

NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY

PACIFIC COUNTY, WASHINGTON

SENIOR LIEN WATER REVENUE BONDS, 2005 – \$2,400,000

JUNIOR LIEN WATER REVENUE BONDS, 2005 - \$800,000

RESOLUTION NO. 07-2005

A RESOLUTION of the Board of Directors of the North Beach Public Development Authority, Pacific County, Washington, authorizing the acquisition of domestic water supply and distribution facilities; authorizing the issuance of \$2,400,000 principal amount of senior lien water revenue bonds and \$800,000 principal amount of junior lien water revenue bonds to finance the costs of such acquisition; fixing the terms and covenants of such bonds; and providing the terms under which the PDA may issue future water revenue bonds.

APPROVED ON DECEMBER 12, 2005

Prepared By:

PRESTON GATES & ELLIS LLP
Seattle, Washington

*Repealed
01-2006*

RESOLUTION NO. 07-2005

A RESOLUTION of the Board of Directors of the North Beach Public Development Authority, Pacific County, Washington, authorizing the acquisition of domestic water supply and distribution facilities; authorizing the issuance of \$2,400,000 principal amount of senior lien water revenue bonds and \$800,000 principal amount of junior lien water revenue bonds to finance the costs of such acquisition; fixing the terms and covenants of such bonds; and providing the terms under which the PDA may issue future water revenue bonds.

WHEREAS, the North Beach Public Development Authority, Pacific County, Washington (the "PDA") has been established as a public corporation pursuant to Resolution No. 2004-073 of the Board of Commissioners of Pacific County (the "County"), in accordance with Ordinance No. 155 of the County and the provisions of RCW 35.21.730-759 relating to public corporations; and

WHEREAS, by its charter, approved by Resolution No. 2004-073 as amended by Resolution No. 2005-012 of the County Board of Commissioners (the "Charter"), the PDA is authorized to undertake, assist with and otherwise facilitate the improvement of municipal water and/or fire suppression service to the unincorporated communities, known as Ocean Park, on the Long Beach peninsula north of Cranberry Road; and

WHEREAS, the PDA's Board of Directors (the "PDA Board") has determined that it is in the best interests of the residents of Ocean Park and in furtherance of the PDA's purpose under the Charter for the PDA to acquire the water supply and distribution facilities formerly owned by Ocean Park Water Company, Pacific Water Company and Phillip Leach and Virginia Leach (the "Improvements"); and

WHEREAS, Ocean Park Acquisitions LLC, a Washington limited liability company of which the PDA is the sole member ("OPA LLC") has agreed to acquire all or substantially all of the stock of Ocean Park Water Company and Pacific Water Company and to sell the Improvements to the PDA; and

WHEREAS, to finance a portion of the cost of acquiring the Improvements, the PDA has heretofore received low-interest loans in the amount of \$2,000,000 from the State of Washington Public Works Trust Fund (the "PWTF Loans"); and

WHEREAS, the PDA Board has determined that it is in the best interests of the PDA and the residents of Ocean Park that the PDA finance the balance of the cost of acquiring the Improvements by the issuance of the water revenue obligations authorized by this resolution; and

WHEREAS, the PDA wishes to reserve the right to issue additional water revenue obligations on the terms and conditions set forth in this resolution;

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY, 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 Bonds due in such year, excluding, however, any interest to be paid from the proceeds of such Bonds, and (b) the principal of all 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 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 PDA (if permitted by the PDA's charter) for the acquisition or construction of additions and improvements to and extension of the System, if such assessments are pledged to be paid into either the Senior Lien Bond Fund or the Junior Lien 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 Bonds from the date of determination to the last maturity date of such 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 Bonds will be outstanding.

Bank means Cashmere Valley Bank.

Bond Register means the books or records maintained by the Registrar for the purpose of registration of the 2005 Bonds.

Bonds means the Senior Lien Bond and the Junior Lien Bonds.

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 PDA or payments in lieu of taxes.

Distribution Agreement means the Asset Distribution Agreement authorized by this resolution to be entered into by the PDA with OPA in substantially the form set forth as Exhibit A to this resolution.

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 PDA 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."

Improvements means the water supply and distribution facilities to be acquired pursuant to the Distribution Agreement and a real estate purchase and sale agreement between the PDA and Phillip Leach and Virginia Leach.

Junior Lien Bond Fund means the 2005 Junior Lien Water Revenue Bond Fund authorized to be created pursuant to Section 10 of this resolution.

Junior Lien Bonds means the 2005 Junior Lien Bonds and any revenue bonds or other revenue obligations of the PDA that have a lien on Net Revenue equal to the lien thereon to pay and secure the payment of the principal of and interest on the 2005 Junior Lien Bonds.

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

OPA LLC means Ocean Park Acquisitions LLC, a Washington limited liability company of which the PDA is the sole member.

PDA means the North Beach Public Development Authority, Pacific County, Washington, a public corporation chartered by Pacific County and duly organized and existing under the laws of the State of Washington, or any successor to the rights and obligations of the PDA.

PDA Board means the Board of Directors of the PDA as the PDA's general legislative authority as the same shall be duly and regularly constituted from time to time.

Permitted Investments means any investments of PDA funds permitted under its Charter and the laws of the State of Washington as amended from time to time.

Professional Utility Consultant means the independent person(s) or firm(s) selected by the PDA 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.

PWTF Loans means the loans obtained by the PDA from the State of Washington acting through the Public Works Board under Loan Agreement Nos. PW-05-691-PRE-117 and -129.

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 2005 Bond is registered on the Bond Register.

Registrar means initially the Treasurer, whose duties include the registration and authentication of the 2005 Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2005 Bonds, and paying the principal of, premium and interest on the 2005 Bonds.

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

Revenue Fund means the special fund of the PDA known as the "North Beach Public Development Authority Water System Revenue Fund" authorized to be created pursuant to Section 8(a) of this resolution.

Senior Lien Bond means the 2005 Senior Lien Bond and any revenue bonds or other revenue obligations of the PDA that have a lien on Net Revenue equal to the lien thereon to pay and secure the payment of the principal of and interest on the 2005 Senior Lien Bond.

Senior Lien Bond Fund means the 2005 Senior Lien Water Revenue Bond Fund authorized to be created pursuant to Section 9 of this resolution.

Senior Lien Reserve Requirement means, with respect to the 2005 Senior Lien Bond or any additional Senior Lien 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.

Serial Bonds means Bonds other than Term Bonds.

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

Term Bonds means any 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 applicable Bond Fund to pay for such mandatory redemptions.

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

2005 Bonds means the 2005 Senior Lien Bond and the 2005 Junior Lien Bonds.

2005 Senior Lien Bond means the PDA's Senior Lien Water Revenue Bond, 2005 authorized to be issued to the Bank in the principal amount of \$2,400,000 by this resolution.]

2005 Junior Lien Bonds means the PDA's Junior Lien Water Revenue Bonds, 2005, authorized to be issued in the aggregate principal amount of \$800,000 by this resolution

Section 2. Establishing the Domestic Water System; Plan of Improvements

(a) ***Findings.*** The PDA Board hereby finds that the best interests of the PDA and residents of the Ocean Park community within the PDA's jurisdiction will be served by the establishment of a publicly owned domestic water supply and distribution system consisting, initially, of the assets formerly owned and operated by the Pacific Water Company and the Ocean Park Water Company (the "System").

