a direct obligation of the United States of America;

(2) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by the United States of America;

(3) an obligation to which the full faith and credit of the United States of America are pledged;

(4) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(5) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a – 7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations.

(X) “Interest Account” means the Interest Account created in the Debt Service Fund by Section 5.2.

(Y) “Investment Securities” means any of the following, if and to the extent that they are legal for the investment of funds of the District:

(1) Government Obligations;

(2) Federal Agency Obligations;

(3) Exempt Obligations;

(4) uncollateralized certificates of deposit or deposit accounts that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(5) collateralized certificates of deposit or deposit accounts that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by

at least one Rating Service in at least the second highest rating category, and (b) fully collateralized by Permitted Collateral;

(6) commercial paper issued by a domestic corporation rated in the highest short term rating category by at least two Rating Services and having maturities of not longer than two hundred seventy (270) days from the date of purchase;

(7) bankers' acceptances issued by a bank rated in the highest short term rating category by at least two Rating Services and having maturities of not longer than three hundred sixty-five (365) days from the date they are purchased;

(8) Investment Agreements that are fully collateralized by Permitted Collateral; and

(9) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a – 7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of \$1.00 per share and that is rated in the highest short term rating category by at least one nationally recognized rating organization.

(Z) “Moody’s” means Moody’s Investors Service, Inc., or any of its successors or assigns.

(AA) “Notes” means notes or other evidences of indebtedness of the District (other than Bonds) issued to finance the Project.

(BB) “Operating Agreement” means the Operating Agreement dated _____, 2016 between the District and ValleyNet, as may be amended.

(CC) “Operating Earnings” means Revenues less Operating Expenses.

(DD) “Operating Expenses” means the ordinary costs and expenses of the District for the operation, maintenance and repair of the Project, except capital expenditures, interest, income taxes, depreciation, amortization, direct compensation due the management company under the Operating Agreement, and taxes and assessments collected on behalf of other governmental entities.

(EE) “Optional Redemption Account” means the Optional Redemption Account created in the Redemption Fund by Section 5.9.

(FF) “Outstanding” has the meaning set forth in Section 11.1, i.e. a Bond shall not be Outstanding under the Resolution if the Bond is at the time not deemed to be Outstanding under the Resolution pursuant to Section 11.1.

(GG) “Permitted Collateral” means any of the following:

(1) Government Obligations described in clauses (1), (2) or (3) of the definition of Government Obligation;

(2) Federal Agency Obligations described in clauses (1) or (2) of the definition of Federal Agency Obligation;

(3) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one Rating Service no lower than in the second highest rating category;

(4) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Bests Insurance Guide or a Rating Service in the highest rating category; and

(5) bankers' acceptances issued by a bank rated in the highest short term rating category by at least one nationally recognized rating organization and having maturities of not longer than three hundred sixty-five (365) days from the date they are pledged.

(6) Exempt obligations described in clauses (1), (2), or (3) of the definition of Exempt Obligations.

(HH) "Outstanding Notes" means the Notes remaining outstanding after the issuance of the Series 2016 Bonds, except the Series 2011 C Subordinate Notes.

(II) "Principal Account" means the Principal Account created in the Debt Service Fund by Section 5.2.

(JJ) "Project" means any acquisition of land, site development, construction, improvement, extension, betterment, addition, alteration, reconstruction, extraordinary repair, equipping or reequipping of or to a communications plant dedicated to the delivery by the District of communications services as provided in the Act, and the associated land, facilities and equipment, or any combination of the foregoing.

(KK) "Rating Service" means each of Moody's, S&P and Fitch Ratings, Inc., or their respective successors or assigns.

(LL) "Rebate Fund" means the Project Rebate Fund created by Section 5.5.

(MM) "Rebate Year" means with respect to each Series of Bonds issued under the Resolution, each twelve month period beginning on the date of delivery of such Series of Bonds and thereafter on each anniversary of such date of delivery.

(NN) "Redemption Fund" means the Project Redemption Fund created by Section 5.9.

(OO) “Reserve and Contingency Fund” means the Project Reserve and Contingency Fund created by Section 5.4.

(PP) “Reserve and Contingency Fund Requirement” means an amount equal to \$50,000 plus \$200 per mile of Project telecommunications service line in excess of 235 miles.

(QQ) The “Resolution” or this “Resolution” means this Resolution as amended or supplemented from time to time by Supplemental Resolutions.

(RR) “Revenue Fund” means the Project Number Ten Revenue Fund created by Section 5.1.

(SS) “Revenues” means all payments, fees, charges, proceeds, rents, receipts, profits and other income derived by or for the account of the District from or related to a Project and the sale of communications services therefrom including without limit: (i) all interest, profits or other income from the investment of any moneys held pursuant to the Resolution; (ii) proceeds from any sale, lease, decommissioning or other disposition of the Project or a portion thereof; (iii) all grant revenues received for capital projects which have been completed by the District, provided that the grant proceeds are not donor restricted from inclusion as Revenues; and (iv) proceeds of insurance and condemnation awards in respect of the Project.

(TT) “S&P” means Standard & Poor’s Ratings Services, or any of its successors or assigns.

(UU) “Serial Bonds” means Bonds other than Term Bonds. Payment of principal on Serial Bonds is provided from the Principal Account.

(VV) “Series” or “Series of Bonds” or “Bonds of a Series” means a series of Bonds authorized by the Resolution.

(WW) “Series 2011 C Subordinate Notes” means the Notes that were issued in 2011 that are subordinate to the Outstanding Notes, the Series of Bonds issued under the First Supplemental Resolution, and any parity indebtedness issued pursuant to Section 2.5 of this General Bond Resolution.

(XX) “Series 2016A Bonds” means the Bonds issued or to be issued under the Project Revenue Bonds, Series 2016A Supplemental Resolution.

(YY) “Sinking Fund Account” means the Sinking Fund Account created in the Debt Service Fund by Section 5.2.

(ZZ) “Special Redemption Account” means the Special Redemption Account created in the Redemption Fund by Section 5.9.

(AAA) “State” means the State of Vermont.

(BBB) “Supplemental Resolution” means a resolution adopted by the District under Article II providing for the issuance of Bonds or under Article IX amending or supplementing the Resolution.

(CCC) “Taxable Bonds” means any Bond or Series of Bonds which are designated as such in the Supplemental Resolution providing for their issuance, the interest on which is not excluded from gross income for federal income tax purposes.

(DDD) “Term Bonds” means Bonds designated as such in the Supplemental Resolution providing for the issuance of such Bonds. A Series of Bonds may include both Serial and Term Bonds and may include more than one set of Term Bonds, each of which has its own maturity date. Payment of principal on Term Bonds is provided from the Sinking Fund Account.

(EEE) “Trustee” means the trustee appointed by Section 6.1 and its successors as such.

(FFF) “Variable Rate Bonds” means Bonds issued under this Resolution and described in Section 2.7 hereof.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.1. Authorization of Bonds and Pledge. The District may issue Bonds under this Resolution to be known as “Project Revenue Bonds.” The Bonds shall be issued from time to time in series as the Board may deem necessary or advisable. As security for the payment of the principal of and redemption premium, if any, and interest on the Bonds, the District hereby pledges and grants a security interest in (i) all Revenues, and (ii) all moneys and securities in all Funds and Accounts created by or pursuant to the Resolution and the proceeds thereof, whether any of the foregoing is now existing or is hereafter acquired, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. The provisions of the Resolution shall be a part of and shall constitute a contract by the District with the Bondholders. The Bonds shall be special obligations of the District payable solely from and secured solely by the Revenues or moneys and securities of the District pledged hereunder for the payment thereof. The Bonds are equally and ratably secured by the pledge of the Resolution, and the undertakings of the District in the Resolution are for the equal and proportionate benefit of the Bondholders, except as otherwise expressly provided in the Resolution. The Revenues, moneys or securities hereby pledged shall immediately be subject to the lien of the pledge without any physical delivery or further act, which pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether those parties have notice thereof.

Section 2.2. General Provisions for Issuance of Bonds. (A) Each Series of Bonds shall be issued under a Supplemental Resolution adopted by the Board pursuant to this Article and Article IX. The Supplemental Resolution shall designate the Bonds by an appropriate series designation in addition to the title “Project Revenue Bonds,” and shall also specify: (1) the authorized principal amount of the Series of Bonds; (2) the purpose or purposes for which the

Series of Bonds is being issued; (3) the date of the initially issued Bonds of the Series; (4) the Bonds which are designated as Term Bonds (if any) and the maturity dates and sinking fund installment dates of the Bonds; (5) the interest payment dates for the Bonds; (6) the interest rate or rates of the Bonds, or the manner of determining the rate or rates; (7) the redemption prices of the Bonds; (8) the place or places of payment of the Bonds; (9) the provisions for the sale of the Bonds; (10) whether any of the Bonds are being issued as Taxable Bonds; (11) any other provisions which may be required to be inserted by other provisions of the Resolution; and (12) any other necessary or desirable provision not in conflict with the provisions of the Resolution. Notwithstanding anything to the contrary, the foregoing matters may be covered for a Series of Bonds by either one or more than one Supplemental Resolution.

(B) Bonds shall be issued only upon receipt by the Trustee of:

(1) A written order of an Authorized Officer directing the Trustee to deliver such Bonds, stating the amounts to be deposited in the Funds and Accounts pursuant to Section 2.4, and providing a schedule of amounts (if any) representing capitalized interest to be retained in the Interest Account after specified interest payment dates;

(2) A copy of the Supplemental Resolution providing for the issuance of the Bonds certified by an Authorized Officer;

(3) An opinion of counsel to the District to the effect that the Resolution and the applicable Supplemental Resolution have been duly adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms; that the Resolution creates the valid pledge which the Resolution purports to create subject to the provisions of the Resolution; and that the Bonds of such Series are valid and binding special obligations of the District, secured by the Resolution, enforceable in accordance with their terms, and entitled to the benefits of the Act and the Resolution; which opinion may take an exception on account of laws enacted for the relief of debtors and the exercise of judicial discretion in enforcing the Bonds and the Resolution; and

(4) An amount of the proceeds of such Bonds or other moneys such that after the issuance of the Bonds the amounts on deposit in the Debt Service Reserve Fund shall equal the Debt Service Reserve Fund Requirement.

Section 2.3. Conditions for the Issuance of Additional Bonds. (A) Additional Bonds may be issued to pay Costs of Acquisition and Construction upon filing with the Trustee of (1) a statement by an Authorized Officer of amounts expected to be available to pay Costs of Acquisition and Construction, and (2) the District's estimate of the Date of Commercial Operation, the then estimated Costs of Acquisition and Construction, the amount theretofore expended to pay such Costs of Acquisition and Construction and the balance which will be necessary, taking into account amounts then available, to complete payment of Costs of Acquisition and Construction, and the times of payment.

(B) Additional Bonds may be issued to pay the costs of:

(1) renewals, replacements, extraordinary repairs, modifications, additions and betterments for the Project (i) necessary to achieve design capability, (ii) required by any public agency, or (iii) which, in the opinion of the District, are necessary or desirable to improve operating reliability of, or to reduce power costs from, the Project; or

(2) any retirement from service, decommissioning or termination of the Project, except to the extent that such costs are paid from insurance proceeds;

upon filing with the Trustee of a statement by an Authorized Officer of amounts expected to be available for any of the foregoing purposes from reimbursement or insurance proceeds or otherwise.

(C) Additional Bonds may be issued to refund any Bonds in the event, in the opinion of the District, it may otherwise be advantageous.

(D) Additional Bonds shall be issued only upon filing with the Trustee of (1) an Authorized Officer's certificate that to the best of the signer's knowledge and belief no Event of Default exists and (2) a certificate of the Trustee that there is no Event of Default of which it has actual knowledge.

(E) Obligations issued by the District secured by purchase-money security interests shall not be deemed to be Additional Bonds.

Section 2.4. Disposition of Bond Proceeds. Upon the delivery of a Series of Bonds the proceeds shall be paid to the Trustee and applied as follows:

(A) The amount (if any) necessary to increase the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement shall be deposited in the Debt Service Reserve Fund.

(B) Accrued interest and any capitalized interest to be paid from the original proceeds of the Bonds shall be deposited in the Interest Account.

(C) The amount (if any) determined by the District in the Supplemental Resolution providing for the issuance of the Bonds to be deposited in the Reserve and Contingency Fund shall be deposited in the Reserve and Contingency Fund.

(D) The balance of the proceeds shall be deposited in the Construction Fund or, in the event that any Bonds are issued for the purpose specified in Section 2.3(C), as provided in the Supplemental Resolution.

Section 2.5. Parity Bonds. Any Additional Bonds, Notes or other evidences of indebtedness to be issued will be on a parity with the Series of Bonds issued under the first Supplemental Resolution adopted hereunder, and all other previously issued Additional Bonds as to the lien on Revenues (the "Parity Bonds") provided the District can demonstrate in certificate filed with the Trustee that the District's Operating Earnings for the prior fiscal year exceeds by 125% the annual debt service due in the District's next fiscal year on (1) the Outstanding Notes,

(excluding the change in accredited value of the zero coupon Notes), (2) the Series of Bonds issued under the First Supplemental Resolution, (3) all other outstanding parity indebtedness, and (4) the Additional Bonds to be issued. For purposes of this test, Operating Earnings may include proforma annual Operating Earnings reasonably anticipated to be earned as a result of completion of a Project expansion or extension financed with the proceeds of Additional Bonds.

Section 2.6. Subordinate Lien Obligations; Other Obligations. (A) Nothing in the Resolution shall prohibit the District from issuing bonds, notes or other evidences of indebtedness payable in accordance with Section 5.1(B) from the Revenue Fund and the Revenues for any of its corporate purposes, subordinate to the deposits and credits required to be made from the Revenue Fund to other Funds and Accounts under the Resolution and to the payments required for Operating Expenses, and may secure the bonds, notes or other evidences of indebtedness by a pledge of the Revenues subordinate and inferior to the pledge of the Revenues created by the Resolution. The proceeds of the subordinate obligations may be pledged as security for the subordinate obligations free and clear of the lien of the Resolution.

(B) The District expressly reserves the right to adopt one or more other general bond resolutions and reserves the right to issue other obligations so long as the same are not a charge or lien on the Revenues and other moneys or securities pledged hereunder.

Section 2.7. Variable Rate Bonds. A Supplemental Resolution providing for issuance of a Series of Bonds may provide for the Bonds to bear interest at a variable rate or rates so long as it specifies: (1) the manner of determining the interest rate or rates and (2) a maximum rate or rates at which the Bonds may bear interest. If Bonds of a Series bear interest at a variable rate, the Debt Service Reserve Fund Requirement shall be calculated by using the maximum rate or rates so specified. For purposes of calculating the payments into the Interest Account in the Debt Service Fund pursuant to Section 5.2, the interest accrued or estimated to accrue for the calendar month in which the payment is to be made shall be the amount of the required payment, subject in the case of an estimate to an adjustment at the end of the month.

Section 2.8. Notes. The District may by resolution authorize the issuance of Notes (and renewals thereof) in anticipation of the issuance of Bonds of a Series. The principal and interest on such Notes and renewals thereof shall be payable from any moneys of the District available therefor, from the proceeds of such Notes or from the proceeds of the sale of the Bonds in anticipation of which such Notes are issued. The proceeds of such Bonds deposited in the Construction Fund may be pledged for the payment of the principal of and interest on such Notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. A copy of the resolution of the District authorizing such Notes shall be delivered to the Trustee following adoption, together with such other information concerning such Notes as the Trustee may reasonably request. Any Notes issued by the District on parity with the Series of Bonds under the first Supplemental Resolution must comply with Section 2.5.

Section 2.9. Lines of Credit. The District may establish lines of credit secured by subordinated liens upon Revenues.

Section 2.10. No Senior Debt. Notwithstanding with anything to the contrary in this Article II, the District cannot issue any Bonds, Notes or other indebtedness that are senior to the Series of Bonds issued under the first Supplemental Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS

Section 3.1. Details of Bonds. Except as otherwise set forth in the Supplemental Resolution providing for their issuance, (i) Bonds issued upon the initial issuance of a Series shall bear the same date; (ii) Bonds issued upon exchanges and transfers of Bonds shall be dated so that no gain or loss of interest results from the exchange or transfer; and (iii) Bonds of a Series shall be numbered from R-1 upwards in chronological order as issued. The principal or redemption price of and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Section 3.2. Execution of Bonds. Except as otherwise provided in the Supplemental Resolution providing for their issuance, (i) the Bonds shall be signed in the name of the District by an Authorized Officer and the District Treasurer (which signatures may be in facsimile if the authentication of the Trustee is manually signed); and (ii) the seal of the District (if any) shall be impressed or a facsimile thereof imprinted or reproduced on the Bonds. In case any officer of the District whose signature appears on any Bond ceases to hold office before the delivery of the Bond, his or her signature shall, nevertheless, be valid and sufficient for all purposes as if he or she had remained in office until the delivery.

Section 3.3. Authentication of Bonds. Except as otherwise provided in the Supplemental Resolution providing for their issuance, each Series of Bonds shall be authenticated by the Trustee. Authentication by the Trustee upon a Bond shall be conclusive evidence that the Bond has been duly issued under the Resolution and is entitled to the benefits and security of the Resolution. In case any person whose authorized signature for the Trustee appears on any Bond ceases to be authorized to sign for the Trustee before the delivery of the Bond, his signature shall, nevertheless, be valid and sufficient for all purposes as if he had remained so authorized. In case any of the Bonds have been authenticated by the Trustee but not delivered, a successor Trustee may adopt the certificate of authentication of the predecessor Trustee. In case any of the Bonds have not been authenticated, the successor Trustee may authenticate the same in its own name.

