

EAST WENATCHEE WATER DISTRICT
DOUGLAS COUNTY, WASHINGTON

RESOLUTION NO. 479

A RESOLUTION of the Board of Water Commissioners of East Wenatchee Water District, Douglas County, Washington, specifying and adopting a plan providing for additions and betterments to the comprehensive scheme or plan of water supply for the District; declaring the estimated cost thereof, as near as may be; providing the method of financing the same; providing for the issuance of Water Improvement Revenue Bonds, 1999, in the principal amount of \$6,305,000 to obtain funds required to pay the cost of such plan of additions and betterments and the cost of improvements in Utility Local Improvement District No. 1, and to capitalize a reserve for and pay the costs of issuance and sale of such bonds; fixing the date, form, maturities, interest rates, terms, covenants and uses of the proceeds of those bonds; creating a construction fund; providing for bond insurance; and approving the sale and providing for the delivery of those bonds to D.A. Davidson & Co. of Spokane, Washington.

ADOPTED FEBRUARY 11, 1999

*Prepared by: Foster Pepper & Shefelman
1111 Third Avenue, Suite 3400
Seattle, Washington
(206) 447-4400*

EAST WENATCHEE WATER DISTRICT
DOUGLAS COUNTY, WASHINGTON

RESOLUTION NO. 479

TABLE OF CONTENTS

	<u>Page</u>
Section 1. Definitions.....	5
Section 2. Plan and System.....	12
Section 3. Satisfaction of Parity Conditions.....	13
Section 4. Authorization and Description of Bonds.....	13
Section 5. Registration and Transfer of Bonds.....	14
Section 6. Payment of Bonds.....	16
Section 7. Redemption and Open Market Purchase of Bonds.....	17
Section 8. Notice of Redemption.....	19
Section 9. Failure to Redeem Bonds.....	20
Section 10. Form and Execution of Bonds.....	20
Section 11. Bond Registrar.....	21
Section 12. Disposition of Bond Proceeds.....	22
Section 13. Bond Fund.....	22
Section 14. Finding as to Sufficiency of Revenue, Pledge of Revenue and Lien Position.....	24
Section 15. Assessments from ULID No. 1.....	25
Section 16. Covenants.....	25
Section 17. Flow of Funds.....	28
Section 18. Provisions for Future Parity Bonds.....	28
Section 19. Preservation of Tax Exemption for Interest on Bonds.....	29
Section 20. Designation of Bonds as "Qualified Tax-Exempt Obligations.....	30
Section 21. Advance Refunding or Defeasance of Bonds.....	30
Section 22. Undertaking to Provide Continuing Disclosure.....	32
Section 23. Approval of Bond Purchase Contract.....	34
Section 24. Preliminary Official Statement Deemed Final.....	35
Section 25. Bond Insurance.....	36
Section 26. Payment Procedures Under Bond Insurance.....	37
Section 27. Parties Interested Herein.....	39

EAST WENATCHEE WATER DISTRICT
DOUGLAS COUNTY, WASHINGTON

RESOLUTION NO. 479

A RESOLUTION of the Board of Water Commissioners of East Wenatchee Water District, Douglas County, Washington, specifying and adopting a plan providing for additions and betterments to the comprehensive scheme or plan of water supply for the District; declaring the estimated cost thereof, as near as may be; providing the method of financing the same; providing for the issuance of Water Improvement Revenue Bonds, 1999, in the principal amount of \$6,305,000 to obtain funds required to pay the cost of such plan of additions and betterments and the cost of improvements in Utility Local Improvement District No. 1, and to capitalize a reserve for and pay the costs of issuance and sale of such bonds; fixing the date, form, maturities, interest rates, terms, covenants and uses of the proceeds of those bonds; creating a construction fund; providing for bond insurance; and approving the sale and providing for the delivery of those bonds to D.A. Davidson & Co. of Spokane, Washington.

WHEREAS, East Wenatchee Water District, Douglas County, Washington (the "District"), now owns, operates and maintains a water supply and distribution system (the "System"); and

WHEREAS, the original comprehensive scheme or plan of water supply for East Wenatchee Water District, Douglas County, Washington (the "District"), was adopted by the Board of Water Commissioners of the District (the "Board") by Resolution No. 4 and ratified by the qualified voters of the District at an election held on August 27, 1940, which original comprehensive scheme or plan of water supply has been supplemented by additions and betterments thereto at various times since that date (the "Original Comprehensive Plan"); and

WHEREAS, pursuant to Resolution No. 406 adopted June 17, 1993, the District issued its \$2,210,000 par value Water Improvement and Refunding Revenue Bonds, 1993 (the "1993 Bonds"), to refund all existing water revenue bonds of the District and to pay the cost of carrying

out a plan of additions and betterments to the Original Comprehensive Plan specified, adopted and ordered to be carried out by Resolution No. 406; and

WHEREAS, by Section 23 of Resolution No. 406, the District reserved the right to issue revenue bonds (the “Future Parity Bonds”) having a lien and charge upon the net revenue of the System on a parity with the charge and lien of the 1993 Bonds if the following conditions were met and complied with at the time of issuance of those Future Parity Bonds:

- (a) *There shall be no deficiency in the Bond Fund.*
- (b) *The resolution providing for the issuance of the Future Parity Bonds shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Fund, except for any prepaid assessments permitted by law to be paid into a construction fund or account.*
- (c) *The resolution providing for the issuance of such Future Parity Bonds shall provide for the payment of the principal thereof and interest thereon out of the Bond Fund.*
- (d) *The resolution providing for the issuance of such Future Parity Bonds shall provide for the deposit into the Reserve Account of (i) an amount equal to the Reserve Requirement for those Future Parity Bonds from the Future Parity Bond proceeds or other money legally available, or (ii) Reserve Insurance or Alternate Security or an amount plus Reserve Insurance or Alternate Security equal to the Reserve Requirement for those Future Parity Bonds, or (iii) to the extent that the Reserve Requirement is not funded from Future Parity Bond proceeds, other legally available money or Reserve Insurance or Alternate Security at the time of issuance of those Future Parity Bonds, within five years from the date of issue of the Future Parity Bonds from ULID Assessments, if any, levied and first collected for the payment of the principal of and interest on those Future Parity Bonds and, to the extent that ULID Assessments are insufficient, then from the Net Revenue of the System in five approximately equal annual payments. No Reserve Insurance or Alternate Security may be used to satisfy the Reserve Requirement for Future Parity Bonds unless (i) the insurance policy or Alternate Security is non-cancelable and (ii) the insurer or provider of the Alternate Security as of the time of issuance of such insurance or Alternate Security is rated in the highest rating categories by both Moody's Investors Service, Inc., and Standard & Poor's Corporation.*
- (e) *The resolution authorizing the issuance of such Future Parity Bonds shall provide for the payment of mandatory redemption or sinking fund requirements*

into the Bond Fund for any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Account.

