

NORTH BEACH WATER DISTRICT

PACIFIC COUNTY, WASHINGTON

WATER REVENUE AND REFUNDING BONDS, 2013

RESOLUTION NO. 13-2013

A RESOLUTION of the Board of Commissioners of the North Beach Water District, Pacific County, Washington, authorizing the issuance of water revenue and refunding bonds in an aggregate principal amount not to exceed \$3,700,000 to refinance an outstanding water revenue bond of the District and to finance the cost of improvements to facilities of the District; authorizing the sale of the bonds to Martin Nelson & Co., Inc.; and delegating to the District's General Manager the authority to approve final terms of the bonds, subject to conditions set forth in this resolution.

APPROVED ON MAY 20, 2013

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WHEREAS, in 2004, by action of the Board of County Commissioners of Pacific County, Washington, the North Beach Public Development Authority (the "PDA") was established to facilitate improvements to and public ownership of domestic water supply and distribution facilities on the Long Beach Peninsula; and

WHEREAS, the PDA acquired and improved domestic water supply and distribution facilities owned by two private water companies and financed those efforts by undertaking loans from the Public Works Trust Fund and, pursuant to Resolution No. 01-2006 of the BPA's Board of Directors, by the issuance of the PDA's Water Revenue Bond, 2006 (the "2006 Bond") to Cashmere Valley Bank (the "Bank"); and

WHEREAS, in 2008, North Beach Water District, Pacific County, Washington (the "District"), was formed as a water-sewer district under Title 57 RCW by action of Pacific County's Board of County Commissioners and by the approval of voters within the proposed District at an election held on February 19, 2008; and

WHEREAS, the Board of Directors of the PDA and the Board of Commissioners of the District (the "Board") authorized the PDA and the District to enter into an Agreement for Transfer of Water Supply System Assets, dated as of December 17, 2008, pursuant to which all assets and liabilities of the PDA were transferred to the District, including, *inter alia*, all liabilities with respect to the 2006 Bond; and

WHEREAS, the PDA and the District entered into an Assignment and Assumption of Revenue Bond, dated as of January 12, 2008, consented to by the Bank, pursuant to which the PDA expressly assigned the 2006 Bond to the District, and the District accepted the 2006 Bond and assumed all obligations to pay and perform under the 2006 Bond; and

WHEREAS, the 2006 Bond remains outstanding in the approximate amount of \$2,765,000, and the Board has determined that it is in the best interest of the District and its ratepayers to refinance the 2006 Bond to achieve debt service savings; and

WHEREAS, the Board has also determined that it is in the best interest of the District and its ratepayers to undertake certain improvements to facilities of the System, including the purchase of real property (as further described herein, the “Project”); and

WHEREAS, the District is authorized to issue a single series of its revenue bonds to refinance the 2006 Bond and to pay costs of the Project (as further described herein, the “Bonds”); and

WHEREAS, the Board has approved the negotiated sale of the Bonds to Martin Nelson & Co., Inc. and wishes to delegate authority to the District’s General Manager, for a limited time, to approve final terms of the Bonds, including interest rates, maturity dates, redemption provisions, and principal maturities of the Bonds, under the terms and conditions set forth in this resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF NORTH BEACH WATER DISTRICT, PACIFIC COUNTY, WASHINGTON, as follows:

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

Annual Debt Service for any fiscal year or calendar year means the sum of: (a) the interest on all Parity Bonds due in such year, excluding, however, any interest to be paid from the proceeds of such Parity Bonds, and (b) the principal of all Parity Bonds due in such year, either as maturing principal of Serial Bonds or mandatory redemption payments for Term Bonds. If the interest rate on any such Parity Bonds is other than a fixed rate, the rate applicable at the time of the computation shall be used.

Assessments means assessments (including interest and penalties) levied in any utility local improvement district of the District for the acquisition or construction of additions and improvements to and extension of the System, if such assessments are pledged to be paid into the Bond Fund.

Average Annual Debt Service means the amount determined by dividing (a) the sum of all interest and principal to be paid on all Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of fiscal years or calendar years from and including the fiscal year or calendar year in which the determination is made to the last fiscal year or calendar year in which any of such Parity Bonds will be outstanding.

Bank means Cashmere Valley Bank.

Beneficial Owner means the beneficial owner of all or a portion of a Bond while that Bond is in fully immobilized form.

Board means the Board of Commissioners of the District as the District’s general legislative authority as the same shall be duly and regularly constituted from time to time.

Bond Fund means the Water Revenue Bond Redemption Fund authorized to be established to pay and secure the payment of the Bonds and any Future Parity Bonds pursuant to Section 9 of this resolution.

Bond Register means the books or records maintained by the Registrar for the purpose of registration of the Bonds.

Bond Year means each one-year period that ends on the date selected by the District. The first and last Bond Years may be short periods. If no day is selected by the District before the earlier of the final maturity date of the Bonds or the date that is five years after the date of issuance of the Bonds, Bond Years end on each anniversary of the date of issue and on the final maturity date of the Bonds.

Bonds means the District's water revenue and refunding bonds authorized to be issued under this resolution in a principal amount not to exceed \$3,700,000.

Code means the federal Internal Revenue Code of 1986, as amended, and applicable regulations.

Costs of Maintenance and Operation means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, and insurance and administrative expenses, but excludes depreciation, payments for debt service or into reserve accounts and costs of capital additions to or replacements of the System, taxes levied by the District or payments in lieu of taxes.

Designated Representative means the General Manager of the District or another District officer designated in writing by the President of the Board.

District means North Beach Water District, Pacific County, Washington, or any successor to the rights and obligations of the District.

Government Obligations means those obligations now or hereafter defined as such in chapter 39.53 RCW, as amended, or its successor statute, if any.

Gross Revenue means all earnings, revenue and money, except Assessments, received by the District from or on account of the System, including proceeds from the sale, lease or other disposition of any of the properties or facilities of the System, and the income from investments of money in the Revenue Fund and any bond fund or from any other investment thereof except the income from investments irrevocably pledged to the payment of revenue bonds pursuant to a plan of retirement or refunding. "Gross Revenue" shall not include grants or bond proceeds, but shall include federal or state reimbursements of operating expenses to the extent such expenses are included as "Costs of Maintenance and Operation."