Section 3.4. Transfer, Registration and Exchange of Bonds. (A) Bonds shall be transferable, registrable and exchangeable as provided in the Bonds. Unless otherwise provided in the Supplemental Resolution providing for their issuance, transfers, registrations and exchanges of Bonds shall be without expense to the holder except that any taxes or other governmental charges required to be paid with respect to the same shall be paid by the holder requesting the transfer, registration or exchange as a condition precedent to the exercise of the privilege, and no transfers, registrations and exchanges shall be required to be made during the fifteen (15) days next preceding an interest payment date for the Bonds, nor during the forty-five (45) days next preceding the date fixed for the redemption or repurchase of the Bonds.

(B) The Trustee shall act as registrar and transfer agent for the Bonds. Whenever Bonds registered as to principal are outstanding and unpaid, it shall maintain at its corporate trust office books of registry in which, subject to such reasonable regulations as it may prescribe, it shall register Bonds and the transfer of Bonds entitled to be registered or transferred as herein provided. Bonds surrendered in any transfer or exchange of Bonds shall be cancelled by the Trustee.

Section 3.5. Mutilated, Lost or Destroyed Bonds. Unless otherwise provided in the Supplemental Resolution providing for their issuance, lost or destroyed Bonds may be replaced in accordance with the Uniform Commercial Code. Any indemnity bond required by the Uniform Commercial Code shall run to the Trustee as well as to the District and the replacement shall be subject to the reasonable requirements of the Trustee as well as those of the District. Mutilated Bonds may be similarly replaced, without an indemnity bond if the District and the Trustee deem an indemnity bond to be unnecessary. Expenses of the replacement shall be borne by the holder.

Section 3.6. Temporary Bonds. Any Series of Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery.

Section 3.7. CUSIP Identification Numbers. Unless otherwise provided in the Supplemental Resolution providing for their issuance, at the option of the District, CUSIP identification numbers may be printed on the Bonds of a Series, but the number shall not be deemed to be a part of the Bond, and no liability shall attach to the District or any officer of agent of the District (including the Trustee) because of the CUSIP identification numbers.

Section 3.8. Book Entry. The District may provide in the Supplemental Resolution providing for the issuance of a particular Series of Bonds that such Series shall be in book-entry form and setting forth the terms and conditions in connection therewith.

Notwithstanding anything herein to the contrary, the District or the Trustee shall not be required to treat any depository or its nominee as the registered owner of a Series of Bonds for purposes of this Resolution in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the Bondholders are entitled to take pursuant to Articles VIII and IX hereof or otherwise, or the exercise of Bondholder remedies pursuant to Article VIII hereof unless such depository or nominee presents evidence reasonably acceptable to the District or the Trustee that such depository or nominee has obtained the requisite consents, directions or approvals with respect to any act or direction to be taken or given by a Bondholder hereunder from the requisite beneficial owners of such Series of Bonds.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1. Redemption of Bonds. The Bonds of a Series shall be subject to redemption prior to their stated maturities at such dates and redemption prices as are set forth in the Supplemental Resolution providing for their issuance.

Section 4.2. Selection of Bonds for Redemption. In the selection by lot of Bonds to be redeemed (other than at the option of the holders), the Trustee shall select the particular Bonds to be redeemed in a manner which it deems fair.

Section 4.3. Notice of Redemption. Notice of redemption of Bonds (other than at the option of the holders) shall be given by the Trustee for the District in the manner set forth in the Bonds.

Section 4.5. Determination of Taxability. Upon the occurrence of an Event of Taxability, Bonds of a Series deemed taxable shall be redeemed in the manner provided for special redemption in Section 5.9(A). "Event of Taxability" as used in this Section 4.5 means with respect to the Bond: (i) the application of the related proceeds in such manner such that any Bond becomes an "arbitrage bond" within the meaning of Code Sections 103(b)(2) and 148, and with the result that interest thereon is or becomes includable in a holder's gross income (as defined in Code Section 61); (ii) if as the result of any act, failure to act or use of the related proceeds or any misrepresentation or inaccuracy in any of the representations, warranties or covenants contained in or related to the Bonds by the District or the enactment of any federal legislation or the promulgation of any federal rule or regulation after the date of this Resolution or for any other reason, the interest on the Bond is or becomes includable in a holder's gross income (as defined in Code Section 61), or (iii) any determination by the Internal Revenue Service or a court of competent jurisdiction that the Bond is not a "qualified tax exempt obligation" under Section 265(b)(3) of the Code.

ARTICLE V

FUNDS AND ACCOUNTS

Section 5.1. Revenue Fund. (A) There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the "Project Revenue Fund." The District shall pay all of the Revenues into the Revenue Fund as promptly as practicable after receipt (other than the Revenues expressly required or permitted by the Resolution to be credited to or deposited in any other Fund or Account).

(B) The moneys in the Revenue Fund shall be applied in the following order of priority:

- (i) First, to payment of the amounts required to be paid from the Revenue Fund into the Debt Service Fund and Debt Service Reserve Fund, and the amounts paid to the District to pay the Outstanding Notes;
- (ii) Second, to payment to the District to pay Operating Expenses;
- (iii) Third, to payment of the amounts (if any) required to be paid from the Revenue Fund into the Reserve and Contingency Fund;

(iv) Fourth, to payment of the amounts required to be paid from the Revenue Fund into the Redemption Fund and the Rebate Fund;

(v) Fifth, in accordance with, and to purposes permitted by Section 5.6, including the pledging of the same to secure other obligations or payment to the District free and clear of the lien of the Resolution;

(vi) Sixth, to payment to the District to pay principal and interest, if any, due on the Series 2011 C Subordinated Notes by the District or due on other subordinated debt that may be issued by the District; and

(vii) Seventh, to payment to the District to pay the direct compensation due the management company under the Operating Agreement.

(C) Before applying moneys in the Revenue Fund in any month for any purpose having a lower priority as provided in paragraph (B) above, the District shall provide for all payments having a higher priority to be made within such month. Before applying moneys in the Revenue Fund for any purpose having lower priority than Operating Expenses as provided in paragraph (B) above, the District may reserve sufficient moneys, together with reasonably expected Revenues, to meet estimated Operating Expenses for a reasonable period not to exceed six months.

(D) All moneys held by the District in the Revenue Fund shall, until otherwise invested or applied as provided in the Resolution, be deposited by the District in its own name, for the account of the Revenue Fund with the Trustee. Monthly, the Trustee shall deduct all amounts to be paid to the Debt Service Fund, the Debt Service Reserve Fund, the Rebate Fund, Redemption Fund and the Reserve and Contingency Fund from the Revenue Fund. All remaining amounts shall be promptly transferred to the District and deposited in such depository or depositories as the District shall at any time or from time to time appoint for the purpose. Any depository so appointed shall be a bank or trust company within or outside of the State eligible to receive deposits of public moneys and which is a member of the Federal Deposit Insurance Corporation and has a capital and surplus not less than ten million dollars (\$10,000,000).

(E) For so long as the District is not in default under, or the payments provided below do not result in a default under, any obligations previously issued by ECF Holdings, LLC, for which payment has been assumed by the District, and for so long as any agreed-to subordination of holders of any such debt is respected, whenever Operating Cash Flow (“OCF”) of the Project exceeds \$500,000 for a complete calendar year, interest shall be paid on all Series C Notes in the lesser amount of: (a) 15% of the OCF; or (b) the full amount of interest then due under such Series 2011 C Subordinated Notes. Such payments shall be made semi-annually in the following year on the dates specified in the Series 2011 C Subordinated Notes. For the purposes of this section, OCF shall be defined to mean the earnings before interest, taxes, depreciation and amortization (“EBITDA”) minus interest on : (i) the ECF Holdings, LLC 2010 Series A Notes; (ii) any notes or other debt issued by ECF Holdings, LLC, between January 1, 2011 and January 1, 2015; and (iii) any special notes issued by ECF Holdings, LLC, to Matrix Design Group, Inc. between September 30, 2013 and January 1, 2014.

Section 5.2. Debt Service Fund. There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the “Project Debt Service Fund,” consisting of three separate accounts:

(A) The “Interest Account” shall be used to pay the interest on the Bonds. Not later than the sixth business day prior to the end of the sixth calendar month before the date upon which an installment of interest on the Bonds of a Series falls due, and on or before the sixth business day prior to the end of each calendar month thereafter until the installment falls due, the Trustee shall pay from the Revenue Fund into the Interest Account an amount equal to one-sixth of the installment of interest coming due. The District shall also transfer from the Revenue Fund to the Interest Account any amount required to pay interest on overdue principal. If at any time the District determines that the amounts on deposit in the Interest Account in respect of capitalized interest exceed the amount required therefor, it may direct the Trustee to transfer all or part of the excess monthly to the Construction Fund or, in the event refunding Bonds are issued, as provided in the Supplemental Resolution therefor.

(B) The “Principal Account” shall be used to pay the principal of Serial Bonds. Not later than the sixth business day prior to the end of the twelfth calendar month before the date upon which an installment of principal of Serial Bonds of a Series falls due, and on or before the sixth business day prior to the end of each calendar month thereafter until the installment falls due, the Trustee shall pay from the Revenue Fund into the Principal Account an amount equal to one-twelfth of the installment of principal coming due. The Trustee shall also transfer from the Revenue Fund to the Principal Account any amount required to pay principal of Serial Bonds which has been accelerated pursuant to Section 8.2.

(C) The “Sinking Fund Account” shall be used to pay the principal or sinking fund installments on Term Bonds. Not later than the sixth business day prior to the end of the twelfth calendar month before the date upon which a sinking fund installment of Term Bonds of a Series falls due, and on or before the sixth business day prior to the end of each calendar month thereafter until the installment falls due, the Trustee shall pay from the Revenue Fund into the Sinking Fund Account an amount equal to one-twelfth of the sinking fund installment coming due. The Trustee shall also transfer from the Revenue Fund to the Sinking Fund Account any amount required to pay principal of Term Bonds which has been accelerated pursuant to Section 8.2. The Trustee shall call Term Bonds for redemption on the sinking fund installment date to the extent of the sinking fund installment coming due. Moneys on deposit in the Sinking Fund Account for a sinking fund installment on Term Bonds of a Series and maturity may, and if so directed by an Authorized Officer shall, be applied to the purchase of the Term Bonds, at a price not exceeding the applicable redemption price, at least 60 days before the sinking fund installment date, the accrued interest being paid from the Interest Account, and these purchases shall be credited against the sinking fund installment at the applicable redemption price. The District may also purchase Term Bonds with other available funds (excluding funds in the Special Redemption Account) and credit them against a sinking fund installment applicable to them at the applicable redemption price by delivering them to the Trustee for cancellation at least 60 days before the sinking fund installment date and may pay the accrued interest on the purchase from the Interest Account.

(D) Sums funded from Bond proceeds or earnings thereon and on deposit in the Interest Account to pay an installment of interest and other sums on deposit in the Interest Account, Principal Account or Sinking Fund Account and available to pay an installment of interest or principal or sinking fund installment (as the case may be) shall be credited against the monthly payments required to be made into the Account for that installment. In the event of the purchase or redemption of Bonds between the dates established for payment of installments of interest or principal or sinking fund installments, the subsequent monthly payments shall be adjusted so that the amounts deposited to pay the next installments and not withdrawn for the purchase or redemption of Bonds will be equal to the amounts needed to pay the installments and any excess shall be returned to the Revenue Fund. If the first installment of interest on the Bonds of a Series will come due in more or less than six months, or the first installment of principal or sinking fund installment in less than twelve months, the number of monthly payments to provide for that installment shall be increased or decreased, as the case may be, and the amount of each payment adjusted accordingly, so that in any event the amount required to pay the entire installment shall be deposited not later than the sixth business day prior to the end of the calendar month before the date on which it falls due.

Section 5.3. Debt Service Reserve Fund. There is hereby established a trust fund of the District to be held by the Trustee and to be known as the "Project Debt Service Reserve Fund." The purpose of the Debt Service Reserve Fund is to provide a reserve for the payment of the principal or redemption price of and interest on the Bonds, but not for the payment of the principal or redemption price of and interest on any subordinate obligation issued under Section 2.6. Provided no Event of Default described herein has occurred, if on any date when an installment of interest or principal or a sinking fund installment becomes due the amount on deposit in the Debt Service Fund is insufficient to pay such installment of interest or principal or sinking fund installment, the Trustee shall make up the deficiency by transfer from the Debt Service Reserve Fund. If at any time the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall forthwith make up the deficiency from the Reserve and Contingency Fund, and any remaining deficiency shall be made up by six approximately equal monthly transfers by the Trustee from the Revenue Fund. For purposes of determining the amount in the Debt Service Reserve Fund, the fair market value of investments shall be determined as of December 31 in each year or when required in connection with a deposit or transfer (including in connection with the issuance of a Series of Bonds). If the amount in the Debt Service Reserve Fund is greater than the Debt Service Reserve Fund Requirement on June 30 or December 31 of any year or upon the issuance of a Series of Bonds, the excess shall be dealt with in the manner provided for earnings from investment of the Debt Service Reserve Fund or, in the case of an excess upon the issuance of a Series of Bonds, as otherwise provided in the Supplemental Resolution providing for such issuance. If an Event of Default has occurred, the Trustee may, at the direction of the Bondholders, use the balance of the Debt Service Reserve Fund to: preserve the lien on the Revenues and assets of the District, pay counsel, sell or lease the District's assets, insure the District's assets, collect Revenues due from the District's ratepayers, and pay Operating Expenses.

Section 5.4. Reserve and Contingency Fund. (A) There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the "Project Reserve and Contingency Fund." The Reserve and Contingency Fund shall be used to pay, as the District, at

its sole discretion determines for (1) necessary renewals, replacements, modifications, capital additions, betterments and extraordinary repairs of the Project, (2) costs of the retirement from service, decommissioning, disposal and termination of the Project, and (3) extraordinary operation and maintenance costs and the costs of preventing or correcting any unusual loss or damage (including major repairs and insurance deductible payments). Any Supplemental Resolution providing for the issuance of a Series of Bonds may provide for a deposit from the proceeds of the Bonds into the Reserve and Contingency Fund. Commencing on the Date of Commercial Operation, the District shall pay from the Revenue Fund into the Reserve and Contingency Fund on or before the sixth business day prior to the end of each month an amount equal to 5% of the amount required to be deposited at that time in the Debt Service Fund pursuant to paragraphs (A), (B) and (C) of Section 5.2. If on the last day of any Bond Year the amount in the Reserve and Contingency Fund, after deducting any amount committed or obligated for the purposes specified in this Section but not yet paid, is greater than the Reserve and Contingency Fund Requirement, the Trustee, after making any payment required by paragraph (B) of this Section, shall pay the excess to the Revenue Fund.

(B) If there is a deficiency in the Debt Service Reserve Fund after a transfer is made under Section 5.3, the Trustee shall make up the deficiency by transfer from the Reserve and Contingency Fund.

Section 5.5. Rebate Fund. (A) There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the "Project Rebate Fund." The purpose of the Rebate Fund is to ensure compliance with Code Section 148(f) (the "Rebate Provision"). For each Series of Bonds issued under this Resolution (other than Taxable Bonds) there shall be established by the Trustee within the Rebate Fund a separate account into which any Excess (as defined below) allocable to such Series shall be deposited. Within thirty (30) days after the close of each Rebate Year, the District shall compute and certify to the Trustee in reasonable detail the amount of Excess, if any, for such Rebate Year, and the District shall deposit such amount into the Rebate Fund from the Revenue Fund within seven (7) days of such certification.

(B) If at the close of any Rebate Year the amount in any account of the Rebate Fund exceeds the amount that would be required to be paid to the United States under Section 5.5(D) if the applicable Bonds were no longer Outstanding, upon certification thereof in reasonable detail by the District to the Trustee, such excess shall promptly be paid to the District for deposit in the Revenue Fund.

(C) "Excess" for any period means the sum of

(i) the excess of

(A) the aggregate amount earned on all Nonpurpose Investments (other than investments attributable to an excess described in this subparagraph) in the Debt Service Reserve Fund, the Redemption Fund, the Construction Fund and, but only in the circumstances described below, in the Debt Service Fund over

(B) the amount which would have been earned if all Nonpurpose Investments in such funds were invested at a rate equal to the yield (determined in

accordance with the Code) on the Series of Bonds to which such moneys are attributable, plus

(ii) any income attributable to the investment of any excess described in subparagraph (i) above or this subparagraph (ii).

The term “Nonpurpose Investment” shall have the meaning given in the Rebate Provision and shall be applied as provided therein. Nonpurpose Investments shall be valued at market for the purposes of this Section 5.5(C). In determining the aggregate amount earned on Nonpurpose Investments, any realized gain or loss shall be taken into account and earnings on amounts paid into the Debt Service Fund by the District pursuant to Section 5.2 shall not be taken into account if the gross earnings on such account for the Rebate Year are less than \$100,000.

(D) (i) Within thirty (30) days after the close of the fifth Rebate Year, and at least once in each five-year period thereafter, the Trustee shall pay from the Rebate Fund to the United States on behalf of the District the full amount then required to be paid under the Rebate Provision. Within thirty (30) days after the Bonds of any Series are no longer Outstanding, the Trustee shall pay to the United States from the Rebate Fund on behalf of the District the full amount then required to be paid under the Rebate Provision as calculated by the District. Each such payment shall be filed with the Internal Revenue Service Center, Ogden, Utah 84201, or any successor location designated by the Internal Revenue Service, accompanied by a copy (furnished by the District) of the Form 8038-T (or other similar information reporting form) filed with respect to the Series of Bonds and a statement summarizing the determination of the amount required to be paid. If the amount in the Rebate Fund is insufficient to pay the amount required to be paid under the Rebate Provision, the District shall be liable to make up that deficiency prior to the Rebate Payment Date (as defined below).

