

HARTSTENE POINTE WATER-SEWER DISTRICT
MASON COUNTY, WASHINGTON

WATER REVENUE BOND, 2012

\$601,900

RESOLUTION NO. 2012-05

- A RESOLUTION of the Hartstene Pointe Water-Sewer District, Mason County, Washington, authorizing the issuance of a water revenue bond of the District in the aggregate principal amount of \$601,900 to provide permanent financing for the cost of certain additions and betterments to the water system of the District; fixing the date, form, terms, maturity and covenants of such bond; reserving the right to issue future revenue bonds on a parity with such bond upon compliance with certain conditions; and authorizing the sale of the bond to the United States of America Acting Through the United States Department of Agriculture, Rural Development.

APPROVED ON AUGUST 23, 2012

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HARTSTENE POINTE WATER-SEWER DISTRICT,
MASON COUNTY, WASHINGTON
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HARTSTENE POINTE WATER-SEWER DISTRICT,
MASON COUNTY, WASHINGTON
RESOLUTION NO. 2012-05

A RESOLUTION of the Hartstene Pointe Water-Sewer District, Mason County, Washington, authorizing the issuance of a water revenue bond of the District in the aggregate principal amount of \$601,900 to provide permanent financing for the cost of certain additions and betterments to the water system of the District; fixing the date, form, terms, maturity and covenants of such bond; reserving the right to issue future revenue bonds on a parity with such bond upon compliance with certain conditions; and authorizing the sale of the bond to the United States of America Acting Through the United States Department of Agriculture, Rural Development.

WHEREAS, the Hartstene Pointe Water-Sewer District, Mason County, Washington (the “District”) operates a water supply and distribution system (hereinafter further defined as the “System”); and

WHEREAS, the District has authorized the undertaking of additions and betterments to and extensions to the System (the “Project”); and

WHEREAS, pursuant to Resolution No. 2011-08 of the District, adopted on October 27, 2011 (the “Note Resolution”), the District issued its Revenue Bond Anticipation Note, 2011, in the principal amount of not to exceed \$738,000 (the “Note”), to establish a line of credit with Cashmere Valley Bank to provide interim financing for costs of the Project; and

WHEREAS, the Project has been substantially completed, and the District has satisfied the conditions for the Government’s loan for the Project and wishes now to authorize issuance to the Government of the District’s water revenue bond in the principal amount of \$601,900 (the “Bond”) to secure the loan and to pay and redeem the Note and to pay certain final costs of the Project; and

WHEREAS, other than the Note, the District has no outstanding obligations secured by a pledge of revenues of the System; and

WHEREAS, the United States of America, acting through its Department of Agriculture, Rural Development (the "Government") has agreed to purchase the Bond pursuant to its Letter of Conditions dated January 5, 2011;

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

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

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

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 District's Water Revenue Bond, 2012, authorized to be issued by this resolution.

Bond Fund means the District's Water Revenue Bond Fund No. 690-005-060 maintained by the Treasurer for the payment of debt service on Parity Bonds.

Bond Register means the books or records maintained by the Bond Registrar containing the name and mailing address of the owner of the Bond.

Bond Registrar means the Treasurer of the District, or the successor to the duties of such office.

Construction Fund means the capital facilities improvement fund of the District maintained by the Treasurer 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.

Debt Service Reserve Fund means the District's "Reserve and Asset Management Fund No. 690-005-070" created for the purpose of securing the payment of principal of and interest on Parity Bonds.

Debt Service Reserve Fund Requirement means, initially, an amount equal to at least one annual loan payment that is funded by monthly installments of approximately \$327.75 (equal to 1/12th of 10% of the annual loan payment amount) so that the balance on hand in the Debt Service Reserve Fund within ten years or until the balance is equal to one annual loan payment. Upon the issuance of Future Parity Bonds, the Debt Service Reserve Fund Requirement shall be increased to an amount not less than one year's debt service on all outstanding Parity Bonds, to be paid and accumulated in the Debt Service Reserve Fund as provided in Sections 5 and 6 of this resolution.

District means 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.