Letter of Representations means the Blanket Issuer Letter of Representations from the District to DTC.

MSRB means the Municipal Securities Rulemaking Board or any successor to its functions.

Net Revenue means the Gross Revenue less the Costs of Maintenance and Operation.

Parity Bonds means the Bonds and any additional bonds or other obligations of the District having a lien or Net Revenues equal to the lien thereon of the Bonds.

Permitted Investments means any investments of District funds permitted under the laws of the State of Washington as amended from time to time.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day-to-day basis if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

Professional Utility Consultant means the independent person(s) or firm(s) selected by the District having a favorable reputation for skill and experience with water systems of comparable size character to the System in such areas as are relevant to the purposes for which they are retained.

Project has the meaning given that term in Section 2 of this resolution.

Project Fund means the 2013 Water System Project Fund authorized to be created pursuant to Section 17 of this resolution.

Purchase Contract means the bond purchase agreement between the District and the Underwriter provided for in Section 16 of this resolution.

PWTF Loans means the loans obtained by the District from the State of Washington acting through the Public Works Board.

Rate Stabilization Account means the special account of that name authorized to be created pursuant to Section 8(b) of this resolution.

Registered Owner means the person in whose name a Bond is registered on the Bond Register.

Registrar means initially the fiscal agency of the State of Washington, whose duties include the registration and authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of and interest on the Bonds.

Reserve Account means the account of that name authorized to be created within the Bond Fund pursuant to Section 9 of this resolution.

Reserve Requirement means, with respect to the Bonds or any additional Parity Bonds, an amount equal to the least of (a) 125% of average Annual Debt Service on such bonds, (b) 10% of the stated principal amount of such bonds, or (c) maximum Annual Debt Service on such bonds.

Revenue Fund means the special fund of the District known as the “North Beach Water District Water System Revenue Fund” authorized to be created pursuant to Section 8(a) of this resolution.

Rule means the SEC’s Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SEC means the Securities and Exchange Commission.

Serial Bonds means Parity Bonds other than Term Bonds.

System means the domestic water supply and distribution system of the District as the same now exists and as it may hereafter be added to, improved and extended for as long as any of the Parity Bonds are outstanding.

Term Bonds means any Parity Bonds identified as Term Bonds in the resolution authorizing the issuance thereof, the payment of the principal of which is provided for by a mandatory redemption schedule and corresponding deposits into the Bond Fund to pay for such mandatory redemptions.

Treasurer means the Pacific County Treasurer, as *ex officio* treasurer of the District, or any other public officer as may hereafter be designated pursuant to law to have custody of District funds.

Underwriter means Martin Nelson & Co., Inc., Seattle, Washington.

2006 Bond means the Water Revenue Bond, 2006, issued by the PDA to the Bank in the original principal amount of \$3,600,000 and assumed by the District when the District acquired all assets and liabilities of the PDA. The 2006 Bond is currently outstanding in the approximate principal amount of \$2,765,000.

Section 2. The Project The Board specifies and adopts the following plan of improvements, additions and betterments to and extensions to the System: (i) purchase of real property that will be a portion of the original Pacific County tax parcel No. 12113313001 consisting of the east 365 feet=-/ of the original parcel totaling approximately 10.5 acres, and (ii) [**To be Determined by the Board of Commissioners at the May 20, 2013 Board Meeting**], together with all planning, design, legal and financing costs (the “Project”).

Section 3. Authorization and Description of the Bonds. For the purpose of refunding the 2006 Bond and financing a portion of the cost of the Project, the District shall issue its water revenue bonds in an aggregate principal amount not to exceed \$3,700,000 (the “Bonds”). The Bonds shall be designated as the “North Beach Water District, Pacific County, Washington, Water Revenue and Refunding Bonds, 2013”; shall be dated as of the date of their initial delivery to the Underwriter; shall be fully registered as to both principal and interest; shall be in the denomination of \$5,000 each, or any integral multiple thereof, provided that no Bond shall represent more than one maturity; shall be numbered separately in such manner and with any additional designation as the Registrar deems necessary for purposes of identification; and shall bear interest from their date payable semiannually on dates to be established pursuant to Section 16, commencing on the date and at rates to be established pursuant to Section 16; and shall mature in the years and in the principal amounts to be established pursuant to Section 16, all as shall be set forth in the Purchase Contract.

Principal of and interest on the Bonds shall be payable solely from the Bond Fund. The Bonds are not general obligations of the District, Pacific County or of the State of Washington or any political subdivision thereof.

Section 4. Registration, Payment and Transfer.

(a) *Registrar/Bond Register.* The District hereby requests that the Treasurer specify and adopt the system of registration and transfer for the Bonds approved by the Washington State Finance Committee from time to time through the appointment of state fiscal agencies. The District will cause the Bond Register to be maintained by the Registrar. So long as any Bonds remain outstanding, the Registrar will make all necessary provisions to permit the exchange or registration of transfer of Bonds at its principal corporate trust office. The Registrar may be removed at any time at the option of the Treasurer upon prior notice to the Registrar, DTC, each entity entitled to receive notice pursuant to Section 14, and a successor Registrar appointed by the Treasurer. No resignation or removal of the Registrar will be effective until a successor has been appointed and until the successor Registrar has accepted the duties of the Registrar hereunder. The 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 and to carry out all of the Registrar’s powers and duties under this resolution. The Registrar is responsible for its representations contained in the Certificate of Authentication on the Bonds.

(b) *Registered Ownership.* The District and the Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Section 14 of this resolution), and neither the District nor

the Registrar will be affected by any notice to the contrary. Payment of the Bonds will be made only as described in Section 4(h) hereof, but Bonds may be transferred as herein provided. All such payments made as described in Section 4(h) will be valid and will satisfy and discharge the liability of the District upon the Bonds to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letter of Representations.* To induce DTC to accept the Bonds as eligible for deposit at DTC, the Board authorizes the District's General Manager to execute and deliver to DTC a Letter of Representations in form acceptable to DTC and approved by the District's bond counsel.

