

**PUBLIC UTILITY DISTRICT NO. 1
JEFFERSON COUNTY, WASHINGTON**

RESOLUTION NO. 2012-024

A RESOLUTION of Public Utility District No. 1 of Jefferson County, Washington, authorizing the issuance of an Electric System Revenue Bond in the principal amount of not to exceed \$115,507,000 to provide funds with which to pay the cost of acquiring electric utility facilities and constructing improvements; authorizing the sale of the Bond to the Federal Financing Bank; authorizing a guaranty of the Bond to be provided by the Rural Utilities Service secured by a Reimbursement Bond to be issued by the District; fixing and approving the terms and covenants of the Bond, the Reimbursement Bond and the loan guaranty; and providing for other matters properly related thereto.

Adopted November 20, 2012

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WHEREAS, Public Utility District No. 1 of Jefferson County, Washington (the "District"), is in need of funds to pay the cost of acquiring the electric utility facilities of Puget Sound Energy and making improvements to such facilities (the "Project"); and

WHEREAS, in order to finance the Project, it is hereby found necessary and advisable that the District issue its Electric System Revenue Bond, 2013 (the "Bond"); and

WHEREAS, the Federal Financing Bank ("FFB") has agreed to purchase the revenue Bond authorized herein under the terms and conditions set forth in this resolution; and

WHEREAS, the United States of America, acting through the Administrator of Rural Utilities Services ("RUS") has provided the District with a commitment dated April 9, 2012 (the "RUS Commitment Letter"), establishing the conditions under which RUS would guarantee payment of the Bond when due, including the execution and delivery of a Reimbursement Bond by the District to RUS, which shall secure such loan guaranty; and

WHEREAS, based on the foregoing, it is in the District's best interest to (a) authorize the issuance of the Bond, (b) authorize the sale and delivery of the Bond to the FFB upon the terms set forth in this resolution, and (c) to execute a Bond Purchase Contract, Reimbursement Bond and such documents as are required in connection with the RUS payment guaranty;

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1. Definitions. As used in this resolution the following words and phrases shall have the meanings set forth below unless the context clearly indicates that another meaning is intended.

"Advance" means an incremental draw on the Bond.

"Annual Debt Service" means the amount required in each calendar year hereafter for deposit into the Parity Bond Fund (including any amounts required to be deposited into a sinking fund for the mandatory redemption of term bonds) for the payment of the principal of and interest on all Parity Bonds outstanding.

"Bond" means the not to exceed \$115,507,000 principal amount Public Utility District No. 1 of Jefferson County, Washington, Electric System Revenue Bond, 2013 issued pursuant to this resolution, in the form of the "Future Advance Promissory Bond" provided by Rural Utilities Service.

"Bond Purchase Contract" means the RUS Bond Purchase Contract between the District, as Borrower, and the United States of America, as lender, acting by and through the Administrator of the Rural Utilities Service (RUS Project Designation: Washington 60 "A8" Jefferson), the form of which is attached as Exhibit A.

"Chief Financial Officer" means the Finance Director, Treasurer or other chief financial officer of the District.

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

"Coverage Requirement" means, in any calendar year, an amount of Net Revenue equal to at least 1.25 times Annual Debt Service.

"District" means Public Utility District No. 1 of Jefferson County, Washington, a municipal corporation duly organized and existing under the laws of the State.

"Federal Financing Bank" or "FFB" means that certain instrumentality of the United States Department of the Treasury, created pursuant to the Federal Financing Bank Act of 1973, as amended (codified at 12 U.S.C §2281 *et seq.*), together with its successors and assigns.

"Future Parity Bonds" means all revenue bonds of the District issued after the date of issuance of the Bond, the payment of the principal of and interest on which constitutes a lien and charge upon the Revenue Fund of the District and upon the Revenue of the System (after payment of all Operating Expenses), that is equal in rank with the lien and charge granted in connection with the Bond and any Future Parity Bonds.

"Government Obligations" means those obligations defined as such in Revised Code of Washington, ch. 39.53, as now or hereafter amended.

"Net Revenue" means Revenue of the System, less Operating Expenses, but prior to depreciation.

"Operating Expenses" means all necessary expenses incurred by the District in causing the System to be operated and maintained in good repair, working order and condition, excluding nonrecurring expenditures. "Operating Expenses" shall include, without limitation: purchased power expenses; administrative and general expenses; insurance premiums; required payments to pensions and other employee benefits; expenses incurred in preparing annual financial

statements; and all taxes and assessments required by law to be paid by the District. Operating Expenses do not include costs of new construction, extraordinary, non-reoccurring expenses, amortization or any allowance for depreciation.

"Parity Bonds" means the Bond and any Future Parity Bonds.

"Parity Bond Fund" includes the Bond Accounts created by the Parity Bond Resolutions for the payment of debt service on any outstanding Parity Bonds, together with the 2013 Bond Account.

"Parity Bond Resolutions" means, collectively, this resolution and any resolution authorizing the issuance of Future Parity Bonds.

"Parity Conditions" means the conditions which must be met prior to the issuance of any Future Parity Bonds, which are set forth in Section 13B.

"Permitted Investments" means any investments or investment agreements permitted for the District under the laws of the State as amended from time to time.

"Project" means the acquisition from Puget Sound Energy of substations, transmission line, distribution line, one operations building with materials storage yard, equipment and other capital acquisitions and improvements of such facilities, implementation costs, and interim Puget Sound Energy projects, as set forth in the District's application for the Federal Financing Bank loan.

"Project Account" means a separate account maintained within the District's Special Construction Account (as referred to in the Bond Purchase Contract), to be designated the "Jefferson County PUD #1 Project Fund, Trustee, RUS Special Project Account."

"Purchaser" means the Federal Financing Bank.

"Reimbursement Bond" means the promissory note securing the repayment of any amounts advanced by RUS pursuant to the loan guaranty provided under the Bond Purchase Contract, the form of which is attached as Exhibit B.

"Revenue Fund" means the Electric System Revenue Fund created by Section 9 of this resolution.

"Revenue of the System" means all income and revenues received by the District from the sale of electric energy through the ownership or operation of the Electric System and all other commodities, services and facilities sold, furnished or supplied by the District through the ownership or operation of the Electric System, together with the investment income earned on money held in any fund or account of the District, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Electric System. "Revenue of the System" excludes: income derived from investments irrevocably pledged to the payment of any specific revenue bonds of the District, such as bonds that have been refunded or defeased pursuant to Section 8; investment income earned on money in any arbitrage rebate

account; grants for capital purposes; assessments in any local utility district; and any *ad valorem* tax revenues.

“RUS” means the United States of America acting by and through the Administrator of the Rural Utilities Services.

“System” or “Electric System” means all electric utility properties and assets real and personal, tangible and intangible, of the District used or useful in the transmission, distribution and sale of electric energy and the business incidental thereto, including all property and assets hereafter constructed or acquired as additions or betterments to and improvements and extensions of all such properties, including telecommunication facilities if such facilities are combined with the Electric System. The “System” shall not include the Water System, the Sewer System, or such generating, transmission and distribution facilities as may be hereafter acquired by the District as, and specifically declared to be, a separate utility system, the revenues of which may be pledged to the payment of bonds issued to purchase, construct, or otherwise acquire such separate utility system.

“TIER” or “Times Interest Earned Ratio” has the meaning given in the Bond Purchase Contract and established RUS procedures in effect at the time.

“TIER Requirement” means a Times Interest Earned Ratio of at least 1.25, computed in accordance with the Bond Purchase Contract and RUS procedures in effect at the time.

“Treasurer” means the Jefferson County Treasurer, as *ex officio* treasurer of the District, or such other person or office as may hereafter be designated by law to perform the duties of treasurer of the District.

“2013 Bond Account” means the special account to be known as the “Revenue Bond Account, 2013,” created pursuant to Section 10 within the Parity Bond Fund of this resolution for the payment of debt service on the Bond.

Section 2. Authorization of Project and System. The Commission hereby specifies and adopts the Project as a plan for the acquisition by construction, purchase or condemnation of additions, improvements and betterments to and extensions of the System. The Commission may modify details of the Project as necessary or advisable in the judgment of the Commission. The total estimated cost of the Project is more than \$115,507,000, which will be paid or reimbursed from proceeds of the Bond and other available funds of the District. The Commission hereby finds that it is in the best interests of the District and the users of the Electric System that the District issue the Bond for the purpose of providing funds to finance a portion of the costs of the Project.

Section 3. Finding as to Sufficiency of Revenues. The Commission finds and determines that the Revenue of the System and benefits to be derived from the operation and maintenance of the Electric System at the rates to be charged for electricity furnished thereby will be sufficient to meet all Operating Expenses and to permit the setting aside into the Parity Bond Funds out of the Revenue of the System of amounts sufficient to pay the principal of and interest on the Bond when due. The Commission declares that in fixing the amounts to be paid into the Parity Bond Fund under this resolution it has exercised due regard for Operating

Expenses (including, without limitation, the cost of operation and maintenance under RCW 54.24.040) and has not obligated the District to set aside and pay into the Parity Bond Fund a greater amount of Revenue of the System than in its judgment will be available over and above such Operating Expenses.

Section 4. Authorization and Description of Bond. For the purpose of financing the Project and paying costs of issuing the Bond and the Reimbursement Bond, the District shall issue its electric revenue bond, designated as the "Public Utility District No. 1 of Jefferson County, Washington, Electric System Revenue Bond, 2013," in the form of the Future Advance Promissory Bond in the principal amount of not to exceed \$115,507,000. The District shall execute and deliver the Reimbursement Bond to secure the guarantee of Rural Utilities Services to pay the Bond when due, upon the terms set forth in the Reimbursement Bond. The Bond and the Reimbursement Bond evidence the same indebtedness and are not cumulative and are considered a single issue of Parity Bonds. The Bond shall be dated as of its date of delivery and shall bear interest on the unpaid balance at the rate(s) and calculated on the basis all as set forth in the Bond, which is incorporated by this reference. The outstanding principal balance of the Bond on any particular date, and the interest due on any particular Advance, shall be determined as set forth in the Bond. The Bond shall mature and shall be amortized as to principal and interest as set forth in the Bond. Both principal of and interest on the Bond shall be payable in lawful money of the United States of America in the manner set forth in the Bond. The late payment fees set forth in the Bond shall apply. The Bond shall be an obligation only of the 2013 Bond Account and shall be payable and secured solely as provided herein.

A. Officer Authorized to Request Advances. The General Manager and Chief Financial Officer (if permitted by RUS Regulations) are authorized to make requests for Advances in accordance with the terms set forth in the Bond.