(f) There shall be on file from a licensed professional engineer experienced in the design, construction and operation of municipal utilities, or from an independent certified public accountant, a certificate showing that in his or her professional opinion the Net Revenue of the System for any 12 consecutive calendar months out of the immediately preceding 24 calendar months shall be equal to the Coverage Requirement for each year thereafter. The certificate, in estimating the Net Revenue of the System available for debt service, may adjust Net Revenue of the System to reflect:

(1) Any changes in rates in effect and being charged or expressly committed by resolution to be made in the future;

(2) Income derived from customers of the System who have become customers during the 12 consecutive month period or thereafter adjusted to reflect one year's net revenue from those customers;

(3) Income from any customers to be connected to the System who have paid the required connection charges;

(4) The engineer's or accountant's estimate of the Net Revenue of the System to be derived from customers anticipated to connect for whom building permits have been issued;

(5) Income received or to be received which is derived from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the System;

(6) The engineer's or accountant's estimate of the Net Revenue of the System to be derived from customers with existing homes or buildings which will be required to connect to any additions to and improvements and extensions of the System constructed and to be paid for out of the proceeds of the sale of the additional Future Parity Bonds or other additions to and improvements and extensions of the System then under construction and not fully connected to the facilities of the System when such additions, improvements and extensions are completed; and

(7) *Any increases or decreases in Net Revenue as a result of any actual or reasonably anticipated changes in Operating and Maintenance Expense subsequent to the 12-month period.*

If Future Parity Bonds proposed to be so issued are for the sole purpose of refunding outstanding bonds payable from the Bond Fund, such certification of coverage shall not be required if the amount required for the payment of the principal and interest in each year for the refunding bonds is not increased more than \$5,000 over the amount for that same year required for the bonds or the portion of that bond issue to be refunded thereby and if the maturities of such refunding bonds are not extended beyond the maturities of the bonds to be refunded thereby.

WHEREAS, pursuant to Resolution No. 455 adopted January 16, 1997, the District issued its \$1,600,000 par value Water Revenue Bonds, 1997 (the “1997 Bonds”), on a parity of lien with the 1993 Bonds to pay the cost of carrying out a plan of additions and betterments to the Original Comprehensive Plan specified, adopted and ordered to be carried out by Resolution No. 455; and

WHEREAS, pursuant to Resolution No. 471, the District created Utility Local Improvement District (“ULID”) No. 1 to carry out a plan providing for additions and betterments to the Original Comprehensive Plan specified, adopted and ordered to be carried out by Resolution No. 470 (the “ULID No. 1 Improvements”), and authorized the issuance of water revenue bonds to pay such cost; and

WHEREAS, by Resolution No. 458, adopted April 1, 1997, the Board adopted the 1996 Comprehensive Water System Plan of the District (the “1996 Comprehensive Plan”), which plan has received all required approvals; and

WHEREAS, the 1993 Bonds and 1997 Bonds (collectively the “Outstanding Parity Bonds”) are payable from and have a lien and charge upon the Net Revenue of the System prior and superior to any other charges whatsoever; and

WHEREAS, the Board finds that the District is or will be in compliance with the conditions for the issuance of Future Parity Bonds set forth in Section 23 of Resolution No. 406; and

WHEREAS, in order to provide for the future needs of the District, the Board has determined that it is in the best interest of the District that certain additions to and betterments and extensions of the existing System be made and that the District issue and sell its Water Improvement Revenue Bonds, 1999 (the "Bonds"), in the principal amount of \$6,305,000 on a parity of lien and charge with the Outstanding Parity Bonds to provide the funds to pay costs of carrying out the plan of additions to and betterments and extensions of the System adopted herein and the ULID No. 1 Improvements, to capitalize a reserve for and to pay the costs of issuance and sale of the Bonds; and

WHEREAS, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company ("Ambac Assurance" or the "Bond Insurer"), has made a commitment to issue an insurance policy (the "Municipal Bond Insurance Policy") insuring the payment when due of the principal of and interest on the Bonds as provided therein, and the Board deems that the purchase of the Municipal Bond Insurance Policy is in the best interest of the District; and

WHEREAS, D. A. Davidson & Co. has offered to purchase the Bonds under the terms and conditions set forth in this resolution; NOW, THEREFORE,

BE IT RESOLVED BY THE BOARD OF WATER COMMISSIONERS OF EAST WENATCHEE WATER DISTRICT, DOUGLAS COUNTY, WASHINGTON, as follows:

Section 1. Definitions. As used in this resolution the following words shall have the following meanings:

“Alternate Security” means any bond insurance, collateral, security, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on the Parity Bonds, issued by an institution which has been assigned a credit rating at the time of issuance of those Parity Bonds, respectively, secured by such Alternate Security equal to or better than the highest then-existing rating for any of any Parity Bonds.

“Annual Debt Service” for the applicable series of Parity Bonds for any year means all the interest, plus all principal (except principal of Term Bonds due in any Term Bond Maturity Year), plus all mandatory redemption sinking fund installments for that year, less all bond interest payable from the proceeds of any such bonds in that year.

“Assessment Bonds” means the original principal amount of any issue of Parity Bonds equal to the total remaining unpaid principal amount (at the time of adoption of the resolution providing for the issuance and sale of those bonds) of ULID Assessments on any final assessment roll or rolls of one or more ULIDs formed in connection with the improvements being financed by that issue of Parity Bonds (or bonds being refunded by those Parity Bonds). The original principal amount of such issue of bonds in excess of Assessment Bonds shall be referred to as “bonds that are not Assessment Bonds.” Assessment Bonds shall be allocated to each \$5,000 of bonds in proportion to their percentage of the entire issue of bonds. When a bond of any issue of bonds containing Assessment Bonds is redeemed or purchased, and retired, the same percentage of that bond as the percentage of Assessment Bonds is to that total issue of bonds shall be treated as being redeemed or purchased, and retired.