Neither the District nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice that is permitted or required to be given to Registered Owners under this resolution (except those notices as are required to be given by the District to the Registrar or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in fully-immobilized form hereunder, DTC or its successor depository will be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners mean DTC (or any successor depository) or its nominee and do not mean the owners of any beneficial interest in those Bonds.

If any Bond is duly presented for payment and funds have not been provided by the District on the applicable payment date, then interest will continue to accrue thereafter on the unpaid principal thereof at the rate stated on the Bond until the Bond is paid.

(d) *Use of Depository.*

(1) The Bonds will be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor must be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Designated Representative pursuant to subsection (ii) below or such substitute depository's successor; or (C) to any person as provided in subsection (iv) below.

(2) 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 Designated Representative to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Designated Representative may hereafter appoint a

substitute depository. Any such substitute depository must be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Registrar, upon receipt of all outstanding Bonds, together with a written request on behalf of the Designated Representative, will issue a single new Bond for each maturity then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in the written request of the Designated Representative.

(4) If (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Designated Representative determines that it is in the best interest of the beneficial owners of the Bonds that such owners be able to obtain such bonds in the form of Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and will no longer be held in fully-immobilized form. The Designated Representative will deliver a written request to the Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Registrar of all then outstanding Bonds together with a written request on behalf of the Designated Representative to the Registrar, new Bonds will be issued in the appropriate and registered in the names of those persons named in the written request.

(e) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any Bond will be valid unless that Bond is surrendered to the Registrar with the assignment form appearing on the Bond duly executed by the Registered Owner or the Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon surrender, the Registrar will cancel the surrendered Bond and authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for the surrendered and cancelled Bond. Any Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized denomination. The Registrar is not obligated to register the transfer or to exchange any Bond during the 15 days preceding the date that Bond is to be redeemed.

(f) *Registrar's Ownership of Bonds.* The Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

(g) *Registration Covenant.* The District covenants that, until all Bonds have been surrendered and cancelled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

(h) *Place and Medium of Payment.* The principal of and interest on the Bonds is payable in lawful money of the United States of America. Interest on the Bonds will be calculated on the basis of a 360-day year and twelve 30-day months. For so long as all Bonds are in fully-immobilized form, payments of principal and interest thereon will be made as provided in the operational arrangements of DTC as referred to in the Letter of Representations.

If the Bonds are no longer in fully-immobilized form, interest on the Bonds will be paid by check or draft mailed to the Registered Owners of the Bonds at the addresses for the Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date; provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States. Principal of the Bonds will be payable upon presentation and surrender of the Bonds by the Registered Owners at the principal office of the Registrar.

Section 5. Redemption and Purchase of Bonds.

(a) *Optional Redemption.* The Bonds may be subject to optional redemption prior to their stated maturities as set forth in the Purchase Contract approved by the Designated Representative pursuant to Section 16.

(b) *Mandatory Redemption.* If structured as term bonds, the Bonds may be subject to mandatory redemption on a schedule to be set forth in the Purchase Contract.

(c) *Selection of Bonds for Redemption.* As long as the Bonds are held in book-entry only form, the selection of Bonds within a maturity to be redeemed will be made in accordance with the operational arrangements in effect at DTC. If the Bonds are no longer held in book-entry only form, the selection of such Bonds and maturity to be redeemed will be made as provided in this subsection (c). If the District redeems at any one time fewer than all of the Bonds of the same maturity, the particular Bonds or portions of Bonds of such maturity to be redeemed will be selected by lot (or in such other manner determined by the Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the District and Registrar will treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. If only a portion of the principal sum of a Bond is redeemed, upon surrender of the such Bond at the principal office of the Registrar there will be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations herein authorized.

(d) *Purchase of Bonds.* The District reserves the right to purchase any of the Bonds offered to the District at any time at a price deemed reasonable by a Designated Representative.

(e) *Notice of Redemption.*

(1) Official Notice. Unless waived by any Registered Owner of Bonds to be redeemed, official notice of any redemption, which notice may be conditional, will be given by the Registrar on behalf of the District by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Registrar.

All official notices of redemption will be dated and state:

- (A) the redemption date,
- (B) the redemption price,
- (C) if fewer than all outstanding Bonds are to be redeemed, the identification by maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) any condition to an optional redemption,
- (E) that on the redemption date (unless the notice of redemption is a conditional notice, in which case the notice will state that interest will cease to accrue from the redemption date if and to the extent that any condition has been satisfied and funds have been provided to the Registrar for the redemption of Bonds) the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon will cease to accrue from and after said date, and
- (F) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment will be the principal office of the Registrar.

On or prior to any redemption date (if any conditions to an optional redemption have been met), the District will deposit with the Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds that are to be redeemed on that date.

(2) Effect of Notice; Bonds Due. Unless the District has given a conditional notice and the conditions for redemption set forth therein are not satisfied, official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein

specified, and from and after such date (unless the District shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Registered Owner a new Bond or Bonds of the same maturity in the amount of the unpaid principal. All Bonds that have been redeemed will be canceled and destroyed by the Registrar and may not be reissued.

(3) Additional Notice. In addition to the foregoing notice, further notice may be given by the District as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder will contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest, if any, borne by each Bond being redeemed; (D) the maturity date of each Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption may be sent at least 25 days before the redemption date to each party entitled to receive notice pursuant to Section 14, and to the Underwriter or to its business successor, if any, and to such persons and with such additional information as the Designated Representative may deem appropriate, but such mailings are not a condition precedent to the redemption of Bonds.

(4) CUSIP Number. Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose will bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

(5) Amendment of Notice Provisions. The foregoing notice provisions of this Section 5, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 6. Execution of Bonds. The Bonds shall be executed on behalf of the District with the manual or facsimile signature of the President of the Board and attested with the manual or facsimile signature of the Secretary of the Board. If any officer who has signed or attested any of the Bonds ceases to be an officer of the District authorized to sign bonds before the Bonds bearing his or her signature are authenticated or delivered by the Registrar or issued by the District, those Bonds nevertheless may be authenticated, issued and delivered 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.

