

HARBOR HILLS WATER SYSTEM, INC.
P.O. BOX 657
FREELAND, WASHINGTON 98249
360-331-3505

140-072273-AT
RECEIVED
RECORDS MANAGEMENT
07 JUL 20 AM 8:03
STATE OF WASH
UTIL. AND TRANSF.
COMMISSION

JULY 15, 2007

CAROLE J. WASHBURN
SECRETARY
WASH. UTILITIES & TRANSPORTATION COMMISSION
P.O. BOX 47250
OLYMPIA, WA. 98504-7250

RE: HARBOR HILLS WATER SYSTEM, INC.- REMOVE REGULATION
AND CANCEL TARIFF.
NEW OWNER, FREELAND WATER & SEWER DISTRICT, A
MUNICIPAL CORPORATION

DEAR SECRETARY:

ENCLOSED YOU WILL FIND THE PETITION OF THE ABOVE-REFERENCED
REQUEST TO BE REMOVED FROM REGULATION AND REQUEST TO CANCEL
CURRENT TARIFF.

1. APPLICATION FOR REMOVAL FROM REGULATION AND CANCEL
TARIFF,
2. COPY OF INSTRUMENT OF TRANSFER,
3. CUSTOMER NOTICE OF SALE AND TRANSFER OF WATER SYSTEM,
4. NAME AND ADDRESS OF NEW OWNER, WHICH IS WATER UTILITY
FORMED UNDER WASH STATE LAW AND MADE OWNER OF OUR
WATER SYSTEM BY SALE.

SINCE THIS WATER SYSTEM WAS THE ONLY WATER SYSTEM OWNED BY
OUR COMPANY AND I DO NOT INTEND TO OWN ANY OTHER WATER
SYSTEM IN THE FUTURE, HARBOR HILLS WATER SYSTEM, INC. IS ASKING
TO BE REMOVED FROM COMMISSION REGULATION AND TO HAVE ITS
CURRENTLY EFFECTIVE TARIFF CANCELLED.

IF YOU HAVE ANY QUESTION, PLEASE CALL ME AT 360-320-2041

SINCERELY

TERRY OTEY

ENCLOSURES AS NOTED

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

IN THE MATTER OF THE APPLICATION)
FOR THE REMOVAL FROM REGULATION) DOCKET UW-000833
AND CANCELING TARIFF)
HARBOR HILLS WATER SYSTEM, INC.) APPLICATION FOR
REMOVAL FROM
REGULATION AND
CANCEL TARIFF)

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STATE OF WASHINGTON
UTILITY AND TRANSPORTATION
COMMISSION

BACKGROUND

1. APPLICATION IS HEREBY MADE TO THE WUTC FOR AN ORDER AUTHORIZING THE REMOVAL FROM REGULATION AND CANCEL TARIFF UNDER THE PROVISIONS OF CHAPTER 80.12 RCW AND CHAPTER 480-143 WAC.

INTRODUCTION

2. HARBOR HILLS WATER SYSTEM, INC. IS A WASHINGTON CORPORATION FORMED TO ACT AS A UTILITY SERVICE COMPANY. FREELAND WATER AND SEWER DISTRICT, LOCATED IN FREELAND, WASH., CURRENTLY OWNS ONE WATER SYSTEM SERVING OVER 530 CUSTOMERS. THE WATER SYSTEM TO BE TRANSFERRED CONSISTS OF WELLS, PUMPS, TRANSMISSION MAINS, RESERVOIRS, HYDRANTS, DISTRIBUTION MAINS, METERS, AND APPURTENANCES TO SERVE THE CUSTOMERS OF THE HARBOR HILLS WATER SYSTEM, INC.

3. THE WATER SYSTEM ARE CURRENTLY OPERATING UNDER A GREEN OPERATING PERMIT ISSUED BY THE WASHINGTON STATE DEPARTMENT OF HEALTH AND HAVE NO OUTSTANDING ORDERS OR LETTERS DIRECTING ACTION.

4. AS A RESULT OF THIS SALE AND TRANSFER OF THE WATER SYSTEM ASSETS, FREELAND WATER & SEWER DISTRICT, A MUNICIPAL CORPORATION, WILL MAINTAIN HARBOR HILLS WATER SYSTEM, INC. RATES CURRENTLY IN EFFECT AND WILL BE ADOPTING THE TARIFF OF HARBOR HILLS WATER SYSTEM, INC.

EXHIBITS

5. PURSUANT TO WAC 480-143-120 AND WAC 480-143-130, PLEASE FIND ATTACHED THE FOLLOWING EXHIBITS:

NAME AND ADDRESS OF PURCHASING WATER CO.

JULY 15, 2007

FREELAND WATER & SEWER DISTRICT, A MUNICIPAL CORPORATION
P.O. BOX 222
FREELAND, WASHINGTON 98249

SANDY DUNCAN, SEC TO THE BOARD

HARBOR HILLS WATER SYSTEM, INC.

P.O. BOX 657

FREELAND, WASHINGTON 98249

360-331-3505

JULY 15, 2007

IMPORTANT NOTICE

HARBOR HILLS WATER SYSTEM, INC. HAS REQUESTED PERMISSION FROM THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION (WUTC) FOR THE TRANSFER OF OWNERSHIP AND OPERATION OF THE HARBOR HILLS WATER SYSTEM, INC. TO FREELAND WATER & SEWER DISTRICT, A MUNICIPAL CORPORATION. THIS TRANSFER IS CONTINGENT OF THE APPROVAL BY THE UTILITIES AND TRANSPORTATION COMMISSION. THIS TRANSFER OF OWNERSHIP IS BEING COMPLETED TO ALLOW HARBOR HILLS WATER SYSTEM, INC. TO TRANSFER AND SELL TO FREELAND WATER & SEWER DISTRICT. THE PROPOSED EFFECTIVE DATE OF THIS TRANSFER, IF APPROVED, WOULD FINALIZE SEPTEMBER 2007. FREELAND WATER & SEWER DISTRICT IS CURRENTLY PROVIDING WATER SERVICE TO ABOUT 530 OF its OWN CUSTOMERS. YOUR CURRENT WATER RATES WILL NOT CHANGE BECAUSE OF THIS WATER SYSTEM SALE AND TRANSFER. ANY FUTURE CHANGES WILL BE THE RESPONSIBILITY OF FREELAND WATER & SEWER DISTRICT, A MUNICIPAL CORPORATION.

IF YOU HAVE QUESTIONS ABOUT HOW THIS SALE MAY AFFECT YOU, PLEASE CALL THE COMPANY. 360-331-5792

IF YOU HAVE QUESTIONS ABOUT THE TRANSFER PROCESS OF THE WATER SYSTEM, YOU MAY CONTACT THE WUTC AT THE FOLLOWING ADDRESS.

SECRETARY

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

P.O. BOX 47250

OLYMPIA, WA 98504-7250

1-800-562-6150 OR COMMENTS@WUTC.WA.GOV

IF YOU WOULD LIKE TO COMMENT ON THIS PROPOSAL, IT IS IMPORTANT FOR YOU TO DO SO NOW. COMMENTS MUST BE SUBMITTED IN WRITING OR PRESENTED AT THE COMMISSION'S OPEN MEETING TO BE CONSIDERED AS PART OF THE FORMAL RECORD. THE COMMISSION ENCOURAGES YOUR WRITTEN COMMENTS, IN EITHER FAVOR OR OPPOSITION, REGARDING THIS PROPOSAL. ALL OPEN MEETING ARE HELD IN OLYMPIA, WA. IF YOU WOULD LIKE TO BE ADDED TO THE COMMISSION'S MAILING LIST TO BE NOTIFIED OF THE OPEN MEETING DATE PLEASE CALL THE TOLL-FREE NUMBER LISTED ABOVE AND LEAVE YOUR NAME AND COMPLETE MAILING ADDRESS.

AFTER RECORDING MAIL TO:
Barrett Escrow, Inc.
P. O. Box 115
Freeland, WA 98249

STATUTORY WARRANTY DEED

Escrow No. W-15236JB
Title Order No. L54568

THE GRANTOR(S) Harbor Hills Water System LLC, a Limited Liability Company

for and in consideration of Ten Dollars and other good and valuable consideration

in hand paid, conveys, and warrants to Freeland Water & Sewer District, Inc., a Municipal Corporation

the following described real estate, situated in the County of Island, State of Washington:

Abbreviated Legal Descriptions:

Parcel A: Ptn of Tract A HHG&YC #7, Tax Parcel No. S7165-07-0000A-1 (South Well Site)

Parcel B: Ptn Tract C HHG&YC #8, Tax Parcel No. S7165-08-0000C-2 (Main Treatment Plant & Well #3 Site)

Parcel C: Ptn GL 4 in 3/29/2 EWM, Tax Parcel No. R22903-228-2710 (North Well Site)

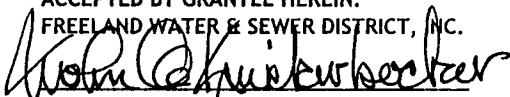
Easement: Ptn 34/30/2 EWM, Tax Parcel No. R23034-011-2091

Full Legal Description set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein.

SUBJECT TO Notices, easements, covenants, conditions, restrictions, easements, rights, reservations, and provisions as set forth in Exhibit "B" attached hereto and by this reference made a part hereof and incorporated herein.

ACCEPTED BY GRANTEE HEREIN:

FREELAND WATER & SEWER DISTRICT, INC.



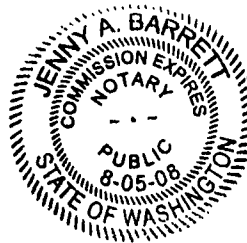
By: Nolen A. Knickerbocker
Its: President/Commissioner

Dated: June 27, 2007

Harbor Hills Water System LLC

BY: 

Terry Otey
Authorized Agent



Statutory Warranty Deed - Page 1 of 2 + Exhibits "A" and "B"

Notary Acknowledgment
Attached to Statutory Warranty Deed
Harbor Hills Waater System LLC to Freeland Water & Sewer District, Inc.

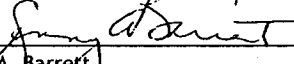
STATE OF Washington

) ss.

COUNTY OF Island

I certify that I know or have satisfactory evidence that Terry Otey is/are the person(s) who appeared before me, and said person(s) acknowledged that he/she/they signed this instrument, on oath stated that he was/she was/they were authorized to execute the instrument and acknowledged it as the Authorized Agent/Member of Harbor Hills Water System LLC to be the free and voluntary act of such party(ies) for the uses and purposes mentioned in this instrument.

Dated: 2ND day of July, 2007.



Jenny A. Barrett
Notary Public in and for the State of Washington
residing at Freeland
My Commission Expires: 08/05/08



Statutory Warranty Deed - Page 2 of 2 + Exhibits "A" and "B"

EXHIBIT "A"
Attached to Statutory Warranty Deed
Harbor Hills Water System LLC to Freeland Water & Sewer District Inc.
Parcel A

That portion of Tract A, Plat of Holmes Harbor Golf and Yacht Club, Division No. 7, according to plat recorded in Volume 9 of Plats, page 5, records of Island County, described as follows:

Beginning at the Southwest corner of said Tract A, also being the Northwest corner of Lot 1, Block 2, Plat of Holmes Harbor Golf and Yacht Club, Division No. 5;
Thence South 89°16'04" East 80.00 feet;
Thence North 0°45'07" East 70.00 feet;
Thence North 89°16'04" West 80.00 feet to the Easterly margin of Honeymoon Bay Road;
Thence South 0°45'07" West 70.0 feet to the true point of beginning.

Parcel B

All that portion of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, according to the Plat recorded in Volume 9 of Plats, pages 70 and 71, records of Island County, Washington, lying Westerly and Southerly of the following described line;
Commencing at the most Southerly corner of Lot 24, Block 5, said Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 234 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Scalawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence South 34°30' East 300 feet;
Thence South 47°45'41" East 361.64 feet (deed, Southeasterly, 358 feet, more or less) to the Point of Tangency of a 25 foot radius curve on Antelope Drive (formerly Olympic View Drive) being the terminus of the above described line

EXCEPT that portion thereof described as follows:

Commencing at aforesaid most southerly corner of Lot 24, Block 5, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 245 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Scalawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence North 53°29'08" West 189.88 feet to a point of the West line of aforesaid Tract C and the Southeast corner of the North 330 feet of the South 990 feet of Tract C, as shown on the map of Wonderwood, recorded under auditor's file no. 159977, records of Island County, Washington;
Thence along said West line of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, the following courses and distances;
Thence North 01°40'30" East 372.51 feet;
Thence North 89°18'51" East 135.90 feet (Plat, 135.94 feet) to the true point of beginning.

ALSO EXCEPT that portion thereof described as follows:

Commencing at the Northwest corner of Lot 29, Block 4 of aforesaid Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 75°00'37" West along the westerly extension of the North line of said Lot 29, a distance of 85.27 feet;
Thence South 38°09'55" West 13.42 feet to the true point of beginning;
Thence continuing South 38°09'55" West 134.99 feet;
Thence South 75°00'37" West 17.80 feet to the South line of aforesaid Tract C of the Plat of Holmes Harbor Golf and Yacht Club, Division 8;
Thence easterly along said South line the following courses and distances;
South 42°45'34" East 117.63 feet to the Beginning of a curve to the left, from which a radial line bears North 47°14'26" East to the radius point;
Thence easterly along said curve to the left, having a radius of 72.32 feet, through a central angle of 46°55'53", an arc distance of 59.24 feet;
Thence South 89°41'27" East 211.95 feet (Plat, 212.00 feet) to the beginning of a curve to the left;
Thence leaving said South line North 47°45'41" West 329.45 feet to the true point of beginning.

