

ORIGINAL

EAST WENATCHEE WATER DISTRICT

DOUGLAS COUNTY, WASHINGTON

RESOLUTION NO. 609

A RESOLUTION of the Board of Water Commissioners of East Wenatchee Water District, Douglas County, Washington, providing for the issuance of \$2,740,000 par value Water Revenue Bonds, 2010, of the District to provide funds with which to pay the cost of acquisition, construction and installation of improvements and betterments to the Water System, including improvements in Utility Local Improvement District No. 2, and to 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 certain funds and accounts of the District and providing for the deposit therein of bond proceeds and other money of the District; and approving the sale and providing for the delivery of those bonds to D.A. Davidson & Co. of Spokane, Washington.

ADOPTED January 7, 2010

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DOUGLAS COUNTY, WASHINGTON

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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:

**“2004 Bonds”** means the outstanding Water Revenue Refunding Bonds, 2004.

**“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 East Wenatchee Water District Revenue Bond Fund previously created and established in the office of the Treasurer for the payment of the principal of and interest on the Parity Bonds.

**“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 and the principal amount and number of Bonds held by each owner.

**“Bond Registrar”** means the Fiscal Agent.

**“Bonds”** means the \$2,740,000 par value Water Revenue Bonds, 2010, 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 2010 Bond Construction Fund created and established 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 1.25 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 Agent”** means the fiscal agent 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 Bonds.

**“Government Obligations”** means those government obligations defined by RCW 39.53.010(4) as it now reads or hereafter may be amended and which are otherwise Legal Investments of the District at the time of such investment. So long as the 2004 Bonds are outstanding and are insured by the Bond Insurer, Government Obligations as used in Section 19 of this resolution means those investments set forth in Exhibit A attached to this resolution.

**“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 dated February 18, 1999.

**“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.

**“Net Revenue of the System”** or **“Net Revenue”** means the Gross Revenue minus (1) Operating and Maintenance Expense, (2) deposits into the Rate Stabilization Account and (3) proceeds from the sale of property of the System, and plus withdrawals from the Rate Stabilization Account.

**“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.

**“Parity Bonds”** means the 2004 Bonds, the Bonds and any Future Parity Bonds.

**“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.

**“Rate Stabilization Account”** means the account of that name created by this resolution in the Maintenance Fund 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, as of any date, the least of (1) Maximum Annual Debt Service, (2) 125% of Average Annual Debt Service and (3) 10% of the issue price of the then-outstanding Parity Bonds.

**“Surety Bond”** means the Reserve Insurance in the form of a surety bond issued by the Reserve Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided in and subject to the limitations set forth in the Surety Bond.

**“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 ULID No. 1, ULID No. 2, and any other 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. 2”** means Utility Local Improvement District No. 2 created by Resolution No. 588 of the District, adopted April 16, 2008.

Section 2. Recitals.

(a) East Wenatchee Water District, Douglas County, Washington (the “District”), now owns, operates and maintains a water supply and distribution system (the “System”).

(b) 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. 2 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”).

(c) By Resolution No. 536 adopted January 21, 2004, the District issued its \$8,245,000 par value Water Revenue Refunding Bonds, 2004, and provided for the issuance of future bonds if the Parity Conditions described in Section 16 of that resolution were met and

complied with at the time of issuance of those additional bonds. The Board finds that on or before the issuance of the Bonds all Parity Conditions will have been complied with.

(d) By Resolution No. 564, adopted March 15, 2006, the Board adopted the 2006 Comprehensive Water System Plan of the District (the “2006 Comprehensive Plan”), which plan has received all required approvals.

(e) The cost of the capital improvements under the 2006 Comprehensive Plan is estimated to be \$17,961,962 and the District does not have available sufficient funds to pay the cost.

(f) After due consideration, the Board now deems it in the best interests of the District that the District issue and sell its water revenue bonds (the “Bonds”) to provide the funds necessary to carry out the capital improvements provided for in the Comprehensive Plan, including without limitation, the acquisition, construction and installation of improvements and betterments to the Water System, including improvements in Utility Local Improvement District No. 2.

(g) D.A. Davidson & Co. of Spokane, Washington, has offered to purchase the Bonds under the terms and conditions set forth in this resolution.

