

MAY 22, 2013

ITEM E-1

ATTACHMENT B

INDENTURE OF TRUST

Dated as of June 1, 2013

by and between

NIPOMO COMMUNITY SERVICES DISTRICT

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.  
as Trustee

Authorizing the Issuance of

[\$principal amount]  
Nipomo Community Services District  
Water Revenue Refunding Bonds, Series 2013A

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## INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of June 1, 2013, is by and between the NIPOMO COMMUNITY SERVICES DISTRICT, special district duly organized and existing under and pursuant to the laws of the State of California (the "District") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America with a corporate trust office in Los Angeles, California, being qualified to accept and administer the trusts hereby created (the "Trustee");

WITNESSETH:

**WHEREAS**, the District is a special district duly organized and existing under and pursuant to the laws of the State of California; and

**WHEREAS**, the District has heretofore caused the execution and delivery of its \$4,000,000 Nipomo Community Services District Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003 (the "Series 2003 Certificates") for the purpose of financing certain improvements (the "Prior Improvements") to the District's water system (the "Enterprise"); and

**WHEREAS**, for the purpose of prepaying the unpaid installment payments due by the District for the purchase of the Prior Improvements acquired under that certain 2003 Installment Purchase Agreement, dated as of May 1, 2003 (the "Series 2003 Installment Purchase Agreement"), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the "Corporation"), the District has determined to issue its Water Revenue Refunding Bonds, Series 2013A (the "Bonds") in the aggregate principal amount of \$[principal amount], pursuant to and in accordance with Article 11 of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), and secured by this Indenture in the manner provided herein; and

**WHEREAS**, the District has determined that in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the District has authorized the execution and delivery of this Indenture; and

**WHEREAS**, the District hereby certifies that all acts and proceedings required by law necessary to make the Bonds, when executed by the District, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the District, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized;

**NOW, THEREFORE, THIS INDENTURE WITNESSETH**, that in order to secure the payment of the principal of and the interest on all Bonds at any time issued and outstanding

under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the District does hereby covenant and agree with the Trustee, for the benefit of the respective owners from time to time of the Bonds, as follows:

## ARTICLE I.

### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

**Section 1.01. Definitions.** Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

Accountant's Report means a report signed by an Independent Accountant.

Ad Valorem Tax Revenues means all amounts received on the District's share of the 1% ad valorem property tax levied on property within the District pursuant to the provisions of Article XIII A of the California Constitution.

Additional Revenues means, with respect to the execution of any Contract or the issuance of any Parity Debt, any or all of the following amounts:

(a) An allowance for revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 90% of the estimated additional average annual net revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Obligations, all as shown by the certificate or opinion of a qualified independent engineer or consultant employed by the District.

(b) An allowance for earnings arising from any increase in the charges made for Water Service from the Enterprise which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which Net Revenues would have been increased if such increase to charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, all as shown by the certificate or opinion of an Independent Accountant.

“Annual Debt Service” means, for each Bond Year with respect to each of the Bonds, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

“Authorized Denomination” means denominations of \$5,000 or any integral multiple thereof.

“Authorized Representative” means with respect to the District, its President or Vice-President of the District, the General Manager, District Secretary, Treasurer, or General Counsel, or any persons authorized to act on behalf of the District designated as an Authorized Representative of the District by a Written Certificate of the District signed by its President or General Manager and filed with the Trustee.

“Bond Counsel” means (a) Fulbright & Jaworski L.L.P., Los Angeles, California, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

“Bond Fund” means the fund by that name established pursuant to Section 5.02.

“Bond Law” means Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Bond Year” means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to September 1, 2013 with respect to the Bonds.

“Bonds” means the Nipomo Community Services District Water Revenue Refunding Bonds, Series 2013A, authorized by and at any time Outstanding pursuant to the Indenture.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Trust Office of the Trustee is located, are closed. If any payment hereunder is due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

“Closing Date” means June \_\_, 2013, being the date of delivery of the Bonds to the Original Purchaser.

“Code” means the Internal Revenue Code of 1986.

“Corporation” means the Nipomo Community Services District Public Facilities Corporation, its successors and assigns.



“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the District, initial fees and expenses of the Trustee and its counsel, title insurance premiums, municipal bond insurance premiums and other costs of credit enhancement, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.03.

“Debt Service” means, for any Fiscal Year, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period; (b) the minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking account deposits in such period; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if they are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding, and (d) the sum of the payments of interest and principal required to be paid at the times provided for all Parity Obligations that would have accrued during such Fiscal Year if all such payments were deemed to accrue daily in equal amounts from, in each case, the next preceding payment date of interest or principal or the date of the pertinent Parity Obligation, as the case may be; provided, that as to any Parity Obligation bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Debt Service shall be one hundred ten per cent (110%) of the greater of (a) the daily average interest rate on such Parity Obligation during the twelve (12) calendar months next preceding the date of such calculation (or the portion thereof that such Parity Obligation has borne interest) or (b) the most recent effective interest rate on such Parity Obligation prior to the date of such calculation; and provided further, that as to any Parity Obligation having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Obligation were being paid in substantially equal annual amounts over a period of twenty (20) years from the date of the first such principal payment under such Parity Obligation; and provided further, that as to any Parity Obligation or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligation or such portions thereof, such accreted discount shall not be treated as interest in the calculation of Debt Service; and provided further, that the amount on deposit in a Reserve Fund for any Parity Obligation on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligation and in each preceding year until such amount is exhausted; and provided further, that any amounts reimbursed to the District by the United States of America pursuant to Section 54AA of the Code, or any future similar program shall be deducted for purposes of calculating Debt Service.