Parcel C

That portion of Government Lot 4, in Section 3, Township 29 North, Range 2 East W.M., described as follows:

Beginning at the Northwest corner of Tract 14 in the Plat of Holmes Harbor Golf and Yacht Club, Division No. 3;

Thence South $89^{\circ}52'15''$ East 80 feet;

Thence North $0^{\circ}52'15''$ East 80 feet;

Thence West $89^{\circ}52'15''$ West 80 feet;

Thence South $0^{\circ}52'15''$ West 80 feet to the true point of beginning;

Abbreviated Legal: Ptn. Tract A, HHGYC, Div. 7; Ptn. Tract C, HHGYC, Div. 8; and ptn. GL 4 Sec. 3, Twp. 29 N, R 2 EWM

LPB

Exhibit "B"
Attached to Statutory Warranty Deed
Harbor Hills Water System LLC to Freeland Water & Sewer District, Inc.

Affecting Parcel A:

SUBJECT TO terms and conditions of Holmes Harbor Sewer LID.

SUBJECT TO terms and conditions of Disclosure Notice recorded May 12, 2003, under Auditor's File No. 4058626, records of Island County, Washington.

SUBJECT TO terms and conditions of Articles of Incorporation and Bylaws of Holmes Harbor Golf and Yacht Club, including restrictions, regulations, and conditions for dues and assessments as established and levied pursuant thereto, including, but not limited to, those as set forth under Auditor's File No. 167299.

SUBJECT TO covenants, conditions, restrictions and easements contained on the face of said plat.

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded July 29, 1966, under Auditor's File No. 186121, and amended by Auditor's File No. 4065428; assignment recorded July 3, 2003, under Auditor's File No. 4065428.

SUBJECT TO terms and conditions of agreement providing Consent to Revocation of Appointment and Appointment and Hold Harmless Agreement, recorded December 5, 1990, under Auditor's File No. 90022468; assignment recorded December 1, 1995, under Auditor's 95019394 (being a re-recording of Auditor's File No. 95019065).

SUBJECT TO easement in favor of Puget South Power and Light Company, recorded October 23, 1957, under Auditor's File No. 111219.

Affects: Lots 8 through 15, Block 2; Lots 11 through 14, Block 3; Lots 8 through 16, Block 5; and Tract A

SUBJECT TO easement in favor of Puget Sound Power and Light Company, dated November 13, 1957, recorded under Auditor's File No. 111571.

Affects: Lots 1 through 15, Block 4; Lots 1 through 7, Block 3; and Tract A.

SUBJECT TO easement provisions as contained in said plat.

SUBJECT TO reservations of all oils, gases and minerals, as set forth in instrument recorded April 22, 1966, under Auditor's File No. 182596.

Affects: Lots 1 through 9 and 11 through 15, Block 2; Lots 14 through 17, Block 3; all of Block 6; and Tract A.

SUBJECT TO reservations of all oils, gases and minerals, as set forth in instrument recorded March 31, 1966, under Auditor's File No. 181753.

Affects: Lots 8 through 15, Block 2; Lots 11 through 14, Block 3; Lots 8 through 16, Block 5; and Tract A

SUBJECT TO easement in favor of Puget Sound Power and Light Company recorded October 31, 1957, under Auditor's File No. 111354.

Affects: Block 1; Lots 7 through 11, Block 3; Lots 1 through 11, Block 5; and Tract A

SUBJECT TO reservation of all oils, gases and minerals, etc., as set forth in instrument recorded March 31, 1966, under Auditor's File No. 181751.

Affects: Lots 2, 3, and 4, Block 1; Lots 9, 10 and 11, Block 3; Lots 4 through 11, Block 5; and Tract A

SUBJECT TO easement in favor of Puget Sound Power and Light Company, recorded April 12, 1967, under Auditor's File No. 195258.

Affects: As located

SUBJECT TO covenants, conditions and restrictions contained in instrument recorded December 23, 1982, under Auditor's File No. 404099.

SUBJECT TO easement in favor of Whidbey Telephone Company, recorded November 22, 1995, under Auditor's File No. 95018859.
Affects: As located

SUBJECT TO right of the public to make all necessary slopes for cuts or fills upon said premises in the original grading of all streets, avenues, alleys and roads, as dedicated in the plat. Also the right to drain street or streets over and across any lot or lots where water might take a natural course after the street or streets have been graded, as contained in the dedication of said plat.

Affecting Parcel B:

SUBJECT TO terms and conditions of Articles of Incorporation and Bylaws of Holmes Harbor Golf and Yacht Club, including restrictions, regulations, and conditions for dues and assessments as established and levied pursuant thereto, including, but not limited to, those as set forth under Auditor's File No. 167299.

SUBJECT TO covenants, conditions, restrictions and easements contained on the face of said plat.

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded November 1, 1967, under Auditor's File No. 203281, and amended by Auditor's File Nos. 97004429 and 4065428.

SUBJECT TO easement provision contained on the face of said plat regarding utilities.

SUBJECT TO terms and conditions of agreement providing Consent to Revocation of Appointment and Appointment and Hold Harmless Agreement, recorded December 5, 1990, under Auditor's File No. 90022468; assignment recorded December 1, 1995, under Auditor's 95019394 (being a re-recording of Auditor's File No. 95019065).

SUBJECT TO easement in favor of Whidbey Telephone Company, recorded June 30, 1997, under Auditor's File No. 9700070.
Affects: As located

SUBJECT TO reservations of all oils, gases and mineral rights, as set forth in instrument recorded under Auditor's File No. 189339.

SUBJECT TO reservations of all oils, gases and mineral rights, as set forth in instrument recorded under Auditor's File No. 190916.

SUBJECT TO covenants, conditions and restrictions contained in instrument recorded December 23, 1982, under Auditor's File No. 404099.

SUBJECT TO for easement for vehicular and pedestrian ingress and egress and the placement of utilities, in favor of Sikma Enterprises, Inc., their successors and assigns, recorded April 21, 1994, under Auditor's File No. 94009337.
Affects: As more particularly described in said instrument

SUBJECT TO easement in favor of Whidbey Telephone Company, recorded May 10, 1995, under Auditor's File No. 95007293.
Affects: As located

SUBJECT TO provisions and matters contained in Boundary Line Adjustment No. 282/99 recorded October 6, 1999, under Auditor's File No. 99022891.

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded November 5, 2002, under Auditor's File No. 186121, and amended by Auditor's File No. 4036486.

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded November 5, 2002, under Auditor's File No. 186121, and amended by Auditor's File No. 4036487.

SUBJECT TO right of the public to make all necessary slopes for cuts or fills upon said premises in the original grading of all streets, avenues, alleys and roads, as dedicated in the plat. Also the right to drain street or streets over and across any lot or lots where water might take a natural course after the street or streets have been graded, as contained in the dedication of said plat.

SUBJECT TO easement in favor of Puget Sound Energy, recorded January 18, 2005, under Auditor's File No. 4123508.
Affects: As stated in document

SUBJECT TO easement in favor of Whidbey Telephone Company, recorded January 18, 2005, under Auditor's File No. 4128592.
Affects: As stated in document

SUBJECT TO easement in favor of Holmes Harbor Community Partners LLC, recorded July 8, 2003, under Auditor's File No. 4065839.
Affects: As stated in document

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded November 5, 2002, under Auditor's File No. 186121, and amended by Auditor's File No. 4036486.

SUBJECT TO covenants, conditions and restrictions contained in declaration of protective restrictions set forth in instrument recorded November 5, 2002, under Auditor's File No. 186121, and amended by Auditor's File No. 4036487.

Affecting Parcels C:

SUBJECT TO easement in favor of Puget Sound Power and Light Company recorded October 23, 1957, under Auditor's File No. 111217.

SUBJECT TO covenants, conditions and restrictions recorded December 23, 1982, under Auditor's File No. 404099.

SUBJECT TO easement in favor of Whidbey Telephone Company recorded November 22, 1995, under Auditor's File No. 95018858.

SUBJECT TO terms and provisions contained in Disclosure Notice recorded May 12, 2003, under Auditor's File No. 4048626.

Affecting Parcels A and C:

SUBJECT TO terms and conditions of easement agreement for ingress, egress and maintenance, recorded July 8, 2003, under Auditor's File No. 4065838.

END OF EXHIBIT "B"



REAL ESTATE EXCISE TAX AFFIDAVIT

This form is your receipt when stamped by cashier.

PLEASE TYPE OR PRINT

CHAPTER 82.45 RCW - CHAPTER 458-61A WAC

THIS AFFIDAVIT WILL NOT BE ACCEPTED UNLESS ALL AREAS ON ALL PAGES ARE FULLY COMPLETED

(See back of last page for instructions)

Check box if partial sale of property

If multiple owners, list percentage of ownership next to name.

Form with sections 1 and 2: Seller/Grantor (Harbor Hills Water System LLC) and Buyer/Grantee (Freeland Water & Sewer District, Inc.).

Form with section 3: Correspondence and parcel account information.

Form with section 4: Street address of property: Harbor Hills Water System, LLC, Freeland, WA 98249

Form with section 4: This property is located in unincorporated Island County OR within city of

Check box if any of the listed parcels are being segregated from a larger parcel.

Legal description of property (if more space is needed, you may attach a separate sheet to each page of the affidavit)

Abbreviated Legal Descriptions: Parcel A: Ptn of Tract A HHG&YC #7, Tax Parcel No. S7165-07-0000A-1 (South Well Site) Parcel B: Ptn Tract C HHG&YC #8, Tax Parcel No. S7165-08-0000C-2 (Main Treatment Plant & Well #3 Site) Parcel C: Ptn GL 4 in 3/29/2 EWM, Tax Parcel No. R22903-228-2710 (North Well Site) Easement: Ptn 34/30/2 EWM, Tax Parcel No. R23034-011-2091 Full Legal Description set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein.

Form with section 5: Enter Abstract Use Categories: (See back of last page for instructions) If exempt from property tax per chapter 84.36 RCW (nonprofit organization), include: Seller's Exempt Reg. No.:

Form with section 6: Is this property designated as forest land per chapter 84.33 RCW? Is this property classified as current use (open space, farm and agricultural, or timber) land per chapter 84.34? Is this property receiving special valuation as historical property per chapter 84.26 RCW?

If any answers are yes, complete as instructed below. (1) NOTICE OF CONTINUANCE (FOREST LAND OR CURRENT USE) NEW OWNER(S): To continue the current designation as forest land or classification as current use (open space, farm and agriculture, or timber) land, you must sign on (3) below. The county assessor must then determine if the land transferred continues to qualify and will indicate by signing below. If the land no longer qualifies or you do not wish to continue the designation or classification, it will be removed and the compensating or additional taxes will be due and payable by the seller or transferor at the time of sale. (RCW 84.33.140 or RCW 84.34.108). Prior to signing (3) below, you may contact your local county assessor for more information. This land does does not qualify for continuance.

Form with section 6: DEPUTY ASSESSOR DATE (2) NOTICE OF COMPLIANCE (HISTORIC PROPERTY) NEW OWNER(S): To continue special valuation as historic property, sign (3) below. If the new owner(s) do not wish to continue, all additional tax calculated pursuant to chapter 84.26 RCW, shall be due and payable by the seller or transferor at the time of sale. (3) OWNER(S) SIGNATURE

Form with section 7: List all personal property (tangible and intangible) included in selling price.

If claiming an exemption, list WAC number and reason for exemption:

Form with section 7: WAC No. (Section/Subsection) Reason for exemption

Form with section 7: Type of Document Date of Document June 27, 2007

Table with financial details: Gross Selling Price \$ 1,200,000.00, Personal Property (deduct) \$, Exemption Claimed (deduct) \$, Taxable Selling Price \$ 1,200,000.00, Excise Tax: State \$ 15,360.00, Local \$ 6,000.00, Delinquent Interest: State \$, Local \$, Delinquent Penalty \$, Subtotal \$ 21,360.00, County Technology Fee \$, State Technology Fee \$, Affidavit Processing Fee \$, Total Due \$ 21,360.00

A MINIMUM OF \$10.00 IS DUE IN FEE(S) AND/OR TAX *SEE INSTRUCTIONS

Form with section 8: I CERTIFY UNDER PENALTY OF PERJURY THAT THE FOREGOING IS TRUE AND CORRECT. Signature of Grantor or Grantor's Agent: Name (print): Date & city of signing: Signature of Grantee: Name (print): Date & city of signing:

Perjury: Perjury is a class C felony which is punishable by imprisonment in the state correctional institution for a maximum term of not more than five years, or by a fine in an amount fixed by the court of not more than five thousand dollars (\$5,000.00), or by both imprisonment and fine (RCW 9A.20.020 (1C)).