(b) ***Approval of Plan of Improvements.*** In accordance with the comprehensive plan for its domestic water supply and distribution system, the PDA Board hereby specifies and adopts a system or plan of additions to and betterments and extensions of the System, consisting of the domestic water supply and distribution facilities to be acquired by the PDA pursuant to the Distribution Agreement and a real estate purchase and sale agreement between the PDA and Phillip Leach and Virginia Leach (collectively, the "Improvements").

(c) ***Approval of Distribution Agreement.*** The Distribution Agreement is hereby approved in substantially the form set forth on Exhibit A, and the President of the PDA Board is hereby authorized to execute and deliver such agreement.

(d) ***Financing Plan.*** The purchase price of the Improvements shall be paid from proceeds of the PWTF Loans, as heretofore approved by the PDA Board, from a portion of the proceeds of the 2005 Senior Lien Bond and by delivery of the 2005 Junior Lien Bonds, as authorized by this resolution.

(e) ***General Authorization and Ratification of Prior Acts.*** The PDA Board, and other appropriate officers, employees and agents of the PDA are hereby authorized and directed to take all actions necessary and convenient to acquire the Improvements and establish the System as authorized herein. All past acts of such PDA officers, employees and agents consistent with the authority granted herein but prior to the effective date of this resolution are hereby ratified and confirmed.

Section 3. Authorization and Description of 2005 Bonds. For the purpose of financing a portion of cost of the Improvements to be distributed in accordance with the Distribution Agreement, the PDA shall issue the following obligations:

(a) *2005 Senior Lien Bond.* The PDA shall issue to the Bank a water revenue bond of the PDA designated as the "North Beach Public Development Authority, Pacific County, Washington, Senior Lien Water Revenue Bond, 2005," in the principal amount of \$2,400,000 (the "2005 Senior Lien Bond"). The 2005 Senior Lien Bond shall be dated as of the date of its delivery to the Bank and shall mature on the date that is approximately 20 years after its date of delivery. The 2005 Senior Lien Bond shall bear interest on unpaid principal at an initial per annum rate of 4.18%, which shall change to 4.39% effective on the date that is three years after its date, and which shall change again to 5.0% effective on the date that is six years after its date. Installments of principal and interest shall be payable semiannually on dates to be determined by mutual agreement of the Bank and the President of the PDA Board. Principal shall be amortized based on a 20-year payment schedule at the interests set forth above. Interest shall be calculated on the basis of a year of 360 days and twelve months of 30 days each.

(b) *2005 Junior Lien Bonds.* The PDA shall issue to the LLC, as seller under the Purchase Agreement, water revenue bonds of the PDA designated as the "North Beach Public Development Authority, Pacific County, Washington, Junior Lien Water Revenue Bonds, 2005," in the aggregate principal amount of \$800,000 (the "2005 Junior Lien Bonds"). The 2005 Junior Lien Bonds shall be dated as of the date of their delivery to Phillip Leach and Virginia Leach, in accordance with the Purchase Agreement, and shall mature on the first day of the month that is at least 20 years after their date of delivery. The 2005 Junior Lien Bonds shall bear interest on unpaid principal at a per annum rate of 4.5%. Approximately equal installments of principal and interest shall be payable monthly on the first day of each month, commencing on the first day of the month that is at least 31 days after the date of issuance of the 2005 Junior Lien Bonds. Interest shall be calculated on the basis of a year of 360 days and twelve months of 30 days each.

(c) *Other Provisions of the 2005 Bonds.* The 2005 Bonds shall be fully registered as to principal and interest, shall be in denominations of \$5,000 or multiples thereof, and shall be numbered separately in such manner and with any additional identification as the Registrar deems necessary for identification. Interest on the 2005 Bonds shall be calculated on the basis of a year of 360 days and twelve 30-day months.

Both principal of and interest on the 2005 Bonds shall be payable in lawful money of the United States of America. Installments of principal and interest on the 2005 Bonds shall be paid by check, or draft mailed, or by electronic transfer (on the date such installment is due) to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Upon final payment of all installments and interest thereon, the 2005 Bonds shall be submitted to the Registrar for cancellation and surrender.

Principal of and interest on the Senior Lien Bond shall be payable solely from the Senior Lien Bond Fund. Principal of and interest on the Junior Lien Bonds shall be payable solely from

the Junior Lien Bond Fund. The 2005 Bonds are not general obligations of the PDA, Pacific County or of the State of Washington or any political subdivision thereof.

Section 4. Registration.

(a) *Registrar.* The Treasurer is hereby requested to act as registrar, paying agent and transfer agent for the 2005 Bonds (collectively, the "Registrar"). The Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the 2005 Bonds. The Registrar is authorized to authenticate and deliver the 2005 Bonds transferred or exchanged in accordance with the provisions of such 2005 Bonds and this resolution and to carry out all of the Registrar's powers and duties under this resolution.

(b) *Registered Ownership.* The PDA and the Registrar, each in its discretion, may deem and treat the Registered Owner of each 2005 Bond as the absolute owner thereof for all purposes, and neither the PDA nor the Registrar shall be affected by any notice to the contrary. Payment of any such 2005 Bond shall be made only as described in Section 3 hereof, but such registration may be transferred as herein provided. All such payments made as described in Section 3 shall be valid and shall satisfy and discharge the liability of the PDA upon such 2005 Bond to the extent of the amount or amounts so paid. Neither the PDA nor the Registrar will have any responsibility or obligations, legal or otherwise, to any other party except for the Registered Owners of the 2005 Bonds.

(c) *Transfer or Exchange of Registered Ownership; Change in Denominations.* The registered ownership of any 2005 Bond may be transferred or exchanged, but no transfer of any 2005 Bond shall be valid unless it is surrendered to the Registrar with the assignment form appearing on such 2005 Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar shall cancel the surrendered 2005 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new 2005 Bond (or 2005 Bonds at the option of the new Registered Owner) of the same series, 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 2005 Bond, in exchange for such surrendered and cancelled 2005 Bond. Any 2005 Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of 2005 Bonds of the same date, maturity and interest rate, in any authorized denomination. The Registrar shall not be obligated to transfer or exchange any 2005 Bond during the period beginning at the opening of business on the 1st day of each month and ending at the close of business on the 15th day of each month.

Section 5. Prepayment. In accordance with the Bank's proposal accepted pursuant to Section 18 hereof, the 2005 Senior Lien Bond may be prepaid in whole or in part, without penalty, at any time prior to the date that is five years after its date of issuance. From and after such date until the date that is ten years after its date of issuance, the 2005 Senior Lien Bond shall not be subject to prepayment. From and after the date that is 10 years after its date of

issuance, the 2005 Senior Lien Bond may be prepaid in whole or in part, without penalty, at any time.

On and after the third anniversary of the date of issuance of the 2005 Junior Lien Bonds, the 2005 Junior Lien Bonds may be prepaid in whole or in part with the consent of the owners of the 2005 Junior Lien Bonds. The PDA shall give 45 days' written notice to the Registered Owners of the 2005 Junior Lien Bonds of its desire to make such a prepayment. Within 30 days of the date such notice is given, the Registered Owners of the 2005 Junior Lien Bonds shall notify the PDA whether they consent to such prepayment. If the PDA receives no response within such 30-day period from a Registered Owner of a 2005 Junior Lien Bond, that Registered Owner shall be deemed to have consented to the proposed prepayment.