(ii) No later than fifteen (15) days prior to each date on which a payment could become due under Section 5.5(D) (a “Rebate Payment Date”), the District shall deliver to the Trustee a certificate either summarizing the determination that no amount is required to be paid or specifying the amount then required to be paid pursuant to this Section 5.5(D) and if an amount is required to be paid, the Trustee shall make such payment on the Rebate Payment Date from the Rebate Fund or other funds provided by the District.

(E) The Trustee shall keep such records as will enable it and the District to fulfill the responsibilities under this Section 5.5 and the Rebate Provision and shall retain such records for at least six years following final payment of the Bonds. The Trustee may rely conclusively upon all rebate calculations provided to it under this Section 5.5 and shall not have any obligation to make any rebate calculations or confirm calculations delivered to it hereunder.

(F) The purpose of this Section 5.5 is to satisfy the requirements of Code Section 148(f). Accordingly, this section shall be construed so as to meet such requirements.

Section 5.6. Surplus Moneys in the Revenue Fund. If, after the District has made the required transfers from the Revenue Fund set forth above, the amount on deposit in the Revenue Fund exceeds the reserve (if any) pursuant to paragraph (C) of Section 5.1, the District may

apply the excess (i) to pay costs of modifications, additions and betterments to the Project, (ii) to redeem Bonds by deposit to the Optional Redemption Account, or (iii) to any other lawful purpose of the District, including deposits in any Funds or Accounts (other than the Special Redemption Account) and expansion of the telecommunications services offered by the District.

Section 5.7. Construction Fund. There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the “Project Construction Fund.” Moneys in the Construction Fund shall be applied to the payment of Costs of Acquisition and Construction. Project construction cost invoices shall be submitted monthly by the Operating Agreement management company for review and approval by the District which invoices shall include capitalized labor costs and expenses allocable to Project construction and Project supervisory personnel. Before any payment is made for this purpose from the Construction Fund, the District shall file with the Trustee a written order signed by an Authorized Officer and stating (i) the name and address of the person to whom the payment is due, (ii) the item or items to be paid, (iii) the amount to be paid for each item, (iv) that the items to be paid have been incurred by the District, that each item is a proper item for payment from the Construction Fund and that the amount to be paid has not already been paid from any Fund or Account maintained by the Trustee under the Resolution, and (v) if payment is to be made to the District, that the District has advanced payment for the item from other funds. Where Bond proceeds are to be used to provide working capital, they may be transferred to the Revenue Fund upon receipt by the Trustee of a certificate of an Authorized Officer to the effect that they are not needed for other Costs of Acquisition and Construction and that they are reasonably needed to provide for Operating Expenses or other costs relating to the Project not otherwise provided by Bond proceeds.

Section 5.8. Project Completion. As soon as practicable after the Date of Commercial Operation, the District shall file a certificate with the Trustee stating that the Project has been completed, giving its Date of Commercial Operation, and setting forth any remaining Costs of Acquisition and Construction to be paid from the Construction Fund. Any balance of moneys in the Construction Fund not needed to pay the remaining Costs of Acquisition and Construction may be used to expand the Project or transferred first to the Debt Service Reserve Fund to the extent necessary to cause the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement and the balance shall be deposited, as determined by the Board, (i) to the Special Redemption Account, (ii) to the Reserve and Contingency Fund to the extent that the amount immediately thereafter on deposit will not exceed the Reserve and Contingency Fund Requirement, or (iii) to the extent such balance does not exceed \$200,000, to the Revenue Fund.

Section 5.9. Redemption Fund. There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the “Project Redemption Fund,” consisting of two separate accounts:

(A) The “Special Redemption Account” shall be used to purchase or redeem Bonds, including the payment of premium (if any), which are subject to redemption by operation of the Special Redemption Account at redemption prices set forth in the applicable Supplemental Resolution.

(B) The “Optional Redemption Account” shall be used to purchase or redeem Bonds, including the payment of premium (if any), which are subject to redemption by operation of the Optional Redemption Account at redemption prices set forth in the applicable Supplemental Resolution. All moneys transferred to the Redemption Fund not required to be deposited in the Special Redemption Account shall be deposited in the Optional Redemption Account.

(C) Moneys in the Redemption Fund shall be applied by the Trustee as soon as practicable to the purchase or redemption of Bonds. The purchase price (excluding accrued interest) shall not exceed the earliest available redemption price (excluding accrued interest). If the accrued interest on a purchase of Bonds is available in the Interest Account, it shall be paid from the Interest Account. Otherwise, the District shall transfer moneys from the Revenue Fund to the Redemption Fund to pay accrued interest on the purchase of Bonds or to reimburse the Redemption Fund for accrued interest already paid. Nothing in this Section shall be deemed to authorize redemption of any Series of Bonds otherwise than in accordance with their terms.

(D) In purchasing Bonds from the Redemption Fund or the Sinking Fund Account in the Debt Service Fund, the Trustee shall use its best efforts to obtain the fairest price obtainable with reasonable diligence.

Section 5.10. Investment of Funds. (A) Moneys held by the District or the Trustee which are not needed for immediate disbursement shall, to the extent practicable and reasonable, be invested in Investment Securities by the District, or by the Trustee as directed by the District (or in Investment Securities of the type described in item (1) of the definition of Investment Securities maturing not later than 30 days from the date of investment if no direction is received from the District), as the case may be, subject to the following:

(1) Moneys in the Debt Service Fund and the Redemption Fund shall be invested in Investment Securities of the types described in items (1), (2), (4) and (6) of the definition of Investment Securities, maturing or subject to redemption at the option of the holder on or before the dates when the moneys will be required for expenditure.

(2) Moneys in the Debt Service Reserve Fund shall be invested in Investment Securities of the types described in items (1), (2), (4) and (6) of the definition of Investment Securities, maturing or subject to redemption at the option of the holder within ten years from the date of investment (but not later than the final maturity date of the Bonds).

(3) Moneys in the Reserve and Contingency Fund shall be invested in Investment Securities maturing or subject to redemption at the option of the holder within ten years from the date of investment.

(4) Moneys in the Construction Fund shall be invested in Investment Securities maturing or subject to redemption at the option of the holder on or before the dates when the moneys are expected to be required for expenditure. Any investment directed by the District shall be made with due regard to the most recent estimates of amounts expected to be disbursed from time to time from the Construction Fund.

(5) Moneys in the Revenue Fund, when invested by or at the direction of the District, shall be invested in Investment Securities maturing or subject to redemption at the option of the holder on or before the dates when the moneys are expected to be required for expenditure.

(6) Moneys in several Funds or Accounts may be invested in undivided interests in the same Investment Securities if they are otherwise eligible for each of the several Funds or Accounts. Investment Securities may be transferred in kind at fair market value when deposits or transfers are required if they are eligible for the transferee or depository Fund or Account.

(7) In the event that invested moneys in a Fund or Account are required for expenditure or transfer, they shall be sold or redeemed to the extent necessary. Investment Securities may be sold at their fair market value by one Fund or Account to another if eligible for investment by the latter.

(B) Except as otherwise provided below, all income from the investment of any Fund or Account established under the Resolution (including net profit from the sale of any investment) shall be deposited in the Revenue Fund, or, if so directed by the District, in any other Fund or Account established under the Resolution, or as otherwise provided by Supplemental Resolution. Income from investment of the Redemption Fund shall accrue to it except that any income not needed to pay or redeem Bonds shall be subject to the provisions of the preceding sentence. Income from investment of the Rebate Fund shall accrue to it. For the period until the Date of Commercial Operation (or until the Project is discontinued pursuant to Section 7.6) income accruing from investment of the proceeds of Bonds which have been deposited in the Interest Account, the Construction Fund, the Debt Service Reserve Fund and the Reserve and Contingency Fund, including income on the income, shall when received be deposited in the Construction Fund, or, if so directed by the District, in the Interest Account, or as otherwise provided by the Supplemental Resolution under which the Bonds are issued. Any loss from investment of a Fund or Account shall be charged to the Fund or Account but shall be set off against income from investment of the Fund or Account which would otherwise be deposited in another Fund or Account.

(C) The fair market value of investment shall be determined as of a reasonable date not more than three weeks prior to the applicable date at cost (plus amortized discount or minus amortized premium but excluding accrued interest to the date of purchase) plus accrued interest to the date as of which they are valued unless the Trustee determines that a lower valuation is necessary by reason of uncertainty of payment or anticipated loss on sale prior to maturity.

(D) Notwithstanding anything in this Section 5.10 to the contrary, no gross proceeds (as defined in Code Section 148(f)(6)(B)) of any Series of Bonds issued under the Resolution shall be invested in any of the following:

(1) Investment Securities described in items (1) or (2) of the definition of Investment Securities, in each case with yields lower than the yield available on comparable obligations then offered by the United States Treasury;

(2) interest bearing bank accounts exceeding an aggregate amount of \$25,000 at any time, taking into account all funds invested under the Resolution; and

(3) Investment Securities described in items (4), (5), (6), (7), (8) or (9) of the definition of Investment Securities except (i) to the extent the Trustee or the District, as the case may be, is advised by nationally recognized bond counsel that such investment would not result in a “prohibited payment,” as defined in regulations under Code Section 103(c)(6) or (ii) for investment of moneys in the Debt Service Fund derived from payments by the District during a Rebate Year in which the Trustee estimates that the total earning on such moneys during such Rebate Year will not exceed \$100,000. For purposes of this subsection “yield” shall have the meaning given it in Section 5.5.

The requirements of this paragraph (D) shall not apply to moneys allocable to any Taxable Bonds or any Series of Bonds as to which the Trustee and the District shall have received an opinion of nationally recognized bond counsel to the effect that such requirements are no longer necessary to preserve the exemption of interest on the Series of Bonds from federal income taxation.

(E) The Trustee shall have no responsibility or liability for any depreciation in the value of any investment or for any loss, direct or indirect, resulting from any investment made in accordance with the instructions of the District. The Trustee shall be without liability to the District or any other person in the event that any investment made in accordance with the instructions of the District shall cause any or all of the Bonds to be or become arbitrage bonds within the meaning of Code Section 148 or shall cause any person to incur any liability or rebates or other monies payable pursuant to the IRC.

ARTICLE VI

TRUSTEE

Section 6.1. Qualifications and Appointment; Resignation or Removal. (A) _____ is hereby appointed as Trustee hereunder, and the property, rights, powers and duties of the Trustee under the Resolution are hereby vested in said Trustee in trust for the Bondholders. Any successor Trustee shall be a trust company or bank within or outside of the State having trust powers and a combined capital and surplus of not less than fifty million dollars (\$50,000,000).

(B) The Trustee may resign on not less than thirty (30) days’ notice given in writing to the District and the Bondholders, but such resignation shall not take effect until a successor has been appointed by the District and has accepted such position. The Trustee will promptly certify to the District that it has mailed such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required hereby. The Trustee may be removed (i) by written notice from the owners of the majority in principal amount of the Bonds Outstanding to the Trustee and the District, or (ii) so long as no default or Event of Default exists hereunder, by the District, with written notice to the Trustee, but no such removal shall take effect until a successor has been appointed and assumed the duties hereunder. A petition in a court of competent jurisdiction for removal of the Trustee and the appointment of a

successor may be filed by the Bondholders representing not less than 25% in principal amount of the Bonds Outstanding.

(C) Any corporation or association which succeeds to the corporate trust business of the Trustee as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Trustee under this Agreement, without any further act or conveyance.

(D) In case the Trustee resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property is appointed, or if a public officer takes charge or control of the Trustee, or of its property or affairs, a successor shall be appointed by the District. The successor Trustee shall notify the Bondholders of the appointment in writing within twenty (20) days from the appointment. If no appointment of a successor is made within forty-five (45) days after the giving of written notice in accordance with this section or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Bondowner may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee appointed under this section shall be a trust company or a bank having the powers of a trust company, authorized to serve as Trustee under the Act, having a capital and surplus of not less than \$50,000,000. Any such successor Trustee shall notify the District of its acceptance of the appointment and, upon giving such notice, shall become Trustee, vested with all the property, rights and powers of the Trustee hereunder, without any further act or conveyance. Such successor Trustee shall execute, deliver, record and file such instruments as are required to confirm or perfect its succession hereunder and any predecessor Trustee shall from time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession hereunder.

Section 6.2. Responsibility of Trustee; Reliance on Certificates and Opinions. Prior to the Trustee having actual knowledge of an Event of Default, and after the curing or waiving of all Events of Default actually known to the Trustee, the Trustee shall not be liable except for the performance of the duties specifically set out in the Resolution. In case of an Event of Default of which the Trustee has actual knowledge, the Trustee shall use the same degree of care and skill in the exercise of the rights and powers vested in it by the Resolution as a prudent man would use in the conduct of his own affairs. The Trustee shall not be liable for an error of judgment made in good faith by a responsible officer or officers unless the Trustee was negligent in ascertaining the pertinent facts, or for any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Outstanding Bonds, relating to the time, method and place of pursuing any remedy or exercising any trust or power under the Resolution. The Trustee shall be wholly protected when acting in good faith upon advice of counsel, who may be counsel to the District.

The Trustee may act through agents with respect to any of its duties or responsibilities hereunder. The Trustee shall in no event be liable for the application or misapplication of funds, or for other acts or defaults by any person, firm, or corporation, except its own directors, officers, employees and agents. No recourse shall be had by the District or any Bondholder for any claim

based on this Resolution, any Supplemental Resolution or any Bond against any director, officer, employee or individual agent of the Trustee alleging personal liability on the part of such person, unless such claim is based upon the bad faith, fraud or deceit of such person. A permissive right or power to act shall not be construed as a requirement to act.

The Trustee shall not be required to monitor the financial condition of the District or the physical condition of the Project and, unless otherwise expressly provided, shall not have any responsibility with respect to notices, certificates, or other documents filed with it hereunder, except to make them available for inspection by the Bondholders. The Trustee shall be deemed to have knowledge of and shall not be required to take notice of any Event of Default hereunder, except for an Event of Default described in Section 8.1(1) or (2) hereof relating to the payment of principal of, premium, if any, and interest on the Bonds, unless the Trustee shall be specifically notified in writing by the District or Bondholders representing not less than 25% in principal amount of the Bonds Outstanding.

Notwithstanding any other provision of this Resolution to the contrary, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of this Resolution, the Trustee shall consider the effect on the Bondholders as if there were no Bond Insurance.

Section 6.3. Evidence of Compliance with Conditions Precedent. When any action by the Trustee is called for by the Resolution, the Trustee may conclusively rely upon certificates or opinions that it reasonably believes to be genuine conforming to the requirements of the Resolution or Bond Insurance with respect to satisfying any conditions precedent for the action to be taken or it may defer action pending receipt of such additional evidence (if any) as the Trustee may require for the purpose.

Section 6.4. Statements of Funds and Accounts. Not more than 30 days after the close of each Fiscal Year, the Trustee shall furnish to the District and to any Bondholder filing with the Trustee a written request for the same a statement of (i) the receipts and disbursements of moneys by the Trustee during the Fiscal Year under the Resolution, (ii) the amount held by the Trustee at the end of the Fiscal Year in each Fund or Account under the Resolution, (iii) the investments held by the Trustee in each Fund or Account as of the end of the Fiscal Year, (iv) the principal amount of Bonds purchased by the Trustee during the Fiscal Year from moneys in any Fund or Account under the Resolution and the purchase prices of the Bonds, (v) the principal amount of Bonds redeemed by the Trustee during the Fiscal Year from each Fund or Account and the redemption prices, and (vi) any other information which the District may reasonably request. The Trustee shall also promptly notify the District of the making of all required payments to or from the Debt Service Fund and the Reserve and Contingency Fund other than payments made by or to the District.

Section 6.5. List of Bondholders. The Trustee shall preserve, on as current a basis as reasonably practicable, all information as to the names and addresses of the holders of the Bonds (i) received by it in its capacity as paying agent for the Bonds; or (ii) filed with it by any Bondholder for this purpose. The Trustee may destroy any information maintained by it under this Section, which it considers to be obsolete. At reasonable times and under reasonable regulations established by the Trustee, the information under this Section and the books of

registry under Section 3.4 may be inspected and copied by the District or by the holders (or a designated representative thereof) of 10% or more in principal amount of the Outstanding Bonds, the ownership of the Bonds and the authority of a designated representative to be evidenced to the satisfaction of the Trustee. The Trustee shall not be responsible for the accuracy of the information received by it under this Section.

Section 6.6. Trustee May File Proofs of Claims. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have claims of the Trustee and of the holders of the Bonds allowed in judicial proceedings relative to the District, its creditors or its properties.

Section 6.7. Trustee Not Responsible for Acts of the District; No Representations by Trustee. The Trustee shall not be responsible or have any liability for any act of the District. The Trustee shall not be responsible for the correctness of any recitals or representations in the Resolution or in the Bonds, all of which are made solely by the District. The Trustee does not make any representations as to, nor has any responsibility for, the validity of the Resolution or of the Bonds.

Section 6.8. Trustee May Deal in Bonds and Other Indebtedness of the District. The Trustee and its directors, officers, employees and agents, may buy, sell, hold and deal in any of the Bonds, may join in any action which any holder of a Bond may be entitled to take, and may enter into other commercial or financial relationships with the District, as if the Trustee was not the Trustee.

