

**SCATCHET HEAD WATER DISTRICT
ISLAND COUNTY, WASHINGTON**

RESOLUTION NO. 2026-7

A RESOLUTION of the Board of Commissioners of Scatchet Head Water District, Island County, Washington, providing for the issuance of a taxable water revenue bond of the District in the principal amount of \$2,500,000, for the purpose of providing funds to pay part of the cost of improvements to the water system; fixing the date, form, maturity, interest rate, terms and covenants of the bond; providing for the registration and authentication of the bond; creating, adopting and continuing certain funds and accounts; providing for the issuance of additional bonds; approving the sale and providing for the delivery of the bond to the United States of America, acting through the United States Department of Agriculture; and providing for related matters.

Adopted: May 19, 2026

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BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF SCATCHET HEAD WATER DISTRICT, ISLAND COUNTY, WASHINGTON, as follows:

Section 1. Definitions.

The capitalized words and phrases set forth in this Resolution have the respective meanings given such words and phrases in this Section, unless the context clearly requires otherwise.

(a) “Annual Debt Service” means, with respect to Parity Bonds for any calendar year, all the interest due on the Parity Bonds in such year, plus all principal of the Parity Bonds (including any such principal scheduled to be paid by means of mandatory redemption and sinking fund payment requirements) that will mature or become due in such year, less (except so long as the Purchaser is the Registered Owner) all capitalized interest payable in such year from the proceeds of any such bonds.

(b) “Average Annual Debt Service” means for the Parity Bonds, the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of such Parity Bonds divided by the number of those years.

(c) “Board” means the Board of Commissioners of the District.

(d) “Bond” means the taxable water revenue bond of the District issued pursuant to and for the purposes provided in this Resolution.

(e) “Bond Fund” means the Water Revenue Bond Fund established by the District for the payment of the principal of and interest on Parity Bonds.

(f) “Bond Register” means the registration books maintained by the Registrar pursuant to Section 9.

(g) “Code” means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

(h) “Commencement Date” means the date that is three months after the Dated Date; *provided*, if the Dated Date is the 29th, 30th or 31st day of the month, the Commencement Date will be the 28th day of the third month thereafter.

(i) “Construction Account” means the special fund of that name referred to in Section 13 of this Resolution.

(j) “County Treasurer” means the Treasurer of Island County, Washington, as *ex officio* Treasurer of the District.

(k) “Dated Date” means the date the Bond is issued and delivered to the Purchaser.

(l) “District” means Scatchet Head Water District, Island County, Washington, a municipal corporation duly organized and existing under the laws of the State.

(m) “Fiscal Agent” means the fiscal agent of the State, as the same may be designated by the State from time to time.

(n) “Future Parity Bonds” means any and all revenue bonds of the District (other than the Bond) issued hereafter, the payment of which, both principal and interest, is secured by a lien and charge on Net Revenue equal in rank with the lien and charge on Net Revenue that secure payment of the Bond.

(o) “Gross Revenue” means all earnings and revenue received by the District from any source whatsoever relating to the operation of the System, except: general *ad valorem* taxes; charges in lieu of general *ad valorem* taxes; proceeds from the sale of District property; capital grants received by the District; proceeds from the issuance of District obligations; earnings or proceeds from any investments in a trust, defeasance, or escrow fund created to defease or refund System obligations (until commingled with other earnings and revenue of the System); and earnings or proceeds from investments held in a special account for the purpose of paying a rebate to the United States government under the Code.

(p) “Installment Payment Date” means the Commencement Date and that day of every third month thereafter to and including the final maturity of the Bond.

(q) “Interest Rate” means the *per annum* interest rate specified by the Purchaser for the Bond pursuant to the Purchaser’s Water and Environmental Program. Such rate is expected to be the lower of (i) the applicable interest rate as of the date the Purchaser mails a signed copy of Form 1940-1 with regard to the Bond to the District or (ii) the applicable interest rate on the Dated Date.

(r) “Interim Loan” means the aggregate amount borrowed by the District under the line of credit incurred by the District, pursuant to the Purchaser’s requirements, to pay costs of the Project pending receipt of Bond proceeds.

(s) “Interim Loan Resolution” means Resolution No. 2022-4, as amended by Resolutions Nos. 2023-6, 2024-6, 2025-3 and 2026-5, authorizing the issuance of the Interim Loan.

(t) “Letter of Conditions” means the Letter of Conditions dated April 1, 2021, as amended on January 25, 2022, provided to the District by the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service.

(u) “Loan Resolution” means the RUS Bulletin 1780-27 “Loan Resolution (Public Bodies)” adopted by the Board on May 19, 2026, pursuant to the loan conditions established by the Purchaser.