Future Parity Bonds means any revenue bonds of the District issued after the date of the issuance of the Bond and having a lien upon the money in the Revenue Fund for the payment of the principal thereof and interest thereon equal to the lien upon the money in such fund for the payment of the principal of and interest on the Bond.

Government means the United States of America Acting Through the United States Department of Agriculture.

Net Proceeds, when used with reference to the Bond, shall mean the face amount of the Bond, plus accrued interest and original issue premium, if any, and less original issue discount and proceeds deposited into the Debt Service Reserve Fund, if any.

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

Note means the Revenue Bond Anticipation Note, 2011, issued in the principal amount of not to exceed \$738,000, pursuant to the Note Resolution.

Note Fund means the Note Redemption Fund authorized to be created by the Note Resolution.

Note Resolution means Resolution No. 2011-08 adopted by the District on October 27, 2011, authorizing the issuance of the Note.

Parity Bonds means the Bond and any Future Parity Bonds.

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

Registered Owner means the person named as the registered owner of the Bond in the Bond Register.

Revenue Fund means the District's "Hartstene Pointe Water-Sewer District Fund No. 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 thereof, except the income from investments irrevocably pledged to the payment of any other water 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 supply and distribution system, as the same may be added to, improved and extended for as long as the Bond 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. For the purpose of providing permanent financing for the Project and paying costs of issuance of the Bond, the District shall now issue and sell its Water Revenue Bond (the "Bond") in the aggregate principal amount of \$601,900.

Section 3. Description of Bond. The Bond shall be designated "Hartstene Pointe Water-Sewer District, Mason County, Washington, Water Revenue Bond, 2012," shall be dated as of the date of delivery thereof to the Government, as the initial purchaser, shall be numbered R-1, shall be in the denomination of \$601,900, shall be fully registered, shall bear interest from the date of its issuance on the unpaid principal balance thereof at the rate of 2.75% per annum and shall be amortized over a 20-year period and shall be repaid in semiannual installments of principal and interest in a semiannual amortization factor of 32.67, which provides for a semiannual payment of \$19,665, payable commencing six months following the date of the Bond and semiannually thereafter, with the final installment of principal and interest due at maturity and shall mature on the day which is one day less than 20 years from the date of issuance of the Bond.

Payments shall be applied first to interest and then to principal, and interest shall accrue on the basis of a 365-day year.

Both principal of and interest on the Bond shall be payable in lawful money of the United States of America to the owner or owners thereof at the address appearing on the registration books of the District maintained by the Bond Registrar; provided, however, that as long as Government is the owner and holder of the Bond, the Treasurer shall withdraw the amount required to make payments on the Bond directly to the Government office serving the District. The Bond shall be payable solely from the Revenue of the System and shall not be a general obligation of the District.

The Bond shall be registered as to both principal and interest as long as any of the installments of the Bond remain unpaid, and the District shall maintain in the office of the Treasurer books for the registration and transfer of the Bond. No transfer of the Bond so registered shall be valid unless made on said books upon the written request of the registered owner or his duly authorized agent.

Section 4. Prepayment. To the extent the District's scheduled principal and interest payment obligation on the Bond is current (or will be made current upon such payment), the District may make payments to the Registered Owner, on any Installment Payment Date, that are in addition to the regularly scheduled payments of principal and interest on the Bond. The amount of such extra payment shall be applied first to interest on the Bond accrued to the date of receipt of such extra payment, and shall be applied second to the outstanding principal of the Bond. After such extra payment is received by the Registered Owner, the amount of the annual installments of principal and interest on the Bond shall remain unchanged but shall be recalculated to reflect the reduction in the outstanding principal balance of the Bond and the resulting increase in the portion of each future installment payment credited to the principal of the Bond. The final Installment Payment Date of the Bond, and the amount payable on such date, shall be adjusted to reflect such extra payment and the increased amount of future installment payments that is applied to principal. For so long as the Government is the registered owner of the Bond, the District agrees not to defease the Bond.

Section 5. Revenue Fund and Priority of Application of Revenue of the System.

(a) *Revenue Fund.* There has previously been established in the office of the Treasurer a special fund of the District designated as the Hartstene Pointe Water-Sewer District Fund No. 690-005-010 (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.