Section 6.9. Fees and Expenses of Trustee. The Trustee shall be entitled to reasonable fees and reimbursement by the District for all expenses (including, but not limited to, attorneys' fees) reasonably incurred by it in the performance of its duties and powers under the Resolution. If such fees and reimbursements are not paid when due, they may be subject to interest at the "base rate" of the Trustee (or, if none, the nearest equivalent), and if not otherwise paid, the Trustee shall have a lien for these fees and reimbursement on the moneys pledged to secure the Bonds and held by it under the Resolution, prior to the lien of the holders of the Bonds. Any earnings realized by the Trustee from the investment of funds held under Section 11.2, including the estimated or approximate earnings from unallocated investments fairly attributable to those funds, shall be taken into account in establishing fees under this Section.

Section 6.10. Co-Trustees and Separate Trustees. At any time, for the purpose of meeting the legal requirements of any jurisdiction in which any of the trust estate may at the time be located, the Trustee shall have the power to appoint one or more persons either to act as co-trustee, jointly with the Trustee, of all or any part of the trust estate, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such person or persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this section. The Trustee may at any time accept the resignation of or remove any co-trustee or separate trustee and appoint a successor. At the request of the Trustee, the District shall execute, acknowledge and deliver such instruments as may be required to confirm or effectuate such appointment and the powers and interests granted or such resignation or removal. Every co-trustee or separate trustee shall, to the extent permitted by law, be appointed subject to the following terms:

(A) The Bonds shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of moneys, investments and other personal property held by or required to be deposited or pledged with the Trustee under the Resolution shall be exercised solely by the Trustee.

(B) The rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Trustee or by the Trustee and such co-trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that upon any law of any jurisdiction in which any particular act is to be performed, the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee. Any action of Bondholders delivered to the Trustee shall be deemed to have been delivered to each co-trustee and separate trustee.

(C) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee or any other such trustee hereunder.

(D) Nothing contained in this Resolution shall in any way obligate the Trustee to pay any debt or meet any financial obligations hereunder (or under any Supplemental Resolution) to any person except from moneys received under the provisions of this Resolution (or under any Supplemental Resolution), including from the exercise of its rights and remedies hereunder (or under any Supplemental Resolution), other than the moneys received for its own purposes.

ARTICLE VII

COVENANTS TO SECURE BONDS

Section 7.1. Construction and Maintenance of the Project. The District will use its best efforts to arrange for the financing, planning, engineering, design, acquisition, construction, operation and maintenance of the Project, obtain or arrange to obtain permits and other rights and regulatory approvals necessary therefor, and issue Bonds to finance the Costs of Acquisition and Construction of the Project and the costs of any necessary modifications, additions and betterments for the Project not otherwise provided for.

Section 7.2. Rates and Charges. (A) The District shall establish, revise, levy and collect Revenues at least sufficient to meet the Operating Expenses of the District, an amount equal to 125% of the current Fiscal Year's interest and principal payments, (excluding any change in tax accredited value of any outstanding Notes or Bonds), including payments into sinking funds for the retirement of principal, and an amount equal to the other requirements of any trust agreement or resolution securing bonds or notes of the District, including the Bonds and the Resolution.

(B) Without limiting the generality of the foregoing, the District shall establish and collect rates and charges, whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the output of the Project, which will provide the District with Revenues sufficient to pay:

(i) Operating Expenses and all other costs of the proper operation and maintenance of, and repairs, renewals and replacements to, the Project in order to keep the Project in good operating condition and all taxes, assessments or other governmental charges lawfully imposed on the Project or the revenues therefrom, or payments in lieu thereof, payable by the District;

(2) amounts which the District is obligated to pay to the Trustee pursuant to Sections 5.2, 5.3, 5.4 and 5.5 respectively;

(3) costs to the District of prevention or correction of any unusual loss or damage and of major repairs, renewals and replacements and of capital additions, betterments, improvements, extensions and decommissioning less that part, if any, of such costs as is provided for from insurance, from amounts available therefor in the Reserve and Contingency Fund and from Additional Bonds issued in accordance with Section 2.3(B); and

(4) all other charges or obligations against the Revenues of whatever nature and whether now or hereafter imposed by the Resolution or by law or contract.

Section 7.3. No Free Service; Enforcement of Accounts Owning. Except for promotional purposes and for discounted services furnished to public institutions, and for in-kind compensation, so long as any Bonds are Outstanding, the District will not furnish or supply any commodity, service or facility furnished by or in connection with the Project free of charge to any person, firm or corporation, public or private, and the District will promptly enforce the payment of any and all accounts owing to the District by reason of the Project.

Section 7.4. Annual Budget. The District shall file with the Trustee and make available on the District's website a preliminary annual operating budget within 30 days of its approval in conformance with the Act. The District may at any time adopt and file with the Trustee an amended or supplemental operating budget for the Fiscal Year then in progress. The budget shall show projected Operating Expenses, Debt Service and other payments from the Revenue Fund and the Revenues to be available to pay the same. If the District incurs aggregate Operating Expenses in any Fiscal Year in excess of the aggregate amount shown in the annual budget as amended and supplemented then the District shall promptly file a written report of any such excess expenditure with the Trustee and make available on the District's website. The Trustee shall have no duty with respect to matters filed pursuant to this Section except to send copies to Bondholders upon request.

Section 7.5. Insurance. (A) The District shall carry insurance with generally recognized responsible insurers with policies payable to the District against risks, accidents, or casualties with a deductible of no more than \$25,000. In the event of loss or damage to property covered by the insurance, the District shall promptly repair, replace or reconstruct the damaged or lost property to the extent necessary for the proper conduct of its operations and shall apply the proceeds of the insurance for that purpose to the extent needed; provided, however, that no such repair, replacement or construction shall be required if the District files a certificate with the Trustee signed by an Authorized Officer to the effect that repair, replacement or reconstruction of the damaged or destroyed property is not in the best interest of the District and that failure to

repair, replace or reconstruct the damaged or destroyed property will not cause Revenues in any future Fiscal Year of the District to be less than an amount sufficient to enable the District to comply with all covenants and conditions of this Resolution or impair the security or the payment of the Bonds.

If the District elects to undertake the repair, replacement or reconstruction of the damaged or destroyed property and such proceeds of the aforesaid insurance are insufficient for such purpose, the amount of such insufficiency may be satisfied from moneys available under Section 5.6 hereof for any lawful purpose of the District. Any excess proceeds from property insurance shall be paid to the Trustee for deposit in the Debt Service Reserve Fund to the extent necessary to cause the amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement and the balance shall be deposited at the written direction of the District in the Redemption Fund or the Reserve and Contingency Fund to the extent the amount immediately thereafter on deposit will not exceed the Reserve and Contingency Fund Requirement or, if the District receives an opinion of nationally recognized bond counsel to the effect that the proposed use of such proceeds will not adversely affect the tax exempt status of any Bonds issued hereunder, in any other Fund or Account hereunder as directed by the District.

(B) Within 60 days after the close of each Fiscal Year, the District shall file with the Trustee a certificate describing the insurance then in effect.

Section 7.6. Not to Encumber or Dispose of the Project. The District shall not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Project, except that:

(A) The District may sell, lease, or otherwise dispose of any portion of the Project which in the reasonable judgment of the District has become unserviceable, inadequate, obsolete or worn out or no longer necessary in the operation of the Project or which is to be or has been replaced by other property. Proceeds of a sale, lease or other disposition pursuant to this paragraph or of a taking by eminent domain shall be paid to the Trustee for deposit in the Debt Service Reserve Fund to the extent necessary to cause the amount in the Fund to equal the Debt Service Reserve Fund Requirement, and any balance shall be paid into the Revenue Fund if the balance is not in excess of \$200,000 or one per cent of the principal amount of the Outstanding Bonds, whichever is greater. Subject to the provisions of paragraph (D) of this Section, if the balance exceeds the sum, it shall be paid, as the District shall determine, to the Trustee for deposit in (i) the Special Redemption Account, (ii) the Construction Fund for the purpose of payment of Costs of Acquisition and Construction, or (iii) the Reserve and Contingency Fund to the extent the amount immediately thereafter on deposit will not exceed the Reserve and Contingency Fund Requirement.

(B) The District may sell, lease or otherwise dispose of all or any portion of the Project, provided that simultaneously with such sale or other disposition the District shall cause all of the Bonds to be, or to be deemed to be, no longer Outstanding.

(C) The District may lease all or any portion of the Project upon filing with the Trustee (i) a certificate of an Authorized Officer stating that the estimated Revenues to be derived from the remaining portions of the Project, together with the estimated Revenues to be

derived from the proposed lease of such properties, will be sufficient to enable the District to meet its obligations under the Resolution, and (ii) an opinion of nationally recognized bond counsel satisfactory to the District and the Trustee to the effect that the District's entering into the proposed lease will not cause interest on any of the Bonds (other than Taxable Bonds) to become subject to federal income tax. Proceeds of a lease pursuant to this paragraph shall be paid into the Revenue Fund.

(D) In the event that ownership of the Project or any part thereof is transferred from the District by operation of law, any moneys received by the District as a result shall be paid to the Trustee for deposit in the Debt Service Reserve Fund to the extent necessary to cause the amount in the Fund to equal the Debt Service Reserve Fund Requirement, and any balance, after paying or providing for the costs of termination and decommissioning, shall be paid into the Revenue Fund if such balance is not in excess of \$200,000 or one per cent of the principal amount of the Outstanding Bonds, whichever is greater. If such balance exceeds the sum, it shall be paid to the Trustee for deposit in the Special Redemption Account.

Section 7.7. Books of Account; Annual Audit. The District shall keep proper books and accounts relating to the Project. Within 120 days after the end of each Fiscal Year, the District shall file with the Trustee an annual financial statement, certified by an independent certified public accountant. In addition to other matters required by law or sound accounting or auditing practice, the financial statement shall cover the transactions in the Funds and Accounts under this Resolution. The report thereon of the accountant shall state whether there has come to the attention of the accountant in the course of its examination any default by the District with respect to the Resolution or the Bonds and, if so, the nature of the default. A copy of the financial statement and report thereon shall be made available on the District's website and sent to any Bond Insurer and to any Bondholder filing a written request with the Trustee.

Section 7.8. Payment of Taxes and Other Claims. The District shall make timely payments of all taxes, assessments and other governmental charges lawfully imposed upon the Project or upon the Revenues, as well as all lawful claims for labor, materials and supplies which, if not paid, might become a lien or charge upon any part of the Project, or upon any of the Revenues; but the failure to do so will not be considered a violation of this section so long as the District is in good faith contesting the validity of the tax, assessment, charge or claim.

Section 7.9. Employees' Liability Coverage. The District shall require officers, employees or agents of the District (including those acting on the District's behalf under the Operating Agreement) collecting or handling money in connection with the operation of the Project to obtain fidelity bonds with responsible surety companies as surety in amounts usually obtained by public agencies operating like properties to protect the District against loss.

Section 7.10. Powers as to Bonds and Pledge. The District is duly authorized under the Act and all applicable laws to issue the Bonds and to adopt the Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. The Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution except to the extent expressly permitted hereby. The District will at all times, to

the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

Section 7.11. Extension of Payment of Bonds. The District will not directly or indirectly, other than in accordance with the terms thereof, extend or assent to the extension of the maturity of any of the Bonds by the purchase or funding of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds shall be so extended, such Bonds shall not be entitled in case of any default under the Resolution to the benefit of the Resolution or to any payment out of any assets of the District or the funds (except funds held in trust for the payment of particular Bonds pursuant to the Resolution) held by the Trustee except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended. Nothing in this section shall be deemed to limit the right of the District to issue refunding Bonds as provided in Article II and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.12. Tax Covenants. Except with respect to any Series of Taxable Bonds, the District shall (i) not make any use of Bond proceeds or take any other action that would cause the interest on a Series of Bonds to become included in gross income for federal income tax purposes, (ii) not fail to take any other lawful action necessary for interest on a Series of Bonds to be or continue to be excluded from gross income for federal income tax purposes, and (iii) in a timely manner pay to the United States the full amount of any rebate required to be paid under the Code Section 148(f).

Section 7.13. Further Assurance. At any time and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning or confirming all and singular the rights, Revenues, Funds and Accounts, and other Revenue producing contracts, and other moneys and securities hereby pledged or assigned, or assigned in trust, or intended so to be, or which the District may hereafter become bound to pledge or assign or assign in trust.

ARTICLE VIII

DEFAULTS AND REMEDIES

Section 8.1. Events of Default. There shall be an "Event of Default" if any of the following occurs:

(1) If there is a default in the payment of the principal of or redemption premium, if any, on any of the Bonds when due, whether at maturity or by proceedings for redemption or otherwise.

(2) If there is a default in the payment of any interest on any Bond, or of any sinking fund installment, when due.

(3) If the District defaults in any payment to be made into the Debt Service Reserve Fund and the default continues for 20 days.

(4) If the District defaults in the performance of any other covenant or agreement contained in the Resolution and the default continues for 120 days after written notice to the District by the Trustee or to the District and the Trustee by the holders of not less than 25% in principal amount of the Outstanding Bonds.

(5) If the District (except as permitted in the Resolution) sells, mortgages, leases or otherwise disposes of or encumbers the Project, or makes an agreement to do so or allows any of its franchises or permits necessary for the operation of the Project to lapse.

(6) If an order, judgment or decree is entered by a court of competent jurisdiction (i) appointing a receiver, trustee, or liquidator for the District or the whole or any substantial part of the Project, (ii) granting relief in involuntary proceedings with respect to the District under the Federal Bankruptcy Code, or (iii) assuming custody or control of the District or of the whole or any substantial part of the Project under the provisions of any law for the relief of debtors, and the order, judgment or decree is not set aside or stayed within 60 days from the date of the entry of the order, judgment or decree.

(7) If the District (i) admits in writing its inability to pay its debts generally as they become due, (ii) commences voluntary proceedings in bankruptcy or seeking a composition of indebtedness, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver for it or the whole or any substantial part of the Project, or (v) consents to the assumption by any court of competent jurisdiction under any law for the relief of debtors of custody or control of the District or of the whole or any substantial part of the Project.

Section 8.2. Acceleration of Maturities. If an Event of Default occurs and has not been cured, either the Trustee, at the written direction of the holders of not less than 25% in principal amount of the Outstanding Bonds (by notice in writing to the District), or the holders of not less than 25% in principal amount of the Outstanding Bonds (by notice in writing to the District and the Trustee) may declare the principal of all Outstanding Bonds and the accrued interest to be due and payable immediately. Upon the curing of all outstanding Events of Default (other than the payment of principal or interest coming due by reason of the acceleration), unless a final judgment has been obtained for any principal or interest coming due by reason of the acceleration, the holders of not less than 25% in principal amount of the Outstanding Bonds, by written notice to the District and to the Trustee, may annul the acceleration, or, if the Trustee has acted under a direction from the Bondholders and there has not been delivered to the Trustee a written direction to the contrary by the holders of a majority in principal amount of the Outstanding Bonds, the acceleration shall be deemed annulled.

Section 8.3. Inspection of Books and Records. If an Event of Default occurs and has not been remedied, the books of record and account of the District relating to the Project shall at all times be subject to the inspection and use of the Trustee, the holders of at least 25% in principal amount of the Outstanding Bonds and their agents and attorneys.

Section 8.4. Payment of Funds to Trustee; Application of Funds. (A) If an Event of Default occurs and has not been remedied, the District upon demand of the Trustee shall pay over and transfer to the Trustee (i) all funds and investments then held by the District in the Funds and Accounts held by it under this Resolution and (ii) as promptly as practicable all other or subsequent Revenues. After a transfer of a Fund or Account under this paragraph, the Trustee shall administer the Fund or Account until all Events of Default have been cured. Unless otherwise directed by a court, all Revenues and other moneys and funds, and any other moneys received or collected by the Trustee acting pursuant to the Act or this Article VIII, shall, except as provided below, be held, transferred and applied as provided in Article V.

(B) If at any time the available funds are insufficient for the payment of the principal or redemption price and interest then due on the Bonds, the following Funds and Accounts (other than funds held in trust for the payment or redemption of particular Bonds) shall be used in the order named:

- Interest Account
- Principal Account
- Sinking Fund Account
- Debt Service Reserve Fund
- Reserve and Contingency Fund
- Construction Fund
- Optional Redemption Account
- Special Redemption Account
- Rebate Fund

and the District shall promptly restore from the Revenue Fund any amount taken for this purpose from any Fund or Account other than the Interest Account, Principal Account or Sinking Fund Account.

(C) In the event that, upon the occurrence and continuance of an Event of Default, the funds held by the Trustee shall be insufficient for the payment of the principal or redemption price and interest then due on the Bonds, such funds and any other moneys received or collected by the Trustee acting pursuant to the Act and this Article VIII, after making provision for the payment of Operating Expenses, any expenses necessary in the opinion of the Trustee to protect the interests of the holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under this Resolution, shall be applied as follows:

(1) Unless the principal of all the Bonds shall have become or have been declared due and payable,

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(D) Whenever moneys are to be so applied, they shall be applied by the Trustee at such times as it shall determine, having due regard to the amount available and the likelihood of additional moneys becoming available. The Trustee shall use an interest payment date as the date of payment unless it deems another date more suitable. On the date fixed for payment interest shall cease to accrue on the amounts of principal to be paid. The Trustee shall give such notice of the date as it may deem appropriate and shall not be required to make payment to the holder of any Bond unless the Bond is presented for appropriate endorsement.

(E) Interest on overdue principal shall accrue and be payable daily but, for the purpose of applying the order of priority prescribed by paragraph (B) of this section, it shall be treated as if it became due on the regular interest payment dates.