“District” means the Nipomo Community Services District.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Enterprise” means all facilities for obtaining, storing and delivering water and related facilities for the disposition of drainage water now owned or operated by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Enterprise, whether located within or without the District, together with all improvements to such facilities, properties, structures or works or any part thereof hereafter acquired or constructed.

“Escrow Agent” means The Bank of New York Mellon Trust Company, N. A., as escrow agent under the Escrow Agreement.

“Escrow Agreement” means the Water Escrow Deposit and Trust Agreement, dated as of June 1, 2013, by and among the District, the Corporation and the Escrow Agent, relating to the prepayment of the Series 2003 Installment Payments and the defeasance of the Series 2003 Certificates.

“Escrow Fund” means the fund by that name established pursuant to the Escrow Agreement and held by the Escrow Agent.

“Event of Default” means any of the events specified in Section 7.01.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “fair market value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit the value of which is determined in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) the value of which is determined in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security-State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California, but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of a District Representative in any written directions of a District Representative.

“Federal Securities” means any of the obligations described in Paragraph A of the definition of “Permitted Investments” contained herein to the extent that such obligations provide for the timely payment of interest and principal and cannot be callable or prepayable prior to the maturity or the earlier redemption of the Bonds (excluding securities that do not have a fixed par

value and/or whose terms do not promise a fixed dollar amount at maturity or call date). Callable or prepayable federal securities will be allowed for all purposes other than defeasance investments in refunding escrow accounts.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other twelve-month period selected and designated by the District, as its official fiscal year period.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

“Gross Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Enterprise, including, without limiting the generality of the foregoing,

- (1) the Ad Valorem Tax Revenues,
- (2) all income, rents, rates, fees, charges or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Enterprise, and certain administrative and maintenance costs related thereto,
- (3) the proceeds of any stand-by or water availability charges, development fees and connection charges collected by the District,
- (4) all moneys received by the District from other public or private entities whose inhabitants are served pursuant to contracts with the District,
- (5) moneys deposited in the Bond Fund, the Reserve Fund, the Water Enterprise Fund or other fund to secure the Bonds or Parity Obligations or to provide for the payment of the principal of or interest on the Bonds or Parity Obligations,
- (6) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted hereunder, and
- (7) the earnings on and income derived from the investment of amounts described in clauses (1) through (6) above and from funds held by the District or the Trustee under this Agreement, and receipts from the Rate Stabilization Fund,

but excluding

- (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and

(y) any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds or other obligations theretofore or thereafter issued.

“Guaranteed Investment Contracts” means investment agreements which allow for withdrawals at such times as required by the Indenture with providers whose unsecured obligations are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

“Hazardous Substances” means any substance, waste pollutant or contaminant now or hereafter included in such (or any similar) term under any federal, state or local law, statutes, code or ordinance or regulation now existing or hereafter enacted or amended.

“Indenture” means this Indenture of Trust as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, in the District, and (c) is not connected with the District as an officer or employee of the District but who may be regularly retained to make annual or other audits of the books of or reports to the District.

“Independent Engineer” means any firm of civil engineers specializing in water systems comparable to the Enterprise duly licensed to practice and practicing as such under the laws of the State of California, appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, in the District, and (c) is not connected with the District as an officer or employee of the District but who may be regularly retained to provide engineering services relating to the Enterprise.

“Information Services” means the Electronic Municipal Market Access system (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at [www.emma.msrb.org](http://www.emma.msrb.org); provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services shall mean such other organizations providing information with respect to called Bonds as the District may designate in writing to the Trustee.

“Interest Account” means the account by that name established in the Bond Fund pursuant to Section 5.02.

“Interest Payment Date” means March 1 and September 1 of each year, commencing September 1, 2013.

“Letter of Representations” means the letter of the District and the Trustee delivered to and accepted by DTC (or such other applicable Securities Depository) on or prior to the issuance

of the Bonds in book entry form setting forth the basis on which DTC (or such other applicable Securities Depository) serves as depository for the Bonds issued in book entry form, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Securities Depository.

“Maintenance and Operation Costs” means all costs paid or incurred by the District for maintaining and operating the Enterprise, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or otherwise acquired for the Enterprise and all expenses necessary to maintain and preserve the Enterprise in good repair and working order and all administrative and management costs of the District that are charged directly or apportioned to the operation of the Enterprise, such as salaries and wages of employees, payments to the Public Employees Retirement System, overhead, taxes (if any) and insurance premiums, together with all other necessary and reasonable costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms hereof or any Parity Obligation, such as compensation, reimbursement and indemnification of the trustee for such Parity Obligation and fees and expenses of Independent Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service on the Bonds during the current or any future Bond Year.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Revenues” means, for any Fiscal Year, the Gross Revenues during such Fiscal Year less the Maintenance and Operation Costs during such Fiscal Year.

“Original Purchaser” means Citi Global Markets, Inc., as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District shall have been discharged in accordance with Section 10.01, including Bonds (or portions thereof) described in Section 11.09; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

“Owner” or “Bondholder,” whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Obligations” means any leases, loan agreements, installment purchase or sale agreements, bonds, notes or other obligations of the District having a lien on the Gross Revenues on a parity with the Bonds, entered into or issued pursuant to and in accordance with this Indenture.

“Payment Funds of Parity Obligations” means all payment funds established to pay the interest on and principal of all Parity Obligations.

