

RESOLUTION NO. 10-08

WHEREAS, it has been determined by the Pennsburg Borough Council (the "Issuer"), Commonwealth of Pennsylvania, that the Borough will be required to incur temporary indebtedness for the purpose of providing funds during the fiscal year 2009 for current operating expenses and debt service in a principal amount of no more than Three Hundred Thousand Dollars (\$300,000.00), which exact amount will be equal to the amount drawn by the Borough on an as needed basis, in anticipation of the receipt of taxes, state subsidies and reimbursements and other current revenues in accordance with the projected budget requirements set forth in the cash forecast presented in this meeting; and,

WHEREAS, a Note Purchase Proposal ("Proposal") has been submitted by Quakertown National Bank (the "Bank") to purchase a Tax and Revenue Anticipation Note (the "Note") in said principal amount of no more than Three Hundred Thousand Dollars (\$300,000.00), which exact amount will be equal to the amount drawn by the Borough on an as needed basis, bearing interest at the rate of 3.5% per annum, only on the amount drawn by the Borough that remains outstanding, and maturing on not later than December 31, 2009; and,

WHEREAS, the Issuer has determined that the total amount of debt obligations issued and to be issued by it (and entities subordinate thereto) in the current calendar year, including the Note, will not exceed the amount of \$10,000,000.00; and,

WHEREAS, the principal amount of the Note will not exceed 85% of the taxes levied for the current fiscal year and the current revenues for such year, not yet received, estimated to be received during the period when the Note will be outstanding.

NOW, THEREFORE, be it resolved by the Pennsburg Borough Council (the "Governing Body") of the Issuer as follows:

1. The Governing Body hereby approves the incurring by the Issuer of temporary indebtedness, pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (Act No. 52) approved April 28, 1978, (the "Act"), for the aforesaid purpose in a principal amount of no more than Three Hundred Thousand Dollars (\$300,000.00), which exact amount will be equal to the amount drawn by the Borough on an as needed basis, in accordance with the Proposal of the Bank presented to this meeting. Said Proposal of the Bank, filed with the minutes of this meeting, is hereby approved and accepted.

2. Said temporary indebtedness shall be represented by a fully registered Note of the Issuer, and such Note shall be bought at a private sale to the Bank for a sum equal to the principal amount thereof. The Note, as to both principal and interest, shall be payable in such coin or currency as at the place and at the time of payment shall be legal tender for the payment of public and private debt at the office of Quakertown National Bank, QNB Towne Bank Center, 320 West Broad Street, P. O. Box 9005, Quakertown, Pennsylvania 18951 . The Note shall mature (subject to prepayment without penalty) on December 31, 2009. The Note is hereby authorized and shall bear interest, payable at maturity, at the rate of 3.5% per annum, only on the amount drawn by the Borough that remains outstanding, from the date thereof to maturity or earlier prepayment calculated in relation to a year of 360 days.
3. The Note issued under this Resolution shall be secured by, and there is hereby irrevocably pledged to the purchasers thereof, their successors and assigns, for the prompt payment of the principal of such Note and the interest thereon, all of the income, revenues and receipts of the Issuer to be received during the period when the Note will be outstanding, including, but not limited to, all taxes and all state subsidies and reimbursements payable to the Issuer during such period. There is hereby granted to such purchaser, its successors and assigns, a security interest in and a lien and charge on such income, revenue and receipts, perfected and enforceable in accordance with the terms of the Note. This Resolution and the Act shall constitute a security agreement between the Issuer and the Bank or such other holder from time to time of the Note.
4. (a) The Issuer hereby covenants with the Bank and all subsequent holders of the Note that it will make no investments or other use of any part of the proceeds of applicable Federal law or regulations, and will not take any other action or omit to take any action, which would cause the Note to be an "arbitrage bond" under the Internal Revenue Code of 1986, as it may be amended (the "Code"), or any rule or regulation promulgated thereunder or which for any other reason would cause the Note to become an obligation the interest on which is not excludable from gross income for Federal income tax purposes.