B. Prepayments and Refinancing. The District may elect to prepay or to refinance all or any portion of the outstanding principal amount of any Advance made under the Bond, or to prepay the Bond in its entirety, in the manner, at the price, and subject to the limitations, charges and penalties specified in the Bond.

C. Loan Fees. The District shall pay an annual loan servicing fee as set forth in the Bond; there is no origination fee.

D. Loan Guaranty. In accordance with the Bond Purchase Contract, RUS shall provide a guaranty of the payment of all principal of and interest on the Bond when due. In the event that RUS makes any payment on the Bond under this loan guaranty, the District shall repay such amounts, including both principal amounts advanced and interest, at the times and in the amounts all as set forth in the Reimbursement Bond and the Bond Purchase Contract.

Section 5. Form of Bond and Reimbursement Bond. The Bond shall be in substantially the form set forth in the Bond that is on file with the District. The Reimbursement Bond shall be in substantially the form set forth at Exhibit B.

Section 6. Disposition of Bond Proceeds; Project Account. The proceeds of each Advance shall be used to pay the costs of the Project, to reimburse the District for prior

expenditures to pay the cost of the Project, and pay costs of issuing the Bond. If not disbursed directly to pay the foregoing, the proceeds of any Advance shall be deposited, until needed, into the Project Account. All proceeds deposited in the Project Account and not immediately needed to pay the costs of the Project and costs incidental thereto may be temporarily invested in Permitted Investments that will mature prior to the date on which the money so invested shall be needed. All proceeds and all interest earned and income or profits derived by virtue of such investments shall remain in the Project Account and be used for the acquisition, installation and construction of the Project or other improvements to the Electric System. Any Bond proceeds and investment earnings thereon not required for such purposes shall be deposited in the 2013 Bond Account and used to redeem outstanding Advances at the earliest date on which such Advances shall mature or be callable.

Section 7. Execution, Issuance and Delivery of the Bond and Related Documents. The Bond and Reimbursement Bond shall be signed by the President of the Board of Commissioners of the District and attested by the General Manager or Secretary of the Commission. In case either or both of the officers who have signed or attested the Bond and Reimbursement Bond cease to be such officer before such Bond and Reimbursement Bond have been actually issued and delivered, such Bond and Reimbursement Bond shall be valid nevertheless and may be issued by the District with the same effect as though the persons who had signed or attested such Bond and Reimbursement Bond had not ceased to be such officers, and the Bond and Reimbursement Bond may be signed or attested on behalf of the District by officers who at the date of actual execution of such Bond and Reimbursement Bond are the proper officers, although at the nominal date of execution of such Bond and Reimbursement Bond such officer was not an officer of the District. The Bond and Reimbursement Bond shall be certified and registered in accordance with the certificate of authentication and registration requirements set forth therein, if any. The proper District officials are hereby authorized to effect delivery of the Bond and the Reimbursement Bond as set forth herein.

Section 8. Defeasance of Parity Bonds. In the event that the District, in order to effect the payment, retirement or redemption of any Parity Bonds, sets aside in the Parity Bond Funds or in another special account, held in trust by a trustee, cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Parity Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Parity Bond Funds for the payment of the principal of and interest on such Parity Bond. The owner of a Parity Bond so provided for shall cease to be entitled to any lien, benefit or security of the resolution authorizing its issuance except the right to receive payment of principal, premium, if any, and interest from such special account, and such Parity Bond shall be deemed to be not outstanding under the resolution authorizing its issuance.

Section 9. Revenue Fund. Pursuant to RCW 87.28.108, there is hereby established in the office of the Treasurer a special fund of the District designated the "Electric System Revenue Fund." The District covenants and agrees that, so long as any Parity Bonds are outstanding and unpaid, it will continue to pay into the Revenue Fund all Revenue of the Electric System,

together with the proceeds received by the District directly or indirectly from the sale, lease or other disposition of any of the properties or facilities of the Electric System.

Section 10. Bond Fund; Payments into the Parity Bond Fund. The District hereby creates the 2013 Bond Account within the Parity Bond Fund for the payment of the Bond. The Parity Bond Fund shall be drawn upon for the sole purpose of paying the principal and interest on the Parity Bonds. Amounts set aside, from time to time, in the Parity Bond Fund for the Parity Bonds and the interest thereon shall be held in trust for the holders of the Parity Bonds.

A. The 2013 Bond Account. The 2013 Bond Account shall be created in the Parity Bond Fund and used solely for the purpose of paying the principal of and interest on the Bond, and of retiring such Bond prior to maturity in the manner provided in this resolution and the Bond Purchase Contract. The District hereby obligates and binds itself irrevocably to set aside and pay into the Bond Account out of the Revenue of the System paid into the Revenue Fund monthly deposits as required by the Bond Purchase Contract, without regard to any fixed proportion of Revenue of the System, sufficient to pay the principal of and interest on the Bond on the next upcoming interest or principal payment date, as the same shall come due and become payable.

To meet the required payments to be made into the Bond Fund, the District may transfer any money from any funds or accounts of the District legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds. Whenever and so long as the assets of the 2013 Bond Account are sufficient to provide money to pay all Advances then outstanding against the Bond, including such interest and loan servicing fees as may thereafter become due thereon, no further payments need be made into the 2013 Bond Account.

B. Reserve Account. A Reserve Account may be created in the Parity Bond Fund to secure one or more series of Parity Bonds. In the resolution authorizing such Parity Bonds, the reserve account requirement shall be established. There is no reserve account securing the Bond.

Section 11. Flow of Funds. The Revenue of the System shall be used for the following purposes only and shall be applied in the following order of priority:

- (1) To pay the Operating Expenses;
- (2) To make all required deposits into (in the following order of priority): the Parity Bond Fund, to pay interest first and then principal, and then any reserve account created within the Parity Bond Fund for the purpose of paying and securing the principal of and interest on the Parity Bonds as such payments are required to be made, including making all payments required to be made into any mandatory redemption or sinking fund account created to provide for the payment of the principal of term bonds;
- (3) To make all payments required to be made pursuant to the Reimbursement Bond, if any, except that if there is not sufficient money to make all payments under all Reimbursement Bonds then outstanding, the payments will be made on a pro rata basis;

- (4) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service fund or reserve fund created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the District having a lien upon the Net Revenue junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and
- (5) Without regard to priority and at the option of the Commission, to retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the System, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful System purpose.

Section 12. Pledge and Lien Position. The principal of and interest on the Future Parity Bonds and the Bond, shall hereafter be payable from, and such payment shall be secured by a single and common lien and charge on the Net Revenue and amounts in the Revenue Fund superior to all other liens or charges of any kind or nature and equal in rank to the lien and charge thereon for the payment of the principal of and interest on any Parity Bonds. The lien and charge shall be a lien and charge on Revenue of the System and amounts in the Revenue Fund after payment only of Operating Expenses. The Parity Bonds and the interest thereon shall be a valid claim of the holder thereof only against the Parity Bond Funds and the amount of the revenues of the District pledged to the Parity Bond Funds, and shall constitute a prior charge over all other charges or claims whatsoever against the Parity Bond Funds.

Section 13. Covenants.

A. Parity Bond Covenants. The District covenants with the owner and holder of the Bond and of any Parity Bonds that, for as long as the same remain outstanding:

- (1) The District will duly and punctually pay or cause to be paid the principal of the Parity Bonds and the interest thereon on the dates and at the places and in the manner provided in this resolution and the resolutions authorizing Future Parity Bonds.
- (2) The District will duly and punctually pay all taxes and assessments required by law to be paid.
- (3) The District will establish, maintain and collect rates and charges for electric energy and other commodities and facilities sold, furnished or supplied by it in connection with the operation of the System which shall be fair and nondiscriminatory and will be sufficient to meet the Coverage Requirement.
- (4) The District will at all times maintain, preserve and keep the System and all additions, betterments and improvements thereto and extensions and every part and parcel thereof in good repair, working order and condition, and will from time to time make all necessary and proper repairs, replacements, renewals, additions, betterments and improvements thereto and extensions thereof so that at all times

the business carried on in connection therewith will be managed in an efficient manner and at a reasonable cost.

- (5) The District will not sell or otherwise dispose of the properties of the System, except as provided in the applicable RUS Bulletin, unless simultaneously with such sale or other disposition of such property provision is made for the payment of cash into the bond funds sufficient to pay the principal of, premium if any, and interest on all Parity Bonds then outstanding in full. However, the District may sell or otherwise dispose of any of the works, plants, properties and facilities of the District and all real and personal property comprising a part of the same which shall have become unserviceable, inadequate, obsolete, or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation. The proceeds of any such sale or disposition of a portion of the properties of the System shall be paid into the Revenue Fund and shall, at the option of the District, be used for repairs, renewals, replacements, additions, betterments or improvements to or extensions of the System, or used to repay, or to call and redeem or purchase on the open market, any Parity Bonds then outstanding in accordance with their terms, in the time, manner and to the extent that such redemption or purchase is permitted by the resolution authorizing the issuance and sale of such bonds.
- (6) The District will keep the works, plants, properties and facilities comprising the System insured and will carry such other insurance with responsible insurers, or maintain self insurance with policies payable to the District, against risks, accidents or casualties at least to the extent that insurance is usually carried by public and private corporations operating like properties. In the event of any loss or damage the District will promptly repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy or policies for that purpose; or in the event the District should determine not to repair, replace or reconstruct such damaged portion of the properties of the System, the proceeds of such insurance shall be paid into the Revenue Fund and shall, at the option of the District, be used for repairs, renewals, replacements, additions, betterments or improvements to or extensions of the System or such other use as the Commission shall determine.
- (7) The District will keep proper books and records of the operation of the System in accordance with the rules and regulations prescribed by the State Auditor's Office of the State of Washington or any other state department or agency succeeding to such duties of the State Auditor's Office. The District will cause to be prepared an annual financial and operating statement showing the revenues and expenditures of the System for each fiscal year and a balance sheet of the System as of the end of each fiscal year.
- (8) The District will not furnish or supply or permit the furnishing or supplying of electric energy or any other commodity, service or facility furnished by or in connection with the operation of the System free of charge to any person, firm or corporation, public or private, except to the poor or infirm in accordance with the

State Constitution, and that it will promptly enforce the payment of any and all accounts owing to the District and delinquent by discontinuing service or by legal actions, suits and proceedings, or both.