“Permitted Investments” means any of the following obligations if and to the extent that, at the time of making such investment, they are authorized to be acquired by the District pursuant to applicable law:

A. The following obligations constitute “Permitted Investments” for all purposes hereunder, including defeasance investments in refunding escrow accounts:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation);
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series;

B. The following obligations constitute “Permitted Investments” for all purposes hereunder, other than defeasance investments in refunding escrow accounts:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration

- Federal Financing Bank;

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of at least "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P, and maturing not more than two hundred seventy (270) calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P or "Aaa" by Moody's, including funds for which the Trustee and its affiliates provide investment advisory or other management services;

(6) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in subsection (2) of Paragraph A of the definition of "Permitted Investments," which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described

in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by Moody’s or S&P; and

(8) The Local Agency Investment Fund (“LAIF”) of the State of California, created pursuant to Section 16429.1 of the California Government Code.

“Principal” or “Principal Amount” shall mean, as of any date of calculation, the principal amount of the Bonds.

“Principal Account” means the account by that name established in the Bond Fund pursuant to Section 5.02.

“Principal Payment Date” means each September 1 of each year, commencing September 1, 2013.

“Prior Improvements” means the supplemental water improvements financed by the Series 2003 Certificates as more particularly described in Exhibit B to the 2003 Installment Sale Agreement.

“Rate Stabilization Fund” means the fund by that name established in Section 5.08 hereof.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day.

“Redemption Fund” means the fund by that name established pursuant to Section 5.06.

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.06 for the registration and transfer of ownership of the Bonds.

“Reserve Fund” means the fund by that name established in Section 5.07 hereof.

Reserve Fund Credit Facility. The term “Reserve Fund Credit Facility” means a letter of credit, a bond insurance policy, any other comparable credit facility or any combination thereof, which, at the time of issuance of such instrument, has been approved in writing by the rating agency then rating the Bonds, and which in the aggregate making funds available in the Reserve Fund in an amount equal to the Reserve Requirement.

“Reserve Funds of Parity Obligations” means all reserve funds, if any, established to secure the interest on and principal of all Parity Obligations.

“Reserve Requirement” or “Series 2013A Reserve Requirement” means, as applicable, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning



of Section 148 of the Code) of the Bonds; (ii) 125% of average Annual Debt Service for that and all subsequent Bond Years; or (iii) maximum aggregate Annual Debt Service for that or any subsequent Bond Year.

“S&P” means Standard & Poor’s Financial Services, LLC, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50<sup>th</sup> Floor, New York, New York 10041-0099, Attn: Call Notification Department, Fax: (212) 855-7232, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Written Certificate of the District delivered to the Trustee.

“Serial Bonds” means the Bonds not subject to redemption from mandatory sinking fund payments.

“Series 2003 Certificates” means the certificates of participation executed and delivered by the Series 2003 Trustee pursuant to the Series 2003 Trust Agreement.

“Series 2003 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of May 1, 2003, by and between the District and the Corporation, relating to the Series 2003 Certificates.

“Series 2003 Installment Payments” means the Series 2003 Installment Purchase Agreement, dated as of May 1, 2003, by and between the District and the Corporation, relating to the Series 2003 Certificates.

“Series 2003 Trust Agreement” means the Trust Agreement, dated as of May 1, 2003, by and among the District, the Corporation and the Series 2003 Trustee, relating to the Series 2003 Certificates.

“Series 2003 Trustee” means the Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, as trustee under the Series 2003 Trust Agreement.

“Sinking Account” means the account by that name in the Bond Fund established pursuant to Section 5.02.

“State” means the State of California.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the District and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to sections 103 and 141 through 501 inclusive, of the Code.

“Term Bonds” means, collectively, the Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_.

“Treasurer” means the Treasurer of the District.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in Section 8.01.

“Trust Office” means the corporate trust office of the Trustee at the address set forth in Section 11.07, or such other office designated by the Trustee from time to time and such office as the Trustee may designate in writing to the District from time to time as the place for transfer, registration, surrender, exchange or payment of the Bonds.

“Undertaking To Provide Continuing Disclosure” means the Continuing Disclosure Certificate dated the Closing Date, and described in Section 6.05 hereof.

“Water Enterprise Fund” means the existing fund by that name established and held by the Treasurer of the District with respect to Gross Revenues of the Enterprise.

“Water Service” means the water distribution service made available or provided by the Enterprise.

“Water System Project” means any improvements to the Enterprise designated by the District as a Water System Project of the District, the cost of which is to be paid for by the proceeds of any Parity Obligations.

“Written Certificate,” “Written Request” and “Written Requisition” of the District means a written certificate, request or requisition signed in the name of the District by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **Section 1.02. Interpretation.**

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter; masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture: the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

**ARTICLE II.**

**THE BONDS**

**Section 2.01. Authorization of Bonds.** The District hereby authorizes the issuance hereunder of the Bonds, which shall constitute special obligations of the District. The Bonds are hereby designated the “Nipomo Community Services District Water Revenue Refunding Bonds, Series 2013A.” The aggregate principal amount of Bonds initially issued and Outstanding under this Indenture shall equal \_\_\_\_\_ (\$[principal amount]). This Indenture constitutes a continuing agreement with the Trustee and the Owners from time to time of the Bonds to secure the full payment of the principal of and interest on all the Bonds, subject to the covenants, provisions and conditions herein contained.

**Section 2.02. Terms of the Bonds.** The Bonds shall be issued in fully registered form without coupons in Authorized Denominations. The Bonds shall initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, and shall be evidenced by one Bond for each of the maturities in the principal amounts set forth below. DTC is hereby appointed depository for the Bonds, and registered ownership may not thereafter be transferred except as set forth in Section 2.04. The Bonds shall mature on September 1 in the years and in the amounts set forth below and shall bear interest on each Interest Payment Date at the rates set forth below.

