

HARTSTENE POINTE WATER - SEWER DISTRICT,
MASON COUNTY, WASHINGTON

WATER AND SEWER REVENUE BOND ANTICIPATION NOTE, 2011

RESOLUTION NO. 2011-08

A RESOLUTION of the Hartstene Pointe Water - Sewer District, Mason County, Washington, providing for the issuance and sale of a revenue bond anticipation note for the purpose of providing interim financing for improvements to the water system of the District in the principal amount of not to exceed \$738,000; providing the form, terms and maturity of said note; creating a special fund for the payment of said note; and approving the sale of the note.

APPROVED ON

OCTOBER 27, 2011

PREPARED BY:

K&L GATES LLP

Seattle, Washington

HARTSTENE POINTE WATER - SEWER DISTRICT, MASON COUNTY, WASHINGTON
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* This table of contents and the cover page are not part of this resolution; it is included for convenience of the reader only.

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WHEREAS, the Hartstene Pointe Water - Sewer District, Mason County, Washington (the "District") operates a combined water and sewer system (the "System") for the purposes of furnishing the residents of that area with water and sewer services; and

• WHEREAS, the District has determined that it would be beneficial to design and construct a water pump station and install water meters at each lot in Hartstene Pointe (the "Project") for the benefit of the District and the residents using the System; and

WHEREAS, the Project is to be funded, in part, by a loan secured by a revenue bond, (hereinafter the "Bond") from the United States of America acting through its Department of Agriculture (the "Government"), as evidenced in a Letter of Conditions from the Government, originally dated January 5, 2011, as such Letter has been and may be amended from time to time; and

WHEREAS, the Project requires interim financing pending receipt of the loan and the issuance and sale of a revenue bond to the Government; and

WHEREAS, the District has received the offer of Cashmere Valley Bank, Cashmere, Washington (the "Bank"), to purchase a revenue bond anticipation note of the District in the principal amount of not to exceed \$738,000 under the terms and conditions set forth in such offer and herein and at the price set forth in such offer;

NOW, THEREFORE BE IT RESOLVED, THE BOARD OF COMMISSIONERS OF HARTSTENE POINTE WATER - SEWER DISTRICT, MASON COUNTY, WASHINGTON, as follows:

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

Authorized Officer means the President of the Board, or any other designee of the President.

Bank means Cashmere Valley Bank, Cashmere, Washington, and any business successor thereto.

Board means the Board of Commissioners of the District, the general governing body of the District as the same shall be duly and regularly constituted from time to time.

Bond means the revenue bond of the District to be issued to the Government for the purpose of providing permanent financing for the Project.

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

Construction Fund means the Fund of the District designated "Hartstene Pointe Capital Project Fund" into which proceeds of Draws shall be deposited to pay the costs of the Project.

Costs of Maintenance and Operation means all reasonable expenses incurred by the District in accordance with generally accepted accounting principles as applicable to the District in causing the System to be operated and maintained in good repair, working order and condition, but shall not include any payments for debt service or into any reserve accounts for bonds, depreciation or taxes levied or imposed by the District or payments to the District in lieu of taxes, or capital additions or capital replacements to the System.

District means the Hartstene Pointe Water - Sewer District, Mason County, Washington, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of Washington.

Draw or ***Draws*** means incremental draws on the Note requested by the District and approved by the Government and the Bank.

Government means the United States of America acting through its Department of Agriculture.

Interest Rate means a variable rate equal to 60% of the Prime Rate, not to exceed 2.50%.

Letter of Conditions means the Letter of Conditions from the Government, dated January 5, 2011, as the same has been amended and may be amended in the future.

Loan Draw Record means the administrative record kept by the Bank to record the date and dollar amounts of the Draws on the Note made by the District.

Maturity Date means the day that is three years from the date of issuance and delivery of the Note.

Note means the Hartstene Pointe Water - Sewer District, Mason County, Washington, Water and Sewer Revenue Bond Anticipation Note, 2011, the sale and issuance of which is authorized herein.