Section 6. Execution of 2005 Bonds. The 2005 Bonds shall be executed on behalf of the PDA with the manual or facsimile signature of the President of the PDA Board and attested with the manual or facsimile signature of the Secretary of the PDA, and the seal of the PDA shall be impressed or imprinted on each of the 2005 Bonds. In case any of the officers who have signed or attested any of the 2005 Bonds cease to be such officer before such 2005 Bonds have been actually issued and delivered, such 2005 Bonds shall be valid nevertheless and may be issued by the PDA with the same effect as though the persons who had signed or attested such 2005 Bonds had not ceased to be such officers, and any 2005 Bond may be signed or attested on behalf of the PDA by officers who at the date of actual execution of such 2005 Bond are the proper officers, although at the nominal date of execution of such 2005 Bond such officer was not an officer of the PDA.

Only such 2005 Bonds as bear thereon a Registration Certificate in the form set forth in Section 7 hereof, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this resolution. Such Registration Certificate shall be conclusive evidence that the 2005 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this resolution.

Section 7. Form of 2005 Bonds.

(a) *2005 Senior Lien Bond.* The 2005 Senior Lien Bond shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. _____

\$2,400,000

STATE OF WASHINGTON

NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY
PACIFIC COUNTY

SENIOR LIEN WATER REVENUE BOND, 2005

INTEREST RATE: Initially 4.18%, then 4.39% effective on _____, 2008, then 5.0% effective on _____, 2011.

MATURITY DATE: _____, 2025

REGISTERED OWNER: CASHMERE VALLEY BANK

PRINCIPAL AMOUNT: TWO MILLION FOUR HUNDRED THOUSAND AND NO/100 DOLLARS

The North Beach Public Development Authority, Pacific County, Washington (the "PDA"), a public corporation of the State of Washington, for value received hereby promises to pay to the Registered Owner identified above the Principal Amount identified above, and to pay interest on the unpaid balance thereof, from the date hereof, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, in _____ approximately equal semiannual installments of principal and interest payable on the first days of each _____ and _____, commencing on _____ 1, 2006, with final payment of all outstanding principal and the interest due thereon at final maturity of the Bond on _____ 1, 2025. Both principal of and interest on this bond are payable in lawful money of the United States of America. Upon final payment of all installments of principal and interest thereon, this bond shall be submitted to the Pacific County Treasurer, as registrar and paying agent (the "Registrar") for cancellation and surrender.

The principal of and interest on this bond are payable solely out of the special fund of the PDA known as the "2005 Senior Lien Water Revenue Bond Fund" ("Senior Lien Bond Fund"). Installments of principal of and interest on this bond shall be paid by check or draft mailed, or by electronic transfer (on the date such installment is due) to the Registered Owner at the address shown on the Bond Register as of the 15th day of the month preceding the interest payment date.

This bond is issued under authority of Resolution No. _____, adopted by the PDA Board on _____, 2005 (the "Bond Resolution"), for the purpose of financing the acquisition of certain water supply and distribution facilities for the PDA. Capitalized terms used in this bond and not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

This bond may be prepaid as provided in the Bond Resolution.

The PDA has designated this bond as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Internal Revenue Code of 1986, as amended.

The PDA hereby 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 issue are payable from Net Revenue. By the Bond Resolution, the PDA 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 Senior Lien Bond Fund. Said amounts so pledged are a lien and charge on Net Revenue equal to the lien and charge thereon of any additional Senior Lien Bonds and superior to all other charges of any kind or nature.

The PDA 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 Senior Lien Bonds and Junior Lien 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 PDA under the Bond Resolution may be discharged at or prior to the maturity or redemption 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 PDA and is not an obligation of Pacific County, the State of Washington or any political subdivision thereof other than the PDA, and neither the full faith and credit nor the taxing power of the PDA 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 (as hereinafter defined) 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 PDA, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, the North Beach Public Development Authority, Pacific County, Washington, has caused this bond to be signed by the manual or facsimile signatures of the President and Secretary of the PDA, and the manual or facsimile seal of the PDA to be impressed or imprinted hereon, all as of the _____ day of _____, 2005.

NORTH BEACH PUBLIC
DEVELOPMENT AUTHORITY, PACIFIC
COUNTY, WASHINGTON

By _____/s/_____
President, PDA Board

(SEAL)

Attest:

_____/s/_____
Secretary, PDA Board

(b) *2005 Junior Lien Bonds.* The 2005 Junior Lien Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. _____

\$100,000

STATE OF WASHINGTON

NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY
PACIFIC COUNTY

JUNIOR LIEN WATER REVENUE BOND, 2005

INTEREST RATE: 4.5%

MATURITY DATE: _____, 2025

REGISTERED OWNER: [PHILLIP LEACH/VIRGINIA LEACH]

PRINCIPAL AMOUNT: ONE HUNDRED THOUSAND AND NO/100 Dollars

The North Beach Public Development Authority, Pacific County, Washington (the "PDA"), a public corporation of the State of Washington, for value received hereby promises to pay to the Registered Owner identified above the Principal Amount identified above, and to pay interest on the unpaid balance thereof, from the date hereof, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, in _____ approximately equal monthly installments of principal and interest payable on the first day of each month, commencing on _____ 1, 2006, with final payment of all outstanding principal and the interest due thereon at final maturity of this bond on _____ 1, 2025. Both principal of and interest on this bond are payable in lawful money of the United States of America. Upon final payment of all installments of principal and interest thereon, this bond shall be submitted to the Pacific County Treasurer, as registrar and paying agent (the "Registrar") for cancellation and surrender.

The principal of and interest on this bond are payable solely out of the special fund of the PDA known as the "2005 Junior Lien Water Revenue Bond Fund" ("Junior Lien Bond Fund"). Installments of principal of and interest on this Bond shall be paid by check or draft mailed, or by electronic transfer (on the date such installment is due) to the Registered Owner at the address shown on the Bond Register as of the 1st day of the month of the interest payment date.

This bond is issued under authority of Resolution No. _____, adopted by the PDA Board on _____, 2005 (the "Bond Resolution"), for the purpose of financing the acquisition of certain water supply and distribution facilities for the PDA. Capitalized terms

used in this bond and not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

This bond may be prepaid as provided in the Bond Resolution. The PDA has designated the bonds of this issue as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Internal Revenue Code of 1986, as amended.

The PDA hereby 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.

The bonds of this issue are payable from Net Revenue. By the Bond Resolution, the PDA 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 Junior Lien Bond Fund. Said amounts so pledged are a lien and charge on Net Revenue junior and inferior to the lien and charge thereon of the Senior Lien Bonds, equal to the lien and charge thereon of any additional Junior Lien Bonds, and superior to all other charges of any kind or nature.

The PDA 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 Senior Lien Bonds and Junior Lien 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 PDA under the Bond Resolution may be discharged at or prior to the maturity or redemption of the bonds of this 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 PDA and is not an obligation of Pacific County, the State of Washington or any political subdivision thereof other than the PDA, and neither the full faith and credit nor the taxing power of the PDA 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 (as hereinafter defined) 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 PDA, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, the North Beach Public Development Authority, Pacific County, Washington, has caused this bond to be signed by the manual or facsimile signatures of the President and Secretary of the PDA, and the manual or facsimile seal of the PDA to be impressed or imprinted hereon, all as of the ____ day of _____, 2005.

NORTH BEACH PUBLIC
DEVELOPMENT AUTHORITY, PACIFIC
COUNTY, WASHINGTON

By _____/s/_____
President, PDA Board

(SEAL)

Attest:

_____/s/_____
Secretary, PDA Board

(c) *Additional Requirements for 2005 Bonds.* Each of the 2005 Bonds shall also include a Registration Certificate and provisions for assignment, substantially as follows:

REGISTRATION CERTIFICATE

This bond is registered in the name of the Registered Owner on the books of the PDA, in the office, as to both principal and interest, as noted in the registration blank below. No transfer hereof shall be valid unless made by the Registered Owner or his/her duly authorized agent in writing, and similarly noted hereon.