Section 3. Authorization and Description of Bonds. For the purpose of providing part of the funds required to pay the cost of the acquisition, construction and installation of improvements and betterments to the Water System and to pay the costs of issuance and sale of the Bonds, the District shall issue the Bonds in the principal amount of \$2,740,000. The Bonds shall be designated Water Revenue Bonds, 2010; shall be dated their date of initial delivery; 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, 2010; and shall mature on August 1 in years and amounts and bear interest at the rates per annum as follows:

<b>Maturity Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
2011	\$125,000	3.00%	2020	\$130,000	4.00%
2012	125,000	3.00	2021	135,000	4.00
2013	125,000	3.00	2022	135,000	4.00
2014	125,000	3.00	2023	140,000	4.00
2015	130,000	3.00	2024	140,000	4.10
2016	130,000	3.50	2025	145,000	4.20
2017	130,000	3.50	***		
2018	135,000	4.00	2030	760,000	4.50
2019	130,000	4.00			

**Section 4. 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 15 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 the Letter of Representations. 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, its nominee 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 nominee 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 5. 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 of the Bond Registrar mailed 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 to the Bond Registrar. 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 6. Redemption Provisions and Open Market Purchase of Bonds. Bonds maturing in the years 2011 through 2020, 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 August 1, 2021, prior to their stated maturity dates at any time on or after August 1, 2020, 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 2030 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 randomly (in such manner as the Bond Registrar shall determine) at par plus accrued interest on August 1 in years and amounts as follows:

Mandatory Redemption Years	Mandatory Redemption Amounts
2026	\$145,000
2027	150,000
2028	150,000
2029	155,000
2030*	160,000

\*Final Maturity

If the District redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The District shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 60 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

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 to 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 as long as the Bonds are registered in the name of DTC or its nominee, selection of Bonds for redemption shall be in accordance with the Letter of Representations.

Section 7. Notice of Redemption. While the Bonds are held by DTC in book-entry only form, any notice of redemption shall be given at the time, to the entity and in the manner required by DTC in accordance with the Letter of Representations, and the Bond Registrar shall not be required to give any other notice of redemption. If the Bonds cease to be in book-entry only form, the District shall cause notice of any intended redemption of Bonds to be given by the Bond Registrar 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.

In the case of an optional redemption, the notice may state that the District retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected registered owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

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 MSRB and to such other persons 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.

Section 8. 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 9. 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 and 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 Revenue Bonds, 2010, described in the Bond Resolution.

WASHINGTON STATE FISCAL AGENCY  
Bond Registrar

By \_\_\_\_\_ *[Specimen]* \_\_\_\_\_  
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 10. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, 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 11. Bond Fund. There has been established in the office of the Treasurer a special fund to be known as the East Wenatchee Water District Revenue Bond Fund (the “Bond Fund”), which fund shall be 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 February, 2010, an amount, together with other money on deposit therein, sufficient to pay 1/6 of the interest requirement on the Bonds due August 1, 2010, and beginning with the month of August, 2010, 1/12 of the principal requirement of the Bonds due August 1, 2011, 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, at the time of delivery of the Bonds, such amount as may be needed to satisfy the Reserve Requirement for the Bonds. The District may provide all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance shall be credited against the Reserve Requirement for the Bonds.

Except for withdrawals therefrom as authorized herein, the Reserve Account shall be maintained at the Reserve Requirement, as it is adjusted from time to time, at all times so long as any Parity 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.

If 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 and after all cash has been depleted, then by draws on the Surety Bond 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. Any provider of Alternate Security shall be reimbursed first, within one year, to reinstate the Alternate Security on a pro rata basis, before the balance of the Reserve Requirement is restored. 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. Earnings 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. Notwithstanding the provisions for the deposit of earnings, any earnings that are subject to federal arbitrage rebate requirements may be withdrawn from the Bond Fund for deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

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 12. Rate Stabilization Account. There has been created and established a Rate Stabilization Account in the Maintenance Fund of the District. The District may at any time, as determined by the District and as consistent with Section 15 of this resolution, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the System during a fiscal year and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. The District may, by resolution, withdraw money from the Rate Stabilization Account for inclusion in the Net Revenue of the System at any time for the current fiscal year, except that the total amount withdrawn from the Rate Stabilization Account in any fiscal year of the System may not exceed the total debt service of the System in that year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year.