Only Bonds that bear a Certificate of Authentication in the form set forth in Section 7 of this resolution, manually executed by the Registrar, will be valid or obligatory for any purpose or entitled to the benefits of this resolution. Such Certificate of Authentication will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this resolution.

Section 7. Form of Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. _____ \$ _____

STATE OF WASHINGTON

NORTH BEACH WATER DISTRICT
PACIFIC COUNTY

WATER REVENUE BOND, 2013

INTEREST RATE: _____ MATURITY DATE: _____ CUSIP NO.: _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

North Beach Water District, Pacific County, Washington (the “District”), a municipal corporation of the State of Washington, for value received hereby promises to pay to the Registered Owner identified above or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from _____, 2013, or the most recent date to which interest has been paid or duly provided for until payment of this bond at the Interest Rate set forth above, payable on _____ 1, 20__, and semiannually thereafter on the first day of each succeeding _____ and _____. Both principal of and interest on this bond are payable in lawful money of the United States of America.

For so long as the bonds of this issue are held in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company (“DTC”) referred to in the Blanket Issuer Letter of Representations (the “Letter of Representations”) from the District to DTC. The fiscal agency of the state of Washington is acting as the registrar, authenticating agent and paying agent for the bond of this issue (the “Registrar”).

This bond is one of an authorized issue of bonds of like date and tenor, except as to number, amount, rate of interest and date of maturity, in the aggregate principal amount of \$_____ (the “Bonds”), and is issued pursuant to Resolution No. ____-2013, adopted by the Board on May 20, 2013 (the “Bond Resolution”), for the purpose of refinancing an outstanding bond of the District and financing the cost of certain improvements to the System. Capitalized terms used in this bond and not otherwise defined herein have the meanings given those terms in the Bond Resolution.

This bond is subject to redemption as provided in the Bond Resolution and the Purchase Contract.

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. The District does not expect to issue more than \$10,000,000 in “qualified tax-exempt obligations” during calendar year 2013.

Principal of and interest on the Bonds are payable solely out of the special fund of the District known as the “Water Revenue Bond Redemption Fund” (the “Bond Fund”). The District covenants and agrees with the owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Resolution.

This bond is payable from Net Revenue. By the Bond Resolution, the District has pledged Net Revenue for the payment when due of all amounts required by the Bond Resolution to be paid out of the Revenue Fund into the Bond Fund. Said amounts so pledged are a lien and charge on Net Revenue equal to the lien and charge thereon of any additional Parity Bonds and superior to all other charges of any kind or nature.

The District has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges in each calendar year that will make available, for the payment of the principal of and interest on outstanding Parity Bonds as the same shall become due, Net Revenue in an amount that will be equal to at least 1.25 times Annual Debt Service for such year (after deducting Assessments actually collected for such year).

The pledge of Net Revenue and other obligations of the District under the Bond Resolution may be discharged at or prior to the maturity or prepayment of this bond issue upon the making of provision for the payment thereof on the terms and conditions set forth in the Bond Resolution.

This bond is a special limited obligation of the District and is not an obligation of Pacific County, the State of Washington or any political subdivision thereof other than the District, and neither the full faith and credit nor the taxing power of the District or Pacific County or the State of Washington is pledged to the payment of this bond.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Registration Certificate hereon shall have been manually signed by the Registrar.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this

bond, together with all other obligations or indebtedness of the District, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, the North Beach Water District, Pacific County, Washington, has caused this bond to be signed by the manual or facsimile signature of the President of the District's Board of Commissioners, attested by the manual or facsimile signature of the Secretary of the Board, all as of the ____ day of _____, 20__.

NORTH BEACH WATER DISTRICT,
PACIFIC COUNTY, WASHINGTON

By _____/s/_____
President, Board of Commissioners

Attest:

_____/s/_____
Secretary, Board of Commissioners

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

[Empty rectangular box for Social Security or Taxpayer Identification Number]

(Please print or typewrite name and address, including zip code, of Transferee)

the within bond and does hereby irrevocably constitute and appoint _____ as attorney-in-fact to transfer said bond on the books kept for registration thereof with full power of substitution in the premises.

DATED: _____, _____.

SIGNATURE GUARANTEED:

NOTE: The signature on this Assignment must correspond with the name of the Registered Owner as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

Section 8. Revenue Fund; Rate Stabilization Account.

(a) *Revenue Fund.* A special fund of the District designated as the “North Beach Water District Water System Revenue Fund” (the “Revenue Fund”) has heretofore been created in the office of the Treasurer. The District obligates and binds itself to pay all Gross Revenue as collected into the Revenue Fund. The money in the Revenue Fund shall be held separate and apart from all other funds and accounts of the District. From and after the date of issuance of the Bonds, the Gross Revenue deposited in the Revenue Fund shall be used only for the following purposes and in the following order of priority:

FIRST, to pay the Costs of Maintenance and Operation and to maintain a balance in the Revenue Fund sufficient to enable the District to meet Costs of Maintenance and Operation on a current basis;

SECOND, to make all payments required to be made into the Bond Fund to pay when due the interest on the Bonds and any additional Parity Bonds;

THIRD, to make all payments required to be made into the Bond Fund to pay when due the principal of the Bonds and any additional Parity Bonds;

FOURTH, to make all payments required to be made into the Reserve Account within the Bond Fund;

FIFTH, to make all payments required to be made into any revenue bond 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, or other revenue obligations of the District having a lien upon Net Revenue junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds;

SIXTH, to make all payments of principal of and interest on the PWTF Loans;
and

SEVENTH, to retire by redemption or purchase in the open market any outstanding water revenue bonds or other water revenue obligations of the District, to make necessary additions, 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 purpose.

(b) *Rate Stabilization Account.* A special account of the District designated as the “North Beach Water District Water System Rate Stabilization Account” (the “Rate Stabilization Account”) is authorized to be created in the office of the Treasurer. In accordance with the provisions of subsection (a) above, the District may from time to time appropriate or budget amounts in the Revenue Fund for deposit in the Rate Stabilization Account and may from time to time withdraw amounts therefrom for deposit in the Revenue Fund to prevent or mitigate water rate increases or for other lawful purposes of the District related to the System.