B. Additional Bonds. The District covenants and agrees with the owner and holder of each of the Parity Bonds for as long as any of the same remain outstanding that it will not issue any Future Parity Bonds except as follows:

- (1) The District reserves the right to issue additional bonds for the purpose of (i) acquiring, constructing and installing additions, betterments and improvements to or extensions of, acquiring necessary equipment for, or making necessary renewals, replacements and capital improvements to the system, or (ii) refunding or purchasing and retiring prior to their maturity any outstanding electric revenue bonds or warrants of the District. Upon compliance with the Parity Conditions, the District may pledge that payments shall be made out of the Revenue Fund to the credit of the Future Parity Bond Funds to be created (and the interest, principal and reserve accounts therein) to pay and secure the payment of the principal of and interest on such Parity Bonds on a parity with the payments required to be made out of the Revenue Fund into the Parity Bond Funds to pay and secure the payment of the principal of and interest on the Parity Bonds.

Future Parity Future Parity Bonds may be issued only upon compliance with the following conditions:

- (a) At the time of the issuance of such Future Parity Bonds there may be no deficiency in any accounting in the Parity Bond Fund.
- (b) The resolution providing for the issuance of such Future Parity Bonds must provide for the creation of a bond account in the Parity Bond Fund, and may provide for a reserve account to be created therein for the purpose of paying and securing the payment of the principal of and interest on such Future Parity Bonds as the same become due.
- (c) The resolution providing for the issuance of such Future Parity Bonds must contain substantively the same covenants as set forth in Section 13.
- (d) The amount of Net Revenue, for any 12 consecutive months out of the 18 months next preceding the month of the issuance of the Future Parity Bonds, must equal at least 1.25 times the maximum Annual Debt Service of all then-outstanding Parity Bonds and the proposed Future Parity Bonds. For purposes of this calculation, Net Revenue may be adjusted as follows:
 - (i) By adding the Net Revenue to be derived from additions, betterments and improvements to and extensions of the Electric System to be constructed, acquired or added to prior to the

issuance of such Parity Bonds and not reflected in the report of the 12-month base period;

- (ii) By adding the Net Revenue to be derived from the additions, betterments and improvements to and extensions of the Electric System to be acquired, constructed and installed out of the proceeds of sale of such Future Parity Bonds;
 - (iii) By adding (or subtracting) the effect of any increase or decrease in rates and charges for electric energy supplied, which occurred after such 12-month base period, if such changes in rates or charges are made effective prior to the date of delivery of such Future Parity Bonds; and
 - (iv) By adding the net revenue to be derived from new customers added to the System prior to the date of the certificate (described in item (v), below) but subsequent to the commencement of such 12-month base period, which net revenue is not reflected or fully reflected in the report of the 12-month base period.
- (e) Prior to issuing such Future Parity Bonds, the District shall obtain and have on file a certificate from an independent licensed professional engineer or engineering firm experienced in the design and operation of electric utilities which shall certify full compliance with the provisions of items (a) and (d), above, and such certificate shall be conclusive of compliance with the conditions required therein. However, if the requirements of item (d) can be met without making any adjustment pursuant to subparagraphs (i) through (iv) of item (d), such certificate may, at the District's option, be provided by the District's Director of Finance or General Manager.
- (f) At or prior to the time of issuance of such Future Parity Bonds, the District must have on file the consent of the Administrator to the issuance thereof if required by the Bond Purchase Contract.
- (2) The District further reserves the right, without necessity of complying with the Parity Conditions, to issue Future Parity Bonds for the purpose of refunding by exchange, purchase or redemption and retirement at or prior to their maturity any part or all of the Parity Bonds then outstanding, if the issuance of such refunding Parity Bonds does not require a greater amount to be paid out of the Revenue Fund for principal of and interest on such refunding Parity Bonds over their life than the amount required to be paid out of the Revenue Fund for the payment of the principal of and interest on the bonds being refunded over their life.
- (3) Nothing herein contained shall prevent the District from issuing revenue bonds or warrants which are a charge upon the Revenue Fund junior or inferior to the payments required to be made into the Parity Bond Funds or from issuing revenue

bonds to refund maturing bonds or warrants for the payment of which moneys are not otherwise available.

C. Additional Covenants with Respect to the RUS Loan. With respect to the Bond and the RUS Loan evidenced by the Bond Purchase Contract, the District makes and agrees to be bound by the additional covenants, representations and warranties as are set forth in the Bond Purchase Contract. If any provision of this resolution is inconsistent with the Bond Purchase Contract, this resolution shall control. The additional covenants made to the holder of the Bond and the RUS Loans include, without limitation, the following:

- (1) In addition to the covenant in subsection A(3), above, the District will establish, maintain and collect rates and charges for electric energy and other commodities and facilities sold, furnished or supplied by it in connection with the operation of the System which will be sufficient to meet the TIER Requirement of at least 1.25 TIER (which shall be computed in accordance with established RUS procedures then in effect).
- (2) The District will obtain the classes and amounts of insurance coverage all as set forth in the Bond Purchase Contract.
- (3) The District shall purchase all materials, equipment and replacements to be incorporated in or used in connection with any of its properties embraced in the System outright, and not subject to any conditional sales agreement, chattel mortgage, bailment lease, or other agreement reserving to the seller any right, title or lien. The District will not, without the approval in writing of the holder or holders of the Bonds, become or be obligated under Long-Term Leases for the rental from others of Restricted Property if the aggregate amount of rentals thereunder accrued or which may accrue during any period of 12 calendar months shall exceed 2% of the Equity of the District at the time any determination of such rental obligations is made hereunder. For purposes of this paragraph (3), the following capitalized terms shall have the following meanings:
 - (i) "Equity" means the aggregate of Equities and Margins as such terms are defined in the Uniform System of Accounts and Subordinated Indebtedness.
 - (ii) "Long-Term Leases" means leases having unexpired terms of more than 12 months, taking into account terms of renewal at the option of the lessor, whether or not such leases have theretofore been renewed.
 - (iii) "Restricted Property" means all properties other than automobiles, trucks, trailers, tractors, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment.
- (4) The District shall not, without the approval in writing of the Administrator: construct, make, lease, purchase, or otherwise acquire any extensions or additions to the System, or enter into any contract in respect thereof; enter into any contract

or contracts for the operation or maintenance of all or any part of its property embraced in the System, or for the use by others of any of its property embraced in the System; or incur any expenses for legal, engineering, supervisory, accounting, construction or other similar services in connection with the operation of the System except such reasonable expenses as are incurred in the routine course of business.

- (5) The District shall duly and punctually perform all obligations to be performed by it hereunder and under the Bond Purchase Contract.

Section 14. Events of Default; Remedies. The Events of Default shall be specified in the Bond Purchase Contract executed in connection therewith. Notwithstanding the foregoing, if any principal or interest payment with respect to any Parity Bond is not paid when due, or is not paid after being properly presented at its maturity or call date, the District shall be obligated to pay interest on that bond at the same rate provided in that Parity Bond from and after its maturity or call date until that Parity Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Parity Bond Fund with respect to such Parity Bond and notice of call for payment has been given to the owner thereof.

Section 15. Sale of Bond. The Bond shall be sold to the Purchaser at a price of par on the terms and conditions set forth in this resolution, the Bond Purchase Contract and the Bond. The proper officials of the District are hereby authorized and directed to do all things necessary for the prompt execution and delivery of the Bond and the items required to be delivered to the Purchaser under the terms of this resolution and for proper use and application of the proceeds of Advances on the Bond.

Section 16. RUS Guarantee of Bond. Payment of principal of and interest on the Bond when due is guaranteed pursuant to the terms of the Bond Purchase Contract and Reimbursement Bond. The District accepts the terms and conditions which the Administrator of RUS has established for obtaining its guaranty of the Bond, as such terms and conditions are set forth in the Bond Purchase Contract. The Reimbursement Bond shall be in substantially the form set forth in Exhibit B. The proper District officials are authorized to execute the Bond Purchase Contract and Reimbursement Bond and take all actions necessary or convenient to secure the guaranty provided by RUS consistent with the terms of this resolution and the Bond Purchase Contract.

Section 17. General Authorization. The General Manager, Chief Financial Officer and the President and Secretary of the Board of Commissioners, and each of the other appropriate officers, agents and representatives of the Authority are each independently authorized and directed to take such steps, to do such other acts and things, and to execute the Bond Purchase Contract (in as many counterparts as shall be deemed advisable) in the final form negotiated and approved by the General Manager, and pursuant to the direction of the Commission, to execute and deliver from time to time Advance requests, notices, and other documents to be delivered in connection with the Bond and the Reimbursement Bond, and such other documents 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.

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

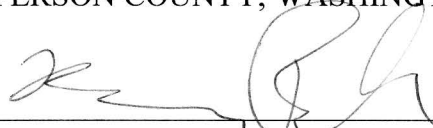
Section 18. Additional Contracts. All of the provisions of this resolution shall constitute a contract between the District and the holder or holders of the Bond and the Reimbursement Bond, and from and after the delivery of the Bond and Reimbursement Bond no amendment, alteration or modification of this resolution shall, without the prior written consent of the holder or holders of the Bond and Reimbursement Bond, be made which shall in any manner impair, impede or lessen the rights of the holder or holders of the Bond and Reimbursement Bond.

Section 19. Severability. If any provision in this resolution is declared by any court of competent jurisdiction to be contrary to law, then such provision shall be null and void and shall be deemed separable from the remaining provision of this resolution and shall in no way affect the validity of the other provisions of this resolution or of the District.

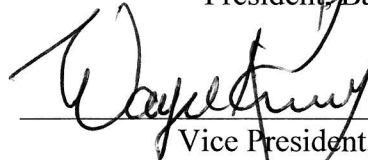
Section 20. Effective Date and Security Document. This resolution shall take effect immediately after its adoption and shall constitute a binding contract between the parties signed below under the heading "Execution as a Security Document."

ADOPTED AND APPROVED by the Board of Commissioners of Public Utility District No. 1 of Jefferson County, Washington, at a meeting this 20th day of November, 2012.