EXHIBIT "A"
Attached to Statutory Warranty Deed
Harbor Hills Water System LLC to Freeland Water & Sewer District Inc.
Parcel A

That portion of Tract A, Plat of Holmes Harbor Golf and Yacht Club, Division No. 7, according to plat recorded in Volume 9 of Plats, page 5, records of Island County, described as follows:

Beginning at the Southwest corner of said Tract A, also being the Northwest corner of Lot 1, Block 2, Plat of Holmes Harbor Golf and Yacht Club, Division No. 5;
Thence South 89°16'04" East 80.00 feet;
Thence North 0°45'07" East 70.00 feet;
Thence North 89°16'04" West 80.00 feet to the Easterly margin of Honeymoon Bay Road;
Thence South 0°45'07" West 70.0 feet to the true point of beginning.

Parcel B

All that portion of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, according to the Plat recorded in Volume 9 of Plats, pages 70 and 71, records of Island County, Washington, lying Westerly and Southerly of the following described line;
Commencing at the most Southerly corner of Lot 24, Block 5, said Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 234 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Sealawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence South 34°30' East 300 feet;
Thence South 47°45'41" East 361.64 feet (deed, Southeasterly, 358 feet, more or less) to the Point of Tangency of a 25 foot radius curve on Antelope Drive (formerly Olympic View Drive) being the terminus of the above described line

EXCEPT that portion thereof described as follows:

Commencing at aforesaid most southerly corner of Lot 24, Block 5, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 245 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Scalawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence North 53°29'08" West 189.88 feet to a point of the West line of aforesaid Tract C and the Southeast corner of the North 330 feet of the South 990 feet of Tract C, as shown on the map of Wonderwood, recorded under auditor's file no. 159977, records of Island County, Washington;
Thence along said West line of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, the following courses and distances;
Thence North 01°40'30" East 372.51 feet;
Thence North 89°18'51" East 135.90 feet (Plat, 135.94 feet) to the true point of beginning.

ALSO EXCEPT that portion thereof described as follows:

Commencing at the Northwest corner of Lot 29, Block 4 of aforesaid Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 75°00'37" West along the westerly extension of the North line of said Lot 29, a distance of 85.27 feet;
Thence South 38°09'55" West 13.42 feet to the true point of beginning;
Thence continuing South 38°09'55" West 134.99 feet;
Thence South 75°00'37" West 17.80 feet to the South line of aforesaid Tract C of the Plat of Holmes Harbor Golf and Yacht Club, Division 8;
Thence easterly along said South line the following courses and distances;
South 42°45'34" East 117.63 feet to the Beginning of a curve to the left, from which a radial line bears North 47°14'26" East to the radius point;
Thence easterly along said curve to the left, having a radius of 72.32 feet, through a central angle of 46°55'53", an arc distance of 59.24 feet;
Thence South 89°41'27" East 211.95 feet (Plat, 212.00 feet) to the beginning of a curve to the left;
Thence leaving said South line North 47°45'41" West 329.45 feet to the true point of beginning.

Parcel C

That portion of Government Lot 4, in Section 3, Township 29 North, Range 2 East W.M., described as follows:

Beginning at the Northwest corner of Tract 14 in the Plat of Holmes Harbor Golf and Yacht Club, Division No. 3;

Thence South $89^{\circ}52'15''$ East 80 feet;

Thence North $0^{\circ}52'15''$ East 80 feet;

Thence West $89^{\circ}52'15''$ West 80 feet;

Thence South $0^{\circ}52'15''$ West 80 feet to the true point of beginning;

Abbreviated Legal: Ptn. Tract A, HHGYC, Div. 7; Ptn. Tract C, HHGYC, Div. 8; and ptn. GL 4 Sec. 3, Twp. 29 N, R 2 EWM

LPB

AFTER RECORDING MAIL TO:

Barrett Escrow, Inc.
P. O. Box 115
Freeland, WA 98249

BILL OF SALE

Escrow No. W-15236JB
Title Order No. L54568

For valuable consideration, receipt of which is acknowledged Harbor Hills Water System, LLC ("Seller"), hereby sells, assigns, transfers and delivers to Freeland Water & Sewer District, Inc., a Municipal Corporation ("Buyer"), all Seller's right, title and interest in and to all items of personal property (the "Personal Property") described in Exhibit "B" attached hereto and made a part hereof.

Said personal property is currently located at:
(x) See Exhibit "B" attached hereto and made a part hereof.
(x) On the following described real property:

Abbreviated Legal Descriptions:

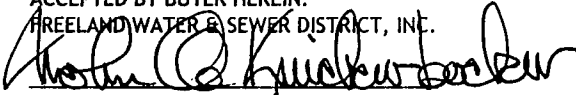
Parcel A: Ptn of Tract A HHG&YC #7, Tax Parcel No. S7165-07-0000A-1 (South Well Site)
Parcel B: Ptn Tract C HHG&YC #8, Tax Parcel No. S7165-08-0000C-2 (Main Treatment Plant & Well #3 Site)
Parcel C: Ptn GL 4 in 3/29/2 EWM, Tax Parcel No. R22903-228-2710 (North Well Site)
Easement: Ptn 34/30/2 EWM, Tax Parcel No. R23034-011-2091

Full Legal Description set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein.

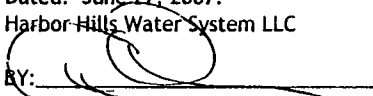
Seller warrants to Buyer that Seller has good title to the Personal Property; that Seller has the right and authority to sell, assign, transfer and deliver the Personal Property to Buyer; and that any interest of Seller in the Personal Property is free and clear of liens, security interests, encumbrances and adverse claims. Buyer hereby assumes terms and conditions of and guarantees that it will honor any and all existing signed or oral developer's extension agreements with regard to provision of service to those parcels listed on attached Exhibit "C" that are part of Harbor Hills Water System future boundary, as evidenced through Developers Extension agreements, a copy of which is attached hereto as Exhibits "D" and "E."

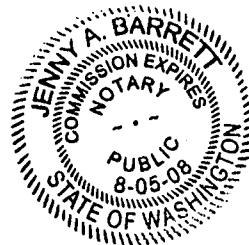
This Bill of Sale is intended to pass title to the Personal Property from Seller to Buyer irrespective of whether any of said Personal Property is correctly characterized as a fixture as a matter of law.

ACCEPTED BY BUYER HEREIN:
FREELAND WATER & SEWER DISTRICT, INC.


By: Nolen A. Knickerbocker
Its: President/Commissioner

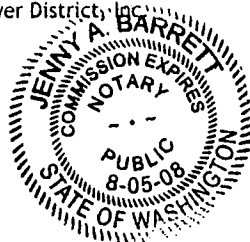
Dated: June 27, 2007.
Harbor Hills Water System LLC


BY: Terry Otey
Authorized Agent



Bill of Sale - Page 1 of 2 + Exhibits "A," "B," "C," and "D"

Notary Acknowledgment
Attached to Bill of Sale
Harbor Hills Water System LLC to Freeland Water & Sewer District, Inc



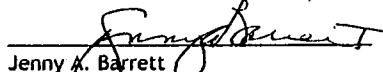
STATE OF Washington

) ss.

COUNTY OF Island

I certify that I know or have satisfactory evidence that Terry Otey is/are the person(s) who appeared before me, and said person(s) acknowledged that he/she/they signed this instrument, on oath stated that he was/she was/they were authorized to execute the instrument and acknowledged it as the Authorized Agent/Member of Harbor Hills Water System LLC to be the free and voluntary act of such party(ies) for the uses and purposes mentioned in this instrument.

Dated: 2ND day of July, 2007.


Jenny A. Barrett
Notary Public in and for the State of Washington
residing at Freeland
My Commission Expires: 08/05/08

Bill of Sale - Page 2 of 2 + Exhibits "A," "B," "C," and "D"

Exhibit "A"
Harbor Hills Water System, LLC to Freeland Water & Sewer District, Inc.

Parcel A

That portion of Tract A, Plat of Holmes Harbor Golf and Yacht Club, Division No. 7, according to plat recorded in Volume 9 of Plats, page 5, records of Island County, described as follows:

Beginning at the Southwest corner of said Tract A, also being the Northwest corner of Lot 1, Block 2, Plat of Holmes Harbor Golf and Yacht Club, Division No. 5;
Thence South 89°16'04" East 80.00 feet;
Thence North 0°45'07" East 70.00 feet;
Thence North 89°16'04" West 80.00 feet to the Easterly margin of Honeymoon Bay Road;
Thence South 0°45'07" West 70.0 feet to the true point of beginning.

Parcel B

All that portion of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, according to the Plat recorded in Volume 9 of Plats, pages 70 and 71, records of Island County, Washington, lying Westerly and Southerly of the following described line;
Commencing at the most Southerly corner of Lot 24, Block 5, said Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 234 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Sealawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence South 34°30' East 300 feet;
Thence South 47°45'41" East 361.64 feet (deed, Southeasterly, 358 feet, more or less) to the Point of Tangency of a 25 foot radius curve on Antelope Drive (formerly Olympic View Drive) being the terminus of the above described line

EXCEPT that portion thereof described as follows:

Commencing at aforesaid most southerly corner of Lot 24, Block 5, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (deed, Westerly, 245 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Sealawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence North 53°29'08" West 189.88 feet to a point of the West line of aforesaid Tract C and the Southeast corner of the North 330 feet of the South 990 feet of Tract C, as shown on the map of Wonderwood, recorded under auditor's file no. 159977, records of Island County, Washington;
Thence along said West line of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, the following courses and distances;
Thence North 01°40'30" East 372.51 feet;
Thence North 89°18'51" East 135.90 feet (Plat, 135.94 feet) to the true point of beginning.

ALSO EXCEPT that portion thereof described as follows:

Commencing at the Northwest corner of Lot 29, Block 4 of aforesaid Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 75°00'37" West along the westerly extension of the North line of said Lot 29, a distance of 85.27 feet;
Thence South 38°09'55" West 13.42 feet to the true point of beginning;
Thence continuing South 38°09'55" West 134.99 feet;
Thence South 75°00'37" West 17.80 feet to the South line of aforesaid Tract C of the Plat of Holmes Harbor Golf and Yacht Club, Division 8;
Thence easterly along said South line the following courses and distances;
South 42°45'34" East 117.63 feet to the Beginning of a curve to the left, from which a radial line bears North 47°14'26" East to the radius point;
Thence easterly along said curve to the left, having a radius of 72.32 feet, through a central angle of 46°55'53", an arc distance of 59.24 feet;
Thence South 89°41'27" East 211.95 feet (Plat, 212.00 feet) to the beginning of a curve to the left;
Thence leaving said South line North 47°45'41" West 329.45 feet to the true point of beginning.

Parcel C

That portion of Government Lot 4, in Section 3, Township 29 North, Range 2 East W.M., described as follows:

Beginning at the Northwest corner of Tract 14 in the Plat of Holmes Harbor Golf and Yacht Club, Division No. 3;

Thence South $89^{\circ}52'15''$ East 80 feet;

Thence North $0^{\circ}52'15''$ East 80 feet;

Thence West $89^{\circ}52'15''$ West 80 feet;

Thence South $0^{\circ}52'15''$ West 80 feet to the true point of beginning;

Abbreviated Legal: Ptn. Tract A, HHGYC, Div. 7; Ptn. Tract C, HHGYC, Div. 8; and ptn. GL 4 Sec. 3, Twp. 29 N, R 2 EWM

LFB

Exhibit "B"
Attached to Bill of Sale
Harbor Hills Water System LLC to Freeland Water & Sewer District Inc.

Personal property included in this transfer is described as follows:

All assets of Harbor Hills Water System LLC, including any and all fixtures, equipment, and good will related thereto.

End of Exhibit "B"

Exhibit "C"
Attached to Bill of Sale
Harbor Hills Water System LLC to Freeland Water & Sewer District, Inc.

Parcels which are the subject of Developer's Extension Agreements as of July 1, 2007:

<u>Rural Forest</u>	<u>Approximate Acreage</u>
R23033-478-1980	28.82
R23033-330-3490	30.00
R23033-462-3320	40.00
R23033-066-2280	22.41
R23033-033-3320	20.00
R23033-100-3320	20.00
R22904-384-3620	15.00
R22904-386-4300	5.00
R22904-386-4970	5.00
R22904-353-4970	5.00
R22904-385-2550	<u>1.93</u>
Total Rural Forest	193.16

<u>Rural</u>	<u>Approximate Acreage</u>
R22904-436-3330	20.00
R22904-508-3330	20.00
R22904-474-2410	14.38
R22904-300-2850	5.85
R22904-452-4350	5.00
R22904-353-4300	5.00
R22904-520-5000	5.00
R22904-418-4970	5.00
R23033-231-3310	20.00
R23033-183-3310	10.00
R23033-150-3310	10.00
R23033-214-4330	5.00
R23033-180-4330	5.00
R23033-050-4600	5.00
R23033-145-4300	5.00
R23033-145-4950	5.00
R23033-084-4600	10.00
R23033-015-4600	10.00
R23033-015-4600	10.00
R23033-115-4600	<u>10.00</u>
Total Rural	185.23

Total Acreage: 378.39

EXHIBIT "D"
 Attached to Bill of Sale
 Harbor Hills Water System LLC to Freeland Water & Sewer, Inc.