(b) *Priority of Application of Revenue of the System.* The Revenue Fund shall be held separate and apart from all other funds and accounts of the District, and the Revenue of the System deposited in such 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 of the System;

Second, to pay the interest on any Parity Bonds;

Third, to pay the principal or sinking fund for Parity Bonds;

Fourth, to make all payments required to be made into the Debt Service Reserve Fund to establish and maintain the Debt Service Reserve Fund Requirement;

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

Sixth, to retire by redemption or purchase any outstanding revenue bonds or revenue warrants of the District, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful District purposes.

Section 6. Bond Fund and Debt Service Reserve Fund. There has been previously created in the office of the Treasurer a special fund of the District known as the Revenue Bond Fund No. 690-005-060 (the "Bond Fund"). There has been previously created in the office of the Treasurer a special fund of the District known as the Hartstene Pointe Reserve and Asset Management Fund No. 690-005-070 (the "Debt Service Reserve Fund").

(a) *Payments into Bond Fund.* The Bond Fund shall be maintained for the purpose of paying the principal of and interest on the Bond and any Future Parity Bonds.

As long as any Parity Bonds remain outstanding, the District hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Bond Fund those amounts necessary, together with such other funds as are on hand and available in the Bond Fund, to pay the interest or principal and interest next coming due on Parity Bonds. Such payments from the Revenue Fund to the Bond Fund shall be made in a fixed amount without regard to any fixed proportion following the closing and delivery of each Parity Bond on or before each date on which an installment of interest or principal and interest falls due on the Parity Bond equal to the installment of interest or principal and interest.

(b) *Withdrawals from the Bond Fund.* On or prior to each day on which a payment of principal of and/or interest on any Parity Bond is due and payable, the Treasurer shall withdraw from the Bond Fund and remit to the Government the amount required to make such payment.

(c) *Payments into Debt Service Reserve Fund.* The Debt Service Reserve Fund shall be maintained for the purpose of securing the payment of the principal of and interest on Parity Bonds. The District hereby covenants and agrees that commencing one month from the date of issuance and delivery of the Bond and monthly thereafter, it will set aside and pay into the Debt Service Reserve Fund installments of approximately \$327.75 (equal to 1/12th of 10% of the annual loan payment amount) so that the balance on hand in the Debt Service Reserve Fund within ten years is equal to one annual loan payment (the "Debt Service Reserve Fund Requirement"). The District further covenants and agrees that when the required deposits have been made into the Debt Service Reserve Fund, it will at all times maintain therein an amount at least equal to the Debt Service Reserve Fund Requirement.

The District hereby further covenants and agrees that in the event it issues any Future Parity Bonds, it will provide in the resolution authorizing the issuance of the same that it will pay into the Debt Service Reserve Fund Requirement out of the Revenue of the System (or, at the option of the District, out of any other funds on hand legally available for such purpose) not less than approximately equal additional annual payments so that by ten years from the date of such Future Parity Bonds there will have been paid into the Debt Service Reserve Fund an amount which, with the money already on deposit therein, will be equal to the Debt Service Reserve Fund Requirement.

(d) *Withdrawals from Debt Service Reserve Fund.* In the event there shall be a deficiency in the Bond Fund to meet maturing installments of either interest on or principal of and interest on the outstanding Parity Bonds payable out of such Bond Fund, such deficiency shall be made up from the Debt Service Reserve Fund by the withdrawal of money therefrom. Any deficiency created in the Debt Service Reserve Fund (reducing the balance therein to an amount below the Debt Service Reserve Fund Requirement) by reason of any such withdrawal shall then be made up out of Revenue of the System after making necessary provision for the payments required to be made prior thereto by Section 5 of this resolution.

Whenever there is a sufficient amount in the Bond Fund and the Debt Service Reserve Fund, to pay the principal of, premium if any, and interest on all outstanding Parity Bonds, the money in the Debt Service Reserve Fund may be used to pay such principal, premium, if any, and interest. Money in the Debt Service Reserve Fund may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on any outstanding Parity Bonds, as long as the money left remaining on deposit in the Debt Service Reserve Fund are equal to the Debt Service Reserve Fund Requirement.