Date of Registration	Name and Address of Registered Owner	Signature of Registrar
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

ASSIGNMENT

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

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

(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 PDA designated as the "North Beach Public Development Authority Water System Revenue Fund" (the "Revenue Fund") is hereby authorized to be created in the office of the Treasurer. The PDA hereby 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 PDA. 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 PDA to meet Costs of Maintenance and Operation on a current basis;

SECOND, to make all payments required to be made into the Senior Lien Bond Fund to pay the interest on any Senior Lien Bonds;

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

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

FIFTH, to make all payments required to be made into the Junior Lien Bond Fund to pay the interest on any Junior Lien Bonds;

SIXTH, to make all payments required to be made into the Junior Lien Bond Fund to pay principal of any Junior Lien Bonds, either at maturity or upon mandatory redemption of Term Bonds;

SEVENTH, 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 PDA having a lien upon Net Revenue junior and inferior to the lien thereon for the payment of the principal of and interest on the Junior Lien Bonds;

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

NINTH, to retire by redemption or purchase in the open market any outstanding water revenue bonds or other water revenue obligations of the PDA, 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 PDA purpose.

(b) *Rate Stabilization Account.* A special account of the PDA designated as the "North Beach Public Development Authority Water System Rate Stabilization Account" (the "Rate Stabilization Account") is hereby authorized to be created in the office of the Treasurer. In accordance with the provisions of subsection (a) above, the PDA 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 PDA related to the System.

Section 9. Senior Lien Bond Fund. There is hereby authorized to be created in the office of the Treasurer a fund of the PDA to be known as the "North Beach Public Development

Authority 2005 Senior Lien Water Revenue Bond Fund" (the "Senior Lien Bond Fund"), which fund shall be drawn upon for the sole purpose of paying the principal of, premium if any, and interest on any Senior Lien Bonds. The money in the Senior Lien Bond Fund shall be kept separate and apart from all other funds and accounts of the PDA.

(a) *Debt Service Account.* A special account known as the Debt Service Account is hereby authorized to be created in the Senior Lien Bond Fund for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds. As long as any Senior Lien Bonds remain outstanding, the PDA hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Debt Service Account, on or before the 25th day of each month, a proportionate amount of the installment of principal of and/or interest next coming due on the outstanding Senior Lien Bonds so that such monthly payments, together with money in the Debt Service Account available therefor, shall be sufficient to pay such installment when due.

The PDA covenants that in the event it issues any additional Senior Lien Bonds, it will provide in each resolution authorizing the issuance of the same for monthly payments to be made from the Revenue Fund into the Debt Service Account in the Senior Lien 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 Senior Lien 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 hereby authorized to be created in the Senior Lien Bond Fund for the purpose of securing the payment of principal of and interest on the 2005 Senior Lien Bond and any additional Senior Lien Bonds. The PDA hereby covenants that it will satisfy the Senior Lien Reserve Requirement for the 2005 Senior Lien Bond by making one or more deposits into the Reserve Account, in approximately equal annual amounts, the first such amount to be deposited within one year of the date of issuance of the 2005 Senior Lien, so that the required balance in the Reserve Account shall be fully funded within three years of the date of issuance of the 2005 Senior Lien Bond.

The PDA further covenants and agrees that in the event it issues any additional Senior Lien Bonds it will provide in each resolution authorizing the issuance of such Senior Lien Bonds that on or prior to the date that is three years after the date of issuance of such bonds money shall be deposited into the Reserve Account, from proceeds of such Bonds or other funds available therefor in approximately equal annual payments, so that the total amount of money in the Reserve Account will at least equal the Senior Lien Reserve Requirement.

The PDA 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 Senior Lien 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 Senior Lien Bonds, the money in the Reserve Account may be used to pay the principal of, premium, if any, and interest on the Senior Lien 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 Senior Lien Bonds secured by such Reserve Account, as long as the money remaining on deposit in such Reserve Account is at least equal to the Senior Lien Reserve Requirement determined with respect to the Senior Lien Bonds then outstanding.

In the event the Senior Lien Bonds outstanding are ever refunded, the money set aside in the Reserve Account to secure the payment thereof may be used to retire Senior Lien 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 Senior Lien Bonds.

In the event there shall be a deficiency in the Debt Service Account to meet maturing installments of either interest on or principal of and interest on the outstanding Senior Lien Bonds payable out of such Account, such deficiency shall 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 shall 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 ordinance.

(c) *Lien of Senior Lien Bond Fund.* The 2005 Senior Lien Bond shall be payable from Net Revenue. The PDA 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 Senior Lien 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 Senior Lien Bonds and superior to all other charges of any kind or nature.

(d) *Investment of Money in Senior Lien Bond Fund.* All money in the Debt Service Account in the Senior Lien Bond Fund may be kept in cash or invested in Permitted Investments maturing not later than the last maturity of the Senior Lien 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. Junior Lien Bond Fund. There is hereby authorized to be created in the office of the Treasurer a fund of the PDA to be known as the "North Beach Public Development Authority 2005 Junior Lien Water Revenue Junior Lien Bond Fund" (the "Junior Lien Bond Fund"), which fund shall be drawn upon for the sole purpose of paying the principal of, premium if any, and interest on any Junior Lien Bonds. The money in the Junior Lien Bond Fund shall be kept separate and apart from all other funds and accounts of the PDA.

(a) *Debt Service Account.* A special account known as the Debt Service Account is hereby authorized to be created in the Junior Lien Bond Fund for the purpose of paying the principal of, premium, if any, and interest on the Junior Lien Bonds. As long as any Junior Lien Bonds remain outstanding, the PDA hereby irrevocably obligates and binds itself to

set aside and pay from the Revenue Fund into the Debt Service Account, on or before the 25th day of each month, an amount that, together with money in the Debt Service Account available therefor, will be sufficient to pay when due the installment of principal of and/or interest next coming due on the outstanding Junior Lien Bonds.

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

(b) *Lien of Junior Lien Bond Fund.* The 2005 Junior Lien Bonds shall be payable from Net Revenue. The PDA 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 Junior Lien Bond Fund. Said amounts so pledged are hereby declared to be a lien and charge on Net Revenue junior and inferior to the lien and charge thereon of the Senior Lien Bonds, equal to the lien and charge thereon of any additional Junior Lien Bonds, and superior to all other charges of any kind or nature.

(c) *Investment of Money in Junior Lien Bond Fund.* All money in the Debt Service Account in the Junior Lien Bond Fund may be kept in cash or invested in Permitted Investments maturing not later than the last maturity of the Junior Lien 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 11. Covenants and Agreements. The PDA hereby covenants with the owner of each of the Bonds for as long as any of the same remain outstanding as follows:

(a) *Rates and Charges.* The PDA 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 PDA 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 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 PDA 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 PDA 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 Funds of cash or Government Obligations sufficient together with interest to be earned thereon to pay the principal of and interest on all then outstanding 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 Bonds then outstanding (defined as the total amount of the Bonds less the amount of cash and investments in the Bond Funds 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 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 Funds.

Notwithstanding any other provision of this subsection, the PDA 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 3% 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 PDA 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 Bonds and shall pay the same into the applicable Bond Fund. It is hereby provided further, however, that nothing in this resolution or in this subsection shall be construed to prohibit the PDA 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 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 PDA 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. So long as the Bank is the Registered Owner of the 2005 Senior Lien Bond, the PDA shall provide the Bank a copy of the PDA's unaudited and audited annual financial statements as soon as each is available.