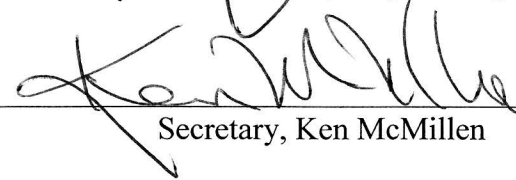
PUBLIC UTILITY DISTRICT NO. 1 OF
JEFFERSON COUNTY, WASHINGTON



President, Barney Burke



Vice President, Wayne King



Secretary, Ken McMillen

EXECUTION AS A SECURITY AGREEMENT

IN WITNESS WHEREOF, the District has caused this Security Agreement to be signed in its name and its enterprise seal to be hereunto affixed and attested by its officers thereunto duly authorized, and the Government has caused this agreement to be duly executed, all as of the day and year of adoption by the District.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON
COUNTY, WASHINGTON, Borrower

(District Seal)

By:

Barney Burke, President

Attest:

Ken McMillen, Secretary

STATE OF WASHINGTON

ss

County of Jefferson

On this 2nd day of JAN, 2013, before me, Nathalia Tantom the undersigned officer, personally appeared Barney Burke and Wayne King who acknowledged themselves to be the President and Secretary, respectively, of Public Utility District No. 1 of Jefferson County, Washington, a corporation, and that they, as such President and Secretary, being authorized so to do, executed the foregoing instrument, for the purposes therein contained, by signing the name of the Enterprise by themselves as President and Secretary.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



Nathalia Tantom

Notary Public

My commission expires:

6-01-15

UNITED STATES OF AMERICA

By _____
Director, Northern Regional Division
of the
Rural Utilities Service

(Seal)

Attest: _____
Assistant Secretary

DISTRICT OF COLUMBIA

ss

BEFORE ME, a Notary Public, in and for the District of Columbia, appeared in person the within named _____, _____ Director, Northern Regional Division of the Rural Utilities Service, United States of America, to me personally known, and known to be the identical person who subscribed the foregoing instrument in said capacity, and who, after being by me duly sworn, stated that he is duly authorized to execute the foregoing instrument for and in the name and behalf of the United States of America, and further stated and acknowledged that he had executed the foregoing instrument as the free and voluntary act and deed of the United States of America, for the consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this _____ day of _____, 2012.

(Notarial Seal)

Notary Public
My commission expires: _____

Exhibit A – Form of Bond Purchase Contract

[Form of Bond Purchase Contract]

Electric Municipal/PUD Borrower

RUS Project Designation:

Washington 60 "A8" Jefferson

RUS BOND PURCHASE CONTRACT

An Agreement Made By And Between

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY,

as Borrower

and

UNITED STATES OF AMERICA,

as Lender

Dated as of _____, 2013

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

RUS BOND PURCHASE CONTRACT

AGREEMENT, dated as of _____, 2013, between PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY ("Borrower"), a municipal corporation organized and existing under the laws of the State of Washington (the "State"), and the UNITED STATES OF AMERICA, acting by and through the Administrator of the Rural Utilities Service ("RUS").

RECITALS

The Borrower has applied to RUS for financial assistance for the purpose(s) set forth in Schedule 1 hereto.

RUS is willing to extend financial assistance to the Borrower pursuant to the Rural Electrification Act of 1936, as amended, on the terms and conditions stated herein.

THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, and other good and valuable consideration, the parties hereto agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Act shall mean the Rural Electrification Act of 1936, as amended.

Additional Bonds shall mean any additional revenue bonds or notes issued by the Borrower pursuant to the Resolution, including any refunding, renewal or substitute revenue bonds or notes which may from time to time be issued by the Borrower pursuant to the Resolution.

Advance or Advances shall mean advances of Bond funds to the Borrower which have been made or approved by RUS pursuant to the terms and conditions of this Agreement.

Agreement shall mean this Bond Purchase Contract together with all schedules and exhibits and also any subsequent supplements or amendments.

Bond shall mean the Bond described in Article III which is being made or guaranteed pursuant to the RUS Commitment in furtherance of the objectives of the Act.

Bond Documents shall mean, collectively, this Agreement, the Resolution and the Bond and shall also include any Reimbursement Bond.

Business Day shall mean any day that RUS is open for business.

Contemporaneous Loan shall mean any loan which the Borrower has used to satisfy RUS Regulations or loan conditions requiring that supplemental financing be obtained in order to obtain a loan from RUS. Any loan used to refinance or refund a Contemporaneous Loan is also considered to be a Contemporaneous Loan.

Coverage Ratios shall mean, collectively, the following financial ratios: (i) TIER of 1.25; (ii) Operating TIER of 1.1; (iii) DSC of 1.25; and (iv) Operating DSC of 1.1.

Debt Service Coverage Ratio ("DSC") shall mean the ratio determined as follows: for each calendar year add

- (i) Patronage Capital or Margins of the Borrower,
- (ii) Interest Expense on Total Long-Term Debt of the Borrower (as computed in accordance with the principles set forth in the definition of TIER) and
- (iii) Depreciation and Amortization expense of the Borrower, and divide the total so obtained by an amount equal to the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt during such calendar year increasing said sum by an addition to Interest Expense on account of Restricted Rentals as computed with respect to the Times Interest Earned Ratio herein.

Depreciation and Amortization Expenses shall mean an amount constituting the depreciation and amortization of the Borrower as computed pursuant to RUS Accounting Requirements.

Distributions shall mean for the Borrower to, in any calendar year, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other Cash Distributions, to its members, stockholders or consumers; provided, however, that for the purposes of this Agreement a "Cash Distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Borrower, but not the repayment of a membership fee upon termination of a membership or the rebate of an abatement of wholesale power costs previously incurred pursuant to an order of a state regulatory authority or a wholesale power cost adjustment clause or similar power pricing agreement between the Borrower and a power supplier.

Electric System shall mean, and shall be broadly construed to encompass and include, all the Borrower's interests in all electric production, transmission, distribution, conservation, load management, general plant and other related facilities, equipment or property and in any mine, well pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind or in any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the Borrower's generating plants, now existing or hereafter acquired by lease, contract, purchase or otherwise or constructed by the Borrower, including any interest or participation of the Borrower in any such facilities or any rights to the output or capacity thereof, together with all additions, betterments, extensions and improvements to such Electric System or any part thereof hereafter made and together with all lands, easements and rights-of-way of the Borrower and all other works, property or structures of the Borrower and contract rights and other tangible and intangible assets of the Borrower used or useful in connection with or related to such Electric System.

Equity shall mean the Borrower's total margins and equities computed pursuant to RUS Accounting Requirements but excluding any Regulatory Created Assets.

Event of Default shall have the meaning as defined in Section 7.1.

Independent when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Borrower or in any affiliate of the Borrower and (3) is not connected with the Borrower as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

Interest Expense shall mean the interest expense of the Borrower computed pursuant to RUS Accounting Requirements.

Long-Term Debt shall mean the total of all amounts included in the long-term debt of the Borrower pursuant to RUS Accounting Requirements.

Margins shall mean the amounts recorded as operating margins and non-operating margins as computed in accordance with RUS Accounting Requirements.

Maturity Date shall have the meaning as defined in the Bond.

Monthly Payment Date shall have the meaning as defined in the Bond.

Net Utility Plant shall mean the amount constituting the Total Utility Plant of the Borrower, less depreciation, computed in accordance with RUS Accounting Requirements.

Note shall mean a revenue bond or bonds or a revenue note or notes executed by the Borrower in the form of Exhibit A hereto, and any revenue bond or note executed and delivered to RUS or to the Federal Financing Bank to refund, or in substitution for such revenue bond or note. If the RUS Commitment includes both a commitment by RUS to make a loan and also a commitment by RUS to guarantee a loan made by the Federal Financing Bank, then Exhibit A includes both forms.

Operating DSC or ODSC shall mean Operating Debt Service Coverage calculated as:

$$\text{ODSC} = \frac{A+B+C}{D}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

A = Depreciation and Amortization Expense of the Electric System;

B = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which the Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity;

C = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System; and

D = Debt service billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year, plus 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity.

Operating TIER or OTIER shall mean Operating Times Interest Earned Ratio calculated as:

$$\text{OTIER} = \frac{A+B}{A}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

- A = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity; and
- B = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System.

Permitted Debt shall have the meaning as defined in Section 6.13.

Prior Loan Contracts shall mean all loan and loan guarantee agreements, if any, previously entered into by and between RUS and the Borrower.

Regulatory Created Assets shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, computed pursuant to RUS Accounting Requirements.

Reimbursement Note shall mean any demand note of the Borrower which evidences the Borrower's obligation to immediately repay RUS any payments which RUS makes on behalf of the Borrower on the Note pursuant to a RUS guaranty if one has been provided under the terms of the RUS Commitment.

Resolution shall have the meaning as described in Schedule 1 hereto.

Restricted Rentals shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of 3 years and covering property having an initial cost in excess of \$250,000 other than aircraft, ships, barges, automobiles, trucks, trailers, rolling stock and vehicles; office, garage and warehouse space; office equipment and computers.

RUS Accounting Requirements shall mean any system of accounts prescribed by RUS Regulations as such RUS Accounting Requirements exist at the date of applicability thereof.

RUS Commitment shall have the meaning as defined in Schedule 1 hereto.

RUS Regulations shall mean regulations of general applicability published by RUS from time to time as they exist at the date of applicability thereof, and shall also include any regulations of other federal entities which RUS is required by law to implement.

Special Construction Account shall have the meaning as defined in Section 5.21.

Subsidiary shall mean a corporation that is a subsidiary of the Borrower and subject to the Borrower's control, as defined by RUS Accounting Requirements.

Termination Date shall mean the date specified in the Bond after which no further Advances shall be made under the terms of the RUS Commitment.

Times Interest Earned Ratio ("TIER") shall mean the ratio determined as follows: for each calendar year: add (i) patronage capital or margins of the Borrower and (ii) Interest Expense on Total Long-Term Debt of the Borrower and divide the total so obtained by Interest Expense on Total Long-Term Debt of the Borrower provided, however that in computing Interest Expense on Total Long-Term Debt, there shall be added, to the extent not

otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Borrower over 2% of the Borrower's Equity.

Total Assets shall mean an amount constituting the total assets of the Borrower as computed pursuant to RUS Accounting Requirements, but excluding any Regulatory Created Assets.

Total Long-Term Debt shall mean the total outstanding long-term debt of the Borrower as computed pursuant to RUS Accounting Requirements.

Total Utility Plant shall mean the amount constituting the total utility plant of the Borrower computed in accordance with RUS Accounting Requirements.

Utility System shall mean the Electric System and any other system that is part of the Electric System and all of the Borrower's interest in community infrastructure located substantially within its electric service territory, namely water and waste systems, solid waste disposal facilities, telecommunications and other electronic communications systems, and natural gas distribution systems, but only to the extent such system(s) have been legally combined with the Electric System.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties.