Section 9. Bond Fund. There is authorized to be created in the office of the Treasurer a fund of the District to be known as the “North Beach Water District Water Revenue Bond Redemption Fund” (the “Bond Fund”), which fund shall be drawn upon for the sole purpose of paying the principal of, premium if any, and interest on the Bonds and any additional Parity Bonds. The money in the Bond Fund shall be kept separate and apart from all other funds and accounts of the District and shall be a trust fund for the owners of Parity Bonds.

(a) *Debt Service Account.* A special account known as the Debt Service Account is authorized to be created in the Bond Fund for the purpose of paying the principal of, premium, if any, and interest on the Parity Bonds. As long as any Parity Bonds remain outstanding, the District irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Debt Service Account, on or before each Bond Payment Date for the installment of principal of and/or interest next coming due on the Bonds, an amount that,

together with money in the Debt Service Account available therefor, shall be sufficient to pay such installment when due.

The District covenants that in the event it issues any additional Parity Bonds, it will provide in each resolution authorizing the issuance of the same for timely payments to be made from the Revenue Fund into the Debt Service Account in the Bond Fund sufficient, together with any other money in such account available therefor, to provide for the payments of principal of and interest on such additional Parity Bonds, including payments to satisfy the mandatory redemption requirements with respect to any Term Bonds.

(b) *Reserve Account.* A special account known as the Reserve Account is authorized to be created in the Bond Fund for the purpose of securing the payment of principal of and interest on the Bonds and any additional Parity Bonds. The District covenants that it will satisfy the Reserve Requirement for the Bonds by depositing into the Reserve Account, on or prior to the issuance of the Bonds, proceeds of the Bonds or other funds of the District in an amount sufficient, together with funds available from the Reserve Account for the 2006 Bond, so that the required balance in the Reserve Account is fully funded.

The District further covenants and agrees that in the event it issues any additional Parity Bonds it will provide in each resolution authorizing the issuance of such Parity Bonds that on or prior to the date of issuance of such additional Parity Bonds money will be deposited into the Reserve Account, from proceeds of those additional Parity Bonds or other funds available therefor, in an amount sufficient, together with funds already on deposit in the Reserve Account, so that the total amount of money in the Reserve Account will at least equal the Reserve Requirement.

The District further covenants and agrees that when the required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Requirement, as redetermined in each calendar year with respect to the bonds secured by such Reserve Account. Whenever there is a sufficient amount in the Bond Fund, including all accounts therein, to pay the principal of, premium, if any, and interest on all outstanding Parity Bonds, the money in the Reserve Account may be used to pay the principal of, premium, if any, and interest on the Parity Bonds secured thereby. Money in the Reserve Account may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on the outstanding Parity Bonds secured by such Reserve Account, as long as the money remaining on deposit in such Reserve Account is at least equal to the Reserve Requirement determined with respect to the Parity Bonds then outstanding.

If outstanding Parity Bonds are refunded, the money set aside in the Reserve Account to secure the payment thereof may be used to retire Parity Bonds or may be transferred to any other reserve account that may be created to secure the payment of any bonds issued to refund the Parity Bonds.

If there occurs a deficiency in the Debt Service Account to meet maturing installments of either interest on or principal of and interest on the outstanding Parity Bonds payable out of the Debt Service Account, the deficiency must be made up from the Reserve Account by the

withdrawal of money therefrom and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency. Any deficiency created in the Reserve Account by reason of any such withdrawal must then be made up from money in the Revenue Fund first available after making the payments required to be made under paragraphs "FIRST" through "THIRD" of Section 8(a) of this resolution.

(c) *Lien of Bond Fund.* The Bonds and any additional Parity Bonds shall be payable from Net Revenue. The District hereby pledges Net Revenue for the payment when due of all amounts required by this resolution to be paid out of the Revenue Fund into the Bond Fund. Said amounts so pledged are hereby declared to be a lien and charge on Net Revenue equal to the lien and charge thereon of any additional Parity Bonds and superior to all other charges of any kind or nature.

(d) *Investment of Money in Bond Fund.* All money in the Debt Service Account in the Bond Fund may be kept in cash or invested in Permitted Investments maturing not later than the last maturity of the Parity Bonds outstanding at the time of such purchase. Interest earned on or profits made from the sale of such investments shall be deposited in and become a part of the Revenue Fund.

Section 10. Covenants and Agreements. The District covenants with the owner of each of the Parity Bonds for as long as any of the same remain outstanding as follows:

(a) *Rates and Charges.* The District will establish, maintain and collect lawful rates and charges for the use of the services and facilities of the System, and shall adjust such rates and charges from time to time so that:

(1) Gross Revenue will at all times be sufficient (a) to pay all Costs of Maintenance and Operation and to 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 that the District may now be and hereafter become obligated to pay from Gross Revenue by law or contract, and, together with Assessments actually collected, (b) to pay the principal of and interest on all outstanding Parity Bonds as and when the same become due and payable.

(2) Net Revenue in each calendar year will equal at least 1.25 times Annual Debt Service for such year (after deducting from Annual Debt Service the amount of Assessments actually collected for such year). For the purpose of meeting the requirement of this paragraph there may be added to Net Revenue for any calendar year any amount withdrawn from the Rate Stabilization Account and deposited in the Revenue Fund. There shall be subtracted from Net Revenue for any calendar year any amounts in such year withdrawn from the Revenue Fund and deposited into the Rate Stabilization Account in such calendar year.

(b) *Maintenance of System.* The District will at all times keep and maintain the System in good repair, working order and condition, and will at all times operate the same and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) *Sale or Disposition of the System.* The District will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment into the Bond Fund of cash or Government Obligations sufficient together with interest to be earned thereon to pay the principal of and interest on all then outstanding Parity Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of the greater of:

(1) An amount that 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 Net Revenue from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenue for such period; or

(2) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

The proceeds of any such sale or disposition of a portion of the properties of the System (to the extent required above) shall be paid into the Bond Fund.

Notwithstanding any other provision of this subsection, the District may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the System with a value less than 5% of the net utility plant of the System or that has become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into either Bond Fund.