(b) The Issuer represents to the Bank and all subsequent holders of the Note that (i) it is a governmental issuer with general taxing powers; (ii) the Note is not a

"private activity bond" as defined in the Code; (iii) the Note, when aggregated with all prior tax-exempt obligations issued by the Issuer (or entities subordinate thereto) and all such obligations expected to be issued during such calendar year (other than private activity bonds), are not reasonably expected to exceed \$5,000,000.00; and (iv) on the basis of the foregoing representations and the covenants contained in this Section, the Note qualifies for exemption from the arbitrage rebate provisions of the Code, all as described in paragraph (D) of Section 148(f)(4) of the Code. The Issuer hereby covenants with the Bank and all subsequent holders of the Note that all net proceeds of the Note will be used for "local government activities" of the Issuer (or entities subordinate thereto), as required by paragraph (D) of Code Section 148(f)(4).

(c) The Issuer hereby represents to the Bank and all subsequent holders of the Note that the principal amount of the Note does not exceed the sum of (i) the cumulative cash flow deficit equal to the excess reasonably anticipated by the Issuer of its "expenditures" over its "available amounts" during the term of this Note, and (ii) a "reasonable working capital reserve".

(d) For purposes of this section 4, the following definitions will apply: (i) "expenditures" means any current operating expenses or any capital expenditures payable only from available amounts or from the proceeds of the Note, (ii) "available amounts" means any amounts, other than proceeds of the Note, that are available to the Issuer for expenditures, including amounts held in accounts by the Issuer that can be expended without legislative or judicial action and which are not subject to any legislative, judicial or contractual requirement that they be replaced; and (iii) "reasonable working capital reserves".

5. In order to ensure that the Bank and all subsequent holders of the Note, if they are financial institutions, will not be subject to certain provisions of the code as a result of acquiring and carrying the Note, the Issuer hereby designates the Note as a "qualified tax-exempt obligations", within the meaning of paragraph (b)(3)(b) of Section 265 of the Code, and the Issuer hereby covenants with the holders of the Note that it will take such steps as may be necessary to cause the Note to continue to be an obligation described in such paragraph during the period during which the Note is outstanding. The Issuer further agrees that it will take such steps as may be necessary to ensure compliance with any similar

legislation enacted while the Note is outstanding. The Issuer also represents that it has not, and covenants that it will not, without prior written consent of the Bank or any subsequent holder of the Note, designate, or permit any entities subordinate to it to designate obligations other than the Note as "qualified tax-exempt obligations" which, when combined with the Note, will result in more than \$10,000,000.00 of obligations designated by the Issuer as "qualified tax-exempt obligations" having been issued during this calendar year.

6. The Issuer hereby warrants to the purchaser of the Note, its successors and assigns, that it has not encumbered or pledged its income, revenues or receipts for the fiscal year 2009 to be pledged as provided in Section 3 hereof, except for the payment of debt service on its outstanding bonds and except for outstanding current operating expenses incurred for the said fiscal year for the payment of which the Note is to be issued and sold, and further obligations against such income, revenues or receipts ranking prior to or on a parity with the Note without the consent of the holder of the Note.
7. The Note issued hereunder shall be substantially in the form found in Exhibit "A".
8. The Secretary of the Governing Body thereof is hereby authorized and directed to endorse thereon the acceptance of the Issuer of the Proposal of the Bank; the President of the Governing Body and the Treasurer of the Issuer are authorized and directed to execute a certificate as to taxes and revenues, in the form presented to this meeting and hereby approved, and to file the same together with a certified copy of this Resolution a true copy of the Proposal of the Bank accepted by this Resolution with the Department of Community and Economic Development (previously known as the Department of Community Affairs) of the commonwealth of Pennsylvania, all as required by the Act; and to execute and file appropriate additional certificates as required by the Act.
9. The proper officers of the Issuer are hereby authorized and directed to execute and deliver to the Bank Financing Statements under the Uniform Commercial Code relating to the Note; and to execute and file IRS Form 8038-G as required by the Code.
10. The President of the Governing Body of the Issuer is hereby authorized and directed to execute the Note on

behalf of the Issuer and the Secretary is hereby authorized to attest thereto and affix the Seal of the Issuer and then to deliver the Note on its behalf.

11. The proper officers of the Issuer are hereby authorized and directed to execute such further documents and certificates and to take such further action as they may deem necessary or proper to issue the Note and to carry out the intent and purpose of this Resolution.
12. All Resolutions and parts of Resolutions insofar as they are inconsistent herewith are hereby rescinded.

RESOLVED this 29th day of December, 2008.

PENNSBURG BOROUGH COUNCIL

BY: _____

[Signature]
President

ATTEST: _____

Jeanne W. Hopkins
Secretary

Approved this _____ day of _____, A.D., 2008.

Mayor