*Upon the date when none of the 2004 Bonds remain outstanding under the provisions of Resolution No. 536, the preceding paragraph shall be amended to read as follows:*

*Rate Stabilization Account. There has been created and established a Rate Stabilization Account in the Maintenance Fund of the District. The District may at any time, as determined by the District and as consistent with Section 15 of this resolution, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the System during a fiscal year and available to be used therefor, excluding principal proceeds of Parity Bonds or other borrowing. The District may, by resolution, withdraw money from the Rate Stabilization Account for inclusion in the Net Revenue of the System at any time for the current fiscal year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year.*

Earnings from investments in the Rate Stabilization Account shall be deposited in that account and shall not be included as Net Revenue unless and until withdrawn from that account as provided herein.

No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the extent that such deposit would prevent the District from meeting the Coverage Requirement in the relevant fiscal year.

Section 13. 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 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 14. 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, including the payment of any amounts owing to a provider of Reserve Insurance, 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 sections of the resolution authorizing the issuance of those Parity Bonds.

It will not sell, lease, mortgage 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 simultaneously with such sale or disposition, Parity Bonds in a principal amount at least equal to the greatest of the following are defeased under the

applicable sections of the resolutions authorizing the issuance of those Parity Bonds:

(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, (i) 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 accomplishing a defeasance of Parity Bonds as otherwise required by this subsection, and (ii) the District may transfer without any such defeasance all or part of the System, if permitted by law, to Sewer District No. 1, Douglas County, Washington, so long as ULID Assessments and Net Revenue of the portion of the System so transferred are used for payment of debt service on any Parity Bonds prior to any other purpose.

(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, and Application of Funds. 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.

In the event of a merger of the District with Sewer District No. 1, Douglas County, Washington, such statements for the activities of the System and the District shall continue to be prepared and made available, separately from the other books and accounts of the merger district, as they were prior to any such merger, and Gross Revenue of the System and ULID assessments shall be applied in strict conformity with Section 15 of this resolution for as long as any Bonds or Future Parity Bonds remain outstanding and undefeased.

(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 15. Flow of Funds. All ULID Assessments shall be paid into the Bond Fund as provided by Section 11. 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 reimburse amounts advanced by any provider of Reserve Insurance or Alternate Security.
- (d) To make all payments required to be made into the Reserve Account;
- (e) To pay to any provider of Reserve Insurance or Alternate Security, interest on amounts advanced under a Reserve Insurance policy or Alternate Security;
- (f) 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
- (g) 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, to make deposits into the Rate Stabilization Account, 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 16. Provisions for Future Parity Bonds. The District reserves the right to issue Future Parity Bonds for purposes of the system or to refund a portion of the Parity 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, and, if rated by A.M. Best & Company, must also be rated in the highest rating category by A.M. Best & Company.

(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 a certificate of the District's Manager or finance officer, or of a licensed professional engineer experienced in the design, construction and operation of municipal utilities, or of an independent certified public accountant, 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 of the District's Manager or finance officer shall be based on actual historical Net Revenue of the System and no adjustments to that revenue shall be allowed. The certificate of the licensed professional engineer or independent certified public accountant, 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.

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 17. 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 Internal

Revenue Code of 1986, as amended (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.

Section 18. 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) which 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 \$30,000,000; 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 \$30,000,000. The District designates the Bonds as “qualified tax-exempt obligations” for the purposes of Section 265(b)(3) of the Code.

Section 19. Refunding or Defeasance of Bonds. The District may issue 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 any portion thereof included in a refunding or defeasance plan, 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. If money and/or Government Obligations 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 trust fund or escrow account for and pledged irrevocably to such redemption, retirement or defeasance of defeased Bonds (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. The owners of the defeased Bonds thereafter shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The District shall include in the refunding or defeasance plan such provisions as the District deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the District shall determine, and for any required replacement of Bond certificates for defeased Bonds.

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 Parity Bonds then outstanding.

If the refunding plan provides that the defeased Bonds or the refunding bonds to be issued be secured by money and/or Government Obligations pending the prior redemption of the defeased Bonds and if such refunding plan also provides that certain money and/or Government Obligations 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.

Section 20. Undertaking to Provide Continuing Disclosure. To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the District makes the following written 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, to the Municipal Securities Rulemaking Board (the ‘MSRB’), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

(1) 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”);

(2) 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; and

(3) Timely notice of a failure by the District to provide required annual financial information on or before the date specified in subsection (b) of this section.