(d) *Collection of Assessments.* The District shall promptly collect all Assessments levied in any utility local improvement district now or hereafter created to secure the payment of the principal of and interest on any Parity Bonds and shall pay the same into the Bond Fund. It is hereby provided further, however, that nothing in this resolution or in this subsection shall be construed to prohibit the District from issuing revenue bonds having a lien on Net Revenue subordinate to the lien on such revenue for the payment of the principal of and interest on the Parity Bonds and pledging as security for the payments of such subordinate lien bonds assessments levied in any utility local improvement district that may be created to pay part or all the cost of improvements to the System for which such subordinate lien revenue bonds were specifically issued.

(e) *Books and Accounts.* The District will maintain complete books and records relating to the operation of the System and its financial affairs and will cause such books and records to be audited in accordance with state law.

(f) *Insurance.* The District will carry the type of insurance on the property of the System in the amounts normally carried by water utilities together with public liability

insurance, if obtainable at rates the District finds reasonable. The cost of such insurance shall be a Cost of Maintenance and Operation. In lieu of any such insurance, the District may implement a self-insurance or a self-insurance pool program with reserves adequate, in the reasonable judgment of the Board, to protect the District against loss.

(g) *Delinquencies.* The District will promptly collect all service charges and Assessments, determine in a timely manner all delinquencies, and take all necessary legal action to enforce collection of such delinquencies.

(h) *No Free Service.* Except as permitted by law, the District will not furnish any service of the System to any customer free of charge.

Section 11. Tax Covenants; Special Designation.

(a) *Arbitrage Covenant.* The District covenants that it will take such action or refrain from such action as may be necessary to comply with the Code to assure (i) that interest on the Bonds will be excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Code, (ii) that the Bonds will not become “arbitrage bonds” within the meaning of Section 148 of the Code and the applicable regulations thereunder, and (iii) that the Bonds will not become “private activity bonds” under Section 141 of the Code and the applicable regulations thereunder.

(b) *Private Person Use Limitation for Bonds.* The District covenants that for as long as the Bonds are outstanding, it will not permit:

(1) More than 10% of the Net Proceeds of the Bonds to be used for any Private Person Use; and

(2) More than 10% of the principal or interest payments on the Bonds in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The District further covenants that, if:

(3) More than five percent of the Net Proceeds of the Bonds are to be used for any Private Person Use; and

(4) More than five percent of the principal or interest payments on the Bonds in a Bond Year are (under the terms of this resolution or any underlying arrangement) directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use, then, (i) any Private Person Use of the projects being refinanced with the proceeds of the bonds or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations

described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the projects refinanced with Bond proceeds, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Bonds used for the state or local governmental use portion of the projects to which the Private Person Use of such portion of such projects relates. The District further covenants that it will comply with any limitations on the use of the projects by other than state and local governmental users that are necessary, in the opinion of its bond counsel, to preserve the tax exemption of the interest on the Bonds. The covenants of this Section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds.

(c) *Tax Certificate.* Upon the issuance of the Bonds, the Designated Representative is authorized to execute a federal tax certificate (the "Tax Certificate"), which will certify to various facts and representations concerning the Bonds, based on the facts and estimates known or reasonably expected on the date of their issuance, and make certain covenants with respect to the Bonds as may be necessary or desirable to obtain or maintain the benefits conferred under the Code relating to tax-exempt bonds.

The District covenants that it will comply with the Tax Certificate unless it receives advice from nationally recognized bond counsel or the Internal Revenue Service that certain provisions have been amended or no longer apply to the Bonds.

(d) The District hereby designates the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. The District does not expect to issue more than \$10,000,000 in "qualified tax-exempt obligations" in calendar year 2013.

Section 12. Adequacy of Revenues. The Board declares that in fixing the amounts to be paid into the Bond Fund as hereinbefore provided it has exercised due regard for the Costs of Maintenance and Operation and has not obligated the District to set aside and pay into the Bond Fund a greater amount of money from the Revenue Fund than in its judgment will be available over and above such Costs of Maintenance and Operation.

Section 13. Defeasance. If money and/or Government Obligations, maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are set aside in a special account of the District to effect such redemption and retirement, and such money and the principal of and interest on such Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Debt Service Fund for the payment of the principal of and interest on the Bonds so provided for, and those Bonds will cease to be entitled to any lien, benefit or security of this resolution except the right to receive the money so set aside and pledged, and those Bonds will be deemed not to be outstanding hereunder.

Upon the defeasance of any Bonds, the Registrar will provide notice of the defeasance to Registered Owners and to each party entitled to receive notice in accordance with Section 18 of this resolution.

Section 14. Issuance of Additional Parity Bonds. The District further covenants and agrees with the owners of the Bonds for as long as they remain outstanding, as follows:

(a) That it will issue no bonds with a lien on Gross Revenue superior to the lien thereon of the Bonds. The District may issue additional Parity Bonds for the following purposes: (i) acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for, or making necessary replacements or repairs and capital improvements to the System; or (ii) refunding or purchasing and retiring at or prior to their maturity any outstanding revenue bonds or other obligations payable out of Gross Revenue; upon compliance with the following conditions:

(1) That at the time of the issuance of such additional Parity Bonds there is no deficiency in the Bond Fund.

(2) If there are special assessments levied in any utility local improvement district in which additions and improvements to and extensions of the System will be constructed from the proceeds of such additional Parity Bonds, the resolution authorizing such additional Parity Bonds shall require that such special assessments be paid into the Bond Fund.

(3) If there are special assessments pledged to be paid into a bond redemption fund for revenue bonds being refunded by such additional Parity Bonds, the resolution authorizing such additional Parity Bonds shall require such special assessments to be used for the refunding or paid into the Bond Fund.

(4) The principal of and interest on any additional Parity Bonds shall be payable out of the Bond Fund, and the resolution authorizing their issuance shall further provide for payments into the Bond Fund to amortize any Term Bonds and satisfaction of the Reserve Requirement, all as required by Section 9 of this resolution.