To induce RUS to make the Loan, and recognizing that RUS is relying hereon, the Borrower represents and warrants as follows:

- (a) **Organization; Power, Etc.** The Borrower: (i) is duly organized, validly existing, and in good standing under the laws of its state of incorporation; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform the Bond Documents; (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or which may be otherwise required by law; and (v) is eligible to obtain the financial assistance from RUS contemplated by this Agreement.
- (b) **Authority.** The execution, delivery and performance by the Borrower of this Agreement and the other Bond Documents and the performance of the transactions contemplated thereby have been duly authorized by all necessary corporate action and shall not violate any provision of law or the Articles of Incorporation or By-Laws of the Borrower or result in a breach of, or constitute a default under, any agreement, indenture or other instrument to which the Borrower is a party or by which it may be bound.
- (c) **Consents.** No consent, permission, authorization, order, or license of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Bond Documents, except (i) such as have been obtained and are in full force and effect and (ii) such as have been disclosed on Schedule 1 hereto.
- (d) **Binding Agreement.** Each of the Bond Documents is, or when executed and delivered shall be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally.

- (e) Compliance with Laws. The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (collectively, "Laws"), the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Bond Documents, except as the Borrower has disclosed to RUS in writing.
- (f) Litigation. There are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties, profits or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Bond Documents, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated, except as the Borrower has disclosed to RUS in writing.
- (g) Title to Property. The Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any liens except such liens as may be permitted by the Resolution.
- (h) Financial Statements; No Material Adverse Change; Etc. All financial statements submitted to RUS in connection with the application for the Bond or in connection with this Agreement fairly and fully present the financial condition of the Borrower and the results of the Borrower's operations for the periods covered thereby and are prepared in accordance with RUS Accounting Requirements consistently applied. Since the dates thereof, there has been no material adverse change in the financial condition or operations of the Borrower. All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to RUS are based upon assumptions that are reasonable and realistic, and as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause any assumption made therein not to be reasonable or realistic.
- (i) Principal Place of Business; Records. The principal place of business and chief executive office of the Borrower is at the address of the Borrower shown on Schedule 1 attached hereto.
- (j) Location of Properties. All property owned by the Borrower is located in the counties identified in Schedule 1 hereto.
- (k) Subsidiaries. The Borrower has no subsidiary, except as the Borrower has disclosed to RUS in writing.
- (l) Defaults Under Other Agreements. The Borrower is not in default under any agreement or instrument to which it is a party or under which any of its properties are subject that is material to its financial condition, operations, properties, profits, or business.
- (m) Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the making of the Advances and the execution and delivery to RUS of the Bond.

ARTICLE III
BOND PURCHASE

Section 3.1. Advances.

RUS agrees to make, or in the case of any bond guaranteed by RUS, approve, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time in an aggregate principal amount not to exceed the RUS Commitment. On the Termination Date, RUS may stop advancing funds and limit the RUS Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by the Bond in the principal amount of the unpaid principal amount of the Advances from time to time outstanding. The Borrower shall give RUS written notice of the date on which each Advance is to be made.

Section 3.2. Interest Rate and Payment.

Each Bond shall be payable and bear interest as follows:

- (a) Payments and Amortization. Principal shall be amortized in accordance with one or more methods stated in Schedule 1 hereto and more fully described in the form of each Bond attached hereto as Exhibit A.
- (b) Application of Payments. All payments which the Borrower sends to RUS on any outstanding obligation owed to or guaranteed by RUS shall be applied in the manner provided in the Borrower's Bond Documents to which such payments relate and in a manner consistent with RUS policies, practices, and procedures for obligations that have been similarly classified by RUS.
- (c) Electronic Funds Transfer. Except as otherwise prescribed by RUS, the Borrower shall make all payments on each Bond utilizing electronic funds transfer procedures as specified by RUS.
- (d) Fixed or Variable Rate. Each Bond shall bear interest at either a fixed or variable rate in accordance with one or more methods stated in Schedule 1 hereto and as more particularly described in the form of each Bond attached hereto as Exhibit A.

Section 3.3. Prepayment.

The Borrower has no right to prepay a Bond in whole or in part except such rights, if any, as are expressly provided for in a Bond or applicable federal statutes. However, prepayment of a Bond (and any penalties) shall be mandatory under Section 5.3 hereof if the Borrower has used a Contemporaneous Loan in order to qualify for the RUS Commitment, and later prepays the Contemporaneous Loan.

ARTICLE IV
CONDITIONS OF LENDING

Section 4.1. General Conditions.

The obligation of RUS to purchase or, in the case of any Bond guaranteed by RUS, approve to be made any Advance hereunder is subject to satisfaction of each of the following conditions precedent on or before the date of such Advance:

- (a) Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for RUS.
- (b) Bond Documents. That RUS receive duly executed originals of this Agreement and the other Bond Documents.
- (c) Authorization. That RUS receive evidence satisfactory to it that all corporate documents and proceedings of the Borrower necessary for duly authorizing the execution, delivery and performance of the Bond Documents have been obtained and are in full force and effect.
- (d) Approvals. That RUS receive evidence satisfactory to it that all consents and approvals (including without limitation the consents referred to in Section 2.1(c) of this Agreement) which are necessary for, or required as a condition of, the validity and enforceability of each of the Bond Documents have been obtained and are in full force and effect.
- (e) Event of Default. That no Event of Default specified in Article VII and no event which, with the lapse of time or the notice and lapse of time specified in Article VII would become such an Event of Default, shall have occurred and be continuing, or shall have occurred after giving effect to the Advance on the books of the Borrower.
- (f) Continuing Representations and Warranties. That the representations and warranties of the Borrower contained in this Agreement be true and correct on and as of the date of such Advance as though made on and as of such date.
- (g) Opinion of Counsel. That RUS receive an opinion of counsel for the Borrower (who shall be acceptable to RUS) in form and content acceptable to RUS.
- (h) Adoption of Resolution. The Resolution has been duly adopted by the Borrower to create a lien on the Borrower's revenues to secure the repayment of the Bond, in accordance with applicable law, and the Borrower shall have caused satisfactory evidence thereof to be furnished to RUS.
- (i) Wholesale Power Contract. That the Borrower shall not be in default under the terms of, or contesting the validity of, any contract for sales for resale that has been pledged by any entity to RUS as security for the repayment of any loan made or guaranteed by RUS under the Act.
- (j) Material Adverse Change. That there has occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower and nothing has occurred which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations hereunder.
- (k) Requisitions. That the Borrower shall requisition all Advances by submitting its requisition to RUS in form and substance satisfactory to RUS. Requisitions shall be made only for the

purpose(s) set forth herein. The Borrower agrees to apply the proceeds of the Advances in accordance with its loan application with such modifications as may be mutually agreed.

- (l) Flood Insurance. That for any Advance used in whole or in part to finance the construction or acquisition of any building in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973 (the "Flood Insurance Act") or any rules, regulations or orders issued to implement the Flood Insurance Act ("Rules") as any area having special flood hazards, or to finance any facilities or materials to be located in any such building, or in any building owned or occupied by the Borrower and located in such a flood hazard area, the Borrower has submitted evidence, in form and substance satisfactory to RUS, or RUS has otherwise determined, that (i) the community in which such area is located is then participating in the national flood insurance program, as required by the Flood Insurance Act and any Rules, and (ii) the Borrower has obtained flood insurance coverage with respect to such building and contents as may then be required pursuant to the Flood Insurance Act and any Rules.
- (m) Compliance with Bond Purchase Contract and Resolution. That the Borrower is in material compliance with all provisions of this Agreement and the Resolution.

Section 4.2. Special Conditions.

The obligation of RUS to make or, in the case of any Bond guaranteed by RUS, approve to be made any Advance hereunder is also subject to satisfaction, on or before the date of such Advance, of each of the special conditions, if any, listed in Schedule 1 hereto.

ARTICLE V

AFFIRMATIVE COVENANTS

Section 5.1. Generally.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding, the Borrower agrees to duly observe each of the affirmative covenants contained in this Article.

Section 5.2. Annual Certificates.

- (a) Performance under Bond Documents. The Borrower shall duly observe and perform all of its obligations under each of the Bond Documents.
- (b) Annual Certification. Within ninety (90) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, the Borrower shall deliver to RUS a written statement signed by its General Manager, stating that during such year the Borrower has fulfilled all of its obligations under the Bond Documents throughout such year in all material respects or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof.

Section 5.3. Simultaneous Prepayment of Contemporaneous Loans.

If the Borrower shall at any time prepay in whole or in part the Contemporaneous Loan described on Schedule 1, the Borrower shall prepay the Bond correspondingly in order to maintain the ratio that the Contemporaneous Loan bears to the RUS Commitment. If the Bond calls for a

prepayment penalty or premium, such amount shall be paid but shall not be used in computing the amount needed to be paid to RUS under this section to maintain such ratio. In the case of Contemporaneous Loans and RUS revenue bonds or notes existing prior to the date of this Agreement under previous agreements, prepayments shall be treated as if governed by this section. Provided, however, in all cases prepayments associated with refinancing or refunding a Contemporaneous Loan pursuant to Resolution are not considered to be prepayments for purposes of this Agreement if they satisfy each of the following requirements:

- (a) Principal. The principal amount of such refinancing or refunding bond is not less than the amount of loan principal being refinanced; and
- (b) Weighted Average Life. The weighted average life of the refinancing or refunding bond is not less than the weighted average remaining life of the loan being refinanced.

Section 5.4. Rates to Provide Revenue Sufficient to Meet Coverage Ratios Requirements.

- (a) Prospective Requirement. The Borrower shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and outages due to weather and the related costs.
- (b) Retrospective Requirement. The average Coverage Ratios achieved by the Borrower in the 2 best years out of the 3 most recent calendar years must be not less than any of the following:

TIER =	1.25
DSC =	1.25
OTIER =	1.1
ODSC =	1.1

- (c) Prospective Notice of Change in Rates. The Borrower shall give thirty (30) days prior written notice of any proposed change in its general rate structure to RUS if RUS has requested in writing that it be notified in advance of such changes.
- (d) Routine Reporting of Coverage Ratios. Promptly following the end of each calendar year, the Borrower shall report, in writing, to RUS the TIER, Operating TIER, DSC and Operating DSC levels which were achieved during that calendar year.
- (e) Reporting Non-achievement of Retrospective Requirement. If the Borrower fails to achieve the average levels required by paragraph (b) of this section, it must promptly notify RUS in writing to that effect.
- (f) Corrective Plans. Within 30 days of sending a notice to RUS under paragraph (e) of this section, or of being notified by RUS, whichever is earlier, the Borrower in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the required Coverage Ratios on a timely basis.