(f) *Insurance.* The PDA 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 PDA finds reasonable. The cost of such insurance shall be a Cost of Maintenance and Operation. In lieu of any such insurance, the PDA may implement a self-insurance or a self-insurance pool program with reserves adequate, in the reasonable judgment of the PDA Board, to protect the PDA against loss.

(g) *Delinquencies.* The PDA 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 PDA will not furnish any service of the System to any customer free of charge.

Section 12. Tax Covenants. The PDA 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 2005 Bonds will be excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Code, (ii) that no 2005 Bond will become an "arbitrage bond" within the meaning of Section 148 of the Code and the applicable regulations thereunder, and (iii) that no 2005 Bond will become a "private activity bond" under Section 141 of the Code and the applicable regulations thereunder.

The PDA hereby designates the 2005 Bonds as qualified tax-exempt obligations for purchase by financial institutions pursuant to Section 265(b) of the Code. The PDA does not anticipate that it will issue more than \$10,000,000 in "qualified tax-exempt obligations" during the year 2005.

Section 13. Adequacy of Revenues. The PDA Board hereby declares that in fixing the amounts to be paid into the Bond Funds as hereinbefore provided it has exercised due regard for the Costs of Maintenance and Operation and has not obligated the PDA to set aside and pay into the Bond Funds 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 14. Defeasance. In the event that 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 the 2005 Bonds or any of them in accordance with their terms are set aside in a special account 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 applicable Bond Fund for the payment of the principal of and interest on the 2005 Bonds so provided for, and the owners of such 2005 Bonds shall cease to be entitled to any lien, benefit or security of this resolution except for the right to receive the money so set aside and pledged, and such 2005 Bonds shall be deemed not to be outstanding hereunder.

Section 15. Issuance of Additional Bonds. The PDA hereby further covenants and agrees with the owners of the 2005 Bonds for as long as any of the same remain outstanding as follows:

(a) That it will issue no bonds with a lien on Gross Revenue superior to the lien thereon of the Senior Lien Bonds. The PDA may issue additional Senior Lien Bond and additional Junior Lien 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 Bonds there is no deficiency in either of the Bond Funds.

(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 Bonds, the resolution authorizing such additional Bonds shall require that such special assessments be paid into the applicable 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 Bonds, the resolution authorizing such additional Bonds shall require such special assessments to be used for the refunding or paid into the applicable Bond Fund.

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

(5) The principal of and interest on any additional Junior Lien Bonds shall be payable out of the Junior Lien Bond Fund, and the resolution authorizing their issuance shall further provide for payments into the Junior Lien Bond Fund to amortize any Term Bonds, all as required by Section 10 of this resolution.

(6) Prior to the delivery of any additional Bonds, the PDA 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 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 Bonds plus the additional Bonds proposed to be issued.

The Adjusted Net Revenue shall be the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed additional 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 Bonds, including the additional 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 Bonds to be issued.

Such 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 such Professional Utility Consultant shall be conclusive and the only evidence required to show compliance with the provisions and requirements of this subsection (6).

(7) Notwithstanding the foregoing provisions of subsection (6), additional Bonds may alternatively be issued with the prior written consent of the owners of all outstanding Bonds and no certificate of a Professional Utility Consultant.

(b) Notwithstanding the requirements set forth in subsection (a), if additional Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Bonds and the issuance of such refunding additional 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 Bonds over and above the amount required in such year for the principal of and interest on the Bonds being refunded thereby, the condition stated in subsections (a)(6) and (a)(7) of this section need not be met.

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

Section 16. Supplements and Amendments.

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

(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 PDA 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 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 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 Bonds in any material respect.

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

(b) With the consent of the owners of (i) not less than 65% in aggregate principal amount of the Senior Lien Bonds at the time outstanding and (ii) not less than 65% in aggregate principal amount of the Junior Lien Bonds at the time outstanding, the PDA 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 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 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 PDA under this resolution and all owners of 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 17. Lost or Destroyed Bonds. In case any 2005 Bonds shall be lost, stolen or destroyed, the Registrar may authenticate and deliver a new 2005 Bond or Bonds of like series, amount, date and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the PDA and Registrar in connection therewith and upon his or her filing with the PDA and Registrar evidence satisfactory to it that such 2005 Bond or Bonds were actually lost, stolen or destroyed and of his or her ownership thereof, and upon furnishing the PDA and Registrar with indemnity satisfactory to them.

Section 18. Delivery of 2005 Bonds; Authorization to PDA Officials. The Board hereby accepts the proposal of the Bank dated December 12, 2005, to purchase the 2005 Senior Lien Bond. The 2005 Senior Lien Bond will be delivered to the Bank on the terms set forth in this resolution and in the Bank's proposal, including the payment of a loan fee of 1% of the principal amount of the 2005 Senior Lien Bond. The 2005 Junior Lien Bonds will be delivered to Phillip Leach and Virginia Leach, in accordance with the Purchase Agreement, for the purpose of financing the purchase of the Improvements on the terms and conditions provided in this resolution. The proper officials and agents of the PDA are hereby authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the 2005 Bonds as provided in this resolution.

Section 19. Severability. If any one or more of the covenants and agreements provided in this resolution to be performed on the part of the PDA 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 any 2005 Bonds.

Section 20. Effective Date. This resolution shall become effective upon its adoption as provided by law.

ADOPTED by the Board of Directors of the North Beach Public Development Authority,
Pacific County, Washington, at a regular meeting thereof held this 12 day of DECEMBER 2005.

NORTH BEACH PUBLIC DEVELOPMENT
AUTHORITY, PACIFIC COUNTY,
WASHINGTON

By



President, PDA Board

Attest:

Secretary, PDA Board

CERTIFICATE OF SECRETARY OF THE PDA

I DO HEREBY CERTIFY that I am the duly chosen, qualified and acting Secretary of the Board of Directors of the North Beach Public Development Authority, Pacific County, Washington (the "PDA"), and keeper of the records of the Board ; and

1. That the attached resolution is a true and correct copy of Resolution No. _____ of the Board (the "Resolution"), as finally passed at a regular meeting of the Board held on the ____ day of _____, 2005 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 and affixed the official seal of the PDA this _____ day of _____, 2005.

Secretary of the Board of Directors
North Beach Public Development Authority

(SEAL)

Table of Contents

	Page
Section 1. Definitions.....	2
Section 2. <u>Establishing the Domestic Water System; Plan of Improvements</u>	5
Section 3. Authorization and Description of 2005 Bonds	6
<u>Section 4. Registration</u>	7
Section 5. Prepayment.....	7
Section 6. Execution of 2005 Bonds	8
Section 7. Form of 2005 Bonds	8
Section 8. Revenue Fund; Rate Stabilization Account	15
Section 9. Senior Lien Bond Fund	16
Section 10. Junior Lien Bond Fund	18
Section 11. Covenants and Agreements.....	19
Section 12. Tax Covenants	21
Section 13. Adequacy of Revenues.....	21
Section 14. Defeasance	21
Section <u>15</u> . Issuance of Additional Bonds	22
Section <u>16</u> . Supplements and Amendments.....	24
Section 17. Lost or Destroyed Bonds.....	25
Section 18. Delivery of 2005 Bonds; Authorization to PDA Officials.....	25
Section 19. Severability	25
Section 20. Effective Date	25
Exhibit A Asset Distribution Agreement	

ASSET DISTRIBUTION AGREEMENT

THIS ASSET DISTRIBUTION AGREEMENT (this "Agreement") is made and entered into as of December ___, 2005, by North Beach Public Development Authority, Pacific County, Washington (the "NBPDA"), and Ocean Park Acquisitions LLC, a Washington limited liability company ("OPA LLC"). The NBPDA and the LLC are referred to collectively herein as the "Parties." Capitalized terms used herein are defined as set forth in Section 4.1.