(e) *Priority of Lien of Payments into Bond Fund and Debt Service Reserve Fund.*

The amounts so pledged to be paid into the Bond Fund and the Debt Service Reserve Fund from the Revenue Fund are hereby declared to be a lien and charge upon the Net Revenue of the System equal to the lien and charge thereon of any Future Parity Bonds and superior to all other charges of any kind or nature whatsoever.

(f) *Investment of Moneys in the Bond Fund and Debt Service Reserve Fund.* Money in the Bond Fund and Debt Service Reserve Fund may be kept in cash or invested as permitted by law. Investments in the Bond Fund shall mature prior to the date on which such money shall be needed for required interest or principal payments. Investments in the Debt Service Reserve Fund shall mature not later than the final maturity of the Bond. All interest earned and income derived by virtue of such investments shall remain in the Bond Fund or the Debt Service Reserve Fund, as specified by the Authorized Officer, and be used to meet the required deposits therein; provided, however, that for as long as the balance on hand in the Debt Service Reserve Fund is at least equal to the Debt Service Reserve Fund Requirement, funds, including earnings and income, may be transferred to the Bond Fund.

(g) *Sufficiency of Revenues.* The Board hereby finds that in fixing the amounts to be paid into the Bond Fund and the Debt Service Reserve Fund out of the Revenue of the System, it has exercised due regard for the Costs of Maintenance and Operation and debt service on Parity Bonds and has not obligated the District to set aside and pay into the Bond Fund and the Debt Service Reserve Fund a greater amount of such Revenue than in its judgment will be available over and above the Costs of Maintenance and Operation and the payments required to be made into the Bond Fund and the Debt Service Reserve Fund (with respect to Parity Bonds).

Section 7. Specific Covenants. For as long as the Bond remains outstanding, the District hereby agrees to observe the following covenants.

(a) *Rate Covenant.* The District shall fix, maintain and collect rates and charges for the use of the services and facilities of the System and all commodities sold, furnished or supplied by the System, which shall be fair and nondiscriminatory and shall adjust such rates and charges from time to time so that the Revenue of the System derived therefrom will at all times be sufficient to pay the Costs of Maintenance and Operation, make any payments required to be made on account of the Parity Bonds as and when the same shall become due and payable, make when due all payments which the District is obligated to make into the Debt Service Reserve Fund and all other payments which the District is obligated to make pursuant to this resolution in order to meet its covenants and obligations hereunder, and pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefore or payments in lieu thereof and any and all other amounts which the District may now or hereafter become obligated to pay from the Revenue of the System by law or contract.

(b) *Easements.* The District will acquire all necessary property, easements and rights-of-way for the System.

(c) *Maintenance and Operations.* The District will at all times keep and maintain the System in good repair, working order and conditions and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost, and will comply with all applicable state laws. The District will establish and maintain an effective collection policy for accounts not paid in full, including late fees, timeframes for disconnection of service and reconnection fees.

(d) *Books and Records.* The District will keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and it will furnish the Government, at its written request, complete operating and income statements of the System in reasonable detail covering any fiscal year, showing the

financial condition of the System and compliance with the terms and conditions of this resolution. At least 30 days prior to the beginning of each fiscal year, the District shall submit an annual budget and projected cash flow to the Government, including two copies of Form RD 442-2 (“Statement of Budget, Income, and Equity”) (including Schedule 1, page 1 (Columns 2 and 3) and all of Schedule 1, page 2 and Schedule 2, Projected Cash Flow. Annual budgets may be submitted on other financial statements for cash flow projections rather than Form 442-2. The annual budget shall also include a current rate schedule and a current listing of Board members and their terms. Quarterly reports (in the form of Form RD 442-2, Schedule 1, page 1, columns 2-6, as appropriate, and page 2 (or other format provided by the District) shall be provided to the Government office servicing the Bond within 30 days of the end of each of the first three quarters of the fiscal year.