(v) “Maximum Annual Debt Service” means the maximum amount of Annual Debt Service which will become due in any future year on the Parity Bonds.

(w) “Net Revenue” means the Gross Revenue less Operating and Maintenance Expenses.

(x) “Operating and Maintenance Expenses” means all reasonable expenses incurred by the District in causing the System to be operated and maintained in good repair, working order, and condition, including general maintenance and administrative costs of the District allocated to the System and payments made to any other government agency or municipal corporation for water supply and sewage treatment and disposal, but do not include any depreciation or taxes or charges in lieu of taxes levied or imposed by the District, interest on System obligations, or capital additions or capital replacements to the System.

(y) “Outstanding,” when used with reference to a Parity Bond, as of any particular date, shall mean all such bonds that have been issued, executed, authenticated and delivered under this Resolution, or under any resolution authorizing the issuance of Future Parity Bonds, except (i) Parity Bonds cancelled because of payment or redemption prior to their stated dates of maturity, and (ii) any Parity Bond (or portion thereof) deemed to have been paid pursuant to the resolution under which it was issued.

(z) “Parity Bonds” means the Bond and all Future Parity Bonds.

(aa) “Principal and Interest Account” means the account of that name in the Bond Fund.

(bb) “Project” means the plan of additions to and betterments and extensions of the System as more particularly described in Section 2 of the Interim Loan Resolution.

(cc) “Purchaser” means the United States of America acting through the United States Department of Agriculture.

(dd) “RCW” means the Revised Code of Washington.

(ee) “Registered Owner,” with respect to the Bond, means the entity or person named as the registered owner of the Bond on the Bond Register, initially the Purchaser.

(ff) “Registrar” means the Fiscal Agent, for the purposes of registering and authenticating the Bond, maintaining the Bond Register, effecting transfer of ownership of the Bond and paying principal of and interest on the Bond.

(gg) “Reserve Account” means the account of that name in the Bond Fund.

(hh) “Reserve Requirement” means with respect to the Bond, an amount equal to the Annual Debt Service for the Bond (in the amount of \$94,956), to be accumulated by the tenth anniversary of the Dated Date in approximately equal monthly payments commencing with the first month following the Dated Date. Any resolution authorizing Future Parity Bonds shall specify the amount, if any, to be held as a “reserve requirement” for such Future Parity Bonds. For as long as the Purchaser is the Registered Owner and the Bond is outstanding, any resolution authorizing Future Parity Bonds shall specify the amount no less than equal to the Annual Debt Service for such Future Parity Bonds to be accumulated no later than the tenth anniversary of the date of issue to be held as a “reserve requirement” for such Future Parity Bonds.

(ii) “Resolution” means this resolution, adopted by the Board as of the date below.

(jj) “Short-Lived Asset Reserve Account” means the account of that name referred to in Section 13 of this Resolution.

(kk) “Short-Lived Assets” means those assets described by the Purchaser and referenced in the Letter of Conditions.

(ll) “State” means the State of Washington.

(mm) “System” means the water system of the District, together with all additions thereto and betterments and extensions thereof at any time made or constructed.

(nn) “USDA” means the United States of America, acting through the United States Department of Agriculture, Rural Utilities Service.

Section 2. Findings.

The Board finds and determines that:

(a) The District is a municipal corporation duly organized and existing under the laws of the State. Pursuant to the provisions of chapter 57.08 RCW, the District is authorized to acquire, construct, install, and operate water systems and sewerage systems.

(b) The Purchaser provided the District with a Letter of Conditions dated April 1, 2021, as amended on January 25, 2022 (together, the “Letter of Conditions”), establishing the conditions under which the Purchaser would loan money to the District to finance the

acquisition, construction and installation of improvements to the System. The Board adopted the Loan Resolution. RCW 39.69.020 authorizes the District to enter into a loan agreement with the United States Government and to evidence the District's obligation to repay the loan under the terms and conditions of such loan agreement. Chapter 39.48 RCW authorizes the District to sell the Bond to the Purchaser by private sale at a price of not less than par plus accrued interest. The Purchaser has offered to purchase the Bond according to the terms set forth herein and in the Letter of Conditions.

(c) It is advisable for the District to acquire, construct and install the Project. The Board currently estimates that the total costs of the Project will be \$2,560,000. It is advisable for the District to provide funds for defraying a portion of the costs of the Project from the proceeds of the sale of a revenue bond (*i.e.*, the Bond).