Section 8.5. Suits at Law or in Equity. (A) The Trustee shall have the right in addition to all other rights:

(1) By mandamus or other suit, action or proceedings in any court of competent jurisdiction, to enforce the rights of the Bondholders against the District, including the right to require the District to fix and collect rates and charges adequate to carry out any agreement made in the Resolution as to rates and charges, or to carry out the pledge of Revenues made by the Resolution, and to require the District to carry out any other covenants or agreements made in the Resolution or in the Bonds and to perform its duties under the Act; and

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of the Bondholders.

(B) All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds and without producing them at the trial or other proceedings.

(C) The District confers upon the holders of not less than 25% in principal amount of the Outstanding Bonds, subject to compliance with paragraph (D) of this section, and upon the

Trustee the right in case of an Event of Default by suit, action or proceedings in any court of competent jurisdiction to obtain the appointment of a receiver of the whole or any part or parts of the Project. If a receiver is appointed he may enter and take possession of the same, operate and maintain it, and collect and receive all Revenues arising from it in the same manner as the District itself might do and shall deposit the Revenues in a separate account or accounts and apply the same in accordance with the obligations of the District.

(D) No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Resolution or for the execution of any trust hereunder or for any other remedy hereunder, unless (i) (A) such holder previously shall have given to the District and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (B) after the occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by the holders of not less than 25% in principal amount of the Bonds then Outstanding and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (C) the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (ii) (A) such holder previously shall have obtained the written consent of the Trustee of the institution of such suit, action or proceeding, and (B) such suit, action or proceeding is brought for the ratable benefit of all holders of all Bonds, subject to the provisions of the Resolution.

(E) The holders of not less than a majority in principal amount of the Outstanding Bonds may direct the time, method and place of conducting any remedial proceeding available to the Trustee, provided that the Trustee is provided with adequate security and indemnity and shall have the right to decline to follow the direction (i) if the Trustee is advised by counsel that the action or proceeding may not lawfully be taken or (ii) if the Trustee determines in good faith that the action or proceeding would involve the Trustee in personal liability or that the action or proceeding would be unjustly prejudicial to the holders of Bonds not parties to the direction.

Section 8.6. Remedies Not Exclusive. No remedy conferred by the Resolution upon the Trustee or the holders of the Bonds is intended to be exclusive of any other remedy, but each shall be in addition to every other remedy given under the Resolution or provided at law or in equity or by statute; provided, however, that the holders of the Bonds shall not have the right to appoint a trustee under the Act to represent them.

Section 8.7. Waivers of Default. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or be construed to be a waiver of the Event of Default. The holders of not less than 66 2/3% in principal amount of the Outstanding Bonds may on behalf of the holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of the principal or redemption price of and interest on any of the Bonds. No such waiver shall extend to any subsequent or other default.

Section 8.8. Notice of Events of Default. Within 60 days after the occurrence of an Event of Default becomes known to the Trustee by the delivery of written notice to the Trustee, the Trustee shall mail notice of the Event of Default to the Bondholders, in the manner provided in Section 13.3, unless the Event of Default has been cured before the giving of the notice.

Section 8.9. Powers of Bondholders. The rights and powers conferred on Bondholders in this Article VIII shall apply only to holders of Outstanding Bonds, and not to holders of subordinate obligations, issued under Section 26.

ARTICLE IX

AMENDING AND SUPPLEMENTING THE RESOLUTION

Section 9.1. Without Consent of Bondholders. (A) The District may from time to time, without the consent of any Bondholder but with the written concurrence of the Trustee if a Supplemental Resolution materially affects the Trustee's duties or responsibilities or is adopted under clause (5) below, adopt Supplemental Resolutions (i) to provide for the issuance of Additional Bonds pursuant to Article II; (ii) to make changes in the Resolution which may be required to permit the Resolution to be qualified under the Trust Indenture Act of 1939 as amended; (iii) to make provisions relating to the Reserve and Contingency Fund and the use of income from the investment of Funds and Accounts as permitted by the Resolution; (iv) to make changes in the Resolution which may be required to permit interest on Bonds to remain exempt from federal income tax; and (v) for any one or more of the following purposes:

- (1) To cure or correct any ambiguity, defect or inconsistency in the Resolution;
- (2) To add additional covenants and agreements of the District for the purpose of further securing the payment of the Bonds;
- (3) To surrender any right, power or privilege reserved to or conferred upon the District by the Resolution;
- (4) To confirm any lien or pledge created or intended to be created by the Resolution;
- (5) To confer upon the holders of the Bonds additional rights or remedies or to confer upon the Trustee for the benefit of the holders of the Bonds additional rights, duties, remedies or powers; and
- (6) To modify the Resolution in any other respects; provided that the modification shall not be effective until after the Outstanding Bonds cease to be Outstanding, or until the Bondholders consent pursuant to Section 9.2.

(B) The provisions of Section 9.2 relating to notice of Supplemental Resolutions do not apply to a Supplemental Resolution adopted under this section except as expressly made applicable by the foregoing clause (6).

Section 9.2. With Consent of Bondholders. With the written concurrence of the Trustee and the consent of the holders of not less than 66 2/3% in principal amount of the Outstanding Bonds, the District may from time to time adopt Supplemental Resolutions for the purpose of making other changes in the Resolution; provided, however, that, without the consent of the

holder of each Bond which would be affected, no Supplemental Resolution shall (i) change the maturity date for the payment of the principal of any Bond or the dates for the payment of interest on the Bond or the terms of the redemption of the Bond, or reduce the principal amount of any Bond or the rate of interest on the Bond or the redemption price, (ii) reduce the percentage of consents required under this proviso for a Supplemental Resolution, or (iii) give to any Bond any preference over any other Bond; and provided further that, without the consent of the holders of not less than 66 2/3% in principal amount of the outstanding Term Bonds of each Series and maturity which would be affected, no Supplemental Resolution shall (i) change the amount of any sinking fund installments for the retirement of Term Bonds or the due dates of the installments or the terms for the purchase or redemption of Bonds from the installments, or (ii) reduce the percentage of consents required under this proviso for a Supplemental Resolution. It shall not be necessary that the consents of the holders of the Bonds approve the particular wording of the proposed Supplemental Resolution if the consents approve the substance. After the holders of the required percentage of Bonds have filed their consents with the Trustee, the Trustee shall mail notice to the Bondholders in the manner provided in Section 13.3. No action or proceeding to invalidate the Supplemental Resolution or any of the proceedings for its adoption shall be instituted or maintained unless it is commenced within 60 days after the mailing of the notice. The validity of a Supplemental Resolution shall not be affected by any failure to give notice by mail or by any defect in the mailed notice.

Section 9.3. Notation upon Bonds; New Bonds Issued upon Amendments. Bonds delivered after the effective date of a Supplemental Resolution may bear a notation as to the Supplemental Resolution, by endorsement or otherwise. In that case, upon demand of the holder of any Outstanding Bond and the presentation of his Bond to the Trustee, or at such additional office, if any, as the District may select for the purpose, a suitable notation shall be made on the Bond. If the District so determines, new Bonds modified to conform to the amendments made by the Supplemental Resolution shall be prepared and executed. Upon demand of the holder of any Outstanding Bond, the new Bond shall be exchanged, without cost to the holder, for the Outstanding Bond, at the corporate trust office of the Trustee.

Section 9.4. Effective Date of Supplemental Resolution. Upon the adoption of a Supplemental Resolution pursuant to this Article and the delivery to the Trustee of an opinion of counsel to the District that the Supplemental Resolution has been duly adopted and is permitted by the Resolution and will upon taking effect be valid and binding and enforceable in accordance with its terms (subject to exception on account of laws enacted for the relief of debtors and the exercise of judicial discretion), or upon such later date as may be specified in the Supplemental Resolution, the Supplemental Resolution shall take effect and shall be a part of the Resolution.

Section 9.5. Supplemental Resolution Affecting Trustee. No Supplemental Resolution reducing the rights or enlarging the duties and obligations of the Trustee shall take effect without the written consent of the Trustee.

ARTICLE X

EXECUTION OF INSTRUMENTS AND EXCLUSION OF BONDS

Section 10.1. Execution of Instruments by Bondholders and Proof of Same. (A) Any action which may be taken under the Resolution by one or more Bondholders may be taken or authorized by an instrument or instruments signed by the holders in person or by agents duly appointed by written instrument. Proof of the signing of an instrument (including an instrument appointing an agent), and of the holding of Bonds, shall be sufficient if made in the following manner:

(1) The fact and date of signing may be proved by the certificate of a notary public or other officer empowered by law to take acknowledgments of deeds (in the state where acknowledgment occurs), to the effect that the person signing the instrument acknowledged to him its execution, or may be proved by an affidavit of a witness to the signing.

(2) The amount and the numbers or other descriptive details of the Bonds and the date of holding may be proved by the affidavit of the person claiming to be the holder, if the affidavit is deemed by the District or the Trustee to be satisfactory, or by a certificate issued by a trust company, bank, or other depository, if the certificate is deemed by the District or the Trustee to be satisfactory, showing that on a specified date the person had on deposit with the trust company, bank or other depository, or exhibited to it, the Bonds described in the certificate. The District and the Trustee may nevertheless, in their separate discretion, require further proof in cases where they or either of them deems further proof desirable, and may require any Bond to be submitted for inspection to the Trustee.

(3) The ownership of Bonds shall be proved by the books of registry for the Bonds maintained by the Trustee.

(B) Nothing contained in this section shall be construed as limiting the District or the Trustee, in their separate discretion, to the proof specified above. The District and the Trustee in their separate discretion may accept other evidence which to them may seem sufficient.

(C) Any action by the holder of a Bond under the Resolution shall bind the holder taking the action and every future holder of the same Bond, whether or not the future holder has knowledge of the action; provided that any action by the holder of a Bond under the Resolution may be revoked by the holder taking the action or by a subsequent holder of the same Bond by a written instrument filed with the District and the Trustee prior to the time when the required percentage of the Bondholders have concurred in the action.

Section 10.2. Exclusion of Bonds Held by District and of Bonds No Longer Deemed Outstanding. In determining whether the holders of the requisite principal amount of Bonds have concurred in any action under the Resolution, any Bonds which are owned by or for the District and, except for the purpose of Section 11.1, any Bonds which are deemed no longer

Outstanding pursuant to Section 11.1, shall be disregarded, but the Trustee shall be protected in relying on the action as to Bonds owned by or for the District unless the Trustee knows them to be so owned.

ARTICLE XI

DEFEASANCE; MONEYS HELD FOR PAYMENT OF PARTICULAR BONDS

Section 11.1. Discharge of Pledge; Bonds No Longer Deemed Outstanding. (A) The obligations of the District under the Resolution and the pledge, covenants and agreements of the District made in the Resolution shall be discharged and satisfied as to any Bond and the Bond shall no longer be deemed to be Outstanding under the Resolution:

(1) when the Bond has been cancelled or surrendered for cancellation, or has been purchased by the Trustee from moneys held by it under the Resolution; or

(2) when payment of the principal or the redemption price of the Bond, plus interest on the principal to the due date (whether at maturity or upon redemption or otherwise) or to the date set for payment under Section 8.4 in the case of an overdue Bond, either (i) has been made or (ii) has been provided for by irrevocably setting aside with the Trustee for the purpose (A) moneys sufficient to pay the principal or redemption price and interest or (B) Investment Securities (which for the purposes of this Article shall include only those obligations described in item (1) and (2) of the definition of Investment Securities) maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to pay the principal or redemption price and interest when required, and when all proper fees and expenses of the Trustee pertaining to the Bond have been paid or provided for to the satisfaction of the Trustee.

When a Bond is deemed to be no longer Outstanding under the Resolution pursuant to clause (1) or (2)(i) of this subparagraph (A) or, if the Bond has become due, pursuant to clause (2)(ii), it shall cease to draw interest. When a Bond is deemed to be no longer Outstanding under the Resolution pursuant to either clause (1) or clause (2) of this subparagraph (A), it shall no longer be secured by the Resolution except for the purpose of payment from the moneys or Investment Securities set aside for its payment pursuant to clause (2)(ii). Notwithstanding the foregoing, in the case of Bonds which are to be redeemed prior to their stated maturities, no deposit under clause (2) of this subparagraph (A) shall operate as a discharge and satisfaction until the Bonds have been irrevocably called or designated for redemption and proper notice of the redemption has been given or provision satisfactory to the Trustee has been irrevocably made for giving the notice.

(B) Any moneys deposited with the Trustee as provided in this section may be invested and reinvested in Investment Securities permitted under clause (2)(ii)(B) of subparagraph (A) of this section maturing in the amounts and times as required and any income from the investment not required for the payment of the principal or redemption price and interest on the Bonds shall be paid to the District and credited to the Revenue Fund.

(C) Notwithstanding any provision of any other Section of the Resolution, all moneys or Investment Securities set aside pursuant to this Section for the payment of the principal or redemption price of and interest on Bonds shall be held in trust and used solely for the payment of the particular Bonds with respect to which the moneys or Investment Securities have been set aside.

(D) Notwithstanding Article IX, if moneys or Investment Securities have been set aside with the Trustee pursuant to this Section for the payment of Bonds and the Bonds are deemed to be no longer Outstanding under the Resolution, but the Bonds have not in fact been paid, no amendment of this Article shall be made without the consent of the holder of each Bond affected by the amendment.

(E) The District may at any time surrender to the Trustee for cancellation Bonds which the District has acquired with funds in the Sinking Fund Account or otherwise, and the Bonds shall thereupon be deemed paid and no longer Outstanding.

Section 11.2. Bonds Not Presented for Payment When Due. If a Bond is not presented for payment when the principal becomes due, or if checks for interest on Bonds are not presented for payment and if sufficient funds are held by the Trustee for that purpose, liability of the District for the payment shall cease and the Trustee shall hold the funds without liability to the holder of the Bond for earnings on the funds, in trust for the benefit of the holder of the Bond. The holder shall thereafter be restricted exclusively to the funds so held for any claim for the payment. Subject to applicable law, any funds held by the Trustee remaining unclaimed for two years after the payment became due shall be paid to the District, and the holder of the Bonds shall thereafter be entitled to look only to the District for payment.

ARTICLE XII

FORMS OF BONDS

Section 12.1. Forms of Bonds. Except as otherwise provided in the Supplemental Resolution providing for their issuance, the form of Bond, Certificate of Authentication, and Assignment of Bonds shall be in substantially the forms set forth in this Section.

(FORM OF BOND)

UNITED STATES OF AMERICA

STATE OF VERMONT

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT

TELECOMMUNICATIONS PROJECT REVENUE BOND

SERIES _____

No. R- _____ \$ _____

Maturity Date:

Interest Rate: ____% per annum

Bond Date:

Registered Owner:

Principal Amount: _____ Dollars

East Central Vermont Telecommunications District (the "District"), a body politic and corporate and a public instrumentality of the State of Vermont, for value received, promises to pay to the Registered Owner of this Bond, or registered assigns, but solely from the Revenues and other moneys and securities provided under the Resolution mentioned in this Bond, on the Maturity Date the Principal Amount, and to pay interest, but solely out of such Revenues and other moneys and securities, at the Interest Rate on such Principal Amount from the most recent _____ or _____ to which interest has been paid or duly provided for or, if no interest has been paid, from the Bond Date, payable on _____, and semi-annually on the first day of _____ and _____ in each year thereafter until payment of such Principal Amount, and, to the extent permitted by law, interest on overdue interest at the same rate. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal or redemption price of and interest on this bond are payable in any coin or currency of the United States of America which at the time of payment is legal tender for public

and private debts. The principal or redemption price of this bond shall be payable at the principal office of _____, _____, _____, the Trustee under the Resolution, or its successor in trust. Interest on this bond shall be payable by check or draft mailed to the Registered Owner at its address appearing on the registration books of the District kept for that purpose at the principal office of the Trustee, determined as of the close of business on the applicable record date. The record date for payment of interest shall be the fifteenth day of the month next preceding the date on which the interest is to be paid or, if such fifteenth day is not a business day, the next preceding business day, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an interest payment date or interest on any overdue amount, the Trustee may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Trustee will give notice of a special record date by mailing a copy of such notice to the registered owners of all Bonds outstanding at least ten (10) days before the special record date or in such other time and manner as the Trustee may deem appropriate.

This Bond is one of a series of bonds aggregating _____ Dollars (\$_____) in principal amount, issued by the District pursuant to Chapter 82 of Title 30 and subchapter 2 of Title 53 and Chapter 54, Vermont Statutes Annotated, and Section 21 of No. 41 of the Acts of 2015 and a Resolution duly adopted by the Governing Board of the District on _____, and as supplemented and amended by one or more supplemental resolutions including a supplemental resolution duly adopted by the Board on _____, _____. Bonds may be issued under the Resolution in one or more series from time to time for the purpose of paying the costs of the District in acquiring and constructing its Project and for certain other limited purposes provided in the Resolution.

This Bond shall not constitute a general obligation of the District within the meaning of any constitutional or statutory provision or limitation, but shall be a limited obligation of the District payable solely from, and secured solely by, the pledge and lien on the net revenues specifically pledged thereto pursuant to the supplemental resolution. Neither the faith and credit nor the taxing power of the District, the State of Vermont or any other political subdivision thereof is pledged to the payment of the principal, premium (if any) or interest on the Bond and neither the State of Vermont nor any political subdivision thereof, other than the District, shall be obligated to pay the principal, premium (if any) or interest thereon.

This Bond is fully negotiable for all purposes of the Uniform Commercial Code section 1-101 et seq. of Title 9A of the Vermont Statutes Annotated, and each holder or owner of this Bond by accepting this Bond shall be conclusively deemed to have agreed that this Bond is fully negotiable for those purposes.