- (g) Noncompliance. Failure to design and implement rates pursuant to paragraph (a) of this section and failure to develop and implement the plan called for in paragraph (f) of this section shall constitute an Event of Default under this Agreement in the event that RUS so notifies the Borrower to that effect under section 7.1(d) of this Agreement.

Section 5.5. Depreciation Rates.

The Borrower shall adopt as its depreciation rates only those which have been previously approved for the Borrower by RUS.

Section 5.6. Property Maintenance.

The Borrower shall maintain and preserve its Utility System in compliance in all material respects with the provisions of the Resolution, RUS Regulations and all applicable laws.

Section 5.7. Financial Books.

The Borrower shall at all times keep, and safely preserve, proper books, records and accounts in which full and true entries shall be made of all of the dealings, business and affairs of the Borrower and its Subsidiaries, in accordance with any applicable RUS Accounting Requirements.

Section 5.8. Rights of Inspection.

The Borrower shall afford RUS, through its representatives, reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect the Utility System, and any or all books, records, accounts, invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business, including its Subsidiaries, if any, and to make copies or extracts therefrom.

Section 5.9. Area Coverage.

- (a) The Borrower shall make diligent effort to extend electric service to all unserved persons within the service area of the Borrower who (i) desire such service and (ii) meet all reasonable requirements established by the Borrower as a condition of such service.
- (b) If economically feasible and reasonable considering the cost of providing such service and/or the effects on consumers' rates, such service shall be provided, to the maximum extent practicable, at the rates and minimum charges established in the Borrower's rate schedules, without the payment of such persons, other than seasonal or temporary consumers, of a contribution in aid of construction. A seasonal consumer is one that demands electric service only during certain seasons of the year. A temporary consumer is a seasonal or year-round consumer that demands electric service over a period of less than five years.
- (c) The Borrower may assess contributions in aid of construction provided such assessments are consistent with this section.

Section 5.10. Real Property Acquisition.

In acquiring real property, the Borrower shall comply in all material respects with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (the "Uniform Act"), as amended by the Uniform Relocation Act Amendments of 1987, and 49 CFR

part 24, referenced by 7 CFR part 21, to the extent the Uniform Act is applicable to such acquisition.

Section 5.11. "Buy American" Requirements.

The Borrower shall use or cause to be used in connection with the expenditures of funds advanced on account of the Loan only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States or any eligible country, and only such manufactured articles, materials, and supplies as have been manufactured in the United States or any eligible country substantially all from articles, materials, and supplies mined, produced or manufactured, as the case may be, in the United States or any eligible country, except to the extent RUS shall determine that such use shall be impracticable or that the cost thereof shall be unreasonable. For purposes of this section, an "eligible country" is any country that applies with respect to the United States an agreement ensuring reciprocal access for United States products and services and United States suppliers to the markets of that country, as determined by the United States Trade Representative.

Section 5.12. Power Requirements Studies.

The Borrower shall prepare and use power requirements studies of its electric loads and future energy and capacity requirements in conformance with RUS Regulations.

Section 5.13. Long Range Engineering Plans and Construction Work Plans.

The Borrower shall develop, maintain and use up-to-date long-range engineering plans and construction work plans in conformance with RUS Regulations.

Section 5.14. Design Standards, Construction Standards, and List of Materials.

The Borrower shall use design standards, construction standards, and lists of acceptable materials in conformance with RUS Regulations.

Section 5.15. Plans and Specifications.

The Borrower shall submit plans and specifications for construction to RUS for review and approval, in conformance with RUS Regulations, if the construction will be financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.16. Standard Forms of Construction Contracts, and Engineering and Architectural Services Contracts.

The Borrower shall use the standard forms of contracts promulgated by RUS for construction, procurement, engineering services and architectural services in conformance with RUS Regulations, if the construction, procurement, or services are being financed in whole or in part by a loan being made or guaranteed by RUS.

Section 5.17. Contract Bidding Requirements.

The Borrower shall follow RUS contract bidding procedures in conformance with RUS Regulations when contracting for construction or procurement financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.18. Nondiscrimination.

- (a) Equal Opportunity Provisions in Construction Contracts. The Borrower shall incorporate or cause to be incorporated into any construction contract, as defined in Executive Order 11246 of September 24, 1965 and implementing regulations, which is paid for in whole or in part with funds obtained from RUS or borrowed on the credit of the United States pursuant to a grant, contract, loan, insurance or guarantee, or undertaken pursuant to any RUS program involving such grant, contract, loan, insurance or guarantee, the equal opportunity provisions set forth in Exhibit B hereto entitled Equal Opportunity Contract Provisions.
- (b) Equal Opportunity Contract Provisions Also Bind the Borrower. The Borrower further agrees that it shall be bound by such equal opportunity clause in any federally assisted construction work which it performs itself other than through the permanent work force directly employed by an agency of government.
- (c) Sanctions and Penalties. The Borrower agrees that it shall cooperate actively with RUS and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations and relevant orders of the Secretary of Labor, that it shall furnish RUS and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it shall otherwise assist the administering agency in the discharge of RUS's primary responsibility for securing compliance. The Borrower further agrees that it shall refrain from entering into any contract or contract modification subject to Executive Order 11246 with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to Part II, Subpart D of Executive Order 11246 and shall carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by RUS or the Secretary of Labor pursuant to Part II, Subpart D of Executive Order 11246. In addition, the Borrower agrees that if it fails or refuses to comply with these undertakings RUS may cancel, terminate or suspend in whole or in part this contract, may refrain from extending any further assistance under any of its programs subject to Executive Order 11246 until satisfactory assurance of future compliance has been received from such Borrower, or may refer the case to the Department of Justice for appropriate legal proceedings.

Section 5.19. Financial Reports.

The Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, audited and certified by Independent certified public accountants satisfactory to RUS and accompanied by a report of such audit in form and substance satisfactory to RUS. The Borrower shall also furnish to RUS from time to time such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may reasonably request or RUS Regulations require.

Section 5.20. Miscellaneous Reports and Notices.

The Borrower shall furnish to RUS:

- (a) Notice of Default. Promptly after becoming aware thereof, notice of: (i) the occurrence of any default; and (ii) the receipt of any notice given pursuant to the Resolution with respect to the occurrence of any event which with the giving of notice or the passage of time, or both, could become an "Event of Default" under the Resolution.

- (b) Notice of Non-Environmental Litigation. Promptly after the commencement thereof, notice of the commencement of all actions, suits or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Borrower which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Bond Documents.
- (c) Notice of Environmental Litigation. Without limiting the provisions of Section 5.20(b) above, promptly after receipt thereof, notice of the receipt of all pleadings, orders, complaints, indictments, or other communications alleging a condition that may require the Borrower to undertake or to contribute to a cleanup or other response under laws relating to environmental protection, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such laws, or which claim personal injury or property damage to any person as a result of environmental factors or conditions for which the Borrower is not fully covered by insurance, or which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Bond Documents.
- (d) Notice of Change of Place of Business. Promptly in writing, notice of any change in location of its principal place of business or the office where its records concerning accounts and contract rights are kept.
- (e) Regulatory and Other Notices. Promptly after receipt thereof, copies of any notices or other communications received from any governmental authority with respect to any matter or proceeding which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Bond Documents.
- (f) Material Adverse Change. Promptly, notice of any matter which has resulted or may result in a material adverse change in the condition, financial or otherwise, operations, properties, or business of the Borrower, or the ability of the Borrower to perform its obligations under the Bond Documents.
- (g) Other Information. Such other information regarding the condition, financial or otherwise, or operations of the Borrower as RUS may, from time to time, reasonably request.

Section 5.21. Special Construction Account.

The Borrower shall hold all moneys advanced to it by RUS hereunder in trust for RUS and shall deposit such moneys promptly after the receipt thereof in a bank or banks which meet the requirements of Section 6.7 of this Agreement. Any account (hereinafter called "Special Construction Account") in which any such moneys shall be deposited shall be insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS and shall be designated by the corporate name of the Borrower followed by the words "Trustee, Special Construction Account." Moneys in any Special Construction Account shall be used solely for the construction and operation of the Utility System and may be withdrawn only upon checks, drafts, or orders signed on behalf of the Borrower and countersigned by an executive officer thereof.

Section 5.22. Additional Affirmative Covenants.

The Borrower also agrees to comply with any additional affirmative covenant(s) identified in Schedule 1 hereto.

ARTICLE VI
NEGATIVE COVENANTS

Section 6.1. General.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding hereunder, the Borrower shall duly observe each of the negative covenants set forth in this Article.

Section 6.2. Limitations on System Extensions and Additions.

- (a) The Borrower shall not extend or add to its Electric System either by construction or acquisition without the prior written approval of RUS if the construction or acquisition is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee.
- (b) The Borrower shall not extend or add to its Electric System with funds from other sources without prior written approval of RUS in the case of:
 - (1) Generating facilities if the combined capacity of the facilities to be built, procured, or leased, including any future facilities included in the planned project, will exceed the lesser of 5 Megawatts or 30 percent of the Borrower's Equity;
 - (2) Existing electric facilities or systems in service whose purchase price, or capitalized value in the case of a lease, exceeds 10 percent of the Borrower's Net Utility Plant; and
 - (3) Any project to serve a customer whose annual kWh purchases or maximum annual kW demand is projected to exceed 25 percent of the Borrower's total kWh sales or maximum kW demand in the year immediately preceding the acquisition or start of construction of facilities.

Section 6.3. Limitations on Changing Principal Place of Business.

The Borrower shall not change its principal place of business or keep property outside of its service area or take any action with respect to the Electric System, if such change or action would impair the lien in favor of RUS on the Borrower's revenues as provided for in the Resolution.

Section 6.4. Limitations on Employment and Retention of Manager.

At any time any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing the Borrower shall not employ any general manager of the Utility System or the Electric System or any person exercising comparable authority to such a manager unless such employment shall first have been approved by RUS. If any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing and RUS requests the Borrower to terminate the employment of any such manager or person exercising comparable authority, or RUS requests the Borrower to terminate any contract for operating the Utility System or the Electric System, the Borrower shall do so within thirty (30) days after the date of such notice. All contracts in respect of the employment of any such manager or person exercising comparable authority, or for the operation of the Utility System or the Electric System, shall contain provisions to permit compliance with the foregoing covenants.

Section 6.5. Limitations on Certain Types of Contracts.