<u>Maturity</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Coupon</u>
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Interest on the Bonds shall be payable semi-annually on March 1 and September 1 calculated based on a 360-day year of twelve (12) thirty-day months on each Interest Payment Date, commencing September 1, 2013, to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed on each Interest Payment Date by first class mail to the Owner at the address of such Owner as its appears on the

Registration Books; provided however, that payment of interest or principal may be by wire transfer in immediately available funds to an account in the United States of America to any Owner in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date. Principal of any Bond shall be paid by check or wire of the Trustee upon presentation and surrender thereof at the Trust Office. Principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

Each Bond shall be dated the Closing Date and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before August 15, 2013, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

**Section 2.03. Transfer of Bonds.** Subject to Section 2.05, any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to Article IV. Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of like tenor, interest rate, maturity and aggregate principal amount in Authorized Denominations. The Trustee may require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

**Section 2.04. Use of Securities Depository.**

(a) The Bonds shall be initially registered as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) to any successor of Cede & Co., as nominee of DTC, or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) hereof (a "substitute depository"); provided, that any successor of Cede & Co., as nominee of DTC or a substitute depository, shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) to any substitute depository, upon (1) the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or (2) a determination by the District to substitute another depository for DTC (or its successor) because DTC or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided, that any such substitute

depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of DTC or its successor (or substitute depository or its successor) from its functions as depository, or (2) a determination by the District to remove DTC or its successor (or any substitute depository or its successor ) from its functions as depository.

(b) in the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Written Request of the District to the Trustee, a new Bond for each maturity shall be authenticated and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Written Request of the District.

In the case of any transfer pursuant to clause (iii) of subsection (a) hereof, upon receipt of the Outstanding Bonds by the Trustee, together with a Written Request of the District to the Trustee, new Bonds shall be authenticated and delivered in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in such a Written Request of the District, subject to the limitations of Section 2.02 hereof; provided, the Trustee shall not be required to deliver such Bonds within a period less than sixty (60) days from the date of receipt of such a Request of the District. After any transfer pursuant to this subsection, the Bonds shall be transferred pursuant to Section 2.03.

The District and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee shall have no responsibility nor shall they have any liability for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds, and neither the District nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party, including DTC or its successor (or substitute depository or its successor), except for the Owner of any Bonds.

So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the District and the Trustee shall cooperate with Cede & Co., as sole registered Owner, or its registered assigns in effecting payment of the principal of and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Notwithstanding anything to the contrary contained herein, so long as the Bonds are registered as provided in this Section 2.04, payment of principal of and interest on the Bonds shall be made in accordance with the Letter of Representations delivered to DTC with respect to the Bonds.

**Section 2.05. Exchange of Bonds.** Any Bond may be exchanged at the Trust Office for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to Article IV. The Trustee shall require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

**Section 2.06. Registration Books.** The Trustee will keep or cause to be kept, at the Trust Office, sufficient records for the registration and transfer of ownership of the Bonds, which shall at all reasonable times be open to inspection during regular business hours by the District and the Owners with reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

**Section 2.07. Form and Execution of Bonds.** The Bonds shall be substantially in the form attached hereto as Exhibit A and hereby made a part hereof. The Bonds shall be signed in the name and on behalf of the District with the manual or facsimile signatures of its President or General Manager and attested with the manual or facsimile signature of its Secretary or any assistant duly appointed by the Board, and shall be delivered to the Trustee for authentication by it. In case any officer of the District who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the District, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the District as though the individual who signed the same had continued to be such officer of the District. Also, any Bond may be signed on behalf of the District by any individual who on the actual date of the execution of such Bond shall be the proper officer although on the nominal date of such Bond such individual shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

**Section 2.08. Temporary Bonds.** The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the District, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the District issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, at the Trust Office and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary

Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

**Section 2.09. Bonds, Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like series, tenor, and Authorized Denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and destroyed. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the District and the Trustee and, if such evidence be satisfactory to them and indemnity for them satisfactory to the District and the Trustee shall be given, the District, at the expense of the Owner of such lost, destroyed or stolen Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like series and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof) upon receipt of the aforementioned indemnity. The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.09 and of the expenses which may be incurred by the District and the Trustee. Any Bond issued under the provisions of this Section 2.09 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

**Section 2.10. CUSIP Numbers.** The Trustee and the District shall not be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Owners and that neither the Trustee nor the District shall be liable for any inaccuracies in such numbers.

### ARTICLE III.

#### ISSUANCE OF BONDS AND APPLICATION OF PROCEEDS

**Section 3.01. Issuance of the Bonds.** At any time after the execution of this Indenture, the District may execute and the Trustee shall authenticate and, upon the Written Request of the District, deliver Bonds in the aggregate principal amount of \_\_\_\_\_ (\$[principal amount]).

**Section 3.02. Application of the Proceeds of the Bonds.** The proceeds received from the sale of the Bonds, being \$ \_\_\_\_\_ (which equals the \$[principal amount].00 principal amount thereof, less an Underwriter's discount of \$ \_\_\_\_\_, plus/less a net original issue premium/discount of \$ \_\_\_\_\_), shall be deposited in trust with the Trustee, who shall forthwith set aside such proceeds as follows:

(a) The Trustee shall transfer to the Escrow Agent for deposit into the escrow fund established under the Escrow Agreement the amount of \$ \_\_\_\_\_; and

(b) The Trustee shall deposit the amount of \$ \_\_\_\_\_ in the Reserve Fund, being equal to the Reserve Requirement; and

(c) The Trustee shall deposit the amount of \$ \_\_\_\_\_ in the Costs of Issuance Fund.

The Trustee may, in its discretion, establish additional accounts in its books and records to facilitate the transfer of moneys.