**UPDATE TO DEVELOPERS EXTENSION AGREEMENTS HELD BY THE
 HARBOR HILLS WATER SYSTEM LLC**

The following list indicates what oral or signed Agreements are in place as of date of closing (July 1, 2007):

<u>Developer</u>	<u>Project</u>	<u>Signed Agr</u>	<u>#HU's</u>	<u>#Installed</u>	<u>#Paid</u>	<u>Deposit \$</u>
Sikma	Evergreen Ln	Yes	13	13	-0-	-0-
Cook	Antelope Ln	Yes	1	-0-	1	-0-
Cook	Lauren Acres	Yes	8	?	8	\$ 157.75*
Sikma	Reindeer Rd	Oral	3	-0-	-0-	-0-
Criswell	Bird Song Ln	Yes	3	-0-	-0-	\$ 210.00*
B-BO LLC	EvenStar Ln	Yes	20	?	-0-	\$ 400.00
Perri Dong	Lawrence Ln	Yes	12	-0-	12	\$2,107.50
Schuster	Bluff Condos	Yes	36	-0-	-0-	-0-
Schuster	ChipShot Hts	Yes	30	-0-	30	\$1,799.40

Total: 126 Hookups accounted for – Holding Deposits to Transfer of \$4,674.65

Notes:

Sikma's 13 are installed; the developers (per agreement) will install the others.
 Sikma has a \$17,700.00 Latecomer's fee due from B-BO LLC for EvenStar Project when you sell B-BO hookups

Note: It is understood between the two parties, (Harbor Hills Water System LLC and Freeland Water & Sewer District, Inc.), that all existing developers' extension agreements require developer to install all meters. Harbor Hills Water System LLC and/or Terry Otey, individually, will not be liable for such installation(s).

EXHIBIT "E"

HARBOR HILLS WATER SYSTEM, ~~LLC~~ LLC, INC.

**APPLICATION AND AGREEMENT TO CONSTRUCT
EXTENSION TO WATER SYSTEM**

The undersigned, as the Developer herein, hereby makes application to the Harbor Hills Water System, LLC, hereafter referred to as the Purveyor, for permission to construct and connect a private extension to the Purveyor's existing water system. If this application is accepted, the undersigned, in consideration of the mutual promises and covenants herein contained, agrees to the terms and conditions of this Developer Extension Agreement and as follows:

1) Location of Water System Extension.

The proposed water system extension (the "extension") will be installed in streets and other approved rights-of-way and/or easements and shall be for the use and benefit of the real property hereinafter described, which real property is owned by the Developer and/or other owners for whom the Developer is acting as agent. Any such owners have joined in this application and are designated on the signature page hereof as "additional owners." A legal description of the real property including the Tax Lot Number; a common address, if applicable; and a Parcel Number attached thereto.

2) Description of Extension.

The proposed extension will consist of approximately _____ lineal feet of water pipe and appurtenances and shall be installed in accordance with this Agreement and with the Plans and Specifications provided by the Purveyor at the cost of the Developer as hereinafter provided, or in accordance with such Plans prepared in conformity with Purveyor's specifications and approved by the Purveyor.

3) Fees to be paid by the Developer.

- a. A minimum fee deposit of \$3,500.00 shall be paid at the time of making application to the Purveyor to pay all Purveyor costs incurred relating to the extension agreement including, but not limited to, extension agreement setup, design, Plan review and all other Purveyor administrative, engineering and legal fees and costs. If the proposed extension is for a new subdivision, the final plans will not normally be prepared or approved by the Purveyor until the plat has been filed with the County Auditor.
- b. The Purveyor expenses related to this application shall be charged to Developer on the basis of the cost of time and materials plus the percentage for Purveyor administration and overhead approved in the Purveyor's tariff/price list approved by the WA Utilities and Transportation Commission. Should said expense be in excess of the initial partial payment paid by the Developer, the Developer shall increase the amount of the deposit based on the Purveyor's estimate of the excess cost. In the event the Purveyor's expense is less than the deposit payment(s) made by the Developer, the remainder of the partial payment may, at the sole option of the Purveyor, be refunded to Developer or applied to the payment of other costs provided for in this agreement for which Developer is liable.

- c. General Connection Charges shall be paid by owners of such real property seeking connection to, or increased water service (such as a new service or change in service) from, the Purveyor's water system payable prior to the commencement of construction of the extension in the amounts as established by Purveyor's tariff/price list approved by the WA Utilities and Transportation Commission.
- d. Local Facilities Charge shall be paid by owners connecting property to an existing water main, unless the owner has already paid its pro rata share for such main or is required to pay a reimbursement charge. The Local Facility Charges established by Purveyor's tariff/price list approved by the WA Utilities and Transportation Commission are payable prior to the commencement of the extension.
- e. Special Connection Charges as listed below shall be paid by the Owner/Developer to the Purveyor prior the commencement of the construction of the extension:
 - f. The expense of preparing or approving plans and specifications requiring special detail work by the Purveyor, such as for pump stations and pressure reducing stations, shall be paid by the Developer to the Purveyor, on demand, on the basis of the cost of time and materials plus the percentage for Purveyor administration and overhead approved in the Purveyor's tariff/price list approved by the WA Utilities and Transportation Commission.
- g. Applicant shall pay to the Purveyor prior to the start of construction work the sum of \$400.00 for each inspector day, as estimated by the Purveyor based on the rate of \$50.00 per hour for those working hours between 8:00 a.m. to 4:30 p.m., Monday through Friday. An inspector day shall be each day or a part thereof during which an inspector shall be reasonably required to be present at the site to provide proper inspection and testing of the work; provided that the minimum fee for an inspector day shall be \$200.00 based on a minimum rate of four hours. Inspection time incurred before 8:00 a.m. or after 4:30 a.m., or at any time on Saturdays and Sundays, shall be paid for by the applicant at the rate of \$75.00 per hour. The Purveyor may stop the work until such payment is made. If the actual number of inspection days required is less than the Purveyor's estimate, the remainder of the partial payment may, at the sole option of the Purveyor, be refunded to Developer or applied to the payment of other costs provided for in this agreement for which Developer is liable. These inspection costs are separate from the cost of the Purveyor's Engineer's inspection.
- h. The foregoing fees are not intended to include allowance for any unusual costs incurred by the Purveyor on account of property surveys, changes in design, necessary construction engineering, permits, environmental work, easement work, comment preparation, project coordination, errors or omissions by the Developer, his contractor or agents, unusual negotiations, legal expenses incurred beyond the expense of normal review of documents, and/or any other project related costs. The Purveyor will bill the Developer for any such unusual costs, fees, and expenses, and the same shall be paid promptly by the Developer to the Purveyor.

- i. The Developer shall pay all reimbursement charges owing as a condition of final acceptance of the extension improvement. Reimbursement charges shall be owing for:
 - i. Any existing reimbursement agreement with the Purveyor applicable to the Developer's extension/real property; or
 - ii. Any reimbursement agreement in force and effect applicable to the Developer's extension/real property at the time of the Purveyor's final acceptance of the Developer's extension.

4) Performance Guarantee.

Developer shall furnish to the Purveyor prior to the start of construction a performance guarantee of a type and in a form as determined by the Purveyor, in its sole discretion, in an amount equal to the Purveyor's estimated cost of the extension or contractor bid price. The performance guarantee shall require completion of all work within a period of eighteen (18) months from the date of the Agreement with the Purveyor in accordance with the Agreement, the Plans and Specifications and other requirements of the Purveyor. The Purveyor in its sole discretion may also require a payment bond of a type and in a form as determined by the Purveyor requiring the payment by the developer of all persons furnishing labor and materials in connection with the work performed under the Agreement, and shall hold the Purveyor harmless from any claims therefrom. Any payment bond required by the Purveyor shall be provided to the Purveyor prior to the start of construction as a condition of the Purveyor granting final acceptance of the work referenced herein. No third person or party shall have any rights under any performance or payment guarantee the Purveyor may require from the Developer and such are provided entirely for the benefit of the Purveyor and the Developer and their successors in interest.

5) Final Acceptance - Conditions Precedent.

Compliance with all terms and conditions of this Agreement, the Plans and Specifications prepared hereunder and other Purveyor requirements shall be a condition precedent to the Purveyor's obligation to accept the bill of sale to the extension improvements and to the Purveyor's Agreement to maintain and operate the extension improvements and to provide water service to the real property that is described in this Agreement.

The Purveyor shall not be required to allow any connection to the Purveyor's water system of any portion of the real property described in this Agreement if there are any fees or costs unpaid to the Purveyor under this Agreement or there are other fees or charges owing the Purveyor by the Developer pursuant to other Purveyor requirements.

The Purveyor shall not be obligated to provide water service to the real property described in this Agreement if construction by third parties of facilities to be conveyed to the Purveyor has not been completed and title accepted by the Purveyor if such third-party facilities are necessary to provide water service to the property described in this Agreement.

The Purveyor will accept title to the extension improvements at such time as all work on the extension improvements has been completed, and the Purveyor has made final inspection and given its approval to the extension improvements as having been completed in accordance with this Agreement, the Plans and Specifications and other requirements of the Purveyor, and after WA Department of Health acknowledgement and acceptance of the Engineer's Construction Completion Report.

Such acceptance by the Purveyor shall not relieve the Developer of the obligation to correct defects in labor and/or materials as herein provided and/or the obligations set forth in applicable paragraphs hereof. After acceptance of the extension improvements by the Purveyor and the transferring of title to such extension improvements as set forth herein, the Developer shall furnish to the Purveyor a maintenance bond (cash or bond) which shall continue in force from the date of acceptance of said extension for a period of two years. The bond shall be in a form as contained herein and shall require the Developer and/or the bonding company to correct the defects in labor and materials which arise in said system for a period of two years from the date of acceptance of the system and transfer of title to the Purveyor. The maintenance bond shall be in an amount equal to ten (10) percent of the cost of said extension but not less than two thousand dollars (\$2,000.00). Prior to the release of such maintenance bond the Developer shall be required to clean and inspect the extension improvements at the Developer's sole cost and expense to confirm that such improvements are free from defects in labor and materials.

6) Procedure for Acceptance.

Prior to such acceptance, an executed bill of sale of the extension improvements in a form approved by the Purveyor and containing the warranties required by this Agreement shall be executed by the Developer and any additional owners and delivered to the Purveyor. The Purveyor's purchase price for the new facilities, and associated water/utility easements shall be one dollar (\$1.00) plus other considerations.

7) Warranties of Developer.

The bill of sale to be provided by the Developer to the Purveyor shall contain the following warranties with the Purveyor as beneficiary:

- a. Developer is the owner of the extension improvements, the same are free and clear of all encumbrances and Developer has good right and authority to transfer title thereto to the Purveyor and will defend the title of the Purveyor against the claims of all third parties claiming to own the same or claiming any interest therein or encumbrance thereon; and
- b. The extension improvements are in proper working condition, order and repair, and are adequate and fit for the intended purpose of use as a water system and as an integral part of the water supply and distribution system of the Purveyor; and
- c. For a period of two years from the date of final acceptance of the extension improvements by the Purveyor, the extension improvements and all parts thereof shall remain in proper working condition, order and repair; and

Developer shall repair or replace, at its expense, any work or material which may prove to be defective during the period of the warranty.

In addition, Developer shall obtain warranties and guaranties from its contractor and/or suppliers where such warranties or guaranties are specifically required in this Agreement. When corrections of defects occurring within the warranty period are made, Developer shall further warrant corrected work for one year after acceptance of the corrected work by the Purveyor.

8) Effect of Acceptance.

Acceptance by Purveyor shall cause the extension improvements to be subject to the control, use and operation of the Purveyor and all regulations and conditions of service and service charges as the Purveyor determines to be reasonable and proper.

9) Phased Construction.

The extension improvements may be constructed in phases with prior Purveyor approval as conditioned and as specifically designated in the Plans and Specifications. Acceptance may also be on a phased basis when all requirements have been met. There will be no conditional acceptance or acceptance for use and operation.

10) Correction of Defects Occurring Within Warranty Period.

When defects in the extension improvements are discovered within the warranty/maintenance period, Developer shall start work to remedy any such defects within seven (7) days of notice by the Purveyor and shall complete such work within a reasonable time. In emergencies, where damages may result from delay and where loss of service may result, corrections may be made by the Purveyor upon discovery, in which case the cost thereof shall be borne by the Developer. In the event the Developer does not commence and/or accomplish corrections within the time specified, the work may be accomplished by the Purveyor at its option, and the cost thereof shall be paid by the Developer.

Developer shall be responsible for any expenses incurred by the Purveyor resulting from defects in the Developer's work, including actual damages, costs of materials and labor expended by the Purveyor in making repairs and the cost of engineering, inspection and supervision by the Purveyor.

11) Limitation of Period of Acceptance.

The extension improvements shall be completed and accepted within eighteen (18) months of the date of this Agreement. If the extension is not completed and accepted within the eighteen (18) month period, then this Agreement and all of the Developer's rights herein shall terminate and cease.

No extension of the time completion of the Agreement shall be allowed. In the event the Agreement terminates, the Developer shall be required to make a new application for extension agreement to the Purveyor. Any such new agreement entered into between the Purveyor and the Developer pursuant to a new application shall be subject to the Purveyor's current policies and tariff/price list approved by the WA Utilities and Transportation Commission.

12)Warranty of Authority.

The Developer and any additional owners warrant that they are the owners of the real property described in this Agreement. Developer shall also upon request provide a title report to the Purveyor establishing that the parties executing this Agreement are the owners of all the real property to be served by the extension improvements described herein.

13)Rates and Charges.

The real property described in this Agreement shall be subject to the Purveyor's policies and tariff/price list approved by the WA Utilities and Transportation Commission.

14)Subletting and Subcontracting.