(d) The Gross Revenue and benefits to be derived from the operation and maintenance of the System, at the rates to be charged for service from the System, will be more than sufficient to meet all Operating and Maintenance Expenses and to permit the setting aside into the Principal and Interest Account of the amounts of Net Revenue that will be sufficient to pay the principal of and interest on the Bond when due. In fixing the amounts to be paid into the Principal and Interest Account out of the Gross Revenue, the Board has had due regard for Operating and Maintenance Expenses and the payments required to be made for the Bond and other obligations payable from Gross Revenue. The Board has not obligated the District to set aside into the Principal and Interest Account a greater amount of Gross Revenue than, in the Board's judgment, will be available over and above Operating and Maintenance Expenses and the amount of Gross Revenue previously pledged for the payment of outstanding obligations.

(e) Based on the foregoing, it is in the District's best interest to authorize (i) the issuance of the Bond to evidence the District's obligation to repay the loan from the Purchaser, (ii) the repayment of the Interim Loan, and (iii) the delivery of the Bond to the Purchaser upon the terms set forth in this Resolution.

Section 3. The Project. The District hereby ratifies, specifies, adopts and authorizes a plan for making certain additions to and betterments and extensions of the System (the "Project"). The total cost of the Project is estimated to be \$2,560,000. The Board may make such changes prior to or during the actual construction of the Project where, in its judgment, it appears advisable; *provided*, such changes do not substantially modify the Project.

Section 4. Authorization and Description of the Bond.

(a) For the purpose of paying costs of the Project, including paying the costs of issuing the Bond and repaying the Interim Loan, the District shall cause to be issued a single, taxable water revenue bond as set forth in this Resolution. The Bond shall be a special obligation of the District payable from Net Revenue. The Bond shall not be a general obligation of the District. The District's full faith, credit and resources are not pledged for the payment of the Bond.

(b) The Bond shall be dated the Dated Date; shall be designated as the "Water Revenue Bond, 2026 (Taxable)" of the District (with such blank being filled to reflect the year the Bond is delivered); shall be in the principal amount of \$2,500,000; shall mature on the

Installment Payment Date that occurs on (or immediately before) the 40th anniversary of the Dated Date (or such earlier date that the principal of and interest on the Bond is fully paid); shall bear interest from the Dated Date at the Interest Rate on its outstanding principal balance (computed on the basis of a 365-day year for actual number of days elapsed); shall be numbered R-1, with any additional designation as the Registrar deems necessary for purposes of identification; and shall be issued only in registered form as to both principal and interest on the Bond Register. Principal of and interest on the Bond shall be payable in approximately equal quarterly amortized installments on each Installment Payment Date, beginning with the Commencement Date, in an amount required to amortize the Bond over the term thereof, except that the last such payment shall be in an amount equal to the remaining principal and interest due on the Bond. Bond proceeds shall be used to pay the principal of and interest on the Interim Loan before such Bond proceeds can be used for the other purposes authorized herein. The Interim Loan shall be paid and redeemed as soon as practicable after the Bond is issued. The County Treasurer is hereby authorized to cause any notice of redemption to be given in the manner required by the Interim Loan and to do everything necessary to accomplish the repayment and redemption of the Interim Loan.

Section 5. Optional Payment; Notice.

Prepayments of scheduled installments on the Bond, or any portion thereof, may be made at any time at the option of the District. Refunds, extra payments and loan proceeds obtained from outside sources for the purpose of paying down the Bond, shall, after payment of interest, be applied to the installments last to become due under the Bond. Partial prepayment shall not affect the obligation of the District to pay the remaining installments as scheduled. Notice of any such optional prepayment shall be given at least 10 days prior to the prepayment date by mailing to the Registered Owner a notice fixing such prepayment date and specifying the amount to be prepaid.

Section 6. Failure to Pay Installments. If any installment of principal of and interest on the Bond is not paid when due, the District shall be obligated to pay interest on that installment at the same rate provided in the Bond from and after its payment date until that installment, both principal and interest, is paid in full.

Section 7. Pledge of Revenue and Lien Position. The Net Revenue are hereby pledged irrevocably by the District for the deposits required to be made into the Principal and Interest Account and the Debt Service Reserve Account for the Bond. This pledge shall constitute a lien and charge upon the Net Revenue prior and superior to any other liens and charges whatsoever, except such liens and charges as may be created in favor of any Future Parity Bonds on a parity with this pledge in favor of the Bond. The Bond is not a general obligation of the District.

Section 8. Execution, Issuance and Delivery of the Bond and Related Documents.