**Section 3.03. Establishment and Application of Costs of Issuance Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Requisition of the District shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. The Trustee has no obligation at any time to monitor the applications of any moneys paid pursuant to a Written Requisition of the District. Ninety days after the Closing Date, or upon the earlier Written Request of the District, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account of the Bond Fund and the Costs of Issuance Fund shall be closed.

**Section 3.04. Validity of Bonds.** The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

## ARTICLE IV.

### REDEMPTION OF BONDS

#### Section 4.01. Terms of Redemption.

(a) Optional Redemption. The Bonds maturing on or after September 1, 2024 shall be subject to optional redemption, as a whole or in part on any date prior to the maturity thereof, at the option of the District, on or after September 1, 2023, from funds derived by the District from any source, at the redemption price equal to the sum of the principal amount of the Bonds to be redeemed, together with accrued but unpaid interest to the redemption date, without premium.

(b) Mandatory Sinking Account Redemption. The Term Bonds maturing on September 1, 20\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on September 1 in each year, commencing



September 1, 20\_\_, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to subsection (b), the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the District with the Trustee.

Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
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The Term Bonds maturing on September 1, 20\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on August 1 in each year, commencing September 1, 20\_\_, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to subsection (b), the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the District with the Trustee.

Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
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In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the District. The par amount of Term Bonds so purchased by the District in any twelve-month period immediately preceding any mandatory Sinking Account payment date in the table above will be credited towards and will reduce the principal amount of Term Bonds required to be redeemed on the succeeding Principal Payment Date.

**Section 4.02. Selection of Bonds for Redemption.** Whenever provision is made in Section 4.01 of this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, pro rata by maturity or, at the election of the District set forth in a Written Request of the District, filed with the Trustee, from such maturities as the District shall determine, and by lot within a maturity in any manner which the Trustee, in its sole discretion, shall deem appropriate and fair. Any such determination shall be deemed conclusive. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

**Section 4.03. Notice of Redemption.** The District shall give the Trustee notice of its determination to redeem any Bonds in accordance with Section 4.01 not less than sixty (60) days and no more than ninety (90) days prior to the date fixed for redemption (or such lesser number of days acceptable to the Trustee in the sole determination of the Trustee). Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and by first class mail, facsimile or electronic mails, to the Securities Depositories and to the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity or series) are to be redeemed, the CUSIP numbers and (if less than all Bonds of a maturity are redeemed) Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the District, for and on behalf of the District.

If at the time of mailing of any notice of optional redemption there shall not have been deposited with the Trustee monies sufficient to redeem all the Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption monies with the Trustee not

later than the opening of business on the redemption date and will be of no effect unless such monies are so deposited.

**Section 4.04. Partial Redemption of Bonds.** Upon surrender of any Bonds redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

**Section 4.05. Effect of Redemption.** Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled by the Trustee upon surrender thereof and destroyed.

## ARTICLE V.

### REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

#### Section 5.01. Pledge of Gross Revenues; Allocation of Gross Revenues.

(a) Pledge of Gross Revenues. The Ad Valorem Tax Revenues are irrevocably pledged as the first source of repayment of the Bonds and shall not be used for any other purposes while any of the Bonds and Parity Obligations remain outstanding. In the event that the Ad Valorem Tax Revenues are not sufficient in amount to pay the Debt Service on the Bonds and Parity Obligations when due, any unpaid Debt Service of the Bonds and Parity Obligations shall be paid from other Net Revenues. In furtherance of the foregoing, all Gross Revenues and all amounts on deposit in the Water Enterprise Fund are hereby irrevocably pledged to the payment of the Debt Service on the Bonds and the Parity Obligations and, except for the payment of the Operation and Maintenance Costs, the Gross Revenues shall not be used for any other purpose while any of the Bonds or Parity Obligations remain outstanding due; provided that out of the Gross Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge shall constitute a first and exclusive lien on the Ad Valorem Revenues and other Net Revenues, the Water Enterprise Fund and the other funds and accounts created hereunder for the payment of the Bonds and all other Parity Obligations in accordance with the terms hereof. Moneys in the Reserve Fund are pledged to the Bonds as provided herein.

(b) Allocation of Gross Revenues and Ad Valorem Tax Revenues. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants that (i)

all Gross Revenues (other than Ad Valorem Tax Revenues) shall be received by the District in trust hereunder and shall be deposited when and as received in a special fund designated as the "Water Enterprise Fund", and (ii) all Ad Valorem Tax Revenues shall be received by the District in trust hereunder and shall be deposited when and as received in the "Ad Valorem Tax Account of the Water Enterprise Fund," which fund and account is hereby created and established and which fund and account the District agrees and covenants to maintain and to hold in trust separate and apart from other funds so long as any Bonds or Parity Obligations remain outstanding. The District shall, from the moneys in the Water Enterprise Fund other than the Ad Valorem Tax Account, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. Thereafter, all moneys in the Ad Valorem Tax Account and all remaining moneys in the Water Enterprise Fund shall be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section, provided, that pending the use by the District of the money in the Water Enterprise Fund for the foregoing purposes, such money may be invested by the District in Permitted Investments.