RECITALS

- A. OPA LLC is acquiring all of the shares in Pacific Water Company ("PWC") pursuant to a Stock Purchase Agreement with Phillip Leach and Virginia Leach (the "PWC Transaction");
- B. OPA LLC is acquiring 90% of the shares in Ocean Park Water Company ("OPWC") pursuant to a Stock Purchase Agreement with Peter Christoson and Bonnie Christoson (the "OPWC Transaction");
- C. Upon the closing of the PWC Transaction and the OPWC Transaction, OPA LLC will own or control each of PWC and OPWC (together, the "Companies" and each a "Company");
- D. The Companies operate domestic water systems located in Pacific County, Washington (the "System" as defined in Section 4.1);
- E. NBPDA is a public development authority created by Pacific County pursuant to Resolution No. _____ of the Pacific County Commissioners under the authority of RCW Chapter 35.____ with the express purpose of owning and operating a domestic water system;
- F. Immediately after the closing of the PWC Transaction, OPA LLC desires to distribute to NBPDA all of the assets of PWC, to assume certain contractual obligations relating to the water system operated by PWC, and then OPA LLC shall dissolve PWC as soon thereafter as possible; and
- G. Immediately after the closing of the OPWC Transaction, OPA LLC desires to distribute to NBPDA all of the assets of OPWC, to assume certain contractual obligations relating to the water system operated by OPWC, and then OPA LLC shall dissolve OPWC and compensate the minority shareholders of OPWC as soon thereafter as possible.
- H. In consideration for OPA LLC's prompt distribution to NBPDA of the water system assets described herein, NBPDA shall pay OPA LLC for such assets, provided that OPA LLC completes the PWC and OPWC Transactions in accordance with the stock purchase agreement that OPA LLC has entered into.

INTENDING TO BE LEGALLY BOUND, and in consideration of the premises, the foregoing recitals, which shall be deemed a relevant part of this Agreement, and the mutual agreements contained herein, the receipt and legal sufficiency of which are hereby acknowledged, NBPDA and OPA LLC hereby agree as follows:

AGREEMENT

1. DISTRIBUTION OF ASSETS

1.1 Distribution of Operating Assets. Subject to the terms and conditions of this Agreement, OPA LLC shall distribute to NBPDA, and NBPDA shall accept from OPA LLC, all tangible and intangible assets of PWC (the "PWC Acquired Assets") as a result of the PWC Transaction and all tangible and intangible assets of OPWC (the "OPWC Acquired Assets") as a result of the OPWC Transaction, including the following (collectively, the "Acquired Assets"):

(a) all of each Company's Equipment, inventory and supplies and all warranties and guarantees, if any, express or implied, in connection with the Equipment, to the extent assignable;

(b) all of each Company's accounts payable and contracts being assumed and/or acquired by OPA LLC pursuant to the PWC Transaction and OPWC Transaction and those additional contracts, orders and commitments executed between the date hereof and the Closing that are entered into by each Company in the ordinary course of business (together, the "**Assumed Contracts**");

(c) all of each Company's prepaid accounts receivable ("**Accounts Receivable**") and rights to receive payment in the operation of its System;

(d) an original of all books, files, records, lists and proprietary information of each Company that relate to the System;

(e) all Proprietary Rights of each Company, together with any associated goodwill;

(f) all of each Company's customer lists, goodwill of the businesses as going concerns, other inventory, supplies, deposits on Equipment, prepaid expenses and other current assets of OPA LLC and/or each Company, if any, necessary for the operation of the System;

(g) the right to receive payment from clients under the Assumed Contracts for each Company;

(h) deeds, easements, leases, and/or any other interests in real property related in any way to the System and/or the Acquired Assets of each Company; and

(i) all cash, commercial paper, certificates of deposit and other bank deposits, treasury bills and other cash equivalents of OPA LLC and/or each Company.

1.2 Assumed Liabilities. In connection with the distribution, transfer, delivery and assignment of the Acquired Assets, upon execution and delivery of this Agreement, NBPDA will assume, pay, perform and discharge when due the following obligations of OPA LLC as the same shall exist on the date of each Closing:

(a) *Contracts.* All obligations under the Assumed Contracts arising and to be performed on or after the date of each Closing; and

(b) *Assumed Liabilities.* Liabilities to vendors, consultants, and other service providers pursuant to the Assumed Contracts.

1.4 Taxes. NBPDA shall pay all excise, transfer, sales and use taxes arising out of or in connection with the transaction effected pursuant to this Agreement.

2. ACQUISITION PRICE; CLOSINGS

2.1 Acquisition Price. In consideration of the distribution and transfer of the assets set forth herein and in documents delivered or to be delivered pursuant hereto, the NBPDA agrees to pay to or on the account of OPA LLC an aggregate amount of \$4,000,000 (the "**Acquisition Price**"); provided, however, that OPA LLC agrees to apply \$2,700,000 of the Acquisition Price upon the closing of the OPWC Transaction (reserving \$300,000 to pay minority shareholders of OPWC) and \$_____ [**This will be \$200,000 less the amount to be paid to Phillip and Virginia under the Real Estate Purchase and Sale Agreement**] of the Acquisition Price upon the closing of the PWC Transaction. The Acquisition Price for the OPWC Acquired Assets shall be paid in cash. The Acquisition Price for the PWC Assets shall be paid in cash (in the amount of \$_____) and by the issuance of revenue bonds in the aggregate amount of \$800,000.

2.2 Closings. With respect to the PWC Transaction, "Closing" shall have the meaning given such term in the stock purchase agreement entered into by OPA LLC to effect the PWC Transaction. With respect to the OPWC Transaction, "Closing" shall have the meaning given such term in the stock purchase agreement entered into by OPA LLC to effect the the OPWC Transaction.

2.3 OPA LLC's Obligations at the Closings. At each Closing, OPA LLC shall deliver to NBPDA the following validly executed documents and instruments:

(a) bill of sale for the Acquired Assets being distributed to NBPDA;

(b) validly executed assignments of all Assumed Contracts, together with as many required third party consents to such assignments;

(c) validly executed easement assignments and deeds necessary to convey and transfer the Acquired Assets; and

(d) such other instruments or documents necessary or desirable to complete the transaction contemplated herein.

2.4 NBPDA's Obligations at the Closings. At the Closing, NBPDA shall deliver to OPA LLC validly executed instruments and documents necessary or desirable to complete the transaction contemplated herein and pay the Acquisition Price as provided herein.

2.5 Dissolution Following Closings. Following the PWC Closing, OPA LLC shall promptly dissolve PWC in accordance with law. Following the OPWC Closing, OPA LLC shall compensate minority shareholders for interests in OPWC in accordance with law and then promptly dissolve OPWC in accordance with law. NBPDA shall pay all costs of dissolution.

3. GENERAL PROVISIONS

3.1 Transactional Expenses. NBPDA shall pay all fees and expenses incident to the negotiation, preparation, execution, delivery and performance hereof.

3.2 Entire Agreement; Waivers and Amendments. This Agreement, together with the exhibits and schedules hereto, constitutes the entire agreement of the parties with respect to the subject matter hereof. This Agreement may be amended or supplemented only by a written instrument signed by the party against whom the amendment or supplement is sought to be enforced. The party benefited by any condition or obligation may waive the same, but such waiver shall not be enforceable by another party unless made by written instrument signed by the waiving party.