(5) Prior to the delivery of any additional Parity Bonds, the District shall have on file a certificate of a Professional Utility Consultant showing: that the Net Revenue determined and adjusted as hereafter provided for each calendar or fiscal year after the issuance of such additional Parity Bonds (the "Adjusted Net Revenue") will equal at least 1.25 times the Annual Debt Service (after deducting from each year's Annual Debt Service the amount of Assessments due and payable in such year according to the assessment roll for such Assessments) for each such calendar or fiscal year for all Parity Bonds plus the additional Parity Bonds proposed to be issued.

The Adjusted Net Revenue will be the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of the proposed additional Parity Bonds as adjusted by such Professional Utility Consultant to take into consideration changes in Net Revenue estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the additional Parity Bonds proposed to be issued, shall be outstanding:

(i) the additional Net Revenue that would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of such 12-month period, had been in force during the full 12-month period;

(ii) the additional Net Revenue that would have been received if any facility of the System that became fully operational after the beginning of such 12-month period had been so operating for the entire period; and

(iii) the additional Net Revenue estimated by such Professional Utility Consultant to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System that are (a) under construction at the time of such certificate or (b) will be constructed from the proceeds of the additional Parity Bonds to be issued.

The Professional Utility Consultant may rely upon, and his or her certificate shall have attached thereto, financial statements of the System certified by the Treasurer showing income and expenses for the period upon which the same is based.

The certificate of the Professional Utility Consultant will be conclusive and the only evidence required to show compliance with the provisions and requirements of this subsection (5).

(b) Notwithstanding the requirements set forth in subsection (a), if additional Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding additional Parity Bonds will result in a debt service savings and does not require an increase of more than \$5,000 in any fiscal or calendar year for principal of and interest on such refunding additional Parity Bonds over and above the amount required in such year for the principal of and interest on the Parity Bonds being refunded thereby, the condition stated in subsections (a)(5) and (a)(6) of this section need not be met.

(c) Nothing herein contained shall prevent the District from issuing any revenue bonds or other obligations with a lien on Net Revenue subordinate to the lien thereon of the Parity Bonds.

Section 15. Lost or Destroyed Bonds. If any Bond is lost, stolen or destroyed, the Registrar may authenticate and deliver a new Bond of like amount, date and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the District and Registrar in connection therewith and upon his or her filing with the District and Registrar evidence satisfactory to it that the Bond was actually lost, stolen or destroyed and of his or her ownership thereof, and upon furnishing the District and Registrar with indemnity satisfactory to them.

Section 16. Sale of Bonds.

(a) *Bond Sale.* The Bonds will be sold by negotiated sale to the Underwriter pursuant to the terms of the Purchase Contract. This Board has been advised that market

conditions are fluctuating and, as a result, the most favorable market conditions may occur on a day other than a regular meeting date of the Board. The Board has determined that it would be in the best interest of the District to delegate to the Designated Representative the authority to approve the aggregate principal amount, payment dates, interest rates, maturity amounts, redemption and insurance provisions, and other terms for the Bonds. The Designated Representative is authorized to approve the terms of the Bonds, as described in the preceding sentence, so long as (i) the aggregate principal amount of the Bonds does not exceed \$3,700,000 and (ii) the true interest cost for the Bonds does not exceed 4.25%.

The Designated Representative is authorized to execute a Purchase Contract setting forth terms for the Bonds that (i) are consistent with the terms and conditions of this Section 16 and (ii) he has approved in accordance with this Section 16. Following execution of the Purchase Contract, the Designated Representative will provide a report to the Board describing the final terms of the Bonds. The report will be provided to the Board electronically on the date of the Bond sale, with a public report provided to the Board at its next regularly scheduled meeting. The authority granted to the Designated Representative by this Section 16 expires on December 31, 2013. If a Purchase Contract for the Bonds has not been executed on or prior to December 31, 2013, the authorization for the issuance of the Bonds will be rescinded, and the Bonds authorized under this resolution may not be issued nor their sale approved unless the Bonds are re-authorized by resolution of the Board. The resolution re-authorizing the issuance and sale of the Bonds may be in the form of a new resolution repealing this resolution in whole or in part or may be in the form of an amendatory resolution approving a Purchase Contract or establishing terms and conditions for the authority delegated under this Section 16.

The Designated Representative and other District officials, agents and representatives are authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the Bonds to the Underwriter and for the proper application and use of the proceeds of sale of the Bonds. In furtherance of the foregoing, the Designated Representative is authorized to approve and enter into agreements for the payment of costs of issuance, including Underwriter's discount, the fees and expenses specified in the Purchase Contract, including fees and expenses of Underwriter and other retained services, including bond counsel, rating agencies, fiscal agency, financial advisory services, and other expenses customarily incurred in connection with issuance and sale of municipal bonds.

(b) *Preliminary and Final Official Statements.* The Designated Representative is authorized to review and approve on behalf of the District the preliminary and final Official Statements for the Bonds with such additions and changes as he may deem necessary or advisable. The Designated Representative is further authorized to deem final the preliminary Official Statement for purposes of the Rule.

(c) *Bond Insurance.* The Designated Representative is also authorized to consider proposals from bond insurers and determine whether the use of bond insurance is economically advantageous to the District. If the Designated Representative determines to obtain bond insurance, the Designated Representative is authorized to execute a commitment for insurance.

Section 17. Application of Bond Proceeds. Proceeds of sale of the Bonds in an amount sufficient to pay and redeem in full the 2006 Bond will be delivered to the Bank on the date of issuance of the Bonds or as soon thereafter as possible. The District has heretofore given notice to the Bank of its intent to prepay in full the principal of and accrued interest on the 2006 Bond.

The balance of the proceeds of sale of the Bonds will be deposited into a fund of the District to be established in the office of the Treasurer and designated as the “2013 Water System Project Fund” (the “Project Fund”), which fund shall be drawn upon to pay costs of issuance of the Bonds and to pay costs of the Project.

Section 18. Undertaking to Provide Ongoing Disclosure.

(a) *Contract/Undertaking.* This section constitutes the District’s written undertaking for the benefit of the owners and beneficial owners of the Bonds as required by Section (b)(5) of the Rule.