(a) The District will issue and deliver the Bond to the Purchaser on the date the Purchaser pays the District \$2,500,000 in exchange therefor (*i.e.*, the Dated Date). The Bond shall be prepared in a form consistent with the provisions of this Resolution and State law, shall be signed by the Board President and Secretary, either or both of whose signatures may be

manual or in facsimile, and shall have the seal of the District (or a facsimile reproduction thereof) impressed or printed thereon.

(b) The Bond shall not be valid or obligatory for any purpose, or entitled to the benefits of this Resolution, unless such Bond bears a certificate of authentication manually signed by the Registrar stating: "This Bond is the fully registered Scatchet Head Water District, Island County, Washington, Water Revenue Bond, 2026 (Taxable), described in the Bond Resolution." A minor deviation in the language of such certificate shall not void a certificate of authentication that otherwise is substantially in the form of the foregoing. The authorized signing of a certificate of authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this Resolution.

(c) The Board President and Secretary, or their designees, are severally authorized and directed to: (i) do everything necessary for the execution, issuance and delivery of the Bond; and (ii) execute and deliver any documents, agreements, certificates, receipts and instruments that are necessary or appropriate in their discretion to give effect to this Resolution and to consummate the borrowing of money authorized herein.

(d) The District directs Foster Garvey P.C., as the District's bond counsel, to prepare the Bond and such other documents, agreements, certificates, receipts and instruments as may be necessary and appropriate to properly document the issuance and delivery of the Bond to the Purchaser and the receipt of money by the District from the Purchaser. Such law firm shall coordinate the execution and delivery of such documents on behalf of the District, and shall compile and distribute to the District and the Purchaser a transcript containing such documents (or copies thereof) as it deems necessary to support its legal opinions rendered in connection with the issuance of the Bond.

Section 9. Appointment of Registrar; Registration and Transfer of the Bond.

(a) Pursuant to RCW 39.46.030(3)(b), the County Treasurer, as *ex officio* Treasurer of the District, has appointed the Fiscal Agent as the initial Registrar for the Bond. The Registrar shall keep, or cause to be kept, at its office, sufficient books for purposes of registering the name, mailing address and taxpayer identification number of the Registered Owner of the Bond, and for registering any transfer of Bond ownership. The books and records maintained by the Registrar for such purpose shall be considered the Bond Register for purposes of this Resolution. The Bond Register shall at all times be open to inspection by the District. In addition to maintaining the Bond Register, the Registrar is authorized and directed to perform the following duties with respect to the Bond: (i) to authenticate the Bond upon the initial issuance thereof by executing the Certificate of Authentication contained thereon; (ii) to authenticate and deliver any Bond that is transferred in accordance with the provisions thereof and this Resolution; (iii) to serve as the District's paying agent for the Bond; (iv) to imprint on each Bond transferred or exchanged pursuant to this Resolution the name of the Registered Owner, the principal amount of the Bond, the interest rate borne by the Bond, and the maturity date of the Bond; (v) to cancel the Bond returned to the Registrar upon the payment in full thereof by punching holes through the signatures on the Bond and by writing clearly across the face of such Bond the word "cancelled;" and (vi) to carry out all of the Registrar's duties otherwise described in this Resolution. The

Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bond.

(b) The Bond may be transferred only in whole and only if endorsed in the manner provided thereon and surrendered to the Registrar. Any transfer shall be without cost to the Registered Owner or transferee and shall be noted in the Bond Register. The Registrar shall not be obligated to transfer the Bond during the 15 days preceding any Installment Payment Date.

Section 10. Payment of the Bond.

Installments of principal of and interest on the Bond shall be payable in lawful money of the United States of America and shall be paid by check, draft or preauthorized debit of the Registrar and sent to the Registered Owner so that the Registered Owner receives said payments when due at the address appearing on the Bond Register; *provided*, if the Registered Owner of the Bond is other than the Purchaser, then the last installment of principal and interest on the Bond shall be payable only upon presentation and surrender of the Bond by the Registered Owner at the office of the Registrar. Notwithstanding the foregoing, the District may engage in any payment program established by the Purchaser from time to time, so long as the District can engage in such program under State law. The Registrar shall destroy the Bond when surrendered for final payment and furnish the District a certificate of destruction within 30 days following the surrender and payment in full of the Bond.

Section 11. Refunding or Defeasance of the Bond.