“Average Annual Debt Service” means, at the time of its calculation, the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of the applicable issue or issues of Parity Bonds divided by the number of those years. For purposes of computing the Reserve Requirement the estimated amount of Parity Bonds to be redeemed prior to maturity may be taken into account if required under federal arbitrage regulations.

“Board” means the Board of Water Commissioners of the District.

“Bond Fund” means the Water Revenue Bond Fund, 1993, of the District created and established by Resolution No. 406 in the office of the Treasurer for the payment of the principal of and interest on the Parity Bonds.

“Bond Insurer” or “Ambac Assurance” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Bond Register” means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the owners of each of the Bonds.

“Bond Registrar” means the Fiscal Agency.

“Bonds” means the \$6,305,000 par value Water Improvement Revenue Bonds, 1999, issued for the purposes provided in and pursuant to this resolution.

“Code” means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

“Construction Fund” means the Special Construction Fund, 1999, of the District created and established by this resolution in the office of the Treasurer.

“Coverage Requirement” in any year means (1) an amount of Net Revenue of the System at least equal to 1.20 times the Maximum Annual Debt Service on all outstanding Parity Bonds that are not Assessment Bonds and (2) an amount of Net Revenue of the System together

with ULID Assessments at least equal to the Maximum Annual Debt Service on all outstanding Parity Bonds which are Assessment Bonds.

“District” means East Wenatchee Water District, Douglas County, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

“DTC” means The Depository Trust Company, New York, New York.

“Fiscal Agency” means either of the fiscal agencies of the State of Washington, as the same may be designated from time to time.

“Future Parity Bonds” means any and all water revenue bonds of the District issued after the date of the issuance of the Bonds, the payment of the principal of and interest on which constitutes a charge or lien on the Gross Revenue of the System and ULID Assessments equal in rank with the charge and lien upon such revenue and assessments required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds and the Bonds.

“Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended and which are otherwise Legal Investments of the District at the time of such investment.

“Gross Revenue of the System” or “Gross Revenue” means all earnings, revenues and money received by the District from or on account of the operation of the System, including income from meter sales and from investments of money in the Maintenance Fund and the Bond Fund or from any other investment thereof and shall also include any federal or state reimbursements of operating expenses to the extent such expenses are included as Operating and Maintenance Expense, but shall not include grants in aid of construction, District-levied taxes, ULID Assessments, proceeds from the sale of District property, principal proceeds of bonds and

earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund District obligations (until commingled with other earnings and revenues of the District) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

“Legal Investments” means any investments now or hereafter authorized for the District under the laws of the State of Washington.

“Letter of Representations” means the Blanket Issuer Letter of Representations between the District and DTC authorized to be executed by this resolution.

“Maintenance Fund” means the Maintenance Fund of the District created and maintained in the office of the Treasurer.

“Maximum Annual Debt Service” means at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on the outstanding Parity Bonds.

“Municipal Bond Insurance Policy” means the municipal bond insurance policy issued by the Bond Insurer insuring the payment when due of the principal and interest on the Bonds as provided therein.

“Net Revenue of the System” or “Net Revenue” means the Gross Revenue less Operating and Maintenance Expense.

“Operating and Maintenance Expense” means all reasonable expenses incurred by the District in causing the System of the District to be operated and maintained in good repair, working order and condition, including payments made to any other municipal corporation or private entity for water service or for sewage treatment and disposal service or other utility service in the event the District combines such service into the System and enters into a contract for such

service, but not including any depreciation or taxes levied or imposed by the District or payments to the District in lieu of taxes, or capital additions or capital replacements to the System.

“Outstanding Parity Bonds” means the 1993 Bonds and the 1997 Bonds.

“Parity Bonds” means the then-outstanding Outstanding Parity Bonds, Bonds and any Future Parity Bonds.

“Permitted Investment” means any investment that is a legal investment for water districts in the State of Washington, except that as long as the Municipal Bond Insurance Policy is in effect, Permitted Investments shall be restricted to those listed in Exhibit B attached to this resolution.

“Plan and System” means the plan or system for additions to and betterments and extensions of the System specified, adopted and ordered to be carried out herein.

“Principal and Interest Account” means the account of that name created in the Bond Fund for the payment of the principal of and interest on the Parity Bonds.

“1993 Bonds” means the Water Improvement and Refunding Revenue Bonds, 1993, dated June 1, 1993, authorized pursuant to Resolution No. 406 of the District.

“Reserve Account” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

“Reserve Insurance” means, in lieu of cash and investments, insurance obtained by the District equal to part or all of the Reserve Requirement for any Parity Bonds then outstanding for which such insurance is obtained.

“Reserve Requirement” means:

(1) For the Bonds, an amount equal to the difference between the Reserve Requirement for the Outstanding Parity Bonds and the least of (1) 10% of the issue price of the Outstanding Parity Bonds and the Bonds, (b) Maximum Annual Debt Service on the Outstanding Parity Bonds and the Bonds, and (c) 1.25 times Average Annual Debt Service on the Outstanding Parity Bonds and the Bonds, but in no event to exceed an amount equal to the least of 10% of the issue price of the Bonds, Maximum Annual Debt Service on the Bonds, and 1.25 times Average Annual Debt Service on the Bonds.

(2) For any Future Parity Bonds, an amount equal to the difference between the Reserve Requirement for the Parity Bonds and the least of (a) 10% of the issue price of the Parity Bonds and the Future Parity Bonds proposed to be issued, (b) Maximum Annual Debt Service on the Parity Bonds and the Future Parity Bonds proposed to be issued, and (c) 1.25 times Average Annual Debt Service on the Parity Bonds and the Future Parity Bonds proposed to be issued, but in no event to exceed an amount equal to the least of 10% of the issue price of the proposed Future Parity Bonds, Maximum Annual Debt Service on those bonds and 1.25 times Average Annual Debt Service on the proposed Future Parity Bonds. For the purposes of determining Maximum Annual Debt Service and Average Annual Debt Service for calculating the Reserve Requirement, all bonds payable or proposed to be paid from the Bond Fund shall be treated as a single issue and the last scheduled maturity for any of those issues shall be used as the denominator.

“System” means the existing water supply and distribution system of the District as the same shall be added to, bettered, improved and extended (including any sewer system hereafter acquired which is lawfully combined into the System) for as long as any of the Parity Bonds are outstanding.