Developer is fully responsible for the acts and omissions of its contractors and persons employed, directly or indirectly by its contractors, as well as the acts and omissions of persons directly or indirectly employed or retained by the Developer.

15)No Assignment without Purveyor Approval.

The Developer's rights and responsibilities arising out of this Agreement are not assignable unless Purveyor consent is obtained, as conditioned by the Purveyor, prior to any proposed assignment. Written documents as required by the Purveyor of any Purveyor approved assignment shall be filed with the Purveyor by the Developer at the time of any assignment.

16)Technical Details and Specifications.

Refer to the Purveyor's Standard Specifications for Water main Installation, and other attached design specifications and drawing.

ACCEPTANCE OF THIS APPLICATION BY THE PURVEYOR CONSTITUTES A CONTRACT WITH THE APPLICANT, THE TERMS OF WHICH ARE EACH PARAGRAPH OF THIS MANUAL, THE PURVEYOR'S MATERIALS, CONSTRUCTION AND STANDARD DETAILS SPECIFICATIONS SHEETS, THE EXTENSION IMPROVEMENT PLANS AND DESIGN APPROVED BY THE PURVEYOR AND ALL OTHER APPLICABLE PURVEYOR REGULATIONS AND WASHINGTON LAW.

DEVELOPER, _____, a ___ corporation, ___ partnership,
___ joint venture, ___ limited liability company, ___ sole proprietorship.

NOTE:

1. If the Developer is a corporation, this Agreement must be executed by its duly authorized representative and the Developer hereby warrants same.
2. If the Developer is a partnership, at least one of the general partners must sign this Agreement and indicate his/her capacity as such.
3. If the Developer is a limited liability company, this Agreement must be executed by its duly authorized manager.

By _____

STATE OF WASHINGTON)
) ss:
COUNTY OF _____)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument, and acknowledged it as the _____ of to be the free and voluntary act of such entity for the uses and purposes mentioned in the instrument.

DATED: _____

NAME: _____

(Print Name)

Notary Public in and for the State of Washington.

Commission Expires: _____

THE FOREGOING APPLICATION of _____ accepted this _____ day of _____, 200___ by the HARBOR HILLS WATER SYSTEM, LLC.

NAME: _____
Mr. Terry Otcy, System Manager/Owner

Approved as to form by Attorney for the Harbor Hills Water System, LLC,

PROMISSORY NOTE

\$1,000,000.00

June 27, 2007

Date

Freeland, Washington
City, State

FOR VALUE RECEIVED, Freeland Water & Sewer District, Inc., a Municipal Corporation, hereinafter "Maker" promises to pay to Harbor Hills Water System LLC, a Limited Liability Company, hereinafter "Holder" or order at P. O. Box 657 Freeland, WA 98249, or such other place as may be designated by the Holder from time to time, the principal sum of One Million and 00/100 Dollars (\$1,000,000.00), with interest thereon from the 1st day of July, 2007, on the unpaid principal at the rate of Four percent (4.0000%) per annum as follows:

- 1. INSTALLMENT PAYMENTS: Maker shall pay, (check one)
a. [] NO INSTALLMENTS. No installment payments are required.
b. [X] PRINCIPAL and INTEREST INSTALLMENTS, as set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein..
c. [] INTEREST ONLY PAYMENTS on the outstanding principal balance.

(The following must be completed if "b" or "c" is checked)

The installment payments shall begin on the 30th day of September, 2007, and shall continue on the 30th day of each succeeding: (check one)

- [] calendar month
[X] third calendar month
[] sixth calendar month
[] twelfth calendar month

[] other:

- 2. DUE DATE: The entire balance of this Note together with any and all interest accrued thereon shall be due and payable in full on 30th day of June, 2027.
3. DEFAULT INTEREST: After maturity, or failure to make any payment, any unpaid principal shall accrue interest at the rate of Four percent 4.0000 % per annum (18% if not filled in) OR the maximum rate allowed by law, whichever is less, during such period of Maker's default under this Note.
4. ALLOCATION OF PAYMENTS: Each payment shall be credited first to any late charge due, second to interest, and the remainder to principal.
5. PREPAYMENT: Maker may prepay all or part of the balance owed under this Note at any time without penalty.
6. CURRENCY: All principal and interest payments shall be made in lawful money of the United States.
7. LATE CHARGE: If Holder receives any installment payment more than 15 days (15 days if not filled in) after its due date, then a late payment charge of \$___, or Five percent (5.0000)% of the installment payment (5% of the installment payment if neither is filled in) shall be added to the scheduled payment.
8. DUE ON SALE: (OPTIONAL-Not applicable unless initialed by Holder and Maker to this Note) If this Note is secured by a Deed of Trust or any other instrument securing repayment of this Note, the property described in such security instruments may not be sold or transferred without the Holder's consent. Upon breach of this provision, Holder may declare all sums due under this Note immediately due and payable, unless prohibited by applicable law.

Maker (Initials)

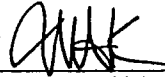
Holder (Initials)

- 9. ACCELERATION: If Maker fails to make any payment owed under this Note, or if Maker defaults under any Deed of Trust or any other instruments securing repayment of this Note, and such default is not cured within 45 days (30 days if not filled in) after written notice of such default, then Holder may, at its option, declare all outstanding sums owed on this Note to be immediately due and payable, in addition to any other rights or remedies that Holder may have under the Deed of Trust or other instruments securing repayment of this Note.
10. ATTORNEYS' FEES AND COSTS: Maker shall pay all costs incurred by Holder in collecting

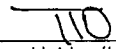
sums due under this Note after a default, including reasonable attorneys' fees, whether or not suit is brought. If Maker or Holder sues to enforce this Note or obtain a declaration of its rights hereunder, the prevailing party in any such proceeding shall be entitled to recover its reasonable attorneys' fees and costs incurred in the proceeding (including those incurred in any bankruptcy proceeding or appeal) from the non-prevailing party.

11. **WAIVER OF PRESENTMENTS:** Maker waives presentment for payment, notice of dishonor, protest and notice of protest.
12. **NON-WAIVER:** No failure or delay by Holder in exercising Holder's rights under this Note shall be a waiver of such rights.
13. **SEVERABILITY:** If any clause or any other portion of this Note shall be determined to be void or unenforceable for any reason, such determination shall not affect the validity or enforceability of any other clause or portion of this Note, all of which shall remain in full force and effect.
14. **INTEGRATION:** There are no verbal or other agreements which modify or affect the terms of this Note. This Note may not be modified or amended except by written agreement signed by Maker and Holder.
15. **CONFLICTING TERMS:** In the event of any conflict between the terms of this Note and the terms of any Deed of Trust or other instruments securing payment of this Note, the terms of this Note shall prevail.
16. **EXECUTION:** Each Maker executes this Note as a principal and not as a surety. If there is more than one Maker, each such Maker shall be jointly and severally liable under this Note.
17. **COMMERCIAL PROPERTY:** (*OPTIONAL-Not applicable unless initialed by Holder and Maker to this Note*) Maker represents and warrants to Holder that the sums represented by this Note are being used for business, investment or commercial purposes, and not for personal, family or household purposes.

ORAL AGREEMENTS: ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, TO EXTEND CREDIT, OR TO FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.



Maker (Initials)



Holder (Initials)

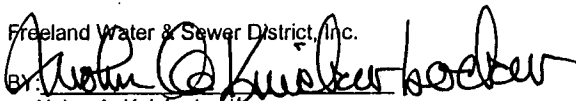
18. **DEFINITIONS:** The word Maker shall be construed interchangeably with the words Borrower or Payer and the word Holder shall be construed interchangeably with the words Lender or Payee. In this Note, singular and plural words shall be construed interchangeably as may be appropriate in the context and circumstances to which such words apply.
19. **ADDITIONAL TERMS AND CONDITIONS:** (check one)
 - a. NONE
 - OR
 - b. As set forth on the attached Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein.

(Note: If neither "a" or "b" is checked, then option "a" applies)

20. **THIS NOTE IS SECURED BY [X] DEED OF TRUST, UCC-2 Financing Statement, and Security Agreement OF EVEN DATE.**

Maker (signatures)

Freeland Water & Sewer District, Inc.


BY: _____
Nolen A. Knickerbocker
President/Commissioner

Maker's address for all notices given by Holder under this Note: P. O. Box 222, Freeland, WA 98249

DO NOT DESTROY THIS NOTE

WHEN PAID this original Note together with the Deed of Trust securing the same, must be surrendered to the Trustee for cancellation and retention before any reconveyance can be processed.

Exhibit "A"
Attached to Promissory Note
Freeland Water & Sewer District, Inc. to Harbor Hills Water System I.L.C

Principal Amount of \$1,000,000.00 is payable as follows:

\$12,500.00 Principal payment PLUS interest computed on the diminishing principal balance at the rate of 4% per annum due on or before September 30, 2007; and

\$12,500.00 Principal payment PLUS interest computed on the diminishing principal balance at the rate of 4% per annum due on the last day of each succeeding three-month period thereafter until entire balance, together with accrued interest thereon, if any, has been fully paid.

Interest to commence on July 1, 2007.

Note may not be prepaid in part or in full prior to July 1, 2012; penalty for prepayment prior to that date will be equal to full amount of interest which would have been paid if no prepayment had been made. Note may be prepaid in part or in full at any time after July 2, 2012, without penalty or unearned interest.

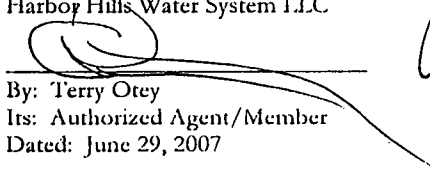
Provided this Note/Deed of Trust remains the property of either Harbor Hills Water System, L.L.C or Terry Otey, as his separate estate, the interest rate called for herein shall increase as follows:

4-1/2% per annum effective July 1, 2012; and
5% per annum effective July 1, 2017; and
5-1/2% per annum effective July 1, 2022

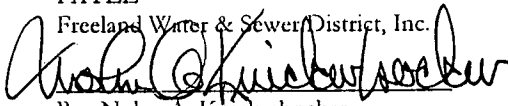
This Note/Deed of Trust may be assigned at any time by Maker/Grantor herein. In the event that assignment to a party other than Terry Otey, as his separate estate, occurs, provision for interest rate increases as set forth above shall become null and void and the then existing interest rate at time of such assignment shall remain in force until note has been paid in full.

Above terms and conditions are hereby approved and accepted by the undersigned parties:

MAKER
Harbor Hills Water System I.L.C


By: Terry Otey
Its: Authorized Agent/Member
Dated: June 29, 2007

PAYEE
Freeland Water & Sewer District, Inc.


By: Nolen A. Knickerbocker
Its: President/Commissioner
Dated: June 29, 2007

AFTER RECORDING MAIL TO:

Barrett Escrow, Inc.
P. O. Box 115
Freeland, WA 98249

DEED OF TRUST
(For use in the State of Washington only)

Escrow No. W-15236JB
Title Order No. L54568

THIS DEED OF TRUST, made this June 27, 2007, between

Freeland Water & Sewer District, Inc., a Municipal Corporation, as GRANTOR(S),
whose street address is

and
Northwest Exchange & Trustee, Inc., as TRUSTEE,
whose street address is P. O. Box 115, Freeland, WA 98249 and

Harbor Hills Water System LLC, a Limited Liability Company, as BENEFICIARY,
whose street address is P. O. Box 657
Freeland, WA 98249.

WITNESSETH: Grantor(s) hereby bargain(s), sell(s), and convey(s) to Trustee in trust, with power of sale, the following described real property in Island County, Washington:

Abbreviated Legal Descriptions: Parcel A: Ptn of Tract A HHG&YC #7, Tax Parcel No. S7165-07-0000A-1 (South Well Site)

Parcel B: Ptn Tract C HHG&YC #8, Tax Parcel No. S7165-08-0000C-2 (Main Treatment Plant & Well #3 Site)

Parcel C: Ptn GL 4 in 3/29/2 EWM, Tax Parcel No. R22903-228-2710 (North Well Site)

Easement: Ptn 34/30/2 EWM, Tax Parcel No. R23034-011-2091

Full Legal Description set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein.

which real property is not used principally for agricultural or farming purposes, together with all the tenements, hereditaments, and appurtenances now or hereafter thereunto belonging or in any way wise appertaining, and the rents, issues and profits of the property.

This Deed of Trust is for the purpose of securing performance of each agreement of Grantor(s) contained in this Deed of Trust, and payment of the sum of One Million and 00/100 DOLLARS (\$1,000,000.00) with interest, in accordance with the terms of a promissory note of even date herewith, payable to Beneficiary or order, and made by Grantor(s), and all renewals, modifications, and extensions thereof, and also such further sums as may be advanced or loaned by Beneficiary to Grantor(s), or any of the Grantor(s)' successors or assigns, together with interest thereon at the rate agreed upon.

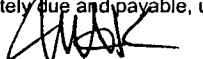
DUE DATE: The entire balance of the promissory note secured by this Deed of Trust, together with any and all interest accrued thereon, shall be due and payable in full on June 30, 2097.

To protect the security of this Deed of Trust, Grantor(s) covenant(s) and agree(s):

1. To keep the property in good condition and repair; to permit no waste thereof; to complete any building, structure, or improvement being built or about to be built on the property; to restore promptly any building, structure, or improvement thereon which may be damaged or destroyed; and to comply with all laws, ordinances, regulations, covenants, conditions, and restrictions affecting the property.
2. To pay before delinquent all lawful taxes and assessments upon the property; to keep the property free

and clear of all other charges, liens, or encumbrances impairing the security of this Deed of Trust.