Without the prior approval of RUS in writing, the Borrower shall not enter into any of the following contracts:

- (a) Construction contracts. Any contract for construction or procurement or for architectural and engineering services in connection with its Electric System if the project is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee;
- (b) Large retail power contracts. Any contract to sell electric power and energy for periods exceeding two years if the kWh sales or kW demand for any year covered by such contract shall exceed 25 percent of the Borrower's total kWh sales or maximum kW demand for the year immediately preceding the execution of such contract;
- (c) Wholesale power contracts. Any contract to sell electric power or energy for resale and any contract to purchase electric power or energy that, in either case, has a term exceeding two years;
- (d) Power supply arrangements. Any interconnection agreement, interchange agreement, wheeling agreement, pooling agreement or similar power supply arrangement that has a term exceeding two years;
- (e) System management and maintenance contracts. Any contract for the management and operation of all or substantially all of its Electric System; or
- (f) Other contracts. Any contracts of the type described on Schedule 1.

Section 6.6. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets.

- (a) The Borrower shall not consolidate with, or merge, or sell all or substantially all of its business or assets, to another entity or person except to the extent it is permitted to do so under the Resolution. The exception contained in this paragraph (a) is subject to the additional limitation set forth in paragraph (b) of this section.
- (b) The Borrower shall not, without the written approval of RUS, voluntarily or involuntarily sell, convey or dispose of any portion of its business or assets (including, without limitation, any portion of its franchise or service territory) to another entity or person if such sale, conveyance or disposition could reasonably be expected to reduce the Borrower's existing or future requirements for energy or capacity being furnished to the Borrower under any wholesale power contract which has been pledged as security to RUS.

Section 6.7. Limitations on Using non-FDIC Insured Depositories.

Without the prior written approval of RUS, the Borrower shall not place the proceeds of the Bond or any loan which has been made or guaranteed by RUS in the custody of any bank or other depository that is not insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS.

Section 6.8. Limitation on Distributions.

Without the prior written approval of RUS, the Borrower shall not in any calendar year make any Distributions (exclusive of any Distributions to the estates of deceased natural patrons) to its members, stockholders or consumers except as follows:

- (a) Equity above 30%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 30% of its Total Assets; or
- (b) Equity above 20%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 20% of its Total Assets and the aggregate of all Distributions made during the calendar year when added to such Distribution shall be less than or equal to 25% of the prior year's margins.

Provided however, that in no event shall the Borrower make any Distributions if there is unpaid when due any installment of principal of (premium, if any) or interest on any of its payment obligations secured by the pledge of revenues provided for in the Resolution, if the Borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's current and accrued assets would be less than its current and accrued liabilities.

Section 6.9. Limitations on Loans, Investments and Other Obligations.

The Borrower shall not make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any other person, firm or corporation, except as permitted by the Act and RUS Regulations.

Section 6.10. Depreciation Rates.

The Borrower shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which are inconsistent with RUS Regulations.

Section 6.11. Historic Preservation.

The Borrower shall not, without approval in writing by RUS, use any Advance to construct any facilities which shall involve any district, site, building, structure or object which is included in, or eligible for inclusion in, the National Register of Historic Places maintained by the Secretary of the Interior pursuant to the Historic Sites Act of 1935 and the National Historic Preservation Act of 1966.

Section 6.12. Rate Reductions.

Without the prior written approval of RUS, the Borrower shall not decrease its rates if it has failed to achieve all of the Coverage Ratios for the calendar year prior to such reduction.

Section 6.13. Limitations on Additional Indebtedness.

Except as expressly permitted by the Resolution and subject to the further limitations expressed in the next section, the Borrower shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals other than the following ("Permitted Debt"):

- (a) Additional Bonds issued in compliance with the Resolution;
- (b) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (c) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;

- (d) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (e) Indebtedness secured solely by Electric System Revenue, except when the aggregate amount of such indebtedness exceeds 15% (including junior liens on the Borrower's revenues) of Net Utility Plant and after giving effect to such unsecured indebtedness the Borrower's Equity is less than 30% of its Total Assets;

PROVIDED, However, that the Borrower may incur Permitted Debt without the consent of RUS only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Agreement any consent of RUS that the Borrower would otherwise be required to obtain under this section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate federal laws or RUS Regulations.

Section 6.14. Limitations on Issuing Additional Indebtedness Secured Under the Resolution.

- (a) The Borrower shall not issue any Additional Bonds under the Resolution to finance additions, betterments, extensions and improvements to the Electric System without the prior written consent of RUS unless the following additional requirements are met in addition to the requirements set forth in the Resolution for issuing Additional Bonds:
 - (1) The weighted average life of the loan evidenced by such Bonds does not exceed the weighted average of the expected remaining useful lives of the assets being financed;
 - (2) The principal of the loan evidenced by such Bonds is amortized at a rate that shall yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest; and
 - (3) The principal of the loan being evidenced by such Bonds has a maturity of not less than 5 years.
- (b) The Borrower shall not issue any Additional Bonds under the Resolution to refund or refinance revenue bonds or notes without the prior written consent of RUS unless, in addition to the requirements set forth in the Resolution for issuing refunding or refinancing Additional Bonds, the weighted average life of any such refunding or refinancing Additional Bonds is not greater than the weighted average remaining life of the revenue bonds or notes being refunded or refinanced.
- (c) Any request for consent under this section, shall be accompanied by a certificate of the Borrower's manager substantially in the form attached to this Agreement as Exhibit C-1 in the case of Additional Bonds referred to in (a) above and C-2 in the case of Additional Bonds referred to in (b) above.

Section 6.15. Impairment of Contracts Pledged to RUS.

The Borrower shall not materially breach any obligation to be paid or performed by the Borrower on any contract, or take any action which is likely to materially impair the value of any contract, which has been pledged as security to RUS by the Borrower or any other entity.

Section 6.16. Additional Negative Covenants.

The Borrower also agrees to comply with any additional negative covenant(s) identified in Schedule 1 hereto.

**ARTICLE VII
EVENTS OF DEFAULT**

Section 7.1. Events of Default.

The following shall be Events of Default under this Agreement:

- (a) Representations and Warranties. Any representation or warranty made by the Borrower in Article II hereof or any certificate furnished to RUS hereunder or under the Resolution shall prove to have been incorrect in any material respect at the time made and shall at the time in question be untrue or incorrect in any material respect and remain uncured;
- (b) Payment. Default shall be made in the payment of or on account of interest on or principal of the Note or any other revenue bond or notes of the Borrower that have been previously delivered to RUS under Prior Bond Purchase Contracts when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;
- (c) Borrowing Under the Resolution in Violation of the Bond Purchase Contract. Default by the Borrower in the observance or performance of any covenant or agreement contained in Section 6.14 of this Agreement;
- (d) Other Covenants. Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Bond Documents, which shall remain unremedied for 30 calendar days after written notice thereof shall have been given to the Borrower by RUS;
- (e) Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;
- (f) Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;
- (g) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and

in effect for a period of 90 consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors; and

- (h) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within 30 days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions.

ARTICLE VIII

REMEDIES

Section 8.1. Generally.

Upon the occurrence of an Event of Default, then RUS may pursue all rights and remedies available to RUS that are contemplated by this Agreement or the Resolution in the manner, upon the conditions, and with the effect provided in this Agreement or the Resolution, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of RUS to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VII hereof. Each right, power and remedy of RUS shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

Section 8.2. Suspension of Advances.

In addition to the rights, powers and remedies referred to in the immediately preceding section, RUS may, in its absolute discretion, suspend making or, in the case of any Loan guaranteed by RUS, approving Advances hereunder if (i) any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing; (ii) there has occurred a change in the business or condition, financial or otherwise, of the Borrower which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations under the Bond Documents, or (iii) RUS is authorized to do so under RUS Regulations.

ARTICLE IX
MISCELLANEOUS

Section 9.1. Notices.

All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Addresses for Notices of the respective parties are set forth in Schedule I hereto.

Section 9.2. Expenses.

To the extent allowed by law, the Borrower shall pay all costs and expenses of RUS, including reasonable fees of counsel, incurred in connection with the enforcement of the Bond Documents or with the preparation for such enforcement if RUS has reasonable grounds to believe that such enforcement may be necessary.

Section 9.3. Late Payments.

If payment of any amount due hereunder is not received at the United States Treasury in Washington, DC, or such other location as RUS may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as RUS may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower shall pay to RUS, in addition to all other amounts due under the terms of the Bond, the Resolution and this Agreement, any late-payment charge as may be fixed by RUS Regulations from time to time on the delinquent amount for the late-payment period.

Section 9.4. Filing Fees.

To the extent permitted by law, the Borrower agrees to pay all expenses of RUS (including the fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by RUS in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify RUS from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by RUS in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on the Bond.

Section 9.5. No Waiver.

No failure on the part of RUS to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by RUS of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 9.6. Governing Law.

EXCEPT TO THE EXTENT GOVERNED BY APPLICABLE FEDERAL LAW, THE BOND DOCUMENTS SHALL BE DEEMED TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE IN WHICH THE BORROWER IS INCORPORATED.

Section 9.7. Holiday Payments.

If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 9.8. Rescission.

The Borrower may elect not to borrow the RUS Commitment in which event RUS shall release the Borrower from its obligations hereunder, provided the Borrower complies with such terms and conditions as RUS may impose for such release and provided also that if the Borrower has any remaining obligations to RUS for loans made or guaranteed by RUS under any Prior Bond Purchase Contracts, RUS may, under Section 9.15 of this Bond Purchase Contract, withhold such release until all such obligations have been satisfied and discharged.

Section 9.9. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Borrower and RUS and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of RUS.

Section 9.10. Complete Agreement; Waivers and Amendments.

Subject to RUS Regulations, this Agreement and the other Bond Documents are intended by the parties to be a complete and final expression of their agreement. However, RUS reserves the right to waive its rights to compliance with any provision of this Agreement and the other Bond Documents. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure of the Borrower herefrom or therefrom, shall be effective unless approved in writing by RUS in the form of either a RUS Regulation or other writing signed by or on behalf of RUS, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 9.11. Headings.

The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 9.12. Severability.

If any term, provision or condition, or any part thereof, of this Agreement or the Resolution shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Bond, and the Resolution shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 9.13. Right of Setoff.

Upon the occurrence and during the continuance of any Event of Default, RUS is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held or hereafter held, by RUS or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under the Bond. RUS agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of RUS under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which RUS may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

Section 9.14. Schedules and Exhibits.

Each Schedule and Exhibit attached hereto and referred to herein is each an integral part of this Agreement.

Section 9.15. Prior Loan Contracts.