Note Repayment Fund means the bond debt service fund of the District designated as the "2011 Water and Sewer Revenue Bond Anticipation Note Fund" and maintained in the office of the Treasurer as authorized to be established by this resolution.

Note Registrar, initially, means the Treasurer. At any time following the issuance of the Note, however, the Treasurer may determine to appoint a different Note Registrar, including, but

not limited to the fiscal agency of the State of Washington. The term *Note Registrar* also shall include any successor Note Registrar appointed by the Treasurer as permitted by law.

Outstanding Principal Balance of the Note means on any particular day the aggregate of all funds that the District has drawn from the Bank under the Note to that day, less the aggregate of all principal payments on the Note made by the District on or before that day.

Prime Rate means the rate of interest as published in the printed edition of the *Wall Street Journal*. Any change in the Prime Rate will take effect at the opening of business of the day specified in the public announcement of a change in the Prime Rate.

Project means the betterments to the water system of the District, approved by Resolution No. 2011-07 of the District.

Proposal means the proposal from the Bank, dated September 8, 2011, to purchase the Note.

Revenue Fund means the District's "Hartstene Pointe Water-Sewer District Fund Number 690 005 010" into which all of the Revenue of the System is pledged to be deposited.

Revenue of the System or *Revenue* means all earnings, revenue and moneys received by the District from or on account of the operation of the System, including the income from investments of the money in the Revenue Fund or from any other investment thereof, except the income from investments irrevocably pledged to the payment of any other Water and Sewer Revenue Bonds pursuant to a plan of retirement or refunding. The words *Revenue of the System* also shall include any federal or state reimbursements of operating expenses to the extent such expenses are included as Costs of Maintenance and Operation of the System. *Revenue of the System* does not include proceeds of taxes levied and collected by the District.

System means the water and sewer supply and distribution system, as the same may be added to, improved and extended for as long as the Note is outstanding. The term *System* also shall include any other utility that may in the future be combined with the System.

Treasurer means the Mason County Treasurer, as *ex officio* treasurer of the District, or any successor to the functions of the Treasurer.

Rules of Interpretation. In this resolution, unless the context otherwise requires:

(a) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term “hereafter” shall mean after, and the term “heretofore” shall mean before, the date of this resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect; and

(e) All references herein to “articles,” “sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Authorization of Bond. The District hereby authorizes the issuance of a revenue bond of the District, to be issued to the Government under the terms and conditions set forth in the Letter of Conditions, as the same has been amended and may be amended in the future (the "Bond"). The Bond shall be issued in the principal amount of not to exceed \$738,000, shall be payable solely from the District's revenue bond redemption fund and net Revenue of the System deposited therein and shall be payable with interest at the rate set forth in said Letter of Conditions. The exact date, form, terms and maturities of the Bond shall be as hereafter fixed by resolution of the District.

Section 3. Authorization of the Note. For the purpose of providing interim financing of the Project pending its completion and the issuance of the Bond, the Board hereby authorizes the issuance and sale of its revenue bond anticipation note in the aggregate principal amount of not to exceed \$738,000 (the "Note"). The Note shall be designated as the "Hartstene Pointe Water - Sewer District, Mason County, Washington, Water and Sewer Revenue Bond Anticipation Note, 2011," shall be dated as of the date of its original issue, shall be issued in fully registered form in the denomination of \$738,000; provided that the principal amount due and owing thereunder shall be measured by the total Draws made, as evidenced by the Loan Draw Record, shall be numbered N-1, shall bear interest on unpaid principal from the date of each Draw (hereinafter described) thereunder at the Interest Rate. Interest on the Note shall be calculated on the basis of actual days elapsed based on a 365-day year. Interest on the note shall be payable semiannually on June 1 and December 1, commencing on June 1, 2012. The District may make Draws on the Note to pay semiannual interest, and such Draws shall be added to outstanding principal. Principal of and all accrued interest on the Note shall be due and payable at maturity of the Note three years from the date of issuance of the Note (the "Maturity Date").