“Term Bond Maturity Year” means any calendar year in which Term Bonds are scheduled to mature.

“Term Bonds” means those bonds designated as such in the resolution authorizing the issuance and sale of those bonds.

“Treasurer” means the Treasurer of Douglas County, Washington, *ex officio* treasurer for the District, or any successor treasurer who hereafter may be designated in accordance with applicable law.

“ULID” means utility local improvement district.

“ULID Assessments” means all assessments levied and collected in any ULID of the District created for the acquisition or construction of additions to and extensions and betterments of the System if such assessments are pledged to be paid into the Bond Fund (less any prepaid assessments permitted by law to be paid into a construction fund or account). ULID Assessments shall include installments thereof and any interest or penalties that may be due thereon.

“ULID No. 1” means Utility Local Improvement District No. 1 created by Resolution No. 471 of the District, adopted September 3, 1998.

“ULID No. 1 Improvements” means the plan or system for additions to and betterments and extensions of the System specified, adopted and ordered to be carried out in Resolution No. 470, dated July 16, 1998, relating to ULID No. 1.

Section 2. Plan and System. The District specifies and adopts a plan and system providing for additions to and betterments and extensions of the 1996 Comprehensive Plan, as amended and supplemented, consisting of the projects set forth in Exhibit A attached hereto and by this reference incorporated herein (the “Plan and System”). There shall be included in the Plan and System the acquisition and installation of all necessary valves, fittings, couplings, connections, equipment and appurtenances, and there shall be included the performance of such work as may be incidental and necessary to the foregoing construction and installation.

The Plan and System shall be connected to the existing System wherever necessary with the installation of all necessary appurtenances therefor.

The estimated cost, as nearly as may be, of carrying out the Plan and System is declared to be \$5,892,000, to be met and defrayed from the proceeds received from the issuance and sale of the Bonds authorized herein and other money of the District legally available therefor.

The life of the Plan and System improvements is declared to be longer than the term of the Bonds.

The Plan and System shall be subject to such modifications of details and other changes not affecting the general purposes of such plan as shall be authorized by the Board either prior to or during the actual course of construction. Any proceeds of the Bonds remaining after completion of the Plan and System and ULID No. 1 Improvements may be applied to such other projects with comprehensive plan approvals as the Board may direct.

Section 3. Satisfaction of Parity Conditions. The Board finds and declares that (a) at the time of adoption of this resolution and at the time of issuance and delivery of the Bonds there is not nor will there be any deficiency in the Bond Fund; (b) all assessments in ULID No. 1 shall be paid directly into the Bond Fund; (c) the principal of and interest on the Bonds shall be payable out of the Bond Fund and all Reserve Account requirements of Resolution No. 406 are met; (d) at the time of the issuance of the Bonds the required engineer or certified public accountant's certificate will be on file; and (e) all other conditions for the issuance of the Bonds as Future Parity Bonds under Section 23 of Resolution No. 406 will have been met and satisfied before the Bonds are delivered to the original purchaser thereof.

Section 4. Authorization and Description of Bonds. For the purpose of providing part of the funds required to pay the cost of carrying out the Plan and System and the ULID No. 1 Improvements and to capitalize a reserve for and pay the costs of issuance and sale of the Bonds, the District shall issue the Bonds in the principal amount of \$6,305,000. The Bonds shall be designated Water Improvement Revenue Bonds, 1999; shall be dated February 1, 1999; shall be in the denomination of \$5,000 or any integral multiple thereof within a single maturity; shall be numbered separately, in the manner and with any additional designation as the Bond Registrar

deems necessary for the purpose of identification; shall bear interest (computed on the basis of a 360-day year of twelve 30-day months), payable semiannually on each February 1 and August 1, commencing August 1, 1999; and shall mature on February 1 in years and amounts and bear interest at the rates per annum as follows:

<u>Maturity Dates</u>	<u>Amounts</u>	<u>Interest Rates</u>
2001	\$ 10,000	3.50%
2002	20,000	3.60
2003	20,000	3.70
2004	15,000	3.80
2005	15,000	3.90
2006	10,000	4.00
2007	20,000	4.10
2008	20,000	4.20
2009	25,000	4.30
2010	30,000	4.40
2011	25,000	4.50
2012	25,000	4.50
2013	380,000	4.55
2014	400,000	4.55
**	**	**
2019	2,315,000	5.00
**	**	**
2024	2,975,000	5.00

Section 5. Registration and Transfer of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The

Bond Registrar shall not be obligated to exchange or transfer any Bond during the fifteen days preceding any principal payment or redemption date.

The Bonds initially shall be registered in the name of CEDE & CO., as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of a Blanket Issuer Letter of Representations with DTC substantially in the form on file with the Secretary of the Board and by this reference made a part hereof (the "Letter of Representations"). To induce DTC to accept the Bonds as eligible for deposit at DTC, the District approves the Letter of Representations. The President or Secretary of the Board or Manager of the District is authorized and directed to execute and deliver the Letter of Representations, on behalf of the District, to DTC on or before the date of delivery of the Bonds to the purchaser thereof and the payment therefor, with such changes as the President or Secretary of the Board or Manager of the District deems to be in the best interests of the District, and the execution and delivery of the Letter of Representations shall evidence irrevocably the approval of the Letter of Representations by the District. Neither the District nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or interest on the Bonds, or any notice which is permitted or required to be given to registered owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For so long as any Bonds are held in fully immobilized form, DTC or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its nominees and shall not mean the owners of any beneficial interests in the Bonds. Registered ownership of such

Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the District or such substitute depository's successor; or (iii) to any person if the Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the District that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the District may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the District determines that the Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in fully immobilized form.

Section 6. Payment of Bonds. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at either of the principal offices of the Bond Registrar at the option of the owners. The Bonds shall be payable solely out of the Bond Fund and shall not be general obligations of the District. Notwithstanding the foregoing, as long as the

Bonds are registered in the name of DTC or its nominee, payment of principal of and interest on the Bonds shall be made in the manner set forth in the Letter of Representations.