(e) *Audit.* If the District expends in any fiscal year \$500,000 or more in federal financial assistance, the District shall submit an audit performed in accordance with the requirements of OMB circular A-133. If the District expends in any fiscal year less than \$500,000 in federal financial assistance, but has debt owing to the Government in excess of \$1,000,000, including the Bond, the District shall submit an audit to the Government within 150 days after the end of each fiscal year performed in accordance with water and waste audit requirements (i.e., a GAGAS audit). Two copies of each audit report shall be provided to the Government and a copy submitted to the Federal clearinghouse in accordance with RUS Bulletin 1780-30 “Water Programs Audit Guide and Compliance Supplement” (as the same may be supplemented or replaced by the Government during the term of the Bond). If the District expends in any fiscal year less than \$500,000 in federal financial assistance and has debt owing to the Government, including the Bond, less than \$1,000,000, the District may submit a management report in lieu of an audit report unless notified by the Government otherwise. Such

management reports shall be submitted to the Government no later than 60 days after the end of the fiscal year. The management report shall consist of: Form RD 442-3, "Balance Sheet", and Form RD 442-2, "Statement of Budget, Income and Equity", or forms that provide the information in a similar format. Form 442-2 shall have Schedule 1, all Columns completed on page 1 and page 2. Schedule 2 shall not be required for year-end reports. Annual audit reports or similar financial statements may be submitted in lieu of Forms RD 442-2 and 442-3.

(f) *Property Insurance.* The District will at all times carry fire and extended coverage and such other forms of insurance on the System against such risks, in such amounts, and with such deductibles as the Board shall deem necessary in an amount at least equal to the depreciated replacement value of the System, including equipment and machinery. A copy of such policy will be provided to the area office of the Government then serving the District.

(g) *Liability Insurance.* The District will at all times keep and arrange to keep in full force and effect policies of public liability and property damage insurance, including vehicular coverage, which will protect the District against anyone claiming damages of any kind or nature arising out of the operation of the System in such amounts and with such deductibles as the Board shall deem necessary for the protection of the District and the Government.

(h) *Workers' Compensation.* The District shall provide and maintain all required worker's compensation insurance for its employees.

(i) *Fidelity Bond.* The District will at all times maintain a fidelity bond on the position of the Treasurer and any other District position(s) responsible for District funds. The amount of such bond shall be equal to one annual loan installment for the Bond.

Section 8. Issuance of Future Parity Bonds.

(a) The District hereby further covenants and agrees with the owners and holders of the Bond for as long as it remains unpaid that it will not issue any revenue bonds hereafter which will have a lien and charge upon the money in the Revenue Fund for the payment of the principal thereof and interest thereon equal to the lien and charge of the money in the Revenue Fund for the payment of the principal of and interest on the Bond, except that it reserves the right with written consent of the Bond holder for

First, the purpose of acquiring, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary equipment for, or making necessary replacements of or repairs to the System, or

Second, the purpose of refunding by exchange or purchase at or prior to their maturity any outstanding revenue bonds of the District that may have a lien on the money in the Revenue Fund for the payment of the principal thereof and interest thereon junior and inferior to the lien on the money in such Fund for the payment of the principal of and interest on the Bond, to issue such Parity Bonds and to pledge that payments shall be made out of the Revenue Fund into the Bond Fund for such Parity Bonds on a parity with the payments required herein to be made out of the Revenue Fund into such Bond Fund to pay and secure the payment of the principal of and interest on the Bond, upon compliance with the following conditions:

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

(2) That at the time of the issuance of such Parity Bonds the District shall have on file a statement or report from the Treasurer or from an independent consultant showing that the net revenue of the System for the fiscal year preceding the year in which such Parity Bonds are to be issued was equal to at least equal to the average annual amount required for the

payment of the principal of and interest on all Parity Bonds then outstanding and the Future Parity Bonds to be issued.

It is hereby provided, however, that the limitation or condition contain in subparagraph 2 of this section may be waived or modified by the written consent of the holders of 75% of all of the Parity Bonds then outstanding.