3.3 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Washington applicable to agreements made and to be performed in Washington, exclusive of its conflict of law rules.

3.4 Successors; Assignability. Neither OPA LLC nor NBPDA may assign any of their rights or obligations hereunder without the consent of the other party. Any assignment made or purported to be made contrary to the provisions of this section shall be void and of no force or effect.

3.5 Counterparts. This Agreement may be executed in any number of counterparts and each such executed counterpart shall be deemed to be an original instrument, but all such executed counterparts together shall constitute one and the same instrument. One party may execute one or more counterparts other than that or those executed by another party, without thereby affecting the effectiveness of any such signatures.

3.6 Parties in Interest. Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any Person other than the parties to it and their respective permitted successors and assigns, nor is anything in this

Agreement intended to relieve or discharge any obligation of any third Person to any party hereto or give any third Person any right of subrogation or action over against any party hereto.

Section 4. INTERPRETATION OF THIS AGREEMENT

4.1 Terms Defined. In addition to the terms defined in the introduction and recitals to this Agreement, the following terms used in this Agreement shall have the meanings set forth below or in the location indicated:

Accounts Receivable shall have the meaning given in Section 1.1(c).

Acquisition Price shall have the meaning given in Section 2.1.

Assumed Contracts shall have the meaning given in Section 1.1(b).

Closing shall have the meaning given in Section 2.2.

Contract shall mean, with respect to the System, only those written agreements, contracts, leases, licenses, promissory notes, conditional sales contracts, indentures, mortgages, deeds of trust, commitments, undertakings, instruments or arrangements of any kind that were acquired and/or assumed by NBPDA pursuant to the PWC Transaction or OPWC Transaction or separately entered into or ratified by NBPDA. Without limiting the generality of the foregoing, any agreement, commitment, undertaking or arrangement of any kind with a Governmental Agency shall constitute a "Contract" whether it was entered into voluntarily or pursuant to applicable law or in settlement of a claim or possible claim by such Governmental Agency, or otherwise.

Equipment shall mean any machinery, tools, appliances, vehicles, furniture, fixtures, equipment, parts or tangible personal Property.

Governmental Agency shall mean any federal, state, local or foreign government or any political subdivision thereof or any department, commission, board, bureau, agency, court, panel or other instrumentality of any kind of any of the foregoing.

Person shall mean an individual, partnership, corporation, trust or unincorporated organization, or a Governmental Agency.

Property shall mean any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible, and wherever located, used in the System.

Proprietary Rights shall mean all trademarks, service marks, copyrights and trade names, and all applications for or registrations of any of the foregoing, marketing or proprietary designs, brochures, advertisements, concepts, literature, rights against other Persons in respect of the any of the foregoing and any other proprietary Properties used in the System.

System shall mean all water rights, easements, conditions, covenants and restrictions, water system plan(s), title, deeds, books, pipes, pumps, tanks and other appurtenances, records, data, tangible assets, inventory, and Intangible Property (as defined herein) of PWC and OPWC, together with the billing systems, including all software, software licenses, computer hardware, printers, printer software and hardware of the aforesaid Companies.

Tax shall mean, with respect to the System, any income, corporation, gross receipts, profits, gains, capital stock, capital duty, franchise, withholding social security, unemployment, disability, property, wealth, welfare, stamp, excise, occupation, sales, use, value added, alternative minimum, estimated or other similar tax (including any fee, assessment or other charge in the nature of or in lieu of any tax) imposed by any governmental entity (whether national, local, municipal or otherwise) or political subdivision thereof, and any interest, penalties, additions to tax or additional amounts in respect of the foregoing, and including any transferee or secondary liability in respect of any tax (whether imposed by law, contractual agreement or otherwise) and any liability in respect of any tax as a result of being a member of any affiliated, consolidated, combined, unitary or similar group, including any liability for taxes under Treas. Reg. § 1.1502-6 (or any similar provision of state, local or foreign law).

4.2 References. All terms such as “herein,” “hereby” or “hereunder” refer to this Agreement as a whole. The use of the terms “including,” “include” and “includes” followed by one or more examples is intended to be illustrative and shall not be deemed or construed to limit the scope of the classification or category to the examples listed.

4.3 Headings. The headings used in this Agreement are provided for convenience only and this Agreement shall be interpreted as though they did not appear herein.

(the remainder of this page has been intentionally left blank)

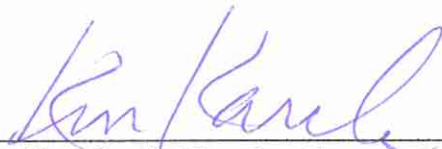
SIGNATURE PAGE — ASSET DISTRIBUTION AGREEMENT

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

OPA LLC


OCEAN PARK ACQUISITIONS OPA LLC,
a Washington limited liability company

By: North Beach Public Development
Authority
Its: Managing Member

By: 
Ken Karch, Vice President

NBPDA

NORTH BEACH PUBLIC DEVELOPMENT
AUTHORITY, a public development authority

By: 
R.D. Williams, President

REAL ESTATE PURCHASE AND SALE AGREEMENT

This Real Estate Purchase and Sale Agreement (this "Agreement") is made this _____ day of December, 2005, at Ocean Park, Washington, by and between PHILLIP LEACH and VIRGINIA LEACH, single persons who were formerly husband and wife (hereinafter the "Seller"), and NORTH BEACH PUBLIC DEVELOPMENT AUTHORITY, a public development authority created by Pacific County, Washington (hereinafter the "Purchaser"), for the sale and purchase of the real property located in Ocean Park, Pacific County, Washington, on the terms and conditions more fully described below:

TERMS OF SALE

1. Property to be Conveyed.

a. Seller agrees to sell and Purchaser agrees to purchase, upon the terms and conditions hereinafter set forth, certain real property located in Pacific County, Washington (hereinafter the "Property"), legally described as follows

Parcel 1: Lots 35 and 36, Rushlight Farm Estates, according to the plat thereof recorded in Volume H, Pages 91, 92 and 93 of Plats on file in the Office of the Auditor of Pacific County, Washington TOGETHER WITH an undivided 2/345th interest in Lot 28, Rushlight Manor Estates, according to the plat thereof recorded in Volume J, Pages 50, 51 and 52 of Plats on file in the Office of the Auditor of Pacific County, Washington; and

Parcel 2: The East 200 feet of Lot 9 of Rushton on the Bay, according to the plat recorded in Volume D-3, , Pages 182 and 183 of Plats, Pacific County, Washington; and

Parcel 3: The East 200 feet of Lot 10 of Rushton on the Bay according to the plat, recorded in Volume D-3, Pages 182 and 183 of Plats, Pacific County, Washington.

b. Property Included. The Property shall include the real property described above and all rights, privileges and easements appurtenant to the real property, including, without limitation, all minerals, oil, gas and other hydrocarbon substances on and under the real property, as well as all development rights, air rights, water, water rights, riparian rights, and water stock relating to the real property and any rights-of-way or other appurtenances used in

connection with the beneficial use and enjoyment of the real property, and all of Seller's right, title and interest in and to all roads and alleys adjoining or servicing the real property.

2. Purchase Price. The total purchase price for the Property is One Hundred One Thousand Nine Hundred and no/100ths Dollars (\$101,900.00) (the "Purchase Price").

3. Method of Payment. Purchaser agrees to pay the entire Purchase Price in cash at Closing (as defined below) including the below receipted for the Deposit (as defined below).