Section 7. Redemption and Open Market Purchase of Bonds. Bonds maturing in the years 2001 through 2009, inclusive, shall be issued without the right or option of the District to redeem those Bonds prior to their stated maturity dates. The District reserves the right and option to redeem Bonds maturing on or after February 1, 2010, prior to their stated maturity dates at any time on or after February 1, 2009, as a whole or in part (within one or more maturities selected by the District and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

Bonds maturing in 2019 and 2024 are Term Bonds and, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, shall be called for redemption by lot (in such manner as the Bond Registrar shall determine) at par plus accrued interest on February 1 in years and amounts as follows:

<u>2019 Term Bonds</u>		
<u>Mandatory Redemption Years</u>	<u>Mandatory Redemption Amounts</u>	
2015	\$420,000	
2016	440,000	
2017	460,000	
2018	485,000	
2019 (maturity)	510,000	

2024 Term Bonds

<u>Mandatory Redemption Years</u>	<u>Mandatory Redemption Amounts</u>
2020	\$535,000
2021	565,000
2022	595,000
2023	625,000
2024 (maturity)	655,000

If the District shall redeem Term Bonds under the optional redemption provisions set forth above or purchase Term Bonds in the open market as set forth below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds (as allocated by the District) beginning not earlier than 60 days after the date of the optional redemption or purchase, and the District shall promptly notify the Bond Registrar in writing of the manner in which the credit for the Term Bonds so redeemed or purchased has been allocated.

Portions of the principal amount of any Bond, in installments of \$5,000 or any integral multiple thereof, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at either of the principal offices of the Bond Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or Bonds, at the option of the registered owner) of the same maturity and interest rate in any of the denominations authorized by this resolution in the aggregate total principal amount remaining unredeemed.

The District further reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the District plus accrued interest to the date of purchase.

All Bonds purchased or redeemed under this section shall be cancelled. Notwithstanding the foregoing, for so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, selection of Bonds for redemption shall be in accordance with the Letter of Representations (as it may be changed).

Section 8. Notice of Redemption. The District shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed within the same period, postage prepaid, to Moody's Investors Service, Inc., and Standard & Poor's at their offices in New York, New York, or their successors, to the Bond Insurer at its principal office in New York, New York, or its successor, to D.A. Davidson & Co. at its principal office in Spokane, Washington, or its successor, and to such other person and with such additional information as the District shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds. Notwithstanding the foregoing, for so long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, notice of redemption shall be given in accordance with the Letter of Representations (as it may be changed).

Section 9. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the District shall be obligated to pay interest on that Bond at

the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the registered owner of each of those unpaid Bonds.

Section 10. Form and Execution of Bonds. The Bonds shall be printed or lithographed on good bond paper in a form consistent with the provisions of this resolution and state law, shall be signed by the President and Secretary of the Board, either or both of whose signatures may be manual or in facsimile, and the seal of the District or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this resolution:

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered East Wenatchee Water District, Douglas County, Washington, Water Improvement Revenue Bonds, 1999, described in the Bond Resolution.

WASHINGTON STATE FISCAL AGENCY
Bond Registrar

By _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this resolution.

If any officer whose facsimile signature appears on the Bonds ceases to be an officer of the District authorized to sign bonds before the Bonds bearing his or her facsimile signature are

authenticated or delivered by the Bond Registrar or issued by the District, those Bonds nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on the District as though that person had continued to be an officer of the District authorized to sign bonds. Any Bond also may be signed on behalf of the District by any person who, on the actual date of signing of the Bond, is an officer of the District authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall at all times be open to inspection by the District. The Bond Registrar is authorized, on behalf of the District, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this resolution, to serve as the District's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this resolution and District Resolution No. 361 establishing a system of registration for the District's bonds and obligations.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Bond owners.

Section 12. Disposition of Bond Proceeds. The principal proceeds received from the issuance and sale of the Bonds shall be deposited as follows: (1) an amount equal to the bond insurance premium shall be paid directly to the Bond Insurer at closing; (2) an amount sufficient

to capitalize the Reserve Requirement for the Bonds shall be deposited in the Reserve Account at closing; and (3) the balance shall be deposited into the Construction Fund, hereby created in the office of the Treasurer and used to carry out the Plan and System and the ULID No. 1 Improvements. Pending the expenditure of the principal proceeds out of the Construction Fund, the Treasurer may temporarily invest such proceedings in Permitted Investments. The accrued interest on the Bonds, if any, received at the time the Bonds are delivered to the initial purchaser shall be deposited into the Principal and Interest Account of the Bond Fund.

Section 13. Bond Fund. The Bond Fund has been created in the office of the Treasurer as the Water Revenue Bond Fund, 1993, which fund is divided into two accounts: the Principal and Interest Account and the Reserve Account. So long as any Parity Bonds are outstanding against the Bond Fund, the District shall set aside and pay into the Bond Fund all ULID Assessments on their collection and, out of the Net Revenue of the System, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account, monthly, on or before the first day of each month beginning with the month of March, 1999, an amount, together with other money on deposit therein, sufficient to pay 1/5 of the interest requirement on the Bonds due August 1, 1999, and 1/23 of the principal requirement of the Bonds due February 1, 2001, and thereafter on or before the first day of each succeeding month, an amount, together with other money on deposit therein, sufficient to pay 1/6 of the next ensuing interest requirement on the Bonds and 1/12 of the next ensuing principal requirement on the Bonds; and

(b) Into the Reserve Account, on the date of issue, from principal proceeds of the Bonds an amount sufficient to fully fund the Reserve Requirement.

(c) Notwithstanding clauses (a) and (b) above, the deposit to be made into the Reserve Account, and Reserve Requirement, each may be decreased for any issue of Parity Bonds when and to the extent that the District has provided for Reserve Insurance or Alternate Security.

Except for withdrawals therefrom as authorized herein, the Reserve Account shall be maintained at the Reserve Requirement amount for all Parity Bonds at all times so long as any of

such bonds are outstanding. When the total amount in the Bond Fund shall equal the total amount of principal and interest for all outstanding Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund. Notwithstanding the first sentence of this paragraph, the Reserve Requirement may be decreased for any issue of Parity Bonds when and to the extent the District has provided for an Alternate Security or Reserve Insurance.

In the event that there shall be a deficiency in the Principal and Interest Account in the Bond Fund to meet maturing installments of either principal or interest, as the case may be, that deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom for that purpose. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from ULID Assessment payments and the Net Revenue of the System first available after making necessary provisions for the required payments into the Principal and Interest Account. The money in the Reserve Account otherwise shall be held intact and may be applied against the last outstanding Parity Bonds, except that if the Reserve Account is fully funded, any money in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Account and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund and spent for any other lawful System purpose.