The Note shall be in registered form as to both principal and interest, and the Treasurer shall be the "Note Registrar."

The Note is not intended to be a revolving obligation; the principal amount outstanding under the Note may never exceed \$738,000, and principal amounts repaid may not be reborrowed. The available principal of the Note shall be disbursed as borrowings from time to time by the Bank upon request from an Authorized Officer of the District, subject to approval by the Bank and the Government (each such disbursement herein referred to as a "Draw"), as provided in Section 7 of this resolution. Draws may be made on any business day in an amount greater than or equal to \$25,000. A draw request must be accompanied by an approval of the draw amount from an authorized representative of the Government. Draw requests received by the Bank by 11:00 A.M. will fund the same day. Draws shall be recorded in such form as the District, the Treasurer and the Bank may agree. Interest on each Draw shall accrue from the date of the Draw and shall be computed on the basis as described above on the principal amount of the Draw outstanding for the actual number of days the principal amount of the Draw is outstanding.

The proceeds of any Draw shall be deposited into the Construction Fund and shall be expended solely to pay the costs of the Project and financing costs.

The Note shall be an obligation only of the District and shall be payable and secured as provided herein. The Note shall not be deemed to constitute a general obligation of the District.

Both principal of and interest on the Note shall be payable in lawful money of the United States of America. Upon the final payment of all principal and interest on the Note, the Note shall be surrendered to the Note Registrar for cancellation.

Section 4. Registration and Payments. The Treasurer is hereby requested to act as authenticating agent, paying agent and registrar for the Note (collectively, the “Note Registrar”). Upon final payment of the Note, the Note shall be submitted to the Note Registrar for cancellation and surrender. The Note shall not be transferable, except in whole (i) to a successor to the business or assets of the Bank or (ii) to a “qualified institutional buyer” as such is defined in Rule 144A of the Securities Act of 1933.

Section 5. Prepayment. The Note may be prepaid in whole or in part at any time without penalty upon fifteen days’ prior notice to the Bank, with prepayments to apply first to interest and then to principal.

Section 6. Form of Note. The Note shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. N-1 \$738,000

(Drawn as provided herein)

STATE OF WASHINGTON

HARTSTENE POINTE WATER - SEWER DISTRICT, MASON COUNTY, WASHINGTON
WATER AND SEWER REVENUE BOND ANTICIPATION NOTE, 2011

INTEREST RATE: A variable rate which is equal to 60% of the Prime Rate, not to exceed 2.50%

REGISTERED OWNER: CASHMERE VALLEY BANK
Cashmere, Washington

TAXPAYER ID: _____

PRINCIPAL AMOUNT: SEVEN HUNDRED THIRTY-EIGHT THOUSAND AND
NO/100 DOLLARS
(Drawn as provided herein)

MATURITY DATE: _____, 2014

The Hartstene Pointe Water - Sewer District, Mason County, Washington (the “District”), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, but solely from the sources identified herein, on the Maturity Date the Principal Amount, together with interest thereon at the Interest Rate. Interest shall be payable semiannually on each June 1 and December 1. Both principal of and

interest on this note are payable in lawful money of the United States of America. Interest shall be calculated on the basis of a year of 365 days and actual days elapsed. Both principal of and interest on this note, are payable out of the special fund of the District known as the "2011 Water and Sewer Revenue Bond Anticipation Note Fund" (the "Note Repayment Fund"), established pursuant to Resolution No. 2011-08 of the District's Board of Commissioners, adopted on October 27, 2011 (the "Note Resolution"). The definitions contained in the Note Resolution shall apply to capitalized terms contained herein. Both principal of and interest on this note are payable in lawful money of the United States of America. Installments of the principal of and interest on this note shall be paid by check or draft of the Mason County Treasurer (the "Note Registrar") mailed on the date such principal and interest is due or by electronic funds transfer made on the date such interest is due to the registered owner or nominee at the address appearing on the Note Register. Upon final payment of all installments of principal and interest thereon, this note shall be submitted to the Note Registrar for cancellation and surrender.