(b) Nothing herein contained shall prevent the District from issuing revenue bonds or like obligations which are a charge upon the Revenue of the System junior or inferior to the payments required to be made into the Bond Fund for the payment of the Parity Bonds, or from pledging the payment of special assessments into a fund or account created to pay and secure the payment of the principal of and interest on such junior lien bonds or obligations as long as such assessments are levied in a utility local improvement district or districts created in connection with carrying out the improvements to be constructed from the proceeds of the sale of such junior lien bonds or obligations. Nothing herein contained shall prevent the District from issuing revenue bonds to refund maturing revenue bonds of the District for the payment of which moneys are not otherwise available.

Section 9. Short-Lived Asset Replacement Fund. The Treasurer has previously established a special fund of the District known as the District's Reserve Fund No. 690-005-020 (the "Short-Lived Asset Replacement Fund"), or such other designation as shall meet applicable accounting requirements. The District shall deposit the sum of \$9,000 annually into the Short-Lived Asset Replacement Fund. Money in the Short-Lived Asset Replacement Fund shall be used by the District from time to time to replace short-lived equipment or apparatus of the System.

Section 10. Transfer. The Bond may be transferred in whole by Government to another institutional investor, and any such transfer shall be noted on the bond registration books of the District.

Section 11. Lost or Destroyed Bond. In case the Bond shall be lost, stolen or destroyed, the District may execute and deliver a new bond of like date, number and tenor to the registered owner thereof in the manner provided by law and upon the owner's paying the expenses and charges of the District in connection therewith.

Section 12. Form of Bond. The Bond shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. R-1

\$601,900

STATE OF WASHINGTON

HARTSTENE POINTE WATER-SEWER DISTRICT
MASON COUNTY
WATER REVENUE BOND, 2012

REGISTERED OWNER: UNITED STATES OF AMERICA, ACTING THROUGH THE
UNITED STATES DEPARTMENT OF AGRICULTURE

PRINCIPAL AMOUNT: SIX HUNDRED ONE THOUSAND NINE HUNDRED AND
NO/100 DOLLARS

INTEREST RATE: 2.75%

FINAL MATURITY DATE: _____, 20__

Hartstene Pointe Water-Sewer District, Mason County, Washington (the "District"), a municipal corporation duly organized and existing under the laws of the State of Washington, hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, the principal of and interest on this bond as provided in Resolution No. 2012-05 adopted by the Board of Commissioners of the District on August 23, 2012, (the "Bond Resolution"). Reference is made to the Bond Resolution for the definitions of the capitalized terms used and not otherwise defined herein.

This bond shall bear interest at the rate of 2.75% per annum and interest shall accrue from the date of issuance of this bond. Principal of and interest on this bond shall be payable in

an semiannual amortization factor of 32.67, which provides for a semiannual payment of \$19,665, beginning six months following the date of this bond and annually thereafter, with final payment of principal and interest nevertheless due on the Maturity Date. If any installment of principal and interest is not paid when due, the District shall be obligated to pay interest on that installment at the same rate provided herein from and after its due date until that installment is paid in full.

This bond, designated as the "Water Revenue Bond, 2012," is issued by the District in fully registered form to provide funds for the costs of certain additions and betterments to the System of the District as further described in the Bond Resolution.

Installments of interest or principal of and interest on this bond are payable in lawful money of the United States of America and shall be paid by check or draft mailed by the Mason County Treasurer as *ex-officio* treasurer of the District (the "Bond Registrar") on the installment payment date to the registered owner at its address appearing on the books or records maintained by the Bond Registrar. The last installment of principal and interest shall be payable upon presentation and surrender of this bond by the registered owner at the principal office of the Bond Registrar.

This bond is payable solely from the special funds of the District defined as the Bond Fund in the Bond Resolution. The District has irrevocably obligated and bound itself to pay into the Bond Fund out of the Revenue of the System or from such other moneys as may be provided therefor certain amounts necessary to pay and secure the payment of the principal and interest on such Bonds. The bond is not a general obligation of the District and the District's full faith, credit and resources are not pledged for the principal of and interest on this bond.

This bond is issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and duly adopted resolutions of the District. The District 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 to be by it kept and performed, and reference is hereby made to the Bond Resolution for a complete statement of such covenants.