The District may provide for the purchase, redemption or defeasance of Parity Bonds by the use of money on deposit in any account in the Bond Fund as long as the money remaining in those accounts is sufficient to satisfy the required deposits in those accounts for the remaining Parity Bonds outstanding.

All money in the Bond Fund may be kept in cash or invested in Legal Investments maturing not later than the date when the funds are required for the payment of principal of or interest on the outstanding Parity Bonds (for investments in the Principal and Interest Account) or having a

guaranteed redemption price prior to maturity and, in no event, maturing later than the last maturity of any remaining outstanding Parity Bonds (for investments in the Reserve Account). Earnings from investments in the Principal and Interest Account shall be deposited in that account. Income from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirement of all Parity Bonds and thereafter shall be deposited in the Principal and Interest Account.

The District may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of Parity Bonds.

If the District fails to set aside and pay into the Bond Fund the amounts set forth above, the owner of any of the outstanding Parity Bonds may bring action against the District and compel such setting aside and payment.

Section 14. Finding as to Sufficiency of Revenue, Pledge of Revenue and Lien Position.

The Board finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the System of the District at the rates to be charged for water service from the System will be more than sufficient to meet all Operating and Maintenance Expense and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the principal of and interest on the Outstanding Parity Bonds and the Bonds when due. The Net Revenue of the System and ULID Assessments are pledged to the payment of any Parity Bonds, and the Parity Bonds shall constitute a lien and charge upon such Net Revenue and ULID Assessments prior and superior to any other charges whatsoever.

Section 15. Assessments from ULID No. 1. The District hereby covenants and agrees that ULID Assessments levied and collected in ULID No. 1, following confirmation of the final assessment roll for ULID No. 1, shall be deposited in the Bond Fund.

Section 16. Covenants. The District covenants and agrees with the owner of each Bond at any time outstanding, as follows:

(a) Maintenance and Operation. It will at all times maintain, preserve and keep the properties of the System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be operated the properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) Establishment and Collection of Rates and Charges. It will establish, maintain and collect rates and charges for all services and facilities provided by the System which will be fair and nondiscriminatory, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue of the System will at all times be sufficient to (i) pay all Operating and Maintenance Expense on a current basis, (ii) pay when due all amounts that the District is obligated to pay into the Bond Fund and the accounts therein, and (iii) pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the District may now or hereafter become obligated to pay from the Gross Revenue of the System by law or contract.

(2) The Net Revenue of the System in each calendar year will be at least equal to the Coverage Requirement.

To the extent allowable by law, those to which service of the System is available will be charged for that service at the prevailing rate within 30 days of the availability of that service.

(c) Sale or Disposition of the System. It will not sell or otherwise dispose of the System in its entirety unless, simultaneously with such sale or other disposition, all Parity Bonds are defeased under the applicable section of the resolution authorizing the issuance of those Parity Bonds.

It will not sell, lease, mortgage or in any manner encumber or otherwise dispose of any part of the System, including all additions and improvements thereto and extensions thereof at any time made, that are used, useful or material in the

operation of the System, unless provision is made for the replacement thereof or for payment into the Bond Fund of the greatest of the following:

- (1) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (defined as the total amount of the Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Gross Revenue of the System from the portion of the System sold or disposed of for the preceding year bears to the total Gross Revenue of the System for that period; or
- (2) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) that the Net Revenue from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenue of the System for such period; or
- (3) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) that the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire System immediately prior to such sale or disposition.

Notwithstanding any other provision of this subsection, the District in its discretion may sell or otherwise dispose of any of the works, plant, properties or facilities of the System or any real or personal property comprising a part of the same which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful to the operation of the System, without making any deposit into the Bond Fund. In no event shall such proceeds be treated as Gross Revenue of the System for purposes of this resolution.

(d) Liens Upon the System. It will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue of the System, or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue of the System, or any part thereof, prior to or superior to the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) Books and Accounts. It will keep proper books, records and accounts with respect to the operations, income and expenditures of the System in accordance with proper accounting procedures and any applicable rules and regulations prescribed by the State of Washington. It will prepare annual financial and operating statements within 90 days of the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of the previous

year, and the income and expenses for such year, including the amounts paid into the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of this resolution, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the System. Such statements shall be sent to the owner of any Parity Bonds upon written request therefor being made to the District.

(f) No Free Service. Except to aid the poor or infirm, to provide for resource conservation or to provide for the proper handling of hazardous materials, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the System free of charge to any person, firm or corporation, public or private, other than the District, so long as any Parity Bonds are outstanding.

(g) Collection of Delinquent Accounts. On at least an annual basis, it will determine all accounts that are delinquent and will take all necessary action to enforce payment of such accounts against those property owners whose accounts are delinquent.

(h) Fire and Extended Coverage Insurance. It at all times will carry fire and extended coverage and such other forms of insurance with responsible insurers and with policies payable to the District on such of the buildings, equipment, works, plants, facilities and properties of the District as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or will implement and maintain a self-insurance or an insurance pool program with reserves adequate, in the reasonable judgment of the District, to protect the System and the owners of the Parity Bonds against loss.

(i) Public Liability and Property Damage Insurance. It at all times will keep or arrange to keep in full force and effect such policies of public liability and property damage insurance with responsible insurers and with policies payable to the District against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or will implement and maintain a self-insurance or an insurance pool program with reserves adequate, in the reasonable judgment of the Board, to protect the District and the owners of the Parity Bonds against loss.

Section 17. Flow of Funds. All ULID Assessments shall be paid into the Bond Fund as provided by Section 13. The Gross Revenue of the System shall be used for the following purposes only and shall be applied in the following order of priority:

- (a) To pay the Operating and Maintenance Expense;

(b) To pay the principal of and interest on the Parity Bonds as they come due or as the principal is required to be paid and to make all payments required to be made into any mandatory redemption or sinking fund account created to provide for the payment of the principal of Term Bonds;

(c) To make all payments required to be made into the Reserve Account;

(d) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the District having a lien upon the revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(e) To retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the District, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful District purposes.

The District may transfer any money from any funds or accounts of the District legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Fund.

Section 18. Provisions for Future Parity Bonds. The District reserves the right to issue Future Parity Bonds if the conditions set forth in Section 23 of Resolution No. 406 are met and complied with at the time of the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the District from issuing Future Parity Bonds to refund maturing Parity Bonds then outstanding, money for the payment of which is not otherwise available.