(c) Water Enterprise Fund. All remaining money in the Water Enterprise Fund shall be used as follows: (a) On the fifth (5th) Business Day prior to March 1 and September 1 of each year, beginning on the fifth (5th) Business Day prior to September 1, 2013, the District shall, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting interest on all other Parity Obligations) for deposit in the Bond Fund the amount of the interest becoming due hereunder on the next succeeding March 1 or September 1, as the case may be; and (b) on the fifth (5th) Business Day prior to March 1 of each year, beginning on the fifth (5th) Business Day prior to September 1, 2013, the District shall, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting principal of all other Parity Obligations) for deposit in the Bond Fund the amount of the principal becoming due hereunder on the next succeeding September 1; and (c) on March 1 and September 1 of each year, beginning on September 1, 2013, the District shall, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer for the replenishment of the Reserve Fund (and all Reserve Funds of Parity Obligations, if any,) one-half (1/2) of the amount necessary prior to the first such transfer to restore such Reserve Fund to its reserve requirement over the next twelve (12) months, except that if the deficiency in any Reserve Fund was occasioned by a reduction in the market valuation thereof (rather than a transfer therefrom), such deposit shall be equal to the total amount necessary prior to such transfer to restore such Reserve Fund to its reserve requirement; provided, that no such transfers to and deposits need be made if the amount available and contained in the Bond Fund is at least equal to the interest installment becoming due hereunder on the next succeeding March 1 or September 1, as the case may be, plus the principal becoming due hereunder on the next succeeding September 1.

On September 1 of each year, beginning on September 1, 2013, all remaining money in the Water Enterprise Fund, after the foregoing withdrawals and deposits have been made, shall be withdrawn from the Water Enterprise Fund and deposited by the Treasurer in such fund as the District may determine for expenditure for any lawful purpose of the District.

**Section 5.02. Creation of Bond Fund and Accounts Therein; Allocation of Net Revenues.** There are hereby created the following fund and accounts to be held and administered by the Trustee pursuant to this Indenture: the Bond Fund, and, within the Bond Fund, the Interest Account, the Principal Account and the Sinking Account. On each date on which interest on or principal of the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account, the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus, deposit to the Sinking Account, the aggregate amount of the mandatory Sinking Account payment required to be paid for Outstanding Term Bonds on the next succeeding Principal Payment Date, until the balance in said accounts are equal to said respective aggregate amounts of such principal and mandatory Sinking Account payments.

(c) The Trustee shall deposit in the Reserve Fund the amount, if any, required to restore the balance in the Reserve Fund to the Reserve Requirement, the notice of which deficiency shall have been given by the Trustee to the District pursuant to Section 5.06 hereof.

(d) The Trustee shall transfer any remaining amounts in the Bond Fund to the District for any lawful use with respect to the Enterprise.

**Section 5.03. Application of Interest Account.** All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

**Section 5.04. Application of Principal Account.** All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

**Section 5.05. Application of Sinking Account.** All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(b).

**Section 5.06. Reserve Fund.** All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, (b) paying the redemption price of Term Bonds to be redeemed pursuant to Section 4.01(b) in the event that amounts on deposit in the Sinking Account are not sufficient for such purpose, and (c) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefor pursuant to Article X, all moneys then on deposit in the Reserve Fund shall be withdrawn by the Trustee and paid to the District for use by the District for any lawful purpose. If as of the first (1st) day of the month preceding any Interest Payment Date there shall be any deficiency in the Reserve Fund (whether due to a payment therefrom or due to the fluctuation in market value of securities credited thereto, or otherwise), the Trustee shall promptly notify the District in writing of the amount of such deficiency and the District shall cause the City to pay to the Trustee the amount of such deficiency as provided in Section 5.01 hereof. Semiannually, on or before each Interest Payment Date, the Trustee shall value the Reserve Fund at fair market value and any amounts on deposit in the Reserve Fund in excess of the Reserve Requirement shall be transferred to the Interest Account of the Bond Fund.

The Reserve Requirement may be satisfied by crediting to the Reserve Fund moneys or a Reserve Fund Credit Facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement. Upon deposit of such Reserve Fund Credit Facility, the Trustee shall transfer any excess amounts then on deposit in the Reserve Fund in excess of the Reserve Requirement into a segregated account of the Bond Fund, which monies shall be applied upon written direction of the District either (i) to the payment within one year of the date of transfer of capital expenditures of the District permitted by law, or (ii) to the redemption of Bonds on the earliest succeeding date on which such redemption is permitted hereby, and pending such application shall be held either not invested in investment property (as defined in section 148(b) of the Code), or invested in such property to produce a yield that is not in excess of the yield on the Bonds; *provided, however*, that the District may by written direction to the Trustee cause an alternative use of such amounts if the District shall first have obtained a written opinion of nationally recognized bond counsel substantially to the effect that such alternative use will not adversely affect the exclusion pursuant to section 103 of the Code of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In any case where the Reserve Fund is funded with a combination of cash and a Reserve Fund Credit Facility, the Trustee shall deplete all cash balances before drawing on the Reserve Fund Credit Facility. With regard to replenishment, any available moneys provided by the District shall be used first to reinstate the Reserve Fund Credit Facility and second, to replenish the cash in the Reserve Fund. In the event the Reserve Fund Credit Facility is drawn upon, the District shall make payment of interest on amounts advanced under the Reserve Fund Credit Facility after making any payments pursuant to this subsection.

**Section 5.07. Application of Redemption Fund.** The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

**Section 5.08. Rate Stabilization Fund.** The District shall maintain and hold a separate fund to be known as the "Rate Stabilization Fund". From time to time the District may deposit in the Rate Stabilization Fund from Net Revenues remaining, after making the allocation provided in Section 5.01 hereof, such amounts as the District shall determine, provided that deposits with respect to any Fiscal Year may be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days following the end of such Fiscal Year. The District may withdraw amounts from the Rate Stabilization Fund for inclusion in Gross Revenues for any Fiscal Year, or for any other lawful purpose of the Enterprise, such withdrawals to be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as Gross Revenues. Notwithstanding the foregoing, no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent such Gross Revenues were included in an independent consultant's report submitted in accordance with Section 5.09 hereof or an instrument relating to Parity Obligations and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from the Gross Revenues employed in rendering said independent consultant's report would cause noncompliance with provisions of this Agreement.