3. To keep all buildings now or hereafter erected on the property described herein continuously insured against loss by fire or other hazards in an amount not less than the total debt secured by this Deed of Trust. All policies shall be held by the Beneficiary, and be in such companies as the Beneficiary may approve and have loss payable first to the Beneficiary, as its interest may appear, and then to the Grantor(s). The amount collected under any insurance policy may be applied upon any indebtedness hereby secured in such order as the Beneficiary shall determine. Such application by the Beneficiary shall not cause discontinuance of any proceedings to foreclose this Deed of Trust. In the event of foreclosure, all rights of the Grantor(s) in insurance policies then in force shall pass to the purchaser at the foreclosure sale.
4. To defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee, and to pay all costs and expenses, including cost of title search and attorney's fees in a reasonable amount, in any such action or proceeding, and in any suit brought by Beneficiary to foreclose this Deed of Trust.
5. To pay all costs, fees, and expenses in connection with this Deed of Trust, including the expenses of the Trustee incurred in enforcing the obligation secured hereby and Trustee's and attorney's fees actually incurred, as provided by statute.
6. Should Grantor(s) fail to pay when due any taxes, assessments, insurance premiums, liens, encumbrances, or other charges against the property hereinabove described, Beneficiary may pay the same, and the amount so paid, with interest at the rate set forth in the note secured hereby, shall be added to and become a part of the debt secured in this Deed of Trust.
7. **DUE ON SALE: (OPTIONAL - Not applicable unless initialed by Grantor and Beneficiary)** The property described in this security instrument may not be sold or transferred without the Beneficiary's consent. Upon breach of this provision, Beneficiary may declare all sums due under the note and Deed of Trust immediately due and payable, unless prohibited by applicable law.


Grantor (Initials)


Beneficiary (Initials)

IT IS MUTUALLY AGREED THAT:

1. In the event any portion of the property is taken or damaged in an eminent domain proceeding, the entire amount of the award or such portion as may be necessary to fully satisfy the obligation secured by this Deed of Trust, shall be paid to Beneficiary to be applied to said obligation.
2. By accepting payment of any sum secured by this Deed of Trust after its due date, Beneficiary does not waive its right to require prompt payment when due of all other sums so secured or to declare default for failure to so pay.
3. The Trustee shall reconvey all or any part of the property covered by this Deed of Trust to the person entitled thereto, on written request of the Grantor(s) and the Beneficiary, or upon satisfaction of the obligation secured and written request for reconveyance made by the Beneficiary or the person entitled thereto.
4. Upon default by Grantor(s) in the payment of any indebtedness secured by this Deed of Trust or in the performance of any agreement contained in this Deed of Trust, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary subject to any cure period provided in the note secured by this Deed of Trust. In such event and upon written request of Beneficiary, Trustee shall sell the trust property, in accordance with the Deed of Trust Act of the State of Washington, at public auction to the highest bidder. Any person except Trustee may bid at Trustee's sale. Trustee shall apply the proceeds of the sale as follows: (1) to the expense of the sale, including a reasonable Trustee's fee and attorney's fee; (2) to the obligation secured by this Deed of Trust; and (3) the surplus, if any, shall be distributed to the persons entitled thereto.
5. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser all right, title and interest in the real and personal property which Grantor(s) had or had the power to convey at the time of the execution of this Deed of Trust, and such as Grantor(s) may have acquired thereafter. Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchaser and encumbrancers for value.
6. The power of sale conferred by this Deed of Trust and by the Deed of Trust Act of the State of Washington is not an exclusive remedy; Beneficiary may cause this Deed of Trust to be foreclosed as a mortgage.
7. In the event of the absence, death, incapacity, disability, or resignation of Trustee, or at the discretion of the Beneficiary, Beneficiary may appoint in writing a successor trustee, and upon the recording of such appointment in the mortgage records of the county in which this Deed of Trust is recorded, the successor trustee shall be vested with all powers of the original trustee. The trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of an action or proceeding in which Grantor(s), Trustee, or Beneficiary shall be a party unless such action or proceeding is brought by the Trustee.

8. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but on his/her/their heirs, devisees, legatees, administrators, executors, and assigns. The term Beneficiary shall mean the holder and owner of the note secured hereby, whether or not named as Beneficiary herein.

9. ADDITIONAL TERMS AND CONDITIONS: (check one)

a. () NONE

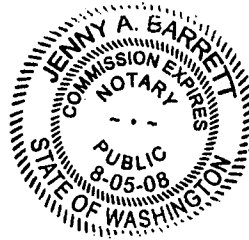
b. (X) As per forth on the attached "Exhibit "B", which is incorporated by this reference.

(Note: If neither "a" nor "b" is checked, then option "a" applies)

Freeland Water & Sewer District, Inc.

By: Nolen A. Knickerbocker

Nolen A. Knickerbocker
President/Commissioner



STATE OF Washington

) ss.

COUNTY OF Island

I certify that I know or have satisfactory evidence that Nolen E. Knickerbocker is/are the person(s) who appeared before me, and said person(s) acknowledged that he/she/they signed this instrument, on oath stated that he was/she was/they were authorized to execute the instrument and acknowledged it as the President/Commissioner of Freeland Water & Sewer District, Inc., to be the free and voluntary act of such party(ies) for the uses and purposes mentioned in this instrument.

Dated: 25 day of June, 2007.

Jenny A. Barrett
Jenny A. Barrett
Notary Public in and for the State of Washington
residing at Freeland
My Commission Expires: 08/05/08

REQUEST FOR FULL RECONVEYANCE Do not record. To be used only when note has been paid.

TO: TRUSTEE

The undersigned is the legal owner and holder of the note and all other indebtedness secured by the within Deed of Trust. Said note, together with all other indebtedness secured by said Deed of Trust, has been fully paid and satisfied; and you are hereby requested and directed, on payment to you of any sums owing to you under the terms of said Deed of Trust, to cancel said note above mentioned, and all other evidences of indebtedness secured by said Deed of Trust delivered to you herewith, together with the said Deed of Trust, and to reconvey, without warranty, to the parties designated by the terms of said Deed of Trust, all the estate now held by you thereunder.

Dated: _____

Exhibit "A"

Harbor Hills Water System, LLC to Freeland Water & Sewer District, Inc.

Parcel A

That portion of Tract A, Plat of Holmes Harbor Golf and Yacht Club, Division No. 7, according to plat recorded in Volume 9 of Plats, page 5, records of Island County, described as follows:

Beginning at the Southwest corner of said Tract A, also being the Northwest corner of Lot 1, Block 2, Plat of Holmes Harbor Golf and Yacht Club, Division No. 5;
Thence South 89°16'04" East 80.00 feet;
Thence North 0°45'07" East 70.00 feet;
Thence North 89°16'04" West 80.00 feet to the Easterly margin of Honeymoon Bay Road;
Thence South 0°45'07" West 70.0 feet to the true point of beginning.

Parcel B

All that portion of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, according to the Plat recorded in Volume 9 of Plats, pages 70 and 71, records of Island County, Washington, lying Westerly and Southerly of the following described line;
Commencing at the most Southerly corner of Lot 24, Block 5, said Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (decd, Westerly, 234 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Sealawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence South 34°30' East 300 feet;
Thence South 47°45'41" East 361.64 feet (decd, Southeasterly, 358 feet, more or less) to the Point of Tangency of a 25 foot radius curve on Antelope Drive (formerly Olympic View Drive) being the terminus of the above described line

EXCEPT that portion thereof described as follows:

Commencing at aforesaid most southerly corner of Lot 24, Block 5, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 88°04'38" West 244.90 feet (decd, Westerly, 245 feet, more or less) to the Southeast corner of the right of way terminus of Reindeer Road (formerly, Sealawn Avenue) and the true point of beginning;
Thence South 00°41'09" East 487 feet;
Thence North 53°29'08" West 189.88 feet to a point of the West line of aforesaid Tract C and the Southeast corner of the North 330 feet of the South 990 feet of Tract C, as shown on the map of Wonderwood, recorded under auditor's file no. 159977, records of Island County, Washington;
Thence along said West line of Tract C, Plat of Holmes Harbor Golf and Yacht Club, Division No. 8, the following courses and distances;
Thence North 01°40'30" East 372.51 feet;
Thence North 89°18'51" East 135.90 feet (Plat, 135.94 feet) to the true point of beginning.

ALSO EXCEPT that portion thereof described as follows:

Commencing at the Northwest corner of Lot 29, Block 4 of aforesaid Plat of Holmes Harbor Golf and Yacht Club, Division No. 8;
Thence South 75°00'37" West along the westerly extension of the North line of said Lot 29, a distance of 85.27 feet;
Thence South 38°09'55" West 13.42 feet to the true point of beginning;
Thence continuing South 38°09'55" West 134.99 feet;
Thence South 75°00'37" West 17.80 feet to the South line of aforesaid Tract C of the Plat of Holmes Harbor Golf and Yacht Club, Division 8;
Thence easterly along said South line the following courses and distances;
South 42°45'34" East 117.63 feet to the Beginning of a curve to the left, from which a radial line bears North 47°14'26" East to the radius point;
Thence easterly along said curve to the left, having a radius of 72.32 feet, through a central angle of 46°55'53", an arc distance of 59.24 feet;
Thence South 89°41'27" East 211.95 feet (Plat, 212.00 feet) to the beginning of a curve to the left;
Thence leaving said South line North 47°45'41" West 329.45 feet to the true point of beginning.

Parcel C

That portion of Government Lot 4, in Section 3, Township 29 North, Range 2 East W.M., described as follows:

Beginning at the Northwest corner of Tract 14 in the Plat of Holmes Harbor Golf and Yacht Club, Division No. 3;

Thence South $89^{\circ}52'15''$ East 80 feet;

Thence North $0^{\circ}52'15''$ East 80 feet;

Thence West $89^{\circ}52'15''$ West 80 feet;

Thence South $0^{\circ}52'15''$ West 80 feet to the true point of beginning;

Abbreviated Legal: Ptn. Tract A, HHGYC, Div. 7; Ptn. Tract C, HHGYC, Div. 8; and ptn. GL 4 Sec. 3, Twp. 29 N, R 2 EWM

LPB

Exhibit "B"
Attached to Deed of Trust
Freeland Water & Sewer District, Inc. to Harbor Hills Water System I.L.C

Principal Amount of \$1,000,000.00 is payable as follows:

\$12,500.00 Principal payment PLUS interest computed on the diminishing principal balance at the rate of 4% per annum due on or before September 30, 2007; and

\$12,500.00 Principal payment PLUS interest computed on the diminishing principal balance at the rate of 4% per annum due on the last day of each succeeding three-month period thereafter until entire balance, together with accrued interest thereon, if any, has been fully paid.

Interest to commence on July 1, 2007.

Note may not be prepaid in part or in full prior to July 1, 2012; penalty for prepayment prior to that date will be equal to full amount of interest which would have been paid if no prepayment had been made. Note may be prepaid in part or in full at any time after July 2, 2012, without penalty or unearned interest.

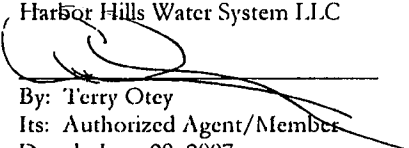
Provided this Note/Deed of Trust remains the property of either Harbor Hills Water System, LLC or Terry Otey, as his separate estate, the interest rate called for herein shall increase as follows:

4-1/2% per annum effective July 1, 2012; and
5% per annum effective July 1, 2017; and
5-1/2% per annum effective July 1, 2022

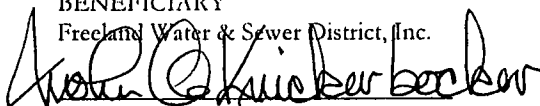
This Note/Deed of Trust may be assigned at any time by Maker/Grantor herein. In the event that assignment to a party other than Terry Otey, as his separate estate, occurs, provision for interest rate increases as set forth above shall become null and void and the then existing interest rate at time of such assignment shall remain in force until note has been paid in full.

Above terms and conditions are hereby approved and accepted by the undersigned parties:

GRANTOR
Harbor Hills Water System I.L.C


By: Terry Otey
Its: Authorized Agent/Member
Dated: June 29, 2007

BENEFICIARY
Freeland Water & Sewer District, Inc.


By: Nolen A. Knickerbocker
Its: President/Commissioner
Dated: June 29, 2007

Barrett Escrow, Inc.
 1614 East Main Street
 Freeland, WA 98249
 (360)331-6177 Fax: (360)331-1930

Date: June 26, 2007
 Escrow Number: W-15236JB
 Escrow Closer: Jenny A Barrett
 File Name: Freeland Water & Sewer District
 Harbor Hills Water System LLC

**CLOSING AGREEMENT AND ESCROW INSTRUCTIONS
 For Purchase and Sale Transaction**

The undersigned buyer and seller (referred to herein as "the parties") hereby designate and appoint
Barrett Escrow, Inc.

(referred to herein as "the closing agent") to act as their closing and escrow agent according to the following agreements and instructions.