The District may issue refunding bonds pursuant to State law or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (a) paying when due the principal of and interest on the Bond (the “defeased Bond”); (b) redeeming the defeased Bond prior to its maturity; and (c) paying the costs of the refunding or defeasance. If the District sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the “trust account”), money and/or noncallable “government obligations” (as defined by chapter 39.53 RCW) maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bond in accordance with its terms, then all right and interest of the owner of the defeased Bond in the covenants of this Resolution and in the funds and accounts obligated to the payment of the defeased Bond shall cease and become void. Thereafter, the owner of the defeased Bond shall have the right to receive payment of the principal of and interest on the defeased Bond solely from the trust account and the defeased Bond shall be deemed no longer outstanding. In that event, the District may apply money remaining in any fund or account (other than the trust account) established for the payment or redemption of the defeased Bond to any lawful purpose. NOTWITHSTANDING THE ABOVE, FOR AS LONG AS THE PURCHASER IS THE REGISTERED OWNER, THE DISTRICT AGREES NOT TO DEFEASE THE BOND.

Section 12. Flow of Funds.

The Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) to pay when due the Operating and Maintenance Expenses, including the provision of reasonable reserves therefor;

(b) to make when due all deposits required to be made into the Principal and Interest Account of the Bond Fund;

(c) to make when due all deposits required to be made into the Reserve Account of the Bond Fund;

(d) to make when due any payments required to be made into the Short-Lived Asset Reserve Account established in accordance with the Letter of Conditions or other conditions established for the issuance of Future Parity Bonds; and

(e) to make any other payments, transfers, or deposits as may be lawful for Gross Revenue.

Section 13. Funds and Accounts.

(a) *Creation and/or Continuance of Funds and Accounts.* The following funds and accounts shall be created (or if previously created, shall be continued) and maintained in the office of the County Treasurer to comply with the provisions of this Resolution: (i) the Bond Fund, which is a special fund of the District; (ii) a debt service account within the Bond Fund (the "Principal and Interest Account"); (iii) a debt service reserve account within the Bond Fund (the "Debt Service Reserve Account"); and (iv) a project account (the "Construction Account"). Each fund and account shall be maintained by the County Treasurer as a separate and distinct fund or account to be held, managed, invested, disbursed and administered as provided in this Resolution. All money deposited in the funds or accounts created hereunder shall be used solely for the purposes set forth in this Resolution. The County Treasurer shall keep and maintain adequate records pertaining to each fund and account, and all disbursements therefrom, in accordance with general practices and procedures in effect from time to time. The County Treasurer may establish such additional accounts or subaccounts as is deemed necessary or useful, or for the purpose of complying with the requirements of the Code relating to arbitrage, but the establishment of any such account or subaccount shall not alter or modify any of the requirements of this Resolution with respect to a deposit or use of money in the funds or accounts.

(b) *Principal and Interest Account.* The Principal and Interest Account is to be drawn upon for the sole purpose of paying the principal of and interest on the Bond and any Future Parity Bonds. So long as any principal of the Bond is outstanding against the Principal and Interest Account, the District shall pay into the Principal and Interest Account from the Net Revenue prior to each Installment Payment Date an amount that is sufficient (together with other money on deposit in the Principal and Interest Account) to pay the installment of principal and interest falling due on such Installment Payment Date. The District may (but shall not be required to) transfer any money from any funds or accounts of the District legally available therefor to meet the required payments to be made into the Principal and Interest Account.

(c) *Debt Service Reserve Account.* The Debt Service Reserve Account shall be maintained for the purpose of securing the payment of the principal of and interest on the Bond and any Future Parity Bonds, and shall be used solely for the purpose of making up any deficiency existing in the Principal and Interest Account to meet maturing installments of either principal or interest, as the case may be, on any outstanding bonds payable out of the Principal and Interest Account. So long as any principal of the Bond is outstanding, the District shall deposit into the Debt Service Reserve Account the Reserve Requirement for the Bond (at the times and in the amounts described in the definition of “Reserve Requirement” in Section 1 of this Resolution). When the Debt Service Reserve Account is funded at the Reserve Requirement for the Bond, the District will all times maintain at least such amount therein (except to the extent withdrawals are made from the Debt Service Reserve Account as authorized by this Resolution). Any deficiency created in the Debt Service Reserve Account by reason of a withdrawal therefrom shall then be made up from money derived from Net Revenue first available after making necessary provisions for the required payments into the Principal and Interest Account. The District may use any excess money in the Debt Service Reserve Account to make extra payments on the Bond in the manner authorized by Section 5 of this Resolution. The money and investments in the Debt Service Reserve Account otherwise shall be held intact and may be applied against the last outstanding bonds payable out of the Principal and Interest Account. For so long as the Purchaser is the Registered Owner of the Bond, the District shall not disburse money from the Debt Service Reserve Account without receiving the prior written consent of the Purchaser; *provided*, the District may create one or more subaccounts in the Debt Service Reserve Account in connection with the issuance of Future Parity Bonds and, if such subaccounts are funded from the proceeds of such Future Parity Bonds and/or from Net Revenues, may provide in the resolution(s) authorizing such Future Parity Bonds that money can be withdrawn from such subaccounts without the Purchaser’s prior written consent.