**Section 5.09. Rates and Charges.** The District shall fix, prescribe and collect rates, fees and charges for the Water Services furnished by the Enterprise during each Fiscal Year, which are at least sufficient, along with other Gross Revenues, after making allowances for contingencies and error in the estimates, to yield during each Fiscal Year Gross Revenues (excluding amounts in the Reserve Fund for purposes of this Section 5.09) sufficient to pay the following amounts in the following order of priority:

(a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;

(b) All Debt Service payments and payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Debt Service or interest on any Parity Obligations are payable from proceeds of the Bonds or Parity Obligations deposited for such purpose;

(c) All amounts, if any, required to restore the balance in the Reserve Fund and the Reserve Funds of the Parity Obligations to the full amount of the Reserve Requirement and the respective reserve requirements of the Reserve Funds of the Parity Obligations; and

(d) All payments required to meet any other obligations of the District that are charges, liens, encumbrances upon, or that are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the Water Services furnished by the Enterprise during each Fiscal Year, that are sufficient, along with other Net Revenues, to yield during each Fiscal Year Net Revenues that are at least equal to one hundred twenty-five percent (125%) of the amount described in the preceding clause (b) for such Fiscal Year. The District may make adjustments from time to time in such rates, fees and charges and make such classification thereof as deemed necessary, but shall not reduce the rates, fees and charges then in effect unless the resulting Net Revenues shall at all times be sufficient to meet the requirement of this rate covenant. If at the end of any Fiscal Year the charges, fees, rates and tolls fixed by the District for the use of the Enterprise in such Fiscal Year failed to yield Net Revenues for such Fiscal Year as required herein, the District will engage an Independent Engineer to recommend revised charges, fees, rates and tolls and the District will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the District that such recommendations, in whole or in part, are in the best interests of the District, implement such revised charges, fees, rates and tolls so as to produce the necessary Net Revenues required by this section.

**Section 5.10. Collection of Charges, Fees, Rates and Tolls.** The District will have in effect at all times rules and regulations requiring each user of the Enterprise to pay the applicable charges, fees, rates and tolls and providing for the billing thereof and for a due date and a delinquency date for each bill, and in each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District will enforce the collection procedures contained in such rules and regulations. To the extent permitted by law, the District will not permit any part of the Enterprise or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof).

**Section 5.11. Budget and Appropriation of Debt Service Payments.** So long as any Bonds remain Outstanding, the District covenants that it shall adopt and make all necessary budgets and appropriations of the Debt Service payments from the Net Water Revenues. In the event any Debt Service payment requires the adoption by the District of any supplemental budget or appropriation, the District shall promptly adopt the same. The covenants on the part of the District contained in this Section 5.11 shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in this Section 5.11.

**Section 5.12. Special Obligation of the District; Obligations Absolute.** The District's obligation to pay the Debt Service payments and any other amounts coming due and payable hereunder shall be a special obligation of the District limited solely to the Net Revenues. Under no circumstances shall the District be required to advance moneys derived from any source of



income other than the Net Revenues and other sources specifically identified herein for the payment of the Debt Service payments, nor shall any other funds or property of the District be liable for the payment of the Debt Service payments and any other amounts coming due and payable hereunder.

The obligations of the District to make the Debt Service payments from the Net Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District or the Trustee of any obligation with respect to the Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the District by the Trustee. Until such time as all of the Debt Service payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the District (a) will not suspend or discontinue payment of any Debt Service payments or such other amounts, and (b) will perform and observe all other agreements contained in this Indenture, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the District or the Trustee to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with this Indenture.

**Section 5.13. Superior and Subordinate Obligations.** The District shall not issue or incur any additional bonds or other obligations having any senior priority in payment of principal or interest out of the Net Revenues in whole or in part. Nothing herein is intended or shall be construed to limit or affect the ability of the District to issue or incur (a) Parity Obligations pursuant to Section 5.14, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

**Section 5.14. Parity Obligations.** Additional obligations may be issued on a basis subordinate to the Bonds to the extent required. Except for obligations incurred to refund or post a security deposit for the payment of the Bonds or Parity Obligations, the District may issue or incur Parity Obligations during the term of the Bonds only if:

- (a) No Event of Default has occurred and is continuing under this Indenture;
- (b) The Net Revenues calculated in accordance with accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service;
- (c) The Net Revenues derived from subsections (1) through (4) of the definition of Gross Revenues excluding development fees and connection fees), calculated in accordance with

accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred ten percent (110%) of the amount of Maximum Annual Debt Service; and

(d) There shall be established upon the issuance of such Parity Obligation a reserve fund for such Parity Obligation in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the District with respect to such Parity Obligation during any Fiscal Year, or (ii) the maximum amount then permitted under the Code; and

(e) The trustee or fiscal agent for such Parity Obligation shall be the same entity performing the functions of Trustee under this Indenture.

The District shall deliver to the Trustee a Written Certificate of the District certifying that the conditions precedent to the issuance of such Parity Obligations set forth in subsections (a), (b) and (c) of this Section 5.14 have been satisfied.

The provisions of subsections (b) and (c) of this Section shall not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make a reserve fund deposit required pursuant to subsection (d) of this Section) shall be deposited in an irrevocable escrow for the purpose of paying the principal of and interest and premium (if any) on any outstanding Parity Obligations.

For purposes of this section, Net Revenues shall include investment earnings on the Reserve Fund transferred to the Trustee for deposit in the Bond Fund.