IT IS AGREED, AND THE CLOSING AGENT IS INSTRUCTED, AS FOLLOWS:

Terms of Sale. The terms and conditions of the transaction which is the subject of these instructions (referred to herein as "the transaction") are set forth in the parties' Purchase and Sale Agreement, Earnest Money Agreement, or other written agreement, and any attachments, amendments or addenda to that agreement (referred to herein as "the parties' agreement"), which is made a part of these instructions by this reference. Any changes to the parties' agreement will be made a part of these instructions, without further reference, when signed by the parties and delivered to the closing agent. These instructions are not intended to amend, modify or supersede the terms and conditions of the parties' agreement and if there is any conflict or inconsistency between these instructions and the parties' agreement, the terms and conditions of the parties' agreement shall control.

Description of Real Property. The real property which is the subject of the transaction (referred to herein as "the property") is identified in the parties' agreement. The documents required to close the transaction must contain the "legal description" of the property. If the parties' agreement does not yet contain the correct legal description, the parties or the real estate agent shall obtain an addendum setting forth the legal description as soon as possible and deliver it to the closing agent.

Closing Date. The date on which the documents required to close the transaction are filed for record (referred to herein as "the closing date") shall be on or before the date for closing of the transaction specified in the parties' agreement unless the closing date falls within the three-day rescission period after delivery to the buyer of an amended real property transfer disclosure statement, in which case the closing date shall be extended until the expiration of the three-day rescission period.

Documents. The closing agent is instructed to select, prepare, correct, receive, hold, record and deliver documents as necessary to close the transaction. The closing agent may request that certain documents be prepared or obtained by the parties or their attorneys, in which case the parties shall deliver the requested documents to the closing agent before the closing date. Execution of any document will be considered approval of its form and contents by each party signing such document.

Deposits and Disbursements of Funds. Before the closing date, each party shall deposit with the closing agent all funds required to be paid by such party to close the transaction, less any earnest money previously deposited with the real estate agent. The closing agent is authorized, but not required, to consider a lending institution's written commitment to deposit funds as the equivalent of a deposit of such funds, if all conditions of the commitment will be met on or before the closing date. All funds received by the closing agent shall be deposited in one or more of its escrow or trust accounts with any bank doing business in the State of Washington and may be transferred to any other such accounts. The closing agent shall not be required to disburse any funds deposited by check or draft until it has been advised by its bank that such check or draft has been honored. All disbursements shall be made by the closing agent's check.

Settlement Statement. The closing agent is instructed to prepare a settlement statement showing all funds deposited for the account of each of the parties and the proposed disbursements from such funds. No funds shall be disbursed until the parties have examined and approved the settlement statement. Some items may be estimated, and the final amount of each estimated item will be adjusted to the exact amount required to be paid at the time of disbursement. The settlement statement will be subject to audit and any errors or omissions may be corrected at any time. If any monetary error is found, the amount will be immediately paid by the party liable for such payment to the party entitled to receive it.

Pro-rations. Adjustments or pro-rations of real estate taxes, and other charges if any, shall be made on a per-diem basis using a 365 day year, unless the closing agent is otherwise instructed.

Title Insurance. The closing agent is instructed to obtain and forward to the parties a preliminary commitment for title insurance on the property and on any other parcel of real property that will be used to secure payment of any obligation created in the transaction (referred to herein as "the title report"). The closing agent is authorized to rely on the title report in the performance of its duties and shall have no responsibility or liability for any title defects or encumbrances which are not disclosed in the title report.

Verification of Existing Encumbrances. The closing agent is instructed to request a written statement from the holder of each existing encumbrance on the property, verifying its status, terms, balance owing and, if it will not be removed at closing, the requirements that must be met to obtain a waiver of any due-on-sale provision. The closing agent may rely upon such

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written statements in the performance of its duties, without liability or responsibility for their accuracy or completeness.

Instructions From Third Parties. If any written instructions necessary to close the transaction according to the parties' agreement are given to the closing agent by anyone other than the parties or their attorneys, including but not limited to lenders, such instructions are accepted and agreed to by the parties.

Disclosure of Information to Third Parties. The closing agent is authorized to furnish, upon request, copies of any closing documents, agreements or instructions concerning the transaction to the parties' attorneys, and to any real estate agent, lender or title insurance company involved in the transaction. Other papers or documents containing personal or financial information concerning any party may not be released to anyone other than the party's attorney or lender, without prior written approval.

Potential Legal Problems. If the closing agent becomes aware of any facts, circumstances or potential problems which, in its opinion, should be reviewed by any of the parties' attorneys, the closing agent is authorized, in its sole discretion, to advise the parties of such facts, circumstances or potential problems and recommend that legal counsel be sought.

Closing Agent's Fees and Expenses. The closing agent's fee is intended as compensation for the services set forth in these instructions. If additional services are required to comply with any change or addition to the parties' agreement or these instructions, or as a result of any party's assignment of interest or delay in performance, the parties agree to pay a reasonable additional fee for such services. The parties shall also reimburse the closing agent for any out-of-pocket costs and expenses incurred by it under these instructions. The closing agent's fees, costs and expenses shall be due and payable on the closing date or other termination of the closing agent's duties and responsibilities under these instructions, and shall be paid one-half by the buyer and one-half by the seller unless otherwise provided in the parties' agreement.

Cancellation. These instructions may be canceled by a written agreement, signed by all of the parties, and payment of the closing agent's fees, costs and expenses. Upon receipt of such agreement and payment, the closing agent shall return any money or documents then held by it to the parties that deposited the same, and shall have no further duties or responsibilities under these instructions.

Inability to Comply With Instructions. If the closing agent receives conflicting instructions or determines, for any reason, that it cannot comply with these instructions by the date for closing specified in the parties' agreement or in any written extension of that date, it shall notify the parties, request further instructions, and in its discretion: (1) continue to perform its duties and close the transaction as soon as possible after receiving further instructions, or (2) if no conflicting instructions have been received, return any money or documents then held by it to the parties that deposited the same, less any fees and expenses chargeable to such party, or (3) commence a court action, deposit the money and documents held by it into the registry of the court, and ask the court to determine the rights of the parties. When the money and documents have been returned to the parties or deposited into the registry of the court, the closing agent shall have no further duties or responsibilities under these instructions.

Disputes. Should any dispute arise between the parties, or any of them, and/or any other party, concerning the property or funds involved in the transaction, the closing agent may, in its sole discretion, hold all documents and funds in their existing status pending resolution of the dispute, or join or commence a court action, deposit the money and documents held by it with the court, and ask the court to determine the rights of the parties. Upon depositing said funds and documents with the court, the closing agent shall have no further duties or responsibilities under these instructions. The parties jointly and severally agree to pay the closing agent's costs, expenses and reasonable attorney's fees incurred in any lawsuit arising out of or in connection with the transaction or these instructions, whether such lawsuit is instituted by the closing agent, the parties, or any other person.

Notices. Any notice, declaration or request made under these instructions shall be in writing, signed by the party giving such notice or making such declaration or request, and personally delivered or mailed to the closing agent and other parties at their addresses set forth in these instructions.

Amendments. Any amendment, addition or supplement to these instructions must be in writing, signed by the appropriate parties and delivered to the closing agent.

Counterparts. These instructions may be executed in one or more counterparts with like effect as if all signatures appeared on one copy.

Effect. These instructions shall bind and benefit the parties, the closing agent, and their successors in interest.

Definitions. When used herein or in any amendment, addition or supplement hereto, words and phrases are defined and are to be construed as follows:

The words "buyer" and "seller" refer to all persons and entities identified as such by their signatures on this document, jointly and severally unless otherwise indicated, and shall be construed interchangeably with other similar terms such as "purchaser", "vendee", "vendor", "grantee" or "grantor" as may be appropriate in the context and circumstances to which such words apply.

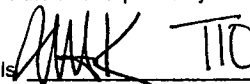
The word "lender" refers to any lending institution or other party, including the seller if appropriate, that has agreed to provide all or part of the financing for the transaction or to which the buyer has made a loan application.

The phrase "these instructions" refers to the agreements, instructions and provisions set forth in this document and all amendments, additions and supplements to this document.

The phrase "the property" refers to the real property identified in the parties' agreement, including any other parcel of real property that will be used to secure payment of any obligation created in the transaction, and does not include any items of personal property unless otherwise specifically stated in these instructions.

The phrase "outside of escrow" refers to any duty, obligation or other matter which is the sole responsibility of the parties or of any party, and for which the closing agent shall have no responsibility or liability.

Initials



In these instructions, singular and plural words, and masculine, feminine and neuter words, shall be construed interchangeably as may be appropriate in the context and circumstances to which such words apply.

**MATTERS TO BE COMPLETED BY THE BUYER AND SELLER
IMPORTANT - READ CAREFULLY**

The following items must be completed by the parties, outside of escrow, and are not part of the closing agent's duties under these instructions.

Disclosure, Inspection and Approval of the Property. Any required disclosures concerning the property including, but not limited, to preparation and delivery of any required Real Property Transfer Disclosure Statement, or inspections or approvals of the property or of improvements, additions or repairs to the property, will be arranged and completed by the parties, outside of escrow. The closing agent shall have no liability with respect to the accuracy of any disclosures made, or for the physical condition of the property, or any buildings, improvements, plumbing, heating, cooling, electrical, septic or other systems on the property, and no responsibility to inspect the property, or to otherwise determine or disclose its physical condition, or to determine whether any required disclosures have been made, or whether any required improvements, additions or repairs have been satisfactorily completed.

Personal Property. Any required inspections, approvals or transfers of possession of any owned or leased fixtures, equipment or other items of personal property included in the transaction, and payment of any personal property, sales or use taxes, will be completed by the parties outside of escrow. Unless otherwise instructed, the closing agent shall have no responsibility with respect to such personal property and shall not be required to determine the status or condition of the title to, encumbrances upon, ownership, or physical condition of such personal property, nor to calculate, pro-rate, collect, prepare returns for or pay any personal property tax, sales tax or use tax arising from the transaction.

Utilities. All orders, cancellations, transfers, payments and adjustment of accounts for water, sewer, garbage collection, electricity, gas, fuel oil, telephone, television cable and any other utilities or public services will be completed by the parties outside of escrow. Unless otherwise instructed, the closing agent shall have no responsibility, except as required by law, effective January 1, 1997, to determine, collect, pay, pro-rate or adjust charges for installation or service for any utilities or public services, except to pro-rate existing recurrent assessments for public improvements, if any, which appear on the title report.

Fire or Casualty Insurance. If a new policy of fire, hazard or casualty insurance on the property is necessary to close the transaction, the buyer will arrange for the policy to be issued, outside of escrow, and will provide evidence of the required insurance coverage to the closing agent before the closing date. Unless otherwise instructed, the closing agent shall have no responsibility to contract for or obtain any policy of fire, hazard or casualty insurance on the property, or any assignment of such policy.

Possession of the Property. The transfer of possession of the property shall be arranged directly between the parties outside of escrow and shall not be the responsibility of the closing agent.

Collection Account. If any financing for the transaction will be provided by a private party, the parties are advised to open a collection account at a financial institution to receive and disburse payments to be made under the private promissory note or contract. The collection account shall be established by the parties outside of escrow and shall not be the responsibility of the closing agent.

Payment of Omitted Taxes. If any additional real property taxes are assessed for improvements made to the property that have not been added to the tax rolls before the closing date, the parties shall pay their respective shares of such omitted taxes, pro-rated as of the closing date, within 30 days after receipt of notification that such taxes have been assessed. The closing agent shall not be responsible or liable for any assessment, collection or payment of omitted taxes.

Individual Taxes. The parties are advised to consult with their attorneys to determine whether they must report income, deduct expenses or losses, or withhold or pay any income or business taxes as result of the transaction. The closing agent shall have no responsibility for the parties' individual tax consequences arising from the transaction.

Foreign Investment in Real Property Tax Act. If any seller is, or may be, a non-resident alien or a foreign corporation, partnership, trust or estate for the purposes of United States income taxation, the parties are advised to consult with their attorneys before the closing date to determine their responsibilities and liabilities, if any, under the Foreign Investment in Real Property Tax Act (Section 1445 *et seq.* of the Internal Revenue Code). The closing agent is not required to verify the nationality or foreign status of any of the sellers, or to withhold, report or pay any amounts due under such act.

Approvals and Permits. The parties are advised to consult with their attorneys to determine whether any building, zoning, subdivision, septic system, or other construction or land use permits or approvals will be required, either before or after the closing date. The closing agent shall have no responsibility with respect to any such permit or approval, and shall have no liability arising from the failure of any party to obtain, or from the refusal of any governmental authority to grant, any such permit or approval.

Compliance With Certain Laws. The parties are advised to consult with their attorneys to determine their rights and responsibilities, if any, with respect to disclosures concerning the condition of the property, or under the Consumer Protection Act, Truth-in-Lending Act, Interstate Land Sales Act or other similar laws. The closing agent shall have no responsibility for disclosures concerning the condition of the property, or for the parties' compliance, nor any liability arising from the failure of any party to comply, with any such requirement or law.