(d) *Construction Account.* Bond proceeds not deposited into the Principal and Interest Account pursuant to subsection (b) above shall be deposited into the Construction Account. The costs of carrying out the Project, including the costs of issuing the Bond, shall be paid from the Construction Account. All withdrawals from the Construction Account shall be approved through the prior written consent of the Purchaser.

(e) *Short-Lived Asset Reserve Account.* The Short-Lived Asset Reserve Account shall be maintained for the exclusive purpose of replacing Short-Lived Assets. The District shall continue to deposit at least \$8,675 annually into the Short-Lived Asset Reserve Account until such time as principal of and interest on the Bond are paid in full. Amounts on deposit from time to time in the Short-Lived Asset Reserve Account are not pledged to the payment of the Parity Bonds. For so long as the Purchaser is the Registered Owner, the District shall not disburse money from the Short-Lived Asset Reserve Account without receiving the prior written consent of the Purchaser.

(f) *Investment of Funds.* The money in the Construction Account and the Short-Lived Asset Reserve Account may be kept in cash or deposited in institutions permitted by law in an amount in each institution not greater than the amount insured by a state or the Federal Government, or may be invested in readily marketable securities backed by the full faith and credit of the United States of America maturing (or subject to sale by the District) not later than the time such money must be expended from the account so invested. The money in the Principal and Interest Account

and the Debt Service Reserve Account may be invested in any investment permitted by law for District funds. The interest and investment earnings on such accounts shall be used as follows: (i) interest and investment earnings on amounts in the Principal and Interest Account shall be retained in the Principal and Interest Account and used to pay debt service on the Parity Bonds; (ii) interest and investment earnings on amounts in the Debt Service Reserve Account shall be retained in the Debt Service Reserve Account until the total Reserve Requirement has been accumulated therein, after which time such earnings shall be deposited in the Principal and Interest Account; (iii) interest and investment earnings on amounts in the Construction Account may be retained in such account or, at the District's discretion, may be deposited into the Principal and Interest Account; and (iv) interest and investment earnings on amounts in the Short-Lived Asset Reserve Account shall be retained in such account and used for the purposes of such account. Notwithstanding the provisions for the deposit of earnings, any earnings which are subject to a federal tax or rebate requirement may be withdrawn from any such fund or account for deposit in a separate fund or account for that purpose.

Section 14. Covenants.

The District hereby covenants and agrees with the Registered Owner of the Bond as follows:

(g) It will establish, maintain and collect such rates and charges for the services furnished by the System as will produce sufficient Gross Revenue to meet the Operating and Maintenance Expenses, the debt service requirements of the Bond and any outstanding Future Parity Bonds as they come due, to establish and maintain the Debt Service Reserve Account, and to maintain the System in sound financial condition.

(h) It will at all times maintain and keep the System in good repair, working order and condition, and also will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(i) It will, while the Bond remains outstanding, keep proper and separate accounts and records relating to the operation and financial condition of the System and will grant the Purchaser the right at all reasonable times to inspect the System and all records, accounts and data of the District relating thereto.

(j) It will, for so long as the Purchaser is the Registered Owner of the Bond: submit to the Purchaser an annual operating budget relating to the System; submit to the Purchaser audits (or management reports in lieu of audits) relating to the System, as determined by the Purchaser on an annual basis; and provide such additional information and reports as may be reasonably requested by the Purchaser from time to time.

(k) It will at all times: (i) provide fidelity bonds (or similar insurance coverage) in an amount not less than the total of the Annual Debt Service and the annual Debt Service Reserve Account payment on the Bond for all persons who will have access to Gross Revenue and the funds created hereunder; (ii) maintain fire and extended coverage insurance in an amount at least equal to the depreciated replacement value for all equipment, machinery and above-ground

structures of the System; (iii) maintain reasonable and customary general liability insurance for the System including vehicular coverage; and (iv) maintain worker's compensation insurance.

(l) It will not, for so long as the Purchaser is the Registered Owner of the Bond, furnish water service to any customer whatsoever free of charge, and it shall take such legal action as may be feasible to enforce collection of all collectible delinquent accounts.

(m) For so long as the Purchaser is the Registered Owner of the Bond, the District will not mortgage, sell, lease or in any manner encumber or dispose of all the property of the System without receiving the prior written consent of the Purchaser.