The District hereby irrevocably covenants and agrees with the Registered Owner of this note that it will keep and perform all the covenants of this note and of the Note Resolution to be by it kept and performed. Reference is hereby made to the Note Resolution for a complete statement of such covenants and for the definition of capitalized terms used herein.

This note is issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and the Note Resolution, for the purpose of providing interim financing for the costs of improvements to the water and sewer system of the District. This note is issued in anticipation of the issuance of a revenue bond (the "Bond") authorized by the District.

This note is a special obligation of the District and is payable solely from the Note Repayment Fund of the District into which the District has covenanted and agreed to deposit the proceeds of the Bond, a refunding note, grants, if any received by the District for the Project, or unencumbered funds remaining in the Construction Fund after final acceptance, and, to the extent necessary, Revenues of the System in an amount sufficient to pay the principal of and interest on this note as the same becomes due.

This note is not general obligation of the District. The District hereby covenants and agrees with the owner and holder of this note that it will keep and perform all the covenants of this note and the Note Resolution.

This note may be prepaid at any time, in whole or in part, without penalty, upon fifteen days' prior notice to the Bank, with prepayments to apply first to interest and then to principal.

This note is not a "private activity bond." The District has designated this note as a qualified tax exempt obligation for investment by financial institutions pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended.

This note shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Note Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Treasurer as Note Registrar.

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened, been done and performed precedent to and in the issuance of this note have happened, been done and performed and that the issuance of this note does not violate any constitutional, statutory or other limitation upon the amount of indebtedness that the District may incur.

IN WITNESS WHEREOF, Hartstene Pointe Water - Sewer District, Mason County, Washington, has caused this note to be executed by the manual or facsimile signature of the President of its Board of Commissioners and to be attested by the manual or facsimile signature of the Secretary of its Board of Commissioners as of this ____ day of _____, 2011.

HARTSTENE POINTE WATER - SEWER DISTRICT, MASON COUNTY, WASHINGTON

/s/ manual or facsimile signature
Chair, Board of Commissioners

ATTEST:

/s/ manual signature
Secretary, Board of Commissioners

The Note Registrar's Certificate of Authentication on the Note shall be in substantially the following form:

CERTIFICATE OF AUTHENTICATION

This note is the Note described in the within-mentioned Note Resolution and is the Water and Sewer Revenue Bond Anticipation Note, 2011 of the Hartstene Pointe Water - Sewer District, Mason County, Washington, dated _____, 2011.

By _____
Mason County Treasurer,
As Note Registrar

Section 6. Execution of Note. The Note shall be executed on behalf of the District with the manual or facsimile signatures of the President and Secretary of the Board of Commissioners. The Note shall not be valid or obligatory for any purpose or entitled to the benefits of this resolution unless the Registration Certificate in the form hereinbefore recited has manually been executed by or on behalf of the Note Registrar.

In case either of the officers who shall have executed the Note shall cease to be an officer or officers of the District before the Note shall have been authenticated or delivered by the Note Registrar, or issued by the District, the Note may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the District as though those who signed the same had continued to be such officers of the District. The Note may also be signed and attested on behalf of the District by such persons who are at the actual date of delivery of such Note are the proper officers of the District although at the original date of such Note any such person shall not have been such officer of the District.

Section 7. Application of Note Proceeds. The money derived from Draws shall be deposited in the District's Construction Fund and shall be expended solely to pay costs of the Project and costs of issuing and delivering the Note, as authorized herein. Following the execution and delivery of the Note, an Authorized Officer of the District shall notify the Bank in writing each time that a draw is required to pay costs of the Project or costs of issuance of the Note, subject to the Bank's and the Government's approval. A request for a Draw may be made in writing by an Authorized Officer in any manner approved by the Bank and the Authorized Officer. The Bank will then notify the Treasurer and the District of its intent to wire transfer a Draw or pay by check (including the dollar amount of the Draw and the date on which the Draw amount will be wired or paid by check to the Treasurer for deposit into the Construction Fund).