Reference is made to the Resolution (as supplemented and amended) for, among other things, definitions of terms; the nature and extent of the security for the Bonds; the properties constituting the Project; the manner of enforcement of the pledge; the terms and conditions upon which additional Bonds may be issued; the conditions upon which the Resolution may be amended or supplemented with and without the consent of the holders of the Bonds; acceleration of principal in the event of default; remedies and limitations of remedies; and the terms upon which Bonds may no longer be secured by the Resolution if sufficient moneys or specified

securities are deposited with the Trustee in trust for their payment. Copies of the Resolution (including any supplemental resolutions) may be inspected at the office of the District and at the corporate trust office of the Trustee.

The Bonds of this series are subject to redemption prior to maturity, at the option of the District, on or after _____, _____, as a whole or in part at any time, as determined by the District and by lot within a maturity, at the redemption prices set forth below, together with interest up to but not including the date fixed for redemption:

| <u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u> | <u>Redemption</u> <u>Prices</u> 100% |
|--|--|
|--|--|

The Bonds of this series maturing on _____, _____, are also subject to mandatory redemption prior to maturity in part from time to time by lot on _____, _____, and annually thereafter, at a redemption price equal to the principal amount, but only to the extent of the Sinking Fund installments required by the Supplemental Resolution adopted _____, _____, together with interest up to but not including the date fixed for redemption.

The Bonds of this series are also subject to special redemption prior to maturity as a whole or in part at any time, as determined by the District and by lot within a maturity, at a redemption price equal to one hundred per cent of the principal amount but only to the extent of moneys in the Special Redemption Account in the Redemption Fund, together with interest up to but not including to the date fixed for redemption.

In the event this Bond is called for redemption, notice shall be mailed not less than thirty (30) days prior to the redemption date, to the registered holder at his or her address as shown on the books of registry. If this Bond is of a denomination in excess of \$_____, portions of the principal sum in the amount of \$_____ or any multiple of \$_____ may be redeemed. If less than all of the principal sum is to be redeemed, upon the surrender of this Bond to the Trustee there shall be issued to the registered owner at the corporate trust office of the Trustee, without charge, Bonds for the unredeemed balance of the principal sum. If this Bond (or any portion) is duly called for redemption and notice is duly given, and if on or before the redemption date there are on deposit with the Trustee sufficient funds to pay at the redemption price and the interest on the principal amount redeemed to the date of redemption, this Bond (or the portion to be redeemed) shall become due and payable upon the redemption date and interest shall cease to accrue from and after the redemption date on the principal amount to be redeemed.

The Bonds of this series are issuable as fully registered Bonds in the denomination of \$_____ or any multiple of \$_____ in excess thereof.

This Bond is transferable by the registered holder, in person or by his or her attorney duly authorized in writing, at the corporate trust office of the Trustee, subject to the limitations and upon payment of the charges, if any, provided in the Resolution and upon the surrender of this Bond to the Trustee for cancellation. Upon the transfer a new registered Bond or Bonds of the same aggregate principal amount will be issued to the transferee at the same office. The payee in

whose name this Bond is issued is the registered holder. The District and the Trustee may treat the registered holder as the owner and shall not be affected by notice to the contrary.

It is hereby certified, recited and declared that all acts, conditions and things required to have happened, to exist and to have been performed precedent to and in the issuance of this Bond and the series of which it is one have happened, do exist and have been performed in regular and due time, form and manner; that this Bond and the series of which it is one does not exceed any constitutional or statutory limitation of indebtedness; and that provision has been made for the payment of the principal of and interest on this Bond and the series of which it is one as provided in the Resolution.

This Bond shall not be valid unless the Certificate of Authentication on the Bond is signed by the Trustee.

Dated:

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

By: _____
Chair, Governing Board

And By: _____
District Treasurer

(SEAL)

CERTIFICATE OF AUTHENTICATION

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

_____, as Trustee

By: _____
Authorized Signature

(FORM OF ASSIGNMENT)

For value received _____ sells, assigns and transfers this Bond to _____ and irrevocably appoints _____ attorney-in-fact to transfer it on the books of registry at the corporate trust office of the Trustee as Registrar with full power of substitution.

Dated:

NOTE: The signature to this assignment must correspond with the name as written on the face of the Bond without alternation or enlargement or other change.

ARTICLE XIII

MISCELLANEOUS

Section 13.1. Benefits of Resolution Limited to the District, Trustee and Bondholders. Nothing in the Resolution or the Bonds is intended to confer upon any person other than the District, the Trustee, insurers under Bond Insurance and the holders of the Bonds any legal or equitable right, remedy or claim.

Section 13.2. Resolution Binding Upon Successors or Assigns of the District. The Resolution shall be binding upon the successors and assigns of the District, and shall inure to the benefit of the Trustee, their successors in trust, insurers under Bond Insurance and the holders of the Bonds.

Section 13.3. Notices to Bondholders. Except as is otherwise provided in the Resolution, any provision in the Resolution for the mailing of a notice to holders of the Bonds shall be complied with by mailing, (i) to each registered holder at his address, if any, appearing upon the books of registry and (ii) to each owner of any of the Bonds whose name and address appears upon the list maintained pursuant to Section 6.5.

Section 13.4. Notices to Others. Wherever provision is made in the Resolution for a notice, direction or request to the District or the Trustee, the same shall be complied with by a letter or instrument in writing (i) delivered at or (ii) mailed by registered mail, return receipt requested, to:

(A) in the case of the District, to the General Manager, delivered in writing, in person, or sent by mail, to _____; and

(B) in the case of the Trustee, to _____,
Attention: _____.

or in either case, at such other office or addressed in such other manner as the party to whom the notice is given has designated by written notice to the other parties mentioned in this section.

Section 13.5. Waiver of Notice. Notice under the Resolution may be waived by the person entitled to receive it.

Section 13.6. Partial Invalidity. If any provision of the Resolution is held invalid in any circumstance, that invalidity shall not affect any other provisions or circumstances.

Section 13.7. Law and Place of Enforcement of the Resolution. The Resolution shall be construed and governed in accordance with the laws of the State of Vermont and all suits and actions arising out of the Resolution shall be instituted in a court of competent jurisdiction in the State of Vermont.

Section 13.8. Effective Date. The Resolution shall take effect upon its adoption.

EAST CENTRAL VERMONT TELECOMMUNICATION DISTRICT

GOVERNING BOARD

RESOLUTION CERTIFICATE

The undersigned does certify that the following resolution was duly adopted at a regular meeting of the Governing Board of the East Central Vermont Telecommunications District (the “District”) held on August 14, 2018, and that the same remains in full force and effect, and has not been rescinded or amended in any way:

BE IT RESOLVED THAT, pursuant to Section 9.1(A)(iii) of the District’s General Bond Resolution adopted March 8, 2016, Section 5.4 of said resolution is amended to read:

Section 5.4. Reserve and Contingency Fund. (A) There is hereby established a special trust fund of the District to be held by the Trustee and to be known as the “Project Reserve and Contingency Fund.” The Reserve and Contingency Fund shall be used to pay, as the District, at its sole discretion determines for (1) necessary renewals, replacements, modifications, capital additions, betterments and extraordinary repairs of the Project, (2) costs of retirement from service, decommissioning, disposal and termination of the Project, and (3) extraordinary operation and maintenance costs and the costs of preventing or correcting any unusual loss or damage (including major repairs and insurance deductible payments). Any Supplemental Resolution providing for the issuance of a Series of Bonds may provide for a deposit from the proceeds of the Bonds into the Reserve and Contingency Fund. Prior to December 31 of each calendar year, ~~Sixty (60) days prior to the last day of each Bond year~~, the District shall certify to the Trustee the aggregate number of miles of Project telecommunication lines, and for the next following calendar year ~~Bond Year~~ the Reserve and Contingency Fund requirement shall be adjusted as provided in Section 1.1 (PP). If on the last day of any Bond Year the amount in the Reserve and Contingency Fund, after deducting any amount committed or obligated for the purposes specified in this Section but not yet paid, is greater than the Reserve and Contingency Fund Requirement, the Trustee, after making any payment required by this Section, shall pay the excess to the Revenue Fund. If on the last day of any Bond Year the amount in the Reserve and Contingency Fund is under the Reserve and Contingency Fund Requirement, the Trustee shall make up the deficiency by transfer from the Revenue Fund.

Appendix B-2

Proposed Form of Supplemental Resolution

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

Project Revenue Bonds
Series 2018A Resolution

Adopted: July 17, 2018

Authorizing the Issuance of

\$8,500,000

East Central Vermont Telecommunications District

Project Revenue Bonds
Series 2018A

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A SUPPLEMENTAL RESOLUTION AUTHORIZING THE
ISSUANCE OF \$8,500,000
PROJECT REVENUE BONDS,
SERIES 2018A BONDS OF THE EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

WHEREAS, the Governing Board (the “Board”) of the East Central Vermont Telecommunications District (the “District”), by Resolution adopted March 8, 2016 (hereinafter referred to as the “Resolution”), has created and established an issue of Bonds of the District;

WHEREAS, the Resolution authorizes the issuance of said Bonds in one or more series pursuant to a Supplemental Resolution authorizing such series; and

WHEREAS, the Board of the District has determined that it is necessary and required that the District issue at this time a series of Bonds to be designated “Project Revenue Bonds, Series 2018A”, to provide monies to carry out the Project as hereinafter defined;

BE IT RESOLVED BY THE BOARD OF THE DISTRICT AS FOLLOWS:

ARTICLE 1

AUTHORITY AND DEFINITIONS

101. Supplemental Resolution. This Supplemental Resolution (hereinafter referred to as “Project Revenue Bonds Series 2018A Resolution”) is adopted in accordance with the provisions of Article II, Section 2.2 and Article IX, Section 9.1(A)(i), of the Resolution and pursuant to the authority contained in the Act.

102. Definitions. (1) All terms used herein and not otherwise defined shall have the meaning assigned to such terms in the Resolution.

(2) In this Project Revenue Bonds Series 2018A Resolution, Project Revenue Bonds, Series 2018A shall mean the Bonds authorized by Article II hereof.

ARTICLE II

AUTHORIZATION OF PROJECT REVENUE BONDS
SERIES 2018A

201. Principal Amount, Designation and Series. Pursuant to the provisions of the Resolution, a Series of Bonds is hereby authorized in the aggregate principal amount of \$8,500,000. Such Bonds shall be designated as “Project Revenue Bonds, Series 2018A” (hereinafter, the “Series 2018A Bonds”).

202. Purposes. The purpose for which the Series 2018A Bonds are being issued for the purpose of:

- (1) Pay the costs of Project extensions and expenses; and
- (2) Pay costs of issuance.

203. Date, Maturities and Interest Rates. The Series 2018A Bonds shall initially be dated August 1, 2018. The Series 2018A Bonds shall mature on December 1 of each year, in the years and principal amounts, and shall bear interest at the rates per annum as set forth in Item 1 of Appendix A. The District designates the Series 2018A Bonds as “qualified obligations” under Section 265(b) of the Internal Revenue Code of 1986, as amended.

204. Interest Payments. The Series 2018A Bonds shall be issued in fully registered form and shall bear interest from their date, payable on December 1, 2018 and semi-annually thereafter on June 1 and December 1.

205. Denominations, Numbers and Letters. The Series 2018A Bonds shall be issued in the denomination of \$5,000 or any integral multiple thereof, not exceeding the aggregate principal amount of Series 2018A Bonds maturing in the year of maturity of the Bond for which the denomination is to be specified. The Series 2018A Bonds shall be lettered as follows: 2018A-1-___. The Series 2018A Bonds shall be numbered separately from one (1) consecutively upwards within each stated maturity. The Series 2018A Bonds will be issued as fully registered bonds.

206. Places of Payment and Paying Agents. People’s United Bank, National Association, Burlington, Vermont, the Trustee appointed under Section 2.11 of the Resolution, is hereby appointed Paying Agent for the Series 2018A Bonds. The principal and redemption price of all Series 2018A Bonds shall be payable at the corporate trust office of the Trustee. Interest shall be payable by check or draft mailed by the Trustee and Paying Agent on each interest payment date to the Holders of record of the Bonds, determined as of the close of business on the November 15 and May 15 next preceding such interest payment date, at the addresses as shown on the registration books maintained by the Trustee.

207. Optional and Mandatory Redemption. The Series 2018A Bonds are subject to optional and mandatory redemption as set forth in the Bonds, as well as mandatory Sinking Fund Redemption pursuant to Schedule I.

208. Special Redemption Prices and Terms. The Series 2018A Bonds shall be subject to special redemption at par at the option of the Issuer, in whole at any time, or in part on any interest payment date on and after December 1, 2024, from (i) moneys available therefor in the Special Redemption Fund (ii) from insurance proceeds available pursuant to Section 7.5 of the Resolution, (iii) from the proceeds of a sale, lease or other disposition of the Project pursuant to Section 7.6 of the Resolution, (iv) from eminent domain proceeds pursuant to Section 7.6 of the Resolution, and (v) from excess moneys transferred from the Construction Fund pursuant to Section 5.7 of the Resolution. Notice of redemption shall be given as provided in the Resolution.

209. Sale of the Series 2018A Bonds. The Series 2018A Bonds authorized herein shall be sold to Municipal Capital Markets Group, Inc., at an aggregate price of \$8,293,397.00.

ARTICLE III

DISPOSITION OF THE SERIES 2018A BOND PROCEEDS AND RESERVES

301. Construction Fund. Upon receipt of the proceeds of sale of the Series 2018A Bonds, the District shall pay therefrom to the Trustee for deposit in the Construction Fund the sum of \$7,954,897.

302. Debt Service Reserve Fund. The Debt Service Reserve Fund Requirement for the 2018A Series Bond shall be \$270,000.

303. Reserve and Contingency Fund. The Reserve and Contingency Requirement is \$73,846 as of August 1, 2018, which Requirement shall be recalculated as provided in Section 5.4 of the Resolution.

ARTICLE IV

SPECIAL COVENANTS

401. Tax Covenants. The District covenants that it will maintain information related to the District's tax covenants, investment of proceeds and amounts treated as proceeds, and payments made to the Rebate Fund and the United States with respect to the Series 2018A Bonds.

ARTICLE V

FORM AND EXECUTION OF SERIES 2018A BONDS

501. Form of Series 2018A Bonds. Subject to the provisions of the Resolution, Series 2018A Bonds in registered form, and the Trustee's certificate of authentication, shall be substantially as shown on Appendix B.

502. Execution of Series 2018A Bonds. The Board Chair and Treasurer are hereby authorized and directed to attest manually or by facsimile signature the execution of the Series 2018A Bonds in accordance with the provisions of Section 3.2 of the Resolution.

ARTICLE VI
MISCELLANEOUS

601. Effective Date. This resolution shall take effect immediately.

APPENDIX A

1. Maturity Date and Corresponding Interest Rate

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-------------|-----------------------------|--------------------------|
| 2025 | \$1,030,000 | 5.375% |
| 2030 | \$1,380,000 | 5.000% |
| 2036 | \$2,180,000 | 5.750% |
| 2040 | \$1,910,000 | 5.500% |
| 2043 | \$2,000,000 | 5.600% |

APPENDIX B

UNITED STATES OF AMERICA

STATE OF VERMONT

EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT

PROJECT REVENUE BOND

SERIES 2018A

No. R-2018A- _____ \$ _____

Maturity Date:

Interest Rate: ____% per annum

Bond Date: _____, 2018

Registered Owner: Cede & Co.

Principal Amount: _____ Dollars

East Central Vermont Telecommunications District (the "District"), a body politic and corporate and a public instrumentality of the State of Vermont, for value received, promises to pay to the Registered Owner of this Bond, or registered assigns, but solely from the Revenues and other moneys and securities provided under the Resolution mentioned in this Bond, on the Maturity Date the Principal Amount, and to pay interest, but solely out of such Revenues and other moneys and securities, at the Interest Rate on such Principal Amount from the most recent _____ or _____ to which interest has been paid or duly provided for or, if no interest has been paid, from the Bond Date, payable on _____, and semi-annually on the first day of _____ and _____ in each year thereafter until payment of such Principal Amount, and, to the extent permitted by law, interest on overdue interest at the same rate. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal or redemption price of and interest on this bond are payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts. The principal or redemption price of this bond shall be payable at the principal office of People's United Bank, National Association, Burlington, Vermont, the Trustee under the Resolution, or its successor in trust. Interest on this bond shall be payable by check or draft mailed to the Registered Owner at its address appearing on the registration books of the District kept for that purpose at the principal office of the Trustee, determined as of the

close of business on the applicable record date. The record date for payment of interest shall be the fifteenth day of the month next preceding the date on which the interest is to be paid or, if such fifteenth day is not a business day, the next preceding business day, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an interest payment date or interest on any overdue amount, the Trustee may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Trustee will give notice of a special record date by mailing a copy of such notice to the registered owners of all Bonds outstanding at least ten (10) days before the special record date or in such other time and manner as the Trustee may deem appropriate.

This Bond is one of a series of bonds aggregating _____ Dollars (\$_____) in principal amount, issued by the District pursuant to Chapter 82 of Title 30 and Subchapter 2 of Chapter 53 and Chapter 54 of Title 24, Vermont Statutes Annotated, and Section 21 of No. 41 of the Acts of 2015, and a Resolution duly adopted by the Governing Board of the District on March 8, 2016, and as supplemented and amended by one or more supplemental series resolutions including a supplemental resolution duly adopted by the Board on July 17, 2018. Bonds may be issued under the Resolution in one or more series from time to time for the purpose of paying the costs of the District in acquiring and constructing its Project and for certain other limited purposes provided in the Resolution.