Additional Agreements, Instructions and Disclosures:

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NOTICE TO PARTIES

The services of the closing agent under these instructions will be performed by the person named below, who is certified as a Limited Practice Officer under Admission to Practice Rule 12, adopted by the Washington State Supreme Court. Under that rule, Limited Practice Officers may only select, prepare and complete certain documents on forms which have been approved for their use. You are further advised that:

- THE LIMITED PRACTICE OFFICER IS NOT ACTING AS THE ADVOCATE OR REPRESENTATIVE OF EITHER (OR ANY) OF THE PARTIES.
- THE DOCUMENTS PREPARED BY THE LIMITED PRACTICE OFFICER WILL AFFECT THE LEGAL RIGHTS OF THE PARTIES.
- THE PARTIES' INTERESTS IN THE DOCUMENTS MAY DIFFER.
- THE PARTIES HAVE A RIGHT TO BE REPRESENTED BY LAWYERS OF THEIR OWN SELECTION.
- THE LIMITED PRACTICE OFFICER CANNOT GIVE LEGAL ADVICE AS TO THE MANNER IN WHICH THE DOCUMENTS AFFECT THE PARTIES.

The Limited Practice Officer for this transaction is: Jenny A Barrett
LPO Number: 475

BY SIGNING THESE INSTRUCTIONS, EACH PARTY ACKNOWLEDGES:

I have been specifically informed that the closing agent is forbidden by law from offering any advice concerning the merits of the transaction or the documents that will be used to close the transaction.

The closing agent has not offered any legal advice or referred me to any named attorney, but has clearly requested that I seek legal counsel if I have any doubt concerning the transaction or these instructions.

I have had adequate time and opportunity to read and understand these instructions and all other existing documents referred to in these instructions.

BUYER SIGNATURE(S): DATE: 6/20/07

Freeland Water & Sewer District, Inc.
BY: [Signature]
Nolen A. Knickerbocker
President/Commissioner

Buyer's Forwarding Address:

Buyer's phone:
Day _____ Evening _____ Fax _____

SELLER SIGNATURE(S): DATE: July 2, 2007

Harbor Hills Water System LLC
BY: [Signature]
Terry Otey
Authorized Agent

Seller's Forwarding Address:

Seller's phone:
Day _____ Evening _____ Fax _____

APPROVED AND ACCEPTED BY:
Barrett Escrow, Inc.
[Signature]
Jenny A Barrett
LPO/DEO
LPO Number: 475

Barrett Escrow, Inc.
1614 East Main Street
Freeland, WA 98249
(360)331-6177 Fax: (360)331-1930

Date: June 27, 2007
Escrow Number: W-15236JB
Escrow Closer: Jenny A Barrett
File Name: Freeland Water & Sewer District
Harbor Hills Water System LLC

**Supplement to
CLOSING AGREEMENT AND ESCROW INSTRUCTIONS
For Purchase and Sale Transaction
Including Instructions to Record Documents and Disburse Funds**

This is a part of the Closing Agreement and Escrow Instructions signed by the parties under the Closing Agent's escrow file number set forth above. Except as expressly modified, changed or amended by this supplement, all terms and conditions of the Closing Agreement and Escrow Instructions, and any previous supplements, additions or amendments thereto, shall remain in effect.

THE SELLER HAS APPROVED, SIGNED AND DEPOSITED THE FOLLOWING DOCUMENTS WITH THE CLOSING AGENT UNDER THESE INSTRUCTIONS:

- Statutory Warranty Deed
- Real Estate Excise Tax Affidavit
- Bill of Sale
- Promissory Note
- Deed of Trust

THE BUYER HAS APPROVED, SIGNED AND DEPOSITED THE FOLLOWING DOCUMENTS WITH THE CLOSING AGENT UNDER THESE INSTRUCTIONS:

- Statutory Warranty Deed
- Real Estate Excise Tax Affidavit
- Bill of Sale
- Promissory Note
- Deed of Trust

BY SIGNING THIS DOCUMENT, EACH PARTY ACKNOWLEDGES:

Conditions of Parties' Agreement Satisfied. All terms and conditions of the parties' agreement have been met to my satisfaction, or will be met, satisfied or complied with outside of escrow.

Title Report Approved. The Preliminary Commitment for Title Insurance, including the legal description of the property and all attachments, supplements and endorsements to that report, issued by First American Title Company under order number L54568, are approved by me and made a part of these instructions by this reference.

Settlement Statement Approved. The settlement statement prepared by the closing agent is approved by me and made a part of these instructions by this reference. I agree to pay my costs, expenses and other obligations itemized on that statement. I understand that any estimated amounts will be adjusted to reflect the exact amounts required when the funds are disbursed, that the settlement statement continues to be subject to audit at any time, and if any monetary error is found, the amount will be paid by the party liable for such payment to the party entitled to receive it.

BY SIGNING THIS DOCUMENT, THE BUYER FURTHER ACKNOWLEDGES:

Assumed Encumbrances Approved. I have had adequate opportunity to review the terms of payment, interest rates and conditions of any existing notes, deeds of trust, mortgages, contracts, assessments or other debts or obligations that I will assume and agree to pay in this transaction, and hereby approve the same.

Property Approved. I have had adequate opportunity to review seller's written disclosure statement, if any, and to inspect the property and determine the exact location of its boundaries. The location and physical condition of the property and any buildings, improvements, plumbing, heating, cooling, electrical or septic systems on the property are approved. I understand that all inspections and approvals of the location and physical condition of the property are my sole responsibility, and are not part of the closing agent's duties and responsibilities. I hereby release and agree to hold the closing agent harmless from any and all claims of liability for loss or damage arising or resulting from any physical condition or defect on the property, or from the location of its boundaries.

A written disclosure statement concerning the property, signed by the seller, was:

- Not received by the buyer.
- Received by the buyer on _____.
- If amended, amendments were received by the buyer on _____ shares of such

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omitted taxes, pro-rated as of the closing date, within 30 days after receipt of notification that such taxes have been assessed. The closing agent shall not be responsible or liable for any assessment, collection or payment of omitted taxes.

THE CLOSING AGENT IS INSTRUCTED TO PROCEED AS FOLLOWS:

Instruction to Close. The closing agent is instructed to perform its customary closing duties under these instructions, to deliver and record documents according to these instructions, and to disburse the funds according to the settlement statement, adjusting estimated amounts, when the closing agent has the documents required to close the transaction in its possession and has, or will obtain when the documents have been delivered and recorded:

1. Sale proceeds for the seller's account in the sum of **\$1,200,000.00**, to be disbursed according to the settlement statement, and
2. Loan proceeds for the buyer's account in the sum of **\$**, to be disbursed according to the settlement statement, and
3. A policy of title insurance issued pursuant to the Preliminary Commitment for Title Insurance referred to above, insuring the buyer with ALTA Own. Policy (10/17/92) with a liability of \$value allotted to real estate included in sale, as set forth in Exhibit "A" attached hereto and by this reference made a part hereof and incorporated herein, having the usual, clauses, provisions and stipulations customarily contained in the printed provisions and schedules of such policy forms, insuring the buyer's title to the property against all defects or encumbrances except those set forth in the printed exceptions and exclusions customarily contained in the printed provisions and schedules of such policy forms, matters attaching by, through or under the buyer taxes, not yet due, and the matters set forth in the following numbered paragraphs of Schedule B of the Preliminary Commitment for Title Insurance: **8 thru 10, 12 thru 25, and 28 thru 51,** and
4. Such other policies of title insurance as may be required by any lenders that are providing financing for the transaction.

Completion or Correction of Documents. The closing agent is instructed to correct any errors found in any document deposited under these instructions, and to insert as necessary the closing date, the date on which interest begins to accrue, and the dates on which payments must be made, if such items are incomplete.

Adjustments and Pro-rations.

Real estate taxes for the current year

Proceeds Check:

TRANSFER All Net Proceeds, or \$ _____ to

ATTN: _____

- ESCROW
 NO:
 HOLD check for PICK UP
 CALL when check is ready for PICK UP, Phone Number _____
 WIRE funds to (Bank Name) _____
 Address _____
 Routing No. _____
 Account No. _____

MAIL OVERNIGHT shipment check to _____
 Address _____

Additional Instructions:

Any and all terms and conditions of purchase and sale agreement shall survive the closing of this transaction.

Any and all contingencies set forth in said purchase and sale agreement have been satisfied and/or waived, and all parties hereto instruct escrow to proceed to closing.

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NOTICE TO PARTIES

The services of the closing agent under these instructions will be performed by the person named below, who is certified as a Limited Practice Officer under Admission to Practice Rule 12, adopted by the Washington State Supreme Court. Under that rule, Limited Practice Officers may only select, prepare and complete certain documents on forms which have been approved for their use. You are further advised that:

- THE LIMITED PRACTICE OFFICER IS NOT ACTING AS THE ADVOCATE OR REPRESENTATIVE OF EITHER (OR ANY) OF THE PARTIES.
- THE DOCUMENTS PREPARED BY THE LIMITED PRACTICE OFFICER WILL AFFECT THE LEGAL RIGHTS OF THE PARTIES.
- THE PARTIES' INTERESTS IN THE DOCUMENTS MAY DIFFER.
- THE PARTIES HAVE A RIGHT TO BE REPRESENTED BY LAWYERS OF THEIR OWN SELECTION.
- THE LIMITED PRACTICE OFFICER CANNOT GIVE LEGAL ADVICE AS TO THE MANNER IN WHICH THE DOCUMENTS AFFECT THE PARTIES.

The Limited Practice Officer for this transaction is: Jenny A Barrett
LPO Number: 475

The Limited Practice Officer has selected and prepared the following documents for this transaction:

Statutory Warranty Deed
Excise Tax Affidavit
Bill of Sale
Promiissory Note
Deed of Trust
UCC-2 Financing Statement
Security Agreement

The following documents for this transaction were received from the parties and were not selected or prepared by the Limited Practice Officer:

none

BY SIGNING THESE INSTRUCTIONS, EACH PARTY ACKNOWLEDGES:

I have been specifically informed that the closing agent is forbidden by law from offering any advice concerning the merits of the transaction or the documents that will be used to close the transaction.

The closing agent has not offered any legal advice or referred me to any named attorney, but has clearly requested that I seek legal counsel if I have any doubt concerning the transaction or these instructions.

I have had adequate time and opportunity to read and understand these instructions and all other existing documents referred to in these instructions.

BUYER SIGNATURE(S): DATE: 6/28/07
Freeland Water & Sewer District, Inc.

BY: Nolen A. Knickerbocker
Nolen A. Knickerbocker
President/Commissioner

SELLER SIGNATURE(S): DATE: July 2, 2007

Harbor Hills Water System LLC

BY: Terry Otey
Terry Otey
Authorized Agent

APPROVED AND ACCEPTED BY:
Barrett Escrow, Inc.

Jenny A Barrett
Jenny A Barrett
LPO/DEO
LPO Number: 475

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Exhibit "A"
Attached to Escrow Instructions
Harbor Hills Water System LLC / Freeland Water & Sewer District, Inc.

Above terms and conditions are hereby approved and accepted by the undersigned parties:

It is understood and agreed that the purchase price set forth in purchase and sale agreement shall be allocated as follows:


\$ <u>ALL</u>	Real Property (subject to 1.78% Excise Tax payable by Seller)
\$ <u>0</u>	Fixtures & Equipment (subject to 8.3% Use Tax payable by Purchaser)
\$ <u>0</u>	Good Will (not subject to Excise or Use Tax)
\$1,200,000.00	Total Purchase Price

In accordance with terms and conditions of purchase and sale agreement, the following additional monetary considerations will become effective upon closing, July 1, 2007:

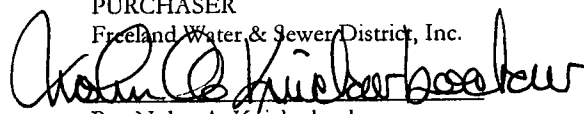
1. Purchaser to assume the Public Works Board Loan #03-65103-019 in the approximate amounts of \$538,548.16 and Loan #65103-020 in the approximate amount of \$66,413.56, and understands that both loans are due and payable in full in the year 2024.
2. Seller agrees to release all funds of the Harbor Hills Water System Capital Improvement Fund (approximately \$250,000.00).
3. Accounts Receivable as of the date of closing (July 1, 2007) will be paid directly to Seller; all new billings as of date of closing (July 1, 2007) will be paid directly to Purchaser. All outstanding accounts current and dated receivables which are owing to Seller as set forth herein shall be collected by Purchaser as they are received and paid to Seller as collected every six months (on January 31st and July 31st) beginning in January 31, 2008. Purchaser will provide to Seller a complete list of monies outstanding and owed to Seller concurrent with the first billing made by Purchaser on September 30, 2007, covering billing period of July/August 2007.
4. In the event that there are outstanding hookups that have been prepaid to Seller but have not been connected as of date of closing (July 1, 2007), Seller agrees to pay \$350.00 per uninstalled hookup, up to a maximum of three (3) hookups. If more than three (3) hookups remain prepaid but uninstalled as of date of closing (July 1, 2007), Seller will reimburse Purchaser a total of \$2,500.00, of which \$2,000.00 of the \$2,500.00 will be credited as paid, having been deposited in the Capital Improvement Fund which will be assigned to Purchaser at closing (July 1, 2007). Seller will allow another \$500.00 per uninstalled prepaid hookup over three (3) to be deducted from monies owed to Seller, but collected by Purchaser.

Above terms and conditions are hereby approved and accepted by the undersigned:

SELLER
Harbor Hills Water System LLC


By: Terry Otey
Its: Authorized Agent/Member
Dated: June 29, 2007

PURCHASER
Freeland Water & Sewer District, Inc.


By: Nolen A. Knickerbocker
Its: President/Commissioner
Dated: June 29, 2007