The District does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenue of the System and to pay into the Bond Fund and the Debt Service Reserve Fund the various amounts required by the Bond Resolution to be paid into and maintained in such Fund and account, all within the times provided by the Bond Resolution. To the extent more particularly provided by the Bond Resolution, the amounts so pledged to be paid from the Revenue Fund out of the revenue of the System into the Bond Fund and the account therein shall be a lien and charge thereon equal in rank to the lien and charge upon said revenue of the any Future Parity Bonds, and the amounts required to pay and secure the payment of revenue bonds of the District hereafter issued on a parity of lien with this bond and superior to all other liens and charges of any kind or nature except the Costs of Maintenance and Operation of the System.

This bond is subject to prepayment prior to maturity in accordance with the terms set forth in the Bond Resolution.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by the Bond 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 bond have happened, been done, and performed.

IN WITNESS WHEREOF, Hartstene Pointe Water-Sewer District, Mason County, Washington, has caused this bond to be signed on behalf of the District with 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 September, 2012.

HARTSTENE POINTE WATER-SEWER DISTRICT, MASON COUNTY, WASHINGTON

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

ATTEST:

/s/ manual signature
Secretary, Board of Commissioners

REGISTRATION CERTIFICATE

This bond is registered in the name of the owner on the books of the District in the office of the Treasurer 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 and on the bond registration books of the District. All payments of principal of and interest on this bond shall be made by the District with full acquittance by Treasurer's check, or by warrant of the District drawn on the Treasurer, made payable to the last registered holder shown hereon and delivered to such owner or mailed to him/her at his/her address noted hereon.

<u>Date of Registration</u>	<u>Name and Address of Registered Owner</u>	<u>Signature of Registrar</u>
_____, 2012	United States of America acting through its Department of Agriculture	_____ Mason County Treasurer

Section 13. Execution of the Bond. The Bond shall be signed on behalf of the District with the manual or facsimile signature of the President of the Board and shall be attested by the manual signature of the Secretary of the Board.

In case either or both of the officers who shall have executed the Bond shall cease to be an officer or officers of the District before the Bond so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the District, the Bond 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 Bond also may be signed and attested on behalf of the District by such persons as at the actual date of execution of the Bond shall be the proper officers of the District although at the original date of the Bond any such person shall not have been such officer of the District.

Section 14. Sale of Bond. The Bond shall be sold to the Government at a price of par on the terms and conditions set forth herein and in the Letter of Conditions.

Section 15. Application of Bond Proceeds. The principal proceeds of the sale of the Bond shall be paid into the Note Fund in an amount sufficient to pay and redeem the Note, and the balance shall be deposited in the Construction Fund and used to pay costs of issuance and remaining Project costs, if any.

When the Project and other authorized improvements, if any, have been completed and all costs incidental thereto, including the costs of the issuance of the Bond, have been paid in full, any money remaining in the Construction Fund shall be transferred to the Bond Fund for the uses and purposes herein provided, and the Construction Fund may be closed.

Section 16. 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 in this resolution and shall in no way affect the validity of the other provisions of this resolution or of the Bond.

Section 17. General Authorization. The President and Secretary of the Board and all other appropriate officers of the District are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this resolution.

Section 18. Prior Acts. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified and confirmed.

Section 19. Effective Date. This resolution shall become effective from and after 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 23rd day of August, 2012.

HARTSTENE POINTE WATER-SEWER DISTRICT, MASON COUNTY, WASHINGTON

By: Mary Alice Cary
President and Commissioner

By: [Signature]
Commissioner

By: [Signature]
Commissioner

ATTEST:

[Signature]
Secretary

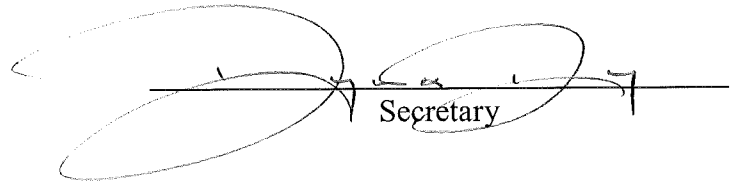
CERTIFICATE

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 No. 2012-05 (herein called the "Resolution") is a true and correct copy of a Resolution of the District as passed at a meeting of the Board held on the 23rd day of August, 2012, 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 23rd day of August, 2012.


Secretary