Nothing contained herein shall prevent the District from issuing revenue bonds that are a charge upon the Gross Revenue of the System of the District subordinate to the payments required to be made therefrom into the Bond Fund for the payment of the Parity Bonds or from pledging the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such utility local

improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Section 19. Preservation of Tax Exemption for Interest on Bonds. The District covenants that it will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the District treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The District also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the Bonds, including the calculation and payment of any penalties that the District has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bonds from being included in gross income for federal income tax purposes. The District certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

Section 20. Designation of Bonds as "Qualified Tax-Exempt Obligations." The District has determined and certifies that (a) the Bonds are not "private activity bonds" within the meaning of Section 141 of the Code; (b) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) that the District and any entity subordinate to the District (including any entity that the District controls, that derives its authority to issue tax-exempt obligations from the

District or that issues tax-exempt obligations on behalf of the District) will issue during the calendar year in which the Bonds are issued will not exceed \$10,000,000; and (c) the amount of tax-exempt obligations, including the Bonds, designated by the District as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code during the calendar year in which the Bonds are issued does not exceed \$10,000,000. The District designates the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265(b)(3) of the Code.

Section 21. Advance Refunding or Defeasance of Bonds. The District may issue advance refunding bonds pursuant to the laws of the State of Washington or use money available from any other lawful source to pay the principal of and interest on the Bonds, or such portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease all such then-outstanding Bonds (hereinafter collectively called the "defeased Bonds") and to pay the costs of such refunding or defeasance. In the event that money and/or Government Obligations or other Permitted Investments sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance with their terms, are set aside irrevocably in a special fund for and pledged irrevocably to such redemption, retirement or defeasance (hereinafter called the "trust account"), then all right and interest of the owners of the defeased Bonds in the covenants of this resolution and in the Gross Revenue of the System, ULID Assessments, funds and accounts obligated to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account.

After the establishing and full funding of such a trust account, the District then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other Bonds or bonds then outstanding.

In the event that the refunding plan provides that the defeased Bonds or the refunding bonds to be issued be secured by money and/or Government Obligations or other Permitted Investments pending the prior redemption of the defeased Bonds and if such refunding plan also provides that certain money and/or Government Obligations or other Permitted Investments are pledged irrevocably for the prior redemption of the defeased Bonds included in that refunding plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of the Coverage Requirement in connection with the issuance of Future Parity Bonds and annual compliance with the rate covenants.

Notwithstanding anything in this section to the contrary, if the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, the Bonds shall be treated as remaining outstanding for all purposes and shall not be considered paid the District, and the covenants, agreements and other obligations of the District to the registered owners of the Bonds shall continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of the registered owners.

Section 22. Undertaking to Provide Continuing Disclosure. To meet the conditions of paragraph (d)(2) of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”) as required to qualify for the limited exemption from paragraph (b)(5) of the Rule,

as applicable to a participating underwriter for the Bonds, the District makes the following undertaking (the “Undertaking”) for the benefit of holders of the Bonds:

(a) Undertaking to Provide Annual Financial Information and Notice of Material Events. The District undertakes to provide or cause to be provided, either directly or through a designated agent:

(i) To any person upon request, or annually to a state information depository, if any, established in the state of Washington (the “SID”), annual financial information and operating data of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“annual financial information”) that is customarily prepared by the District and is otherwise publicly available; and

(ii) To each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) or the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes.

(b) Type of Annual Financial Information Undertaken to be Provided.
The annual financial information that the District undertakes to provide:

(i) Shall consist of (1) audited annual financial statements for the then most recent completed fiscal year prepared (except as noted in the financial statements) in accordance with a uniform system of accounts promulgated by the National Association of Regulatory Utility Commissioners (or any similar replacement uniform system), as such principles may be changed from time to time, or if unavailable as of the date of request, updated operating results for the District for the then most recent completed fiscal year similar to the format shown in the section of the official statement for the Bonds entitled “System Historical Operating Results”; (2) the principal amount of outstanding Parity Bonds; (3) a description of any additional borrowing or future financing of the District; (4) an updated list of major water billing accounts similar to the information

shown in the section of the official statement for the Bonds entitled “Major Water Billing Accounts”; and (5) a schedule of the current rates for the System, if changed.

(ii) Shall be available from the Assistant Manager of the District, whose current address and telephone number are identified in the final official statement for the Bonds.

(c) Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMISIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule.

The District will give notice to each NRMISIR or the MSRB, and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. The Undertaking evidenced by this section shall inure to the benefit of the District and any holder of Bonds, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The District’s obligations under this Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District’s obligations under this Undertaking shall terminate if those provisions of the Rule which require the District to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to each NRMISIR or the MSRB and the SID.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the District learns of any failure to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected. No failure by the District or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.

(g) Designation of Official Responsible to Administer Undertaking. The Manager of the District (or such other officer of the District who may in the future perform the duties of the Manager) or his or her designee is authorized and

directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertaking of the District in respect of the Bonds set forth in this section and in accordance with the Rule, including, without limitation, the following actions:

- (i) Preparing, filing and/or making available the annual financial information undertaken to be provided;
- (ii) Determining whether any event specified in subsection (a) of this section has occurred, assessing its materiality with respect to the Bonds, and, if material, preparing and disseminating notice of its occurrence;
- (iii) Determining whether any person other than the District is an “obligated person” within the meaning of the Rule with respect to the Bonds, and obtaining from such person an undertaking to provide any annual financial information and notice of material events for that person in accordance with the Rule;
- (iv) Determining and monitoring the aggregate amount of outstanding municipal securities of the District and of any other obligated person for purposes of the qualification of the District and any other obligated person for the limited exemption from paragraph (b)(5) of the Rule;
- (v) Selecting, engaging and compensating designated agents and consultants, including but not limited to financial advisors and legal counsel, to assist and advise the District in carrying out the Undertaking; and
- (vi) Effecting any necessary amendment of the Undertaking.

Section 23. Approval of Bond Purchase Contract. D.A. Davidson & Co. of Spokane, Washington (the “Purchaser”), has presented a bond purchase agreement (the “Bond Purchase Contract”) to the District offering to purchase the Bonds under the terms and conditions provided in the Bond Purchase Contract, which written Bond Purchase Contract is on file with the Secretary of the Board and is incorporated herein by this reference. The Board finds that entering into the Bond Purchase Contract is in the District’s best interest and, therefore, accepts the offer contained therein and authorizes its execution by District officials.