It is anticipated that Draws will be on no more than a monthly basis. The Draws under the Note shall be used, together with other moneys on deposit therein and available therefor, for the undertaking of the Project and for paying all expenses incidental thereto (including but not limited to costs of issuance of the Note, engineering, financing, legal or any other incidental costs) and for repaying any advances heretofore or hereafter made on account of such costs or for redeeming the Note. Money on deposit in the Construction Fund may be invested at the request of the District in any legal investment for District funds, and interest earnings shall be credited to the Construction Fund.

Section 8. Note Redemption Fund; Revenue Fund and Priority of Application of Revenue of the System. There has previously been established in the office of the Treasurer a special fund of the District designated as the Revenue Fund. Notwithstanding the foregoing, the Treasurer may maintain such separate funds and accounts in such names and under such additional designations as shall be required to comply with the uniform system of accounting established by the State Auditor from time to time. All Revenue of the System shall be deposited in the Revenue Fund.

On or prior to the maturity of the Note, the Treasurer shall create a fund or account of the District (the "Note Repayment Fund") for the purpose into which the proceeds of the Bond, a refunding note or Revenue of the System from the Revenue Fund shall be deposited. The District hereby covenants that it will issue the Bond or a refunding note on or prior to the maturity of the Note in an amount sufficient, together with available Revenue of the System, to pay and redeem the Note, including all unpaid principal and interest.

Section 9. Tax Covenants; Special Designation. The District hereby covenants that it will not make any use of the proceeds of sale of the Note or any other funds of the District that

may be deemed to be proceeds of the Note pursuant to Section 148 of the Code that will cause the Note to be an “arbitrage bond” within the meaning of said section and said regulations. The District will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Note) and the applicable Regulations thereunder throughout the term of the Note.

The District further covenants that it will not take any action or permit any action to be taken that would cause the Note to constitute a “private activity bond” under Section 141 of the Code.

The District hereby designates the Note as a “qualified tax-exempt obligation” under Section 265(b)(3) of the Code for banks, thrift institutions and other financial institutions. The District does not anticipate issuing more than \$10,000,000 in qualified tax-exempt obligations during 2011 (excluding obligations permitted by the Code to be excluded for purposes of the District’s qualification as a qualified small issuer).

Section 10. Delivery of the Note. The Proposal of the Bank to purchase the Note on the terms specified in this resolution is hereby in all respects accepted and approved. The proper District officials are hereby authorized and directed to do everything necessary for the prompt execution and delivery of the Note to the Bank and for the proper application and use of the proceeds of Draws. The Bank will charge a loan fee of \$1,845 and will withhold that amount from the proceeds of the first Draw.

Section 11. Severability. If any one or more of the covenants or agreements provided in this resolution to be performed on the part of the District shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants

and agreements of this resolution and shall in no way affect the validity of the other provisions of this Resolution or of the Note.

Section 12. Effective Date. This resolution shall become effective immediately upon its passage and approval.

PASSED AND APPROVED by the Board of Commissioners of the Hartstene Pointe Water Sewer District, Mason County, Washington, at a regular meeting thereof and APPROVED by the Board this 27th day of October, 2011.


HARTSTENE POINTE WATER - SEWER
DISTRICT, MASON COUNTY,
WASHINGTON

By: 
Chair and Commissioner

By: 
Commissioner

By: 
Commissioner

ATTEST:


Secretary


CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners (the "Board") of Hartstene Pointe Water - Sewer District, Mason County, Washington (herein called the "District"), DO HEREBY CERTIFY:

1. That the attached Resolution numbered 2011-08 (herein called the "Resolution") is a true and correct copy of a Resolution of the District as passed at a meeting of the District Board of the District held on the 27th day of October, 2011, 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 legal quorum was present throughout the meeting and a legally sufficient number of members of the Board voted in the proper manner for the adoption of the Resolution; that all other requirements and proceedings incident to the proper adoption of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 27th day of October, 2011.


Secretary, Board of Commissioners