THIS BOND SHALL NOT CONSTITUTE A GENERAL OBLIGATION OF THE DISTRICT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, BUT SHALL BE A LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM, AND SECURED SOLELY BY, THE PLEDGE AND LIEN ON THE NET REVENUES SPECIFICALLY PLEDGED THERETO PURSUANT TO THE SUPPLEMENTAL RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE STATE OF VERMONT OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, PREMIUM (IF ANY) OR INTEREST ON THE BOND AND NEITHER THE STATE OF VERMONT NOR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE DISTRICT, SHALL BE OBLIGATED TO PAY THE PRINCIPAL, PREMIUM (IF ANY) OR INTEREST THEREON.

This Bond is fully negotiable for all purposes of the Uniform Commercial Code section 1-101 et seq. of Title 9A of the Vermont Statutes Annotated, and each holder or owner of this Bond by accepting this Bond shall be conclusively deemed to have agreed that this Bond is fully negotiable for those purposes.

Reference is made to the Resolution (as supplemented and amended) for, among other things, definitions of terms; the nature and extent of the security for the Bonds; the properties constituting the Project; the manner of enforcement of the pledge; the terms and conditions upon which additional Bonds may be issued; the conditions upon which the Resolution may be amended or supplemented with and without the consent of the holders of the Bonds; acceleration of principal in the event of default; remedies and limitations of remedies; and the terms upon which Bonds may no longer be secured by the Resolution if sufficient moneys or specified securities are deposited with the Trustee in trust for their payment. Copies of the Resolution

(including any supplemental resolutions) may be inspected at the office of the District and at the corporate trust office of the Trustee.

The Bonds of this series are subject to mandatory redemption upon the occurrence of an Event of Taxability (as defined in the Resolution), and also subject to redemption prior to maturity, at the option of the District, on or after _____, _____, as a whole or in part at any time, as determined by the District and by lot within a maturity, at the redemption prices set forth below, together with interest up to but not including the date fixed for redemption:

| Period During Which Redeemed (Both Dates Inclusive) | Redemption Prices % |
|--|---------------------------|
|--|---------------------------|

In the event this Bond is called for redemption, notice shall be mailed not less than thirty (30) days prior to the redemption date, to the registered holder at his or her address as shown on the books of registry. If this Bond is of a denomination in excess of \$5,000, portions of the principal sum in the amount of \$5,000 or any multiple of \$5,000 may be redeemed. If less than all of the principal sum is to be redeemed, upon the surrender of this Bond to the Trustee there shall be issued to the registered owner at the corporate trust office of the Trustee, without charge, Bonds for the unredeemed balance of the principal sum. If this Bond (or any portion) is duly called for redemption and notice is duly given, and if on or before the redemption date there are on deposit with the Trustee sufficient funds to pay at the redemption price and the interest on the principal amount redeemed to the date of redemption, this Bond (or the portion to be redeemed) shall become due and payable upon the redemption date and interest shall cease to accrue from and after the redemption date on the principal amount to be redeemed.

The Bonds of this series are issuable as fully registered Bonds in the denomination of \$5,000 or any multiple of \$5,000 in excess thereof.

This Bond is transferable by the registered holder, in person or by his or her attorney duly authorized in writing, at the corporate trust office of the Trustee, subject to the limitations and upon payment of the charges, if any, provided in the Resolution and upon the surrender of this Bond to the Trustee for cancellation. Upon the transfer a new registered Bond or Bonds of the same aggregate principal amount will be issued to the transferee at the same office. The payee in whose name this Bond is issued is the registered holder. The District and the Trustee may treat the registered holder as the owner and shall not be affected by notice to the contrary.

It is hereby certified, recited and declared that all acts, conditions and things required to have happened, to exist and to have been performed precedent to and in the issuance of this Bond and the series of which it is one have happened, do exist and have been performed in regular and due time, form and manner; that this Bond and the series of which it is one does not exceed any constitutional or statutory limitation of indebtedness; and that provision has been made for the payment of the principal of and interest on this Bond and the series of which it is one as provided in the Resolution.

This Bond shall not be valid unless the Certificate of Authentication on the Bond is signed by the Trustee.

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

By: _____
Chair, Governing Board

And By: _____
District Treasurer

(SEAL)

CERTIFICATE OF AUTHENTICATION

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

PEOPLE'S UNITED BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Authorized Signature

(FORM OF ASSIGNMENT)

For value received _____ sells, assigns and transfers this Bond to
_____ and irrevocably appoints _____ attorney-in-fact to transfer it on
the books of registry at the corporate trust office of the Trustee as Registrar with full power of
substitution.

Dated: _____

NOTE: The signature to this assignment must correspond with the name as written on the
face of the Bond without alternation or enlargement or other change.

Appendix C

Form of Continuing Disclosure Agreement

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated August 22, 2018 (the “Disclosure Agreement”) is executed and delivered by the East Central Vermont Telecommunications District (the “District”) and Municipal Capital Markets Group, Inc. as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the District’s \$8,500,000 Project Revenue Bonds Series 2018A (the “Bonds”). The Bonds are being issued pursuant to Subchapter 2, Chapter 53 and Chapter 54 of Title 24, Chapter 82 of Title 30, Vermont Statutes Annotated, and Sections 21 of Public Act No. 241 of the Laws of Vermont of the 2015 Adjourned Session of the Vermont General Assembly (collectively, the “Act”) and the District’s General Bond Resolution adopted on March 8, 2016, as amended on August 14, 2018 (the “General Resolution”) and the District’s Series Resolution adopted on July 17, 2018, respectively, authorizing the issuance of the Bonds. The District and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose; Beneficiaries. This Disclosure Agreement is entered into solely to assist the Participating Underwriter (defined below) in complying with subsection (b)(5) of the Rule (defined below). This Disclosure Agreement constitutes a written undertaking for the benefit of the beneficial owners (within the meaning of the Rule) of the Bonds (such beneficial owners being sometimes called herein “owners”).

Section 2. Definitions. The following words and terms used in this Disclosure Agreement shall have the following respective meanings:

(a) “Annual Report” shall mean any Annual Report provided by the District to the Dissemination Agent, and consistent with the requirements of Sections 3 and 4 of this Disclosure Agreement.

(b) “EMMA” means the MSRB’s Electronic Municipal Market Access (“EMMA”) system, or its successor as designated by the MSRB.

(c) “MSRB” means the Municipal Securities Rulemaking Board.

(d) “Participating Underwriter” shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

(e) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Disclosure Agreement, including any official interpretation thereof.

(f) “SEC” means the United States Securities and Exchange Commission.

All capitalized words and terms used in this Disclosure Agreement and not otherwise defined herein shall have the meaning ascribed to such words and terms in the Limited Offering Memorandum dated August 3, 2018 pertaining to the Bonds (the “Official Statement”).

Section 3. Provision of Annual Reports. On or before August 1 of each year, commencing August 1, 2019, the District shall deliver to the Dissemination Agent its Annual Report. If said Annual Report does not contain the District’s audited financial statements for the fiscal year of the Annual Report, then the District shall, in any event, deliver to the Dissemination Agent said audited financial statements as soon as possible after they become available and, in any event, no later than December 31 of each year.

The Dissemination Agent shall forward to EMMA the District’s Annual Report, with or without the District’s audited financial statements, or notice of the District’s failure to provide said Annual Report, not

later than October 1 of each year. If the District elects not to provide the Dissemination Agent with its audited financial statements as part of its Annual Report by the date set forth above, the Dissemination Agent shall forward to EMMA the District's audited financial statements, or notice of the District's failure to provide said audited financial statements, not later than October 1 of each year. On or before such date, the District shall post its Annual Report on its website.

Upon its forwarding of the Annual Report and audited financial statements, the Dissemination Agent shall file a report with the District certifying that the Annual Report and audited financial statements have been forwarded to EMMA pursuant to this disclosure agreement, and stating the date each was mailed.

Section 4. Content of Annual Reports. The Annual Report shall contain financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the District, in each case substantially in the same level of detail as is found in the referenced Official Statement, including in any event an update of the information set forth in the Five Year Forecast on Page 32 of the Official Statement.

Any or all of the financial information items and operating data referred to above may be included by reference to other documents, including official statements pertaining to debt issued by the District, which have been submitted to EMMA. If the document incorporated by reference is an "official statement" within the meaning of the Rule, it will also be available from the MSRB. The District's annual financial statements for each fiscal year shall consist of the balance sheet of the District and the related statements of revenue, expenses and changes in fund balances and statement of cash flows prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the District. The Dissemination Agent is agent of the District in the dissemination of the Annual Report and the other notices referenced herein and (i) has no duty or responsibility as to the legal correctness or accuracy of the form or content of said Annual Report or notices or any other information provided pursuant to this Disclosure Agreement and (ii) has no duty to determine if the Annual Report, notices or other information provided complies with the terms of this Disclosure Agreement.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Section 5. Reporting of Significant Events. Whenever the District obtains knowledge of the occurrence of any of the following listed events with respect to the Bonds or any other obligations of the District, the District shall direct the Dissemination Agent in writing to file with EMMA notice of such occurrence and post such notice on the District's website in a timely manner, not in excess of ten business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

- (vii) modifications to rights of security holders, if material;
- (viii) bonds calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of an obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in subparagraph (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Enforceability of the Disclosure Agreement; Termination. To the extent permitted by law, the provisions of this Disclosure Agreement are enforceable against the District and the Dissemination Agent in accordance with the terms hereof by any owner of a Bond, including any beneficial owner acting as a third party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of the Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the District and the Dissemination Agent and to compel the District and the Dissemination Agent and any of their officers, agents or employees to perform and carry out their duties under such provisions of this Disclosure Agreement; provided, however, that the sole remedy for a violation of this Disclosure Agreement shall be limited to an action to compel specific performance of the obligations of the District and the Dissemination Agent under this Disclosure Agreement and shall not include any rights to monetary damages. This Disclosure Agreement shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer in effect, whichever occurs first.

Section 7. Amendments. This Disclosure Agreement may be amended, changed or modified by the parties hereto, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to make any necessary or desirable provisions with respect to the Dissemination Agent, (c) to add to the covenants of the District or the Dissemination Agent for the benefit of the owners of the Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertaking of the District in this Disclosure Agreement in a manner consistent with the provisions of state legislation responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the District or the Dissemination Agent (such as the firm serving at the time as bond counsel to the District) or by the vote or consent of the Registered Owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment, which consent shall be obtained as provided in this Disclosure Agreement with respect to consents of Registered Owners. Any amendment, change or modification to this Disclosure Agreement shall be in writing.

If this Disclosure Agreement is amended with respect to the annual financial information to be submitted by the District hereunder, the annual financial information containing the amended financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information being provided. If this Disclosure Agreement is amended with respect to the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and the financial statements or information prepared on the basis of the former accounting principles. Such comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison will also be quantitative. The District shall direct the Dissemination Agent to give notice of any change in the accounting principles to EMMA as promptly as practicable after such change has been determined.

Section 8. Disclaimer. No information provided by or on behalf of the State of Vermont under this Disclosure Agreement shall obligate the District to file any information regarding matters other than those specifically described in Sections 3 and 4 hereof, nor shall any such filing constitute a representation by the District or raise any inference that no other material events have occurred with respect to the District or the Bonds or that all material information regarding the District or the Bonds has been disclosed. The District shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Section 9. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties under this Disclosure Agreement as are specifically set forth in this Disclosure Agreement, and the District hereby agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the cost and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct in the performance of its duties

hereunder. The obligations of the District under this Section 9 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 10. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Vermont and applicable law of the United States of America.

Section 12. Titles of Sections. The titles of sections in this Disclosure Agreement shall have no effect in construing this Disclosure Agreement.

Section 13. Actions to be Performed on Non-Business Days. Any action required by this Disclosure Agreement to be taken on a Saturday, Sunday or holiday within the State of Vermont may be taken on the next business day with the same force and effect as if taken on the day so required.

Section 14. Compensation. The Dissemination Agent shall be compensated by a minimum annual fee of \$1,800.00 provided no more than ten hours of personnel time is required annually to carry out its duties described herein. If more than ten hours are required, the Dissemination Agent will be compensated at a rate of \$225 per hour. The minimum annual fee is due and payable upon closing of the Bonds and annually thereafter. The compensation set out here is only for dissemination of material relating to the Bonds.

IN WITNESS WHEREOF, THE EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT and MUNICIPAL CAPITAL MARKETS GROUP, INC., as Dissemination Agent, have executed this Disclosure Agreement, under seal, all as of the day and year first above written.

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

By: _____
Chair, Governing Board

And by: _____
Treasurer

MUNICIPAL CAPITAL MARKETS GROUP, INC.,
as Dissemination Agent

By: _____
Authorized Officer

Appendix D

Proposed Form of Opinion of Bond Counsel



PRIMMER PIPER
EGGLESTON &
CRAMER PC

J. PAUL GIULIANI
ADMITTED IN VT
pgiuliani@primmer.com
TEL: 802-223-2102
FAX: 802-223-2628

100 East State Street | P.O. Box 1309 | Montpelier, VT 05601-1309

August 22, 2018

East Central Vermont Telecommunications District
415 Waterman Road
Royalton, VT 05068-5117

People's United Bank, National Association
Two Burlington Square
Burlington, VT 05402-0820

Re: \$8,500,000 East Central Vermont Telecommunications District
Project Revenue Bonds Series 2018A (the "Bonds")

We have examined the law and the action taken at meetings of the Governing Board of the East Central Vermont Telecommunications District (the "District") on March 6, 2016, June 12, 2018, July 17, 2018 and August 14, 2018, resolutions of the Governing Board adopted thereat, the original executed Bonds described above and issued in pursuance of the foregoing actions and proceedings, together with other records, proofs and certificates deemed necessary and sufficient for the purposes hereof, from all of which we are of the opinion that, as of the date hereof, the Bonds are lawful special obligations of the District, payable according to the terms and tenor thereof from and secured by a lien upon the net revenues derived and to be derived from the communications plant owned and operated by the District, and the rights and remedies of the District's creditors, including holders of its bonds and notes, are subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting the rights and remedies of creditors, to the extent constitutionally applicable, and that their enforcement may be subject to the exercise of judicial discretion in appropriate cases. We call to your attention that the General Assembly of the State of Vermont has not authorized Vermont municipalities to seek protection under Chapter 9 of the Federal Bankruptcy Act.

As to matters of fact relevant and material to our opinion, we have relied upon certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

The District is a lawfully constituted corporate instrumentality of the State of Vermont. The officers signing the Bonds are the duly elected, qualified and acting officers of the District as indicated. The Bonds are in all respects in conformity with the laws and constitutions of the State of Vermont, and are not in excess of any debt limit.

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The bonds are authorized under and pursuant to Subchapter 2 of Chapter 53 and Chapter 54 of Title 24, Chapter 82 of Title 30, Vermont Statutes Annotated, and Section 21 of No. 41 of the Acts of 2015, and by resolutions of the Governing Board of the District adopted March 6, 2016, June 12, 2018, July 17, 2018 and August 14, 2018 (herein collectively called the “Resolutions”).

The Bonds are being issued by means of a book-entry-only system, with bond certificates immobilized at The Depository Trust Company, New York, New York (“DTC”), and not available for distribution to the public, evidencing ownership of the Bonds in denominations of \$5,000 or integral multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

The Bonds are payable on December 1 in the years and principal amounts, bear interest at the rates and are subject to redemption prior to maturity, all as provided in the Resolutions.

The Resolutions have been duly and lawfully adopted and are in full force and effect, and are valid and binding upon the District and enforceable in accordance with their terms, and no other authorization for the Resolutions is required.

Without limiting the generality of the foregoing, we certify that we have made due and diligent inquiry to ascertain if any litigation is pending or threatened in any state or federal court of competent jurisdiction to restrain or enjoin in any way the issuance and delivery of the Bonds, or the expenditures financed by the proceeds of the Bonds, and we find none.

We have reviewed the accompanying Tax Certificate of the District relating to its reasonable expectations as of the date of issuance of the Bonds, that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be “arbitrage bonds” within the meaning of Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the applicable Regulations thereto (collectively, the “Code”), or “private activity bonds” within the meaning of Section 141 of the Code.

Based upon our examination of law and review of such Certificate, it is our opinion that the facts, estimates and circumstances set forth therein are sufficient to satisfy the criteria which are necessary under Sections 103, 141 and 148 of the Code, to support the conclusion that the Bonds will not be “arbitrage bonds” or “private activity bonds” within the meaning of said Code Sections. No matters have come to our attention which, in our opinion, make unreasonable or incorrect the representations made in such Certificate.

Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes, and is exempt from State of Vermont personal income taxes and corporate income taxes. This opinion is rendered subject to compliance by the District with

various requirements of the Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. In addition, interest on the bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations. However, interest on the Bonds will be included in “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. It is noted that Public Law 115-97, signed into law by the President of the United States on December 22, 2017, repeals the federal alternative minimum tax imposed on corporations for taxable years beginning after December 31, 2017. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

We are of the opinion that each of the Bonds is a “qualified tax-exempt obligation” as defined in Section 265(b)(3) of the Code.

We have examined the executed Bonds, and in our opinion the form of the Bonds and their execution are regular and proper.

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By: _____
J. Paul Giuliani

Appendix E
Form of Operating Agreement

OPERATING AGREEMENT

THIS OPERATING AGREEMENT ("Agreement"), entered into and executed as of the 22^d day of February, 2016, by and between EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT, a municipal corporation and a political subdivision of the State of Vermont ("District"), and VALLEYNET, INC. ("ValleyNet") a non-profit corporation organized and existing under the laws of the State of Vermont.