The Bonds will be printed at District expense and will be delivered to the Purchaser in accordance with the terms of the Bond Purchase Contract with the approving legal opinion of Foster Pepper & Shefelman, municipal bond counsel of Seattle, Washington, relative to the issuance of the Bonds. Bond counsel has not been retained to and shall not be required to review or express any opinion concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material issued or used in connection with the Bonds, and bond counsel's opinion shall so state.

The proper District officials are authorized and directed to do everything necessary for the prompt delivery of the Bonds to the Purchaser and for the proper application and use of the proceeds of the sale thereof.

Section 24. Preliminary Official Statement Deemed Final. The Board has been provided with copies of a preliminary official statement dated January 29, 1999 (the "Preliminary Official Statement"), prepared in connection with the sale of the Bonds. For the sole purpose of the Purchaser's compliance with SEC Rule 15c2-12(b)(1), the District "deems final" that Preliminary Official Statement as of its date, except for the omission of information as to offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, maturity dates, options of redemption, delivery date, ratings and other terms of the Bonds dependent on such matters.

Section 25. Bond Insurance. The District is authorized to purchase from the Bond Insurer the Municipal Bond Insurance Policy insuring the prompt payment of the principal of and interest on the Bonds and agrees to the conditions for obtaining that policy, including the payment of the premium therefor. Any notice required to be given to the Bond Insurer shall be sent by certified or registered mail to Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004.

While the Municipal Bond Insurance Policy is in effect, the District or the Bond Registrar shall furnish to the Bond Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(a) As soon as practicable after the filing thereof, copies of any financial statements, audits and annual reports of the District;

(b) copies of any notices given to the registered owners of the Bonds, including, without limitation, notices of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this resolution relating to the security for the Bonds;

(c) to the extent that the District has entered into a continuing disclosure agreement with respect to the Bonds, the Bond Insurer shall be included as a party to be notified; and

(d) such additional information the Bond Insurer may reasonably request.

The Bond Registrar shall notify the Bond Insurer (to the attention of the General Counsel Office) of any failure of the District to provide relevant notices and certificates.

The District will permit the Bond Insurer to discuss the affairs, finances and accounts of the District or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the District. The Bond Registrar and the District will permit the Bond Insurer to have access to and make copies of all books and records relating to the Bonds at any reasonable time.

The Bond Insurer shall have the right to direct an accounting at the District's expense, and the District's failure to comply with such direction within 30 days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default hereunder unless compliance cannot occur within such period. In that event and only if an extension would not materially adversely affect the interest of any registered owner of the Bonds, that 30-day period will be extended so long as compliance is begun within that period and diligently pursued.

Section 26. Payment Procedures Under Bond Insurance. The Bond Insurer requires that the following sections be included in this resolution:

"As long as the bond insurance shall be in full force and effect, the Issuer, the Trustee and any Paying Agent agree to comply with the following provisions"

"(a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent [the Bond Registrar], if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

"(b) the Trustee or Paying Agent, if any, shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to the United States Trust Company of New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts maintained under this resolution.

"(c) the Trustee or Paying Agent, if any, shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from Ambac Assurance.

"(d) the Trustee or Paying Agent, if any, shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate

assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must first surrender their Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

"(e) in the event that the Trustee or Paying Agent, if any, has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time Ambac Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

"(f) in addition to those rights granted Ambac Assurance under this resolution, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Trustee or Paying Agent, if any, upon surrender of the Bonds by the registered owners thereof together with the proof of the payment of principal thereof."

Section 27. Parties Interested Herein. To the extent that this resolution confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this resolution, the Bond Insurer is explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder. Nothing expressed or implied in this resolution is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the District, the Bond Insurer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this resolution contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Bond Insurer and the registered owners of the Bonds.

Notwithstanding any other provision of this resolution, the District shall notify the Bond Insurer immediately if at any time there are insufficient funds to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default hereunder.

Any provision of this resolution expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer. Unless otherwise provided in this section, the Bond Insurer's consent shall be required, in addition to Bond owner consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution, and (ii) initiation or approval of any other action which requires Bond owner consent. Anything in this resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bond owners for the benefit of the Bond owners under this resolution.

Any reorganization or liquidation plan with respect to the District must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Bond owners who hold Ambac Assurance-insured bonds absent a default by the Bond Insurer under the applicable Municipal Bond Insurance Policy insuring such bonds.

ADOPTED by the Board of Water Commissioners of East Wenatchee Water District, Douglas County, Washington, at a special open public meeting, of which notice was given as required by law, this 11th day of February, 1999.



President and Commissioner

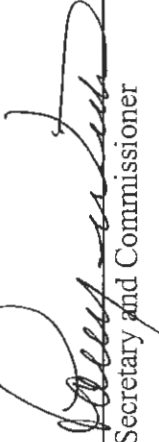
Commissioner

Secretary and Commissioner

EXHIBIT A

East Wenatchee Water District Plan and System

The capital improvement projects to be funded by the Bonds specified as the Plan and System include the following projects:

- 1. Wenatchee Regional Water System Connection** Project Cost: \$3,437,000
This project consists of the construction of approximately 10,000 lineal feet of 24-inch diameter water main, a 4,000 GPM Booster Pump Station and connection to the Wenatchee Regional Water System.
- 2. Fifth St. Booster Pump Station and Transmission Main** Project Cost: \$1,235,000
This project consist of the construction of approximately 8,000 lineal feet of 12-inch diameter water main, and a 2,000 GPM Booster Pump Station.
- 3. Sunset Highway Transmission Main Replacement** Project Cost: \$434,000
This project consist of the replacement of approximately 6,500 lineal feet of 8-inch and 12-inch diameter water mains with new 12-inch diameter mains.
- 4. Distribution System Small Main Replacement** Project Cost: \$786,000
This project consists of the replacement of approximately 9,400 lineal feet of old steel distribution mains with new 8-inch diameter water mains.

TOTAL PROJECT COST: \$5,892,000

The East Wenatchee Water District plans on using approximately \$1,613,000 of its capital reserves and revenues over the next three years to fund a portion of these projects. The District anticipates selling \$4,460,000 in revenue bonds to fund the remainder of these projects.