With respect to all Prior Loan Contracts, the Borrower shall, commencing on the delivery date hereof, prospectively meet the affirmative and negative covenants as set forth in this Agreement rather than those set forth in the Prior Loan Contracts. In addition, any remaining obligation of RUS to make or approve additional Advances on promissory notes of the Borrower that have been previously delivered to RUS under Prior Loan Contracts shall, after the date hereof, be subject to the conditions set forth in this Agreement. In the event of any conflict between any provision set forth in a Prior Loan Contract and any provision in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify (i) any special condition, special affirmative covenant or special negative covenant, if any, set forth in any Prior Loan Contract or (ii) alter the repayment terms of any revenue bonds or notes which the Borrower has delivered under any Prior Loan Contract, except, in either case, as RUS may have specifically agreed to in writing.

Section 9.16. Authority of Representatives of RUS.

In the case of any consent, approval or waiver from RUS that is required under this Agreement or any other Bond Document, such consent, approval or waiver must be in writing and signed by an authorized RUS representative to be effective. As used in this section, "authorized RUS representative" means the Administrator of RUS, and also means a person to whom the Administrator has officially delegated specific or general authority to take the action in question.

Section 9.17. Term.

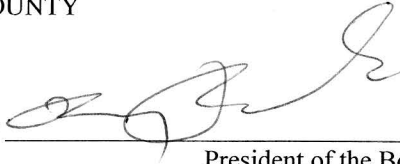
This Agreement shall remain in effect until one of the following two events has occurred:

- (a) The Borrower and RUS replace this Agreement with another written agreement; or
- (b) All of the Borrower's obligations under the Prior Bond Purchase Contracts and this Agreement have been discharged and paid.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON
COUNTY

By



President of the Board

(Seal)

Attest: _____

Secretary of the Board

UNITED STATES OF AMERICA

By _____

Director – Northern Regional Division of the
Rural Utilities Service

RUS BOND PURCHASE CONTRACT SCHEDULE 1

1. The purpose of this bond is to finance acquisition of electric utility facilities [as described in the application] and such other purposes that RUS may agree to in writing in order to carry out the purposes of the Act.
2. Resolution shall mean the revenue bond resolution adopted by the Borrower authorizing the issuance of the Bond.
3. The governmental authority referred to in Section 2.1(c) is **Not Applicable**.
4. The date of the Borrower's financial information referred to in Section 2.1(h) is for the year ended December 31, 2011.
5. The principal place of business of the Borrower referred to in Section 2.1(i) is Port Hadlock, Washington.
6. All of the property of the Borrower is located in the County of Jefferson in the State of Washington.
7. There are no subsidiaries as referred to in Section 2.1(k), but does have separate water and sewer systems.
8. The Contemporaneous Loan referred to in Section 5.3 is described as follows:

None.
9. The RUS Commitment referred to in the definitions means a bond in the principal amount of \$115,507,000.00, which is being made by RUS to Public Utility District No. 1 of Jefferson County by the Federal Financing Bank (FFB) and guaranteed as to payment by RUS, pursuant to the Rural Electrification Act and RUS Regulations.
10. Amortization of Advances shall be based upon the method for the repayment of principal for an Advance selected for such Advance, in accordance with that certain Bond dated as of even date herewith, evidencing the RUS-guaranteed FFB bond.
11. The SPECIAL condition referred to in Section 4.2 is as follows:

The Borrower has delivered to the Administrator of RUS, in form and substance satisfactory to him, evidence that the Borrower has duly authorized, executed and adopted, a resolution providing for the issuance to the Government of revenue bonds evidencing the bond and providing security for such revenue bonds.

The Borrower has duly authorized, executed and has delivered to the Administrator of RUS, the Bond, dated _____, 2013, evidencing the loan made by FFB to the Borrower, within ninety (90) days of the date of the certain designation notice committing FFB to purchase the Bond (the "Designation Notice"), in the manner prescribed in the Designation Notice and has satisfied all the conditions set forth in the Designation Notice.
12. The additional AFFIRMATIVE covenants referred to in Section 5.22 are as follows:

None.
13. The additional NEGATIVE covenants referred to in Section 6.16 are as follows:

None.

14. The addresses of the parties referred to in Section 9.1. are as follows:

RUS

Rural Utilities Service
U.S. Department of Agriculture
Washington, DC 20250-1500
Attention: Administrator
Fax: (202) 720-0498

BORROWER

Public Utility District No. 1 of
Jefferson County
P.O. Box 929
Port Hadlock, Washington 98339-0929
Fax: (360) 385-5945

15. The additional types of contract referred to in Section 6.5(f) are described as follows:

None.

16. Section 3.2 – method for establishing fixed or variable interest rate will be established with each advance.

EXHIBIT A

FORM OF REVENUE BOND

This Exhibit A of this Bond Purchase Contract consists of the following sample document:

EXHIBIT B

EQUAL OPPORTUNITY CONTRACT PROVISIONS

During the performance of this contract, the contractor agrees as follows:

- (a) The contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.
- (b) The contractor shall, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants shall receive consideration for employment without regard to race, color, religion, sex or national origin.
- (c) The contractor shall send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided advising the said labor union or workers' representative of the contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (d) The contractor shall comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- (e) The contractor shall furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and shall permit access to his books, records and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (f) In the event of the contractor's noncompliance with the non-discrimination clauses of this contract or with any of the said rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
- (g) The contractor shall include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246, dated September 24, 1965, so that such provisions shall be binding upon each subcontractor or vendor. The contractor shall take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT C-1

MANAGER'S CERTIFICATE REQUIRED UNDER LOAN
CONTRACT SECTION 6.14 FOR ADDITIONAL NOTES

On behalf of _____
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under the Resolution on or about _____ meet all of the requirements of
_____ Date Note or Notes are to be Signed
Section 6.14 of the Bond Purchase Contract, namely:

- (a) The weighted average life of the loan evidenced by such Notes (_____ years) does not exceed the weighted average of the expected remaining useful lives of the assets being financed (_____ years) as evidenced by the attached calculation of said weighted average lives.
- (b) The principal of the loan evidenced by such Notes shall either be [check one and provide evidence in the second case:
 - (1) repaid based on level payments of principal and interest throughout the life of the loan, or
 - (2) amortized at a rate that shall yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest throughout the life of the loan as evidenced by the attached analysis of said weighted average lives.
- (c) The principal of the loan evidenced by such Notes has a maturity of not less than 5 years.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

EXHIBIT C-2

**MANAGER'S CERTIFICATE REQUIRED UNDER BOND PURCHASE CONTRACT
SECTION 6.14 FOR REFINANCING NOTES**

On behalf of _____
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under the Resolution on or about _____ meet the requirement of Section 6.14

_____ Date Note or Notes are to be Signed
of the Bond Purchase Contract that the weighted average life of such Notes is not greater than the weighted average remaining life of the Notes being refinanced, as evidenced by the attached calculation of said weighted average lives.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

Exhibit B – Form of Reimbursement Bond

[Form of Reimbursement Bond]

(FFB-REIM.NTE)

5/97

FFB Note Identifier:

"A8"

WASHINGTON 60 JEFFERSON

RUS Note Identifier:

Port Hadlock, Washington

_____, 2013

REIMBURSEMENT BOND

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY (the "Borrower"), which term includes any successors or assigns, a corporation organized and existing under the laws of the State of Washington, for value received, promises to pay on demand to the order of the UNITED STATES OF AMERICA (the "Government"), acting through the Administrator of the Rural Utilities Service ("RUS"), at the United States Treasury, Washington, D.C., a sum equal to:

(1) all amounts, including, without limitation, principal and interest (the "Reimbursed Amount"), paid by the Government from time to time pursuant to that certain guarantee by RUS (the "RUS Guarantee"), made by RUS to the Federal Financing Bank ("FFB") of amounts payable to FFB under a bond dated _____, 2013, made by the Borrower payable to FFB and guaranteed by RUS (the "FFB Bond") pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 *et seq.*), Section 6 of the Federal Financing Bank Act of 1973 (12 U.S.C. §2285), and the Note Purchase Commitment and Servicing Agreement, as amended and as it may be amended, supplemented, or restated from time to time, dated as of January 1, 1992, between FFB and RUS (all such amounts hereinafter collectively called the "Principal Amount"), and

(2) with interest on the Principal Amount from the respective date of such payment by RUS to FFB, at the Late Charge Rate as that term is defined in the FFB Bond, and

(3) administrative costs and penalty charges assessed in accordance with applicable regulations, and

(4) any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Security Instrument, as hereinafter defined.

The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment or counterclaim it might otherwise have against the Government.

So long as FFB has received all amounts then due to it under the RUS Guarantee, the Borrower agrees to pay all amounts due on this Bond directly to RUS.

Nothing herein shall limit the Government's rights of subrogation which may arise as a result of payments made by RUS pursuant to the RUS Guarantee.

This Bond is one of several bonds permitted to be executed and delivered by, and is entitled to the benefits and security of, Resolution No. _____, adopted _____, 2013, dated effective _____, 2013, made by and among the Borrower and the Government, as it may have heretofore been, or as it may hereinafter be, amended, supplemented, restated, or consolidated from time to time in accordance with its terms, being, collectively, the Security Instrument (the "Security Instrument"). The Security Instrument provides that all bonds shall be equally and ratably secured thereby and reference is hereby made to the Security Instrument for a description of the property pledged, the nature and extent of the security and the rights, powers, privileges, and remedies of, the holders of bonds with respect thereto.

Neither the execution and delivery of this Bond by the Borrower to the Government, nor the failure of the Government to exercise any of its rights, powers, privileges or remedies under the Security Instrument shall be deemed to be a waiver of any right, power, privilege or remedy of the Government, as a holder of this Bond, under the Security Instrument.

IN WITNESS WHEREOF, the Borrower has caused this Bond to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON
COUNTY

By: _____

Name: _____

Title: President of its Commission

(Seal)

Attest: _____

Secretary

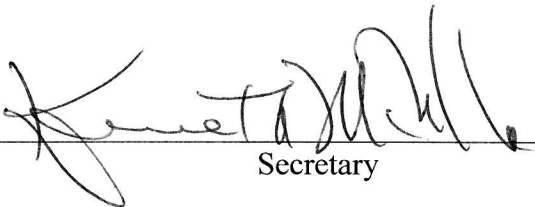
CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners of the Public Utility District No. 1 of Jefferson County, Washington, and keeper of the records of the Commission (the "Commission"), DO HEREBY CERTIFY:

1. That the attached is a true and correct copy of Resolution No. 2012-024 of the Commission, duly adopted at a regular meeting thereof held on the 20th day of November, 2012.

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 Commission 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.

Dated this 20th day of November, 2012.


Secretary