(n) It will not borrow money and secure its repayment obligations for such borrowing with a lien and charge on the Net Revenue that is prior to the lien thereon in favor of the Bond. It will not borrow money and secure its repayment obligations for such borrowing with a lien and charge on the Net Revenue that is equal to the lien thereon in favor of the Bond other than pursuant to Section 7 of this Resolution.

(o) It will abide by the conditions of the Loan Resolution relating to the Bond for so long as the Purchaser is the Registered Owner of the Bond.

(p) For so long as the Purchaser is the Registered Owner, the Bond shall be subject to the present regulations of the Purchaser or its successor agency. For so long as the Purchaser is the Registered Owner, if at any time the Purchaser notifies the District that the District may be able to obtain a loan from responsible cooperative or private sources, at reasonable rates and terms for loans for similar purposes and periods of time, the District shall, upon request by the Purchaser, apply for and accept such loan in sufficient amount to repay the Purchaser, and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan

Section 15. Authority to Issue Future Parity Bonds.

The District reserves the right to issue Future Parity Bonds that, when issued, shall constitute a lien and charge upon the Net Revenue on a parity with the Bond for the purposes of: (i) acquiring, constructing and installing additions and betterments to, improvements and extensions of, and repairs or capital improvements to, the System; and/or (ii) refunding and retiring at or prior to their maturity any part or all of the outstanding water revenue bonds of the District, if the following conditions are met and complied with at the time of issuance of those Future Parity Bonds:

(a) There must be no deficiency in the Principal and Interest Account or the Debt Service Reserve Account.

(b) The resolution providing for the issuance of such Future Parity Bonds must provide for the payment of the principal thereof and interest thereon out of the Principal and Interest Account.

(c) If the Future Parity Bonds will be secured by the Debt Service Reserve Account, then the resolution providing for the issuance of such Future Parity Bonds must provide for the deposit into the Debt Service Reserve Account, taking into account money and investments on

deposit therein and any reserve insurance, of (i) an amount equal to the Reserve Requirement for those Future Parity Bonds from the Future Parity Bond proceeds or other money legally available (ii) reserve insurance sufficient to satisfy the Reserve Requirement or (iii) to the extent that the Reserve Requirement is not funded from Future Parity Bond proceeds, other legally available money or reserve insurance at the time of issuance of those Future Parity Bonds, within ten years from the date of the first principal payment on the Future Parity Bonds, if any, levied and first collected for the payment of the principal of and interest on those Future Parity Bonds and, then from Net Revenue in ten approximately equal annual payments (or such other shorter interval of payments as may be required by the resolution authorizing such Future Parity Bonds); however, in the case of refunding bonds, the resolution authorizing the issuance of such refunding Future Parity Bonds may provide that the money in the Debt Service Reserve Account for the bonds to be refunded shall be retained in the Debt Service Reserve Account as a reserve for the refunding bonds, or that the money in any other reserve account or fund for the bonds being refunded may be transferred to the Debt Service Reserve Account, but if such amount does not equal the Reserve Requirement, the Reserve Requirement for the refunding bonds shall be accumulated in the manner and within the same time as set forth herein for other Future Parity Bonds. Notwithstanding the foregoing, the District may establish, for one or more series of Future Parity Bonds, a separate reserve requirement (which may be zero), to be held in a separate reserve account in the Bond Fund, for the purpose of securing those Future Parity Bonds, and those Future Parity Bonds shall not be secured by amounts in the Debt Service Reserve Account or by any reserve insurance credited to the Debt Service Reserve Account. Reserve insurance may not be used to satisfy the Reserve Requirement for Future Parity Bonds unless the reserve insurance is non-cancelable and the insurer or provider of the reserve insurance is rated as of the time of issuance in one of the three-highest categories by either Moody's Investors Service, Inc., or S&P Global Ratings.

(d) There shall be on file with the District a certificate (a "Parity Certificate") from (i) a licensed professional engineer experienced in the design, construction and operation of municipal utilities or (ii) an independent certified public accountant, which certificate may not be dated more than one month before the date such Future Parity Bonds are issued, stating that the Net Revenue for any 12 consecutive calendar months out of the immediately preceding 24 calendar months shall be equal to 120% of the Average Annual Debt Service on all outstanding bonds payable from the Principal and Interest Account (after giving effect to the issuance of such Future Parity Bonds). If Future Parity Bonds proposed to be so issued are for the sole purpose of refunding outstanding bonds payable from the Principal and Interest Account, such certification of coverage shall not be required if the amount required for the payment of the principal and interest in each year for the refunding bonds is not increased over the amount for that same year required for the bonds or the portion of the bond issue to be refunded thereby and if the maturities of such refunding bonds are not extended beyond the maturities of the bonds to be refunded thereby. The previous sentence shall not apply for so long as the Purchaser is the Registered Owner of the Bond. Further, for so long as the Purchaser is the Registered Owner of the Bond and all Future Parity Bonds then outstanding, the provisions of this paragraph shall not apply if the Purchaser will be the Registered Owner of the Future Parity Bonds to be issued.