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

(1) Shall consist of (1) annual financial statements prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles applicable to governmental units in Washington state, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the District they will be provided; (2) a statement of authorized, issued and outstanding bonded debt secured by the Net Revenue of the System; (3) debt service coverage ratios; and (4) general customer statistics for the System;

(2) Shall be provided not later than the last day of the ninth month after the end of each fiscal year of the District (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District's fiscal year ending December 31, 2009; and

(3) May be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

(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 or the MSRB, under the circumstances and in the manner permitted by the Rule.

The District will give notice to the MSRB 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 the MSRB.



(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 that office) 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:

(1) Preparing and filing the annual financial information undertaken to be provided;

(2) Determining whether any event specified in subsection (a) has occurred, assessing its materiality with respect to the Bonds, and, if material, preparing and disseminating notice of its occurrence;

(3) 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;

(4) 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

(5) Effecting any necessary amendment of the Undertaking.

Section 21. Disposition of Bond Proceeds. The proceeds of the Bonds shall be deposited as follows:

(a) an amount necessary from Bond Proceeds to satisfy the Reserve Requirement shall be deposited in the Reserve Account; and

(b) the remaining Bond Proceeds into the Construction Fund of the District and used in accordance with the provisions of this resolution. The Treasurer, at the request of the District’s General Manager, may create one or

more accounts within the Construction Fund for the deposit of proceeds of the Bonds.

Section 22. Reimbursement of Prior Expenditures. The District declares that it intends to make (and/or, not more than 60 days before the date of this declaration, has made) expenditures, and reasonably expects to reimburse itself for those expenditures from proceeds of bonds, for the Project.

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 PLLC, municipal bond counsel of Seattle, Washington, regarding the issuance of the Bonds.

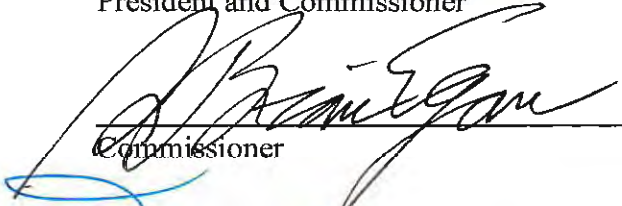
The proper District officials are authorized and directed to do everything necessary for the prompt delivery of the Bonds to the Purchaser and for the proper application and use of the proceeds of the sale thereof.

Section 24. Preliminary Official Statement Deemed Final. The Board has been provided with copies of a preliminary official statement dated December 21, 2009 (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.

ADOPTED by the Board of Water Commissioners of East Wenatchee Water District, Douglas County, Washington, at a continued open public meeting this 7<sup>th</sup> day of January, 2010.

  
\_\_\_\_\_  
President and Commissioner

  
\_\_\_\_\_  
Commissioner

  
\_\_\_\_\_  
Secretary and Commissioner

## EXHIBIT A

### Government Obligations

1. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS").
2. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.
3. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
4. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, r AAA rated pre-refunded municipals to satisfy this condition.
5. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
  - a. U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership
  - b. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership
  - c. Federal Financing Bank
  - d. General Services Administration  
Participation certificates
  - e. U.S. Maritime Administration  
Guaranteed Title XI financing
  - f. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

## CERTIFICATION

I, the undersigned, Secretary of the Board of Water Commissioners (the "Board") of East Wenatchee Water District, Douglas County, Washington (the "District"), hereby certify as follows:

1. The City Council adjourned and continued its regular meeting held on January 6, 2010, to a time and place specified in the Order of Adjournment/Continuance of Regular Meeting, a true and complete copy of which is attached hereto as Appendix 1;
2. The attached copy of Resolution No. 609 (the "Resolution") is a full, true and correct copy of a resolution duly adopted at a meeting of the Board continued in accordance with law and held at the regular meeting place thereof on January 7, 2010, as that resolution appears on the minute book of the District; and the Resolution is now in full force and effect; and
3. A quorum of the members of the Board was present at the meeting and a majority of those members present voted in the proper manner for the adoption of the Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this 7<sup>th</sup> day of January, 2010.

EAST WENATCHEE WATER DISTRICT, DOUGLAS  
COUNTY, WASHINGTON

  
\_\_\_\_\_  
Terry Barnes, Secretary of the Board