IN CONSIDERATION OF ONE DOLLAR AND OTHER GOOD AND VALUABLE CONSIDERATION, payment, receipt and sufficiency of which is hereby mutually acknowledged, and in consideration of the several representations, undertakings and inducements set forth herein, District hereby engages ValleyNet to design, construct and operate one or more communications plants (the "Project") for the delivery of District's broadband communications services to commercial, residential, governmental and educational subscribers with the State of Vermont, all under the following terms and conditions:

- (1) The parties acknowledge that the benefits of this Agreement shall devolve upon District and its member municipalities, and shall be disposed of by the District pursuant to the enactments under which it is established. The parties further acknowledge that the District, acting through its Governing Board as the legislative body of a municipal corporation, is responsible for establishing and articulating policies to be acted upon and implemented by ValleyNet under this Agreement
- (2) The initial term of this Agreement shall be ten (10) years, commencing at midnight on the 1st day of January, 2016, and expiring at midnight on the 31st day of December, 2025, unless sooner terminated as provided herein. This Agreement shall automatically renew itself for additional and successive terms of ten (10) years each, unless notice of non-renewal shall be furnished by one party to the other, in writing, at least one hundred and eighty (180) days prior to the original or successive termination date.
- (3) Notwithstanding the provisions of Section (2), this Agreement may be terminated by the non-defaulting party in the event one or more of the following Events of Default occurs and shall remain uncorrected for a period of ninety (90) days from the date upon which notice of such Event of Default shall have been given in writing by the non-defaulting party to the other:
 - (a) The filing of a petition of bankruptcy by or against ValleyNet;
 - (b) The attachment or sequestration of all or substantially all of the assets of ValleyNet or of District;

- (c) The cancellation or revocation of any license, permit or approval granted by any cognizant governmental authority which materially impairs ValleyNet's ability to operate the Project contemplated under this Agreement;
 - (d) The insufficiency of the communications plant financing proceeds and all revenue of the District's broadband communications service to meet the obligations and current expenses of District;
 - (e) A determination by the District Governing Board that ValleyNet has engaged in gross negligence or malfeasance;
 - (f) The failure of ValleyNet to remain in good standing under the laws of the State of Vermont;
 - (g) The dissolution or liquidation of ValleyNet or District;
 - (h) A default of any provision of this Agreement.
- (4) Notwithstanding the provisions of Sections (2) and (3) of this Agreement, and provided no uncured Event of Default exists, either party may terminate this Agreement upon at least six (6) months advance written notice, and upon the delivery of mutual releases with respect to all matters hereunder, including the rights of third parties.
- (5) Notwithstanding the provisions of Sections (2), (3) and (4), termination of this Agreement shall not affect the rights of any person who is a party to any third-party contract relating to the construction, operation, management or financing of any material component of the Project, or who possesses a security interest in any property dedicated to the communications plant or District broadband communications services.
- (6) ValleyNet will, on behalf and for the benefit of District, implement fully the design, construction, operation and management of the Project and broadband communications services systems as may be approved from time to time by the Governing Board of the District, and any related operating and management agreements as agreed upon in writing by the parties that may be subsequently developed and deemed useful and necessary for the successful operation of such communications plants and the delivery of broadband communications services. At all times ValleyNet shall communicate at least monthly with the District Governing Board and/or the Executive Committee established thereunder as to the operational and financial condition of the Project.
- (7) ValleyNet shall use its commercially reasonable efforts to secure for the benefit and on behalf of the District, such governmental permits, exemptions, licenses, certificates and approvals as may be necessary to design, finance, construct, manage

and operate one or more systems for the delivery of broadband communications service.

- (8) District may engage and appoint a Clerk of the Works to oversee the construction and installation of all work related to each Project contemplated in this Agreement, and to act as a liaison between and among parties involved in communications plant construction.
- (9) District shall open and maintain such accounts, funds and reserves in its name, or with a trustee, as may be necessary or convenient to implement in this Agreement and the financing of any improvement made hereunder. In no event shall funds of the District be commingled with funds of ValleyNet or any other person.
- (10) ValleyNet and District shall comply with the General Operating Policies and Protocol ("Operating Protocol"), which is attached hereto as Exhibit A and has been designed to ensure clear and continuous communications among the parties and related third parties. This Operating Protocol may be modified from time to time by mutual written consent of District and ValleyNet.
- (11) Each third-party contract greater than \$50,000 in any one year shall be negotiated by ValleyNet and approved by District as provided in the Operating Protocol. ValleyNet shall engage and employ all personnel, suppliers, professionals and contractors (except a Clerk of the Works), and shall purchase or cause to be purchased in the name of District all equipment and materials necessary to implement the construction and operation of the Project.
- (12) ValleyNet shall establish and maintain accounting records in accordance with generally accepted accounting principles for all development, construction and operational matters related to those broadband, communications services systems and communications plants hereunder, which accounts shall detail the costs of implementing this Agreement. At District's expense, such records may be audited by a qualified accounting firm on an annual basis or as determined by the Governing Board, and shall be made available to District within ninety (90) days of completion.
- (13) Neither party may assign its interest hereunder without the advance written consent of the other party. Nevertheless, the District may grant a security interest in this Agreement to any entity in connection with the financing of any part of a communications plant constructed or operated hereunder.
- (14) Notice hereunder shall be deemed sufficient if in writing and deposited for delivery, first class postage prepaid, with the United States Postal Service, addressed as follows:
 - (a) to EAST CENTRAL VERMONT TELECOMMUNICATIONS DISTRICT
415 Waterman Road
South. Royalton, VT 05068

(b) to VALLEYNET, INC.
415 Waterman Road
South Royalton, VT 05068

- (15) This Agreement, including Exhibit A, which is an integral part hereof, embodies the complete understanding of the parties relating to the subject matter hereof, and may be modified and amended only by an instrument executed by both parties, with the concurrence of any person possessing a security interest in this Agreement, or in any communications plan constructed and operated hereunder.
- (16) If any part of this Agreement shall be found invalid or unenforceable, the balance thereof shall not be affected thereby.
- (17) This Agreement shall not be construed, implemented or interpreted so as to create a relationship of agency, employment, partnership, joint venture, guaranty or indemnification between the parties or with respect to any person claiming a benefit hereunder, or holding a security interest herein. District acknowledges and agrees that ValleyNet is acting solely pursuant to an independent contractual relationship with District, and not as a fiduciary to District, or any other person.
- (18) Each third-party contract entered into by ValleyNet hereunder for the benefit of District shall provide that all parties thereto shall at all times remain qualified to do business in the State of Vermont or otherwise render themselves amenable to service of process in Vermont and to the jurisdiction of Vermont courts, and, upon request of District or ValleyNet, furnish evidence of payment of all taxes imposed by any local, federal or State authority. Failure to comply with this requirement shall constitute grounds for unilateral termination of such contract.
- (19) Upon written request by District, ValleyNet shall transfer and set over to District all of its rights, title, claim and interest in the communications plants currently existing or subsequently constructed hereunder, together with all contract rights, warranties and benefits related thereto.
- (20) (a) District shall pay all costs of constructing, operating and managing the Project and broadband communications services as detailed by invoices submitted by ValleyNet pursuant to the General Operating Policies and Protocol.
- (b) ValleyNet shall receive upon invoice to District its actual and direct expenses incurred in furnishing the broadband communications services and support contemplated herein.
- (c) ValleyNet shall receive from District compensation in an amount equal to \$10.00 per service subscriber per year, to be paid semi-annually, to the extent sufficient funds remain after payment of debt service on District's obligations.

- (d) Under no circumstances shall any compensation paid to ValleyNet be computed on the basis of profit or revenue received, accrued or accruing under a District broadband communications service.
- (e) ValleyNet shall be solely responsible for hiring, compensating, supervising, disciplining and discharging its employees, and shall be responsible for the payment of all governmental taxes, charges and assessments relating to its employees. The District shall not dictate or establish workplace standards and practices, scheduling, staffing or employee licensing or qualification. No ValleyNet employee shall report to or be under the supervision of any District official at any time, nor shall any District employee evaluate the performance or conduct of any ValleyNet person engaged by ValleyNet.
- (f) ValleyNet shall procure and maintain, or cause to be procured and maintained, adequate workers compensation insurance on its employees and the employees of its subcontractors, as well as comprehensive general liability, motor vehicle and casualty coverage for itself and its subcontractors, and shall furnish District with certificates of such coverage for the next ensuing year or, in the case of subcontractors, for the duration of the subcontractor's engagement.
- (21) The parties acknowledge that the exclusive source of payment to ValleyNet or to any party to any third-party Project contract contemplated herein shall be the revenues and resources of District broadband communications services, which payments shall be made against invoices submitted and accepted by the District.
- (22) Except as provided herein, neither party shall be liable to the other party for any special, incidental, or consequential damages, including, but not limited to, lost profits.
- (23) Neither party shall be responsible for delays or failures in performance resulting from acts beyond the control of such party. Such acts shall include, but not be limited to, acts of God, strikes, lockouts, riots, acts of war, epidemics, governmental regulations or orders superimposed after the fact, fire, communication line failures, power failures, earthquakes or other disasters.
- (24) To the extent permitted by law, and only to the extent permitted by law, each party shall indemnify, defend and hold harmless the other, its officers, directors, agents, employees, successors and assigns from and against any and all loss, claims, assessments, fines, damages or expenses (including reasonable attorney fees and costs) arising out of or resulting from any claims by other third parties in connection with the indemnifying party's performance pursuant to this Agreement. The party seeking indemnification shall notify the other party of any such claim, action or proceeding, and the other party shall promptly undertake the defense thereof. The party seeking indemnification may, at its election and at its sole cost, participate in the defense thereof.

(25) The parties agree to use their best efforts to resolve any dispute, controversy or claim hereunder in the first instance through the offices of the Clerk of the Works, and thereafter through negotiation and mediation.

(26) This Agreement supersedes and replaces all prior agreements between the parties and their predecessors in interest related to the subject matter contained herein.

IN WITNESS WHEREOF, the parties have caused these presents to be executed by their respective duly authorized officers.

EAST CENTRAL VERMONT
TELECOMMUNICATIONS DISTRICT

By: 
Governing Board Chair

VALLEYPNET, INC.

By: 
Chief Executive Officer

Exhibit A

General Operating Policies and Protocol

The following are the General Operating Policies and Protocol which have been designed to ensure clear and continuous communications and accountability between ValleyNet, Inc. ("ValleyNet") and East Central Vermont Telecommunications District ("District") with respect to designing, financing, constructing, operating and managing the District's communications plants and broadband communications services, (herein the "Project's"), as further described in the Operating Agreement between the parties to which this Exhibit is attached.

The operating policies and protocols articulated herein are intended to conform to and supplement the enactments and agreements establishing the District and its delivery of communications services under the auspices of ValleyNet. Such policies will be established and modified from time to time by the District's Governing Board.

I. General Principles

1. The Project network (the "Network") comprising existing, and subsequently constructed elements, shall be universal, open-access and financially self-sustaining.
2. The Network shall offer, within operational limits, 'net-neutral' internet access (i.e. not linked to any specific browser, not filtered or blocked).
3. The Network shall operate on a "level playing field" with incumbent carriers.
4. The Network's operations shall be delegated, with mutual consultation, according to the terms of the Operating Agreement to ValleyNet, including, Rollout, Connection, Pricing, and Marketing. Day-to-day management responsibilities such as, but not limited to, Personnel Issues and Customer Service are directly delegated to ValleyNet.
 - Initial Rollout and Connection will be prioritized as follows:
 - a. Pre-registration percentages of member communities;
 - b. Technical factors;
 - c. Economics.
 - Subscriber responses, including complaints not adequately addressed by ValleyNet, shall be reviewed at least monthly by the District Governing Board or a committee(s) thereof.
5. The Network's connection fees shall be standardized for all new subscribers, with the following exceptions:
 - Sales Promotions;
 - Subscriber connections exceeding standard 400 foot aerial drops;
 - Such other circumstances as exigencies may require –but only with the consent of the District Governing Board

II. General Roles regarding the Project

A. District

- a. Formulate and articulate general governance policies
- b. Oversee District accounts
- c. Monitor ValleyNet performance
- d. Due diligence and approval regarding budgets, major contracts and agreements
- e. Interface with investors
- f. Sign contracts above a stipulated amount; delegates to ValleyNet the right to sign contracts below a stipulated amount as established herein
- g. Develop and implement plans of finance

B. ValleyNet

- a. Execute and complete the Network Project including designing, building all associated Network assets and operating them as an ongoing business
- b. Acknowledge and comply with District policies
- c. Manage Network operations
- d. Report regularly on Network Project progress and operations
- e. Promptly inform District of changes or difficulties
- f. Cooperate with a Clerk of the Works selected and engaged by the District

III. Operational Details

A. Management of Funds:

- a. All Network revenues shall be deposited upon receipt in District accounts as directed by the District Treasurer in conformance with all applicable covenants and agreements.
- b. All funds received by the District, from whatever source, shall be managed and disbursed by or under the direction of the District Treasurer, to whom ValleyNet shall submit invoices for approval by the District Treasurer, Governing Board or Executive Committee under internal protocols established by the Governing Board. Items specified and identified in an approved operating budget and/or capital budget, as provided below, shall be deemed to have been pre-approved.

- B. District will appoint a Treasurer. The Treasurer shall report to the Governing Board of District and shall be responsible for the oversight of all bank accounts, including accounts and funds held by a trustee in connection with Network Project financing.

C. Project Governance

- a. District's Governing Board will meet at least quarterly or as needed and shall exercise the powers and duties enumerated above.
 - i. At all meetings of the District Governing Board, ValleyNet will report on the operational, financial and construction status of the Network Project.

- ii. The District Governing Board will appoint one or more of their number to be the liaison to ValleyNet, and another as alternate, in order to facilitate communications between scheduled District Governing Board meetings.
 - iii. District Governing Board may choose to appoint an independent Clerk of the Works, or upon mutual approval, rely on ValleyNet personnel, to verify contractors' project performance during Project construction periods.
- b. District Governing Board shall develop, approve and promulgate general policies relating to Network operations and convey these to ValleyNet. ValleyNet shall prepare and submit to the District a budget for Network and subscriber operations and support. Should ValleyNet determine that the implementation of any such policy would be financially or operationally detrimental to the project, it shall so inform the District Governing Board, with a brief explanation, and shall either propose an alternative to the policy, or request that the Governing Board reconsider the policy, or resolve the matter as provided in Section (25) of the Operating Agreement.
- c. Contracts
- i. District will delegate to ValleyNet the authority to sign third-party contracts on behalf of District, from \$50,000 to \$100,000 with prior approval of the Chair and the District Treasurer.
 - ii. Contracts less than \$50,000 within any one year, consistent with approved budgets and business plans, may be signed by ValleyNet without prior approval, pursuant to formal District authorization.
 - iii. Contracts and a series of contracts with the same third-party in a six-month period in excess of \$100,000 must be approved in advance by the District Governing Board or its designated committee(s).
 - iv. ValleyNet will apprise the District Treasurer in anticipation of all contracts requiring prior approval.
- d. Business Plan and Budgets
- i. ValleyNet shall submit for approval by the District Governing Board a business plan semi-annually or annually, projecting market conditions and changes, operating expenses, capital expenditures and revenues.
 - ii. The District Governing Board shall approve semi-annually or annually a detailed operating budget consistent with the business plan.
 - iii. ValleyNet shall make quarterly budget variance reports to District Governing Board.
- e. Personnel
- i. All personnel involved in direct execution of the Project, with the exception of the District Treasurer and the Clerk of the Works, will be employees or contractors under the supervision of ValleyNet, which will

be solely responsible for all hiring, discipline, firing, payment, benefits and all other matters related to human resources.

f. Continuing Disclosure

- i. ValleyNet shall implement policies and procedures to enable District to meet its financing undertakings with respect to continuing disclosure and post-issuance compliance under federal law.**

Appendix F
Book-Entry Only System

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2018A Bonds. The Series 2018A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2018A Bonds in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and together with the Direct Participants, the “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2018A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2018A Bonds, except in the event that use of the book-entry system for the Series 2018A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2018A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018A Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2018A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2018A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2018A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2018A Bonds may

wish to ascertain that the nominee holding the Series 2018A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018A Bonds of a particular maturity within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and redemption premium, if any, with respect to the Series 2018A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the District or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018A Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered. See "Certificated Bonds" below.

THE INFORMATION ABOVE IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DISTRICT BELIEVES TO BE RELIABLE, BUT NEITHER THE DISTRICT NOR THE UNDERWRITER TAKES RESPONSIBILITY FOR THE ACCURACY THEREOF.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2018A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE SERIES 2018A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2018A BONDS.

No Responsibility of District, Underwriter or Trustee. NONE OF THE DISTRICT, THE UNDERWRITER OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2018A BONDS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2018A BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2018A BONDS; (V) ANY

CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2018A BONDS;
OR (VI) ANY OTHER MATTER.

Certificated Bonds. DTC may discontinue providing its services as securities depository with respect to the Series 2018A Bonds at any time by giving reasonable notice to the District and the Trustee. In addition, the District may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interest of the Beneficial Owners. If, for either reason the Book-Entry-Only system is discontinued, bond certificates will be delivered as described in the Resolution and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, Series 2018A Bonds may be exchanged for an equal aggregate principal amount of Series 2018A Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the corporate trust office of the Trustee. The transfer of any Series 2018A Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of Series 2018A Bonds, the District and the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Series 2018A Bonds. The Trustee will not be required to transfer or exchange any Series 2018A Bond during the fifteen (15) days next preceding an interest payment date for the Series 2018A Bonds, nor during the forty-five (45) days next preceding the date fixed for the redemption or repurchase of the Series 2018A Bonds (or a portion thereof).