(b) *Financial Statements/Operating Data.* The District agrees to provide or cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”), the following annual financial information and operating data for the prior fiscal year (commencing in 2014 for the fiscal year ended December 31, 2013):

1. Annual financial statements of the District, which statements may or may not be audited, prepared in accordance with the Budgeting Accounting and Reporting System prescribed by the Washington State Auditor under RCW 43.09.200 (or any successor statute) and generally of the type included in the official statement for the Bonds under the heading “Historical Operating Results”;
2. The principal amount of Parity Bonds and debt service coverage for Parity Bonds;
3. Water rates; and
4. Number of water customers of the District.

Items 2 – 4 are required only to the extent that such information is not included in the annual financial statements provided pursuant to 1.

The information and data described above will be provided on or before nine months after the end of the District’s fiscal year. The District may adjust such date if the District changes its fiscal year by providing written notice of the change of fiscal year and the new reporting date to the MSRB. In lieu of providing such annual financial information and operating data, the District may cross-reference to other documents available to the public on the MSRB’s internet website or filed with the SEC.

If not provided as part of the annual financial information discussed above, the District will provide the District’s audited annual financial statement prepared in accordance with

regulations prescribed by the State Auditor pursuant to RCW 43.09.200 (or any successor statute), when and if available, to the MSRB.

(c) *Material Events.* The District agrees to provide notice of the following events not in excess of ten business days after the occurrence of the event:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Bond calls, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the District;
- The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, and not intending to modify this undertaking, the District advises that no property secures repayment of the Bonds. The Reserve Account is the applicable debt service reserve.

(d) *Notification Upon Failure to Provide Financial Data.* The District agrees to provide or cause to be provided, in a timely manner to the MSRB, notice of its failure to provide the annual financial information described in subsection (b) above on or prior to the date set forth in subsection (b) above.

(e) *EMMA; Format for Filings with the MSRB.* Until otherwise designated by the MSRB or the SEC, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at www.emma.msrb.org. All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(f) *Termination/Modification.* The District's obligations to provide annual financial information and notices of material events will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, will be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule that require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies the MSRB of such opinion and the cancellation of this section. Notwithstanding any other provision of this resolution, the District may amend this Section 18 and any provision of this Section 18 may be waived with an approving opinion of nationally recognized bond counsel.

In the event of any amendment of or waiver of a provision of this Section 18, the District will describe such amendment in the next annual report, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (I) notice of such change will be given in the same manner as for a material event under Subsection (c), and (II) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if practical, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(g) *Bond Owner's Remedies Under This Undertaking.* The right of any owner or beneficial owner of the Bonds to enforce the provisions of the undertaking set forth in this section is limited to a right to obtain specific enforcement of the District's obligations hereunder, and any failure by the District to comply with the provisions of this undertaking is not an event of default with respect to the Bonds under this resolution. For purposes of this section, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding the Bonds through nominees or depositories.

Section 19. Supplements and Amendments.

(a) The Board from time to time and at any time may adopt a resolution or resolutions supplemental hereof, which resolution or resolutions thereafter shall become a part of this resolution, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the District in this resolution other covenants and agreements thereafter to be observed, which will not adversely affect the interests of the owners of any Parity Bonds in any material respect, or to surrender any right or power herein reserved to or conferred upon the District.

(2) To cure any ambiguities or correct or supplement any defective provision contained in this resolution in regard to such matters or questions as the Board may deem necessary or desirable and not inconsistent with this resolution and which will not adversely affect the interests of the owners of any Parity Bonds in any material respect.

(3) To amend or supplement any provision contained in this resolution for the purpose of obtaining or maintaining a rating on the Parity Bonds so long as such amendment or supplement is not inconsistent with this resolution and will not adversely affect the interests of the owners of any Parity Bonds in any material respect.

Any such supplemental resolution of the Board may be adopted without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this section; provided, however, that the District shall obtain an opinion of nationally recognized bond counsel to the effect that the supplemental resolution complies with this subsection (a).

(b) With the consent of the owners of not less than 65% in aggregate principal amount of the Parity Bonds at the time outstanding, the Board may adopt a resolution or resolutions supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this resolution or of any supplemental resolution; provided, however, that no such supplemental resolution shall:

(1) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

(2) Reduce the aforesaid percentage of bondowners required to approve any such supplemental resolution, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of bondowners under this subsection (b) to approve the particular form of any proposed supplemental resolution, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Upon the adoption of any supplemental resolution pursuant to the provisions of this section, this resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the District under this resolution and all owners of Parity Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental resolution shall be deemed to be part of the terms and conditions of this resolution for any and all purposes.

Section 20. General Authorization and Ratification. The Board, the General Manager, and other appropriate officers and agents of the District are authorized to take any actions and to execute certificates, agreements or other documents as in their judgment may be necessary or desirable to carry out the terms of, and complete the transactions contemplated by, this resolution. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified.

Section 21. Severability. If any one or more of the covenants and agreements provided in this resolution to be performed on the part of the District shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this resolution and shall in no way affect the validity of the other provisions of this resolution or of the Bonds.

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Section 22. Effective Date. This resolution shall become effective upon its adoption as provided by law.

ADOPTED by the Board of Commissioners of the North Beach Water District, Pacific County, Washington, at a regular meeting thereof held on May 20, 2013.

NORTH BEACH WATER DISTRICT,
PACIFIC COUNTY, WASHINGTON

Gwen Brake

Brian Sheldon

R. D. Williams

Attest:

Secretary of the Board of Commissioners

CERTIFICATE OF SECRETARY OF THE DISTRICT

I HEREBY CERTIFY that I am the duly chosen, qualified and acting Secretary of the Board of Commissioners of the North Beach Water District, Pacific County, Washington (the “District”), and keeper of the records of the Board; and

1. That the attached resolution is a true and correct copy of Resolution No. 13-2013 of the Board (the “Resolution”), as adopted at a regular meeting of the Board held on May 20, 2013, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Board voted in the proper manner for the passage of the Resolution; that all other requirements and proceedings incident to the proper passage of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2013.

Secretary, Board of Commissioners
North Beach Water District