(e) Nothing contained herein shall prevent the District from issuing Future Parity Bonds to refund the Bond and/or maturing Future Parity Bonds then outstanding, if money for the payment of the Bond or such Future Parity Bonds is not otherwise available.

(f) Nothing contained herein shall prevent the District from issuing revenue bonds or incurring other obligations for borrowed money that are a charge upon the Gross Revenue subordinate to the payments required to be made therefrom into the Principal and Interest Account for the payment of the Bond and any Future Parity Bonds or from pledging the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

(g) For so long as the Purchaser is the Registered Owner of the Bond, the District will not issue Future Parity Bonds or subordinate lien bonds payable from Net Revenues without receiving the prior written consent of the Purchaser.

Section 16. Amendments to Resolution.

(a) The Board may adopt a resolution supplemental hereto, which resolution thereafter shall become a part of this Resolution, for any one or more of all of the following purposes: (i) to add to or delete from the covenants and agreements of the District in this Resolution, provided such additions or deletions shall not adversely affect, in any material respect, the interests of any Registered Owner of the Parity Bonds; or (ii) to cure, correct or supplement any ambiguous or defective provision contained in this Resolution, provided such supplemental resolution shall not adversely affect, in any material respect, the interests of any Registered Owner of the Parity Bonds. Any such supplemental resolution may be adopted without the consent of the Registered Owner of the then-Outstanding Parity Bonds, notwithstanding any of the provisions the following paragraph.

(b) With the consent of the Registered Owner, the Board may adopt a resolution supplemental hereto for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of this Resolution or of any supplemental resolution; provided, however, that no such supplemental resolution shall extend the fixed maturity of the Bond, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Registered Owner. It shall not be necessary for the consent of the Registered Owner under this paragraph to approve the particular form of any proposed supplemental resolution, but it shall be sufficient if such consent shall approve the substance thereof.

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

(d) Any Bond executed and delivered after the execution of any supplemental resolution adopted pursuant to the provisions of this Section may have a notation as to any matter

provided for in such supplemental resolution, and if such supplemental resolution shall so provide, any new Bond so modified as to conform in the opinion of the Board to any modification of this Resolution contained in any such supplemental resolution, may be prepared and delivered without cost to the Registered Owner, upon surrender for cancellation of the Bond in an equal aggregate principal amount.

Section 17. Severability.

If any provision of this Resolution shall be 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 provisions of this Resolution and shall in no way affect the validity of the other provisions of this Resolution or of the Bond.

Section 18. Ratification.

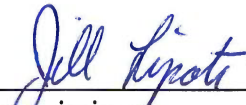
All actions heretofore taken by the District consistent with the provisions of this Resolution are ratified, confirmed, and approved.

Section 19. Effective Date of Resolution.


This Resolution shall take effect and be in force from and after its adoption.

ADOPTED by the Board of Commissioners of Scatchet Head Water District, Island County, Washington, this 19th day of May, 2026, at a open public meeting thereof.

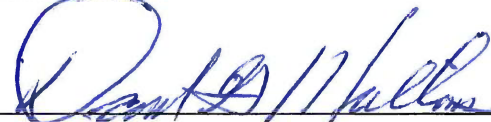
SCATCHET HEAD WATER DISTRICT
ISLAND COUNTY, WASHINGTON



Commissioner



Commissioner



Commissioner

CERTIFICATE

I, the Secretary of the Board of Commissioners of Scatchet Head Water District, Island County, Washington (the "District"), hereby certify as follows:

1. The foregoing Resolution No. 2026-7 (the "Resolution") is a full, true, and correct copy of a resolution duly adopted at a regular meeting of the Board of Commissioners of the District held on May 19, 2026, as that resolution appears on the minute book of the District; and the Resolution will be in full force and effect from and after its adoption.

2. That said meeting was duly convened, held and included an opportunity for public comment, in all respects in accordance with law; due and proper notice of such meeting was given; that a legal quorum of the members of the Board of Commissioners was present throughout the meeting; and a sufficient number of members of the Board of Commissioners voted in the proper manner for the passage of the Resolution

Dated: May 19, 2026.

SCATCHET HEAD WATER DISTRICT
ISLAND COUNTY, WASHINGTON



Secretary, Board of Commissioners