4. Earnest Money. Purchaser hereby deposits, and receipt by the Closing Agent (as defined below) is hereby acknowledged by Seller of Six Thousand and no/100ths Dollars (\$6,000.00) as evidenced by cashier's check delivered as an earnest money deposit (the "Deposit") which shall be applied towards the Purchase Price. The Deposit shall not be refundable except as provided in this Agreement. The Deposit shall be held in trust by Closing Agent for the benefit of the parties hereto and shall be disbursed in accordance with this Agreement.

5. Condition of Property. Purchaser has had opportunity to inspect the Property in its present condition, and acknowledges that Seller has made no representation or warranty concerning the physical condition of the Property or the uses to which it may be put other than set forth herein. Purchaser hereby accepts the property "as is."

6. Conveyance. Fee title to property shall be conveyed by Statutory Warranty Deed. Seller's title to the property at closing shall be good, marketable and free of all liens, monetary encumbrances or Defects (as defined below) at Closing. Rights reserved in federal patents or state deeds, building or use restrictions general to the area, other than government platting and subdivision requirements, utility easements not inconsistent with Purchaser's intended use, reserved oil or mining rights, and building or zoning regulations or provisions shall not be deemed Defects. The covenants of warranty in said deed shall not apply to any encumbrances assumed by Purchaser or to defects in title arising subsequent to Closing by, through or under any persons other than Seller herein.

7. Utilities. Purchaser does not intend to build a residence on the properties, and Seller has thus given no assurances regarding the availability of utility services to the Property.

8. Closing of Sale. The Closing Agent shall be Pacific County Title Co. or such other Closing Agent as Purchaser shall designate. This sale shall be closed on or before December 20, 2005 (the "Closing Date"). Purchaser and Seller shall deposit with the Closing Agent all instruments, documents and monies necessary to complete the sale in accordance with this Agreement.

9. FIRPTA-Tax Withholding at Closing. The Closing Agent is instructed to prepare a certification (PSMLA Form 22E, or equivalent) that Seller is not a "foreign person" within the meaning of the Foreign Investment in Real Property Tax Act. Seller agrees to sign this certification. If Seller is a foreign person, and this transaction is not otherwise exempt from FIRPTA, Closing Agent is instructed to withhold and pay the required amount to the Internal Revenue Service.

10. Possession. Purchaser shall be entitled to possession on Closing. "Closing" means the date on which all documents are recorded and the sale proceeds are available to Seller. Possession shall be deemed given when Seller has vacated the Property and delivered keys to the same to Purchaser.

11. Default and Attorneys' Fees.

a. If either party defaults hereunder, the other party may seek specific performance of this Agreement, damages or rescission. If Seller defaults, Purchaser shall be entitled to seek return of the Deposit. If Purchaser defaults, Seller shall have the right to receive the Deposit from escrow and retain it as liquidated damages. In the alternative, Seller may elect to recover actual damages and to have the Deposit held in escrow as security for Seller's claim.

b. In the event that either the Purchaser or Seller shall file suit to enforce any rights hereunder, the successful party shall be entitled to court costs and a reasonable attorneys' fee.

12. Title Insurance. Seller authorizes the Closing Agent at Seller's expense, to immediately apply for a preliminary commitment for an ALTA owner's standard form policy of title insurance to be issued by Pacific County Title Company. Said preliminary commitment, and the title policy to be issued shall not contain monetary encumbrances or exceptions that would materially restrict Purchaser's use of the Property ("Defects") and shall include the General Exclusions and Exceptions in said standard form. If any Defect cannot be eliminated by Seller within two (2) days prior to the Closing Date called for herein, the Deposit shall, unless Purchaser elects to waive such Defect, be refunded to the Purchaser, less any costs incurred or advanced by Closing Agent for Purchaser, and this Agreement shall thereupon be terminated.

13. Closing Costs. All closing and other costs incidental to this transaction, including title insurance premium and real estate excise taxes, shall be paid by Purchaser.

14. Proration. Seller will pay all real and personal property taxes, including all interest and penalties, due and payable through the date of Closing. Because Buyer is exempt from property taxes, no tax proration for ad valorem property taxes will be required. Local improvement district and/or special assessment installment payments shall be pro-rated as of Closing. .

15. Environmental Matters. Seller warrants that (1) during his ownership of the Property, there has not been any production, disposal or storage of any Hazardous Substances (as defined below) on the Property; (2) Seller is not presently aware of any information which would indicate the presence of Hazardous Substances on the Property or the migration thereof from or to adjoining property; and (3) there is no pending or threatened proceeding or inquiry by any governmental authority with respect to the presence of Hazardous Substances on the Property. For purposes of this agreement, "Hazardous Substances" shall include pollutants or substances

defined as "hazardous waste," "hazardous substances," "hazardous materials," "pollutants," "contaminants" or "toxic substances" in the Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. 9601, et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986 (PL 99-499); the Hazardous Materials Transportation Act, 49 U.S.C. 1801, et seq.; the Toxic Substance Control Act, 15 U.S.C. 2601, et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. 6901, et seq.; the Clean Water Act, 33 U.S.C. 1251, et seq.; the Washington State Environmental Policy Act, RCW 43.21, et seq.; the Water Pollution Control Act, RCW 90.48.010, et seq.; the Hazardous Waste Management Statute, RCW 70.105, et seq.; the Toxic Substance Control Act, RCW 70.105B, et seq.; and the Model Toxics Control Act, RCW 70.105D, et seq.; and in the rules or regulations adopted and guidelines promulgated pursuant to said laws.

16. No Brokerage. Purchaser and Seller warrant to each other that they have dealt with no real estate broker in connection with this sale and that no broker is entitled to any commission on account of this transaction. In the event any other claims for real estate commissions, fees or compensation arise in connection with this transaction, the party so incurring or causing such claims shall indemnify, defend and hold harmless the other party from any loss or damage, including attorneys' fees, which said other party suffers because of said claims.

17. Time Is of the Essence. Time is of the essence of this Agreement.

18. Entire Agreement. There are no verbal or other agreements which modify or affect this Agreement. THIS AGREEMENT CONSTITUTES THE FULL UNDERSTANDING BETWEEN THE SELLER AND PURCHASER. Any change, amendment or modification to this Agreement must be in writing and executed by all the parties. Each party agrees to perform any further acts and to execute and deliver any documents which may be reasonably required to carry out the provisions and interests of the parties.

19. Successors Bound. The provisions of this Agreement shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and assigns.

20. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

21. Counterparts. This Agreement may be executed in more than one counterpart, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

22. Severability. If any term or provision of this Agreement shall, to any extent, be held invalid or unenforceable, the remaining terms and provisions of this Agreement shall not be affected thereby, but each remaining term and provision shall be valid and enforced to the fullest extent permitted by law.

23. Captions. The captions of this Agreement are inserted solely for convenience of reference only and do not define, describe or limit the scope or intent of this Agreement or any term hereof.

24. Survival of Terms. The terms and provision of this Agreement shall survive the Closing and shall remain in full force and effect thereafter.

IN WITNESS WHEREOF, this agreement is signed on the date first above written.

SELLERS:

Phillip Leach, as his separate estate

Virginia Leach, as her separate estate

Address: _____

Telephone: _____

PURCHASER:

NORTH BEACH PUBLIC
DEVELOPMENT AUTHORITY

By: R. Williams
President, Board of Commissioners

DECEMBER 12, 2005

Address: 2101 Bay Ave
Ocean Park, WA 98690

Telephone: 360.665.5371