**Section 5.15. Investments.** All moneys in any of the funds or accounts established with the Trustee pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments. Moneys (if any) in the Reserve Fund shall be invested in Permitted Investments maturing, except in the case of Permitted Investments qualifying as Guaranteed Investment Contracts, no later than five (5) years from the date of investment. Such investments shall be directed by the District pursuant to a Written Request of the District filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such directions from the District, the Trustee shall invest any such moneys in Permitted Investments described in clause B(5) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Written Request of the District specifying a specific money market fund and, if no such Written Request of the District is so received, the Trustee shall hold such moneys uninvested. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, provided, however, that all earnings on the investment of amounts in the Reserve Fund shall be retained therein to the extent required to maintain the Reserve Requirement, and, to the extent not so required, such amounts

shall be deposited, when available, in the Bond Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee, or its affiliate, may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.15.

The Trustee may sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from any such Permitted Investment.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmations to the extent permitted by law. The Trustee will provide to the District periodic cash transaction statements that include detailed information for all investment transactions made by the Trustee under this Indenture.

The Trustee may make any investments authorized hereunder through the Trustee's own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

**Section 5.16. Valuation of Investments.** For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund or account shall be valued by the Trustee on or before each Interest Payment Date at the market value thereof (excluding any accrued interest). The Trustee may utilize computer pricing services as are available to it in making such valuations. Any deficiency in a fund or account resulting from a decline in market value shall be restored by the District no later than the next scheduled valuation date. A Reserve Fund Credit Facility shall be valued at the maximum amount that can be drawn on such a Reserve Fund Credit Facility.

## ARTICLE VI.

### PARTICULAR COVENANTS

**Section 6.01. Punctual Payment; Compliance with Documents.** The District shall punctually pay or cause to be paid the principal of and interest on all the Bonds in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture.

**Section 6.02. Extension of Payment of Bonds.** The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section 6.02 shall be deemed to limit the right of the District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

**Section 6.03. Power to Issue Bonds and Make Pledge and Assignment.** The District is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Net Revenues and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, use reasonable efforts to defend, preserve and protect said pledge and assignment of Net Revenues and other assets and all the rights of the Owners under this Indenture against all claims and demands of all persons whomsoever.

**Section 6.04. Accounting Records and Financial Statements.** The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established pursuant to this Indenture. The Trustee shall, upon the written request of the holder of any of the Outstanding Bonds, provide a copy of the monthly statements relating to the Bonds. Such books of record and account shall be available for inspection by the District during business hours and under reasonable circumstances.

The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Enterprise, which records shall be available for inspection by the Owners at reasonable hours and under reasonable conditions.

The District will prepare and file with the Trustee annually not later than March 31 of each year (commencing with the Fiscal Year ending June 30, 2013) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon prepared by the Independent Accountant who examined such financial statements.

**Section 6.05. Continuing Disclosure.** The District hereby covenants and agrees that it will comply with and carry out all of the provisions of its Undertaking To Provide Continuing Disclosure with respect to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of this Indenture, failure of the District to comply with such Undertaking to Provide Continuing

Disclosure shall not be considered an Event of Default; however, any Bondholder may take such actions, as provided in such Undertaking To Provide Continuing Disclosure, as may be necessary and appropriate to cause the District to comply with its obligations under such Undertaking To Provide Continuing Disclosure.

**Section 6.06. Covenants to Maintain Tax-Exempt Status.** The District covenants as follows:

(a) Special Definitions. When used in this Section, the following terms have the following meanings:

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Computation Date*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Bonds.

“*Investment*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Nonpurpose Investment*” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and that is not acquired to carry out the governmental purposes of that series of Bonds.

“*Prior Issue*” means the obligations being refunded by the Bonds and any prior issue of obligations refinanced or refunded in whole or in part by such obligations.

“*Rebate Amount*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Tax Regulations*” means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code, or section 103 of the 1954 Code, as applicable.

“*Yield*” of any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and of any issue of governmental obligations has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Become Taxable. The District covenants that it shall not use, and shall not permit the use of, and shall not omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, could cause the interest on any Bond to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Trustee receives a written opinion of Bond

Counsel to the effect that failure to comply with such covenant will not adversely affect such exclusion of the interest on any Bond from the gross income of the owner thereof for federal income tax purposes, the District shall comply with each of the specific covenants in this Section.

(c) Private Use and Private Payments. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations, the District shall take all actions necessary to assure that at all times prior to the final cancellation of the last of the Bonds to be retired:

(1) owns, operates and possesses all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds and not use or permit the use of such Gross Proceeds (including through any contractual arrangement with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity (other than a state or local government) who is treated as using any Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds.

The District expressly acknowledges its understanding that “use” of Gross Proceeds may arise by reason of “use” of the property financed thereby.

(d) No Private Loan. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall not use or permit the use of Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (i) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (ii) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (iii) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause the Bonds to become “arbitrage bonds” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, the District shall not (and shall not permit any person to), at any time prior to the final cancellation of the last Bond to be retired, directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with

Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of the Bonds within the meaning of said section 148.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, the District shall not take or omit to take (and shall not permit any person to take or omit to take) any action that would cause any Bond to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(g) Information Report. The District shall timely file any information required by section 149(e) of the Code with respect to Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations:

(1) District shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Bond is discharged. However, to the extent permitted by law, the District may commingle Gross Proceeds of Bonds with its other monies, provided that it separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) less frequently than each Computation Date, the District shall calculate, or cause to be calculated by a person or firm nationally recognized as expert in the computation of arbitrage rebate under section 148(f) of the Code, the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. The District shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) order to assure the excludability pursuant to section 103(a) of the Code of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, the District shall pay to the United States the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of the Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the District at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder for execution and filing by the District.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, the District shall not and shall not permit any person to, at any time prior to the final cancellation of the last of the Bonds to be retired, enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yields on the Bonds not been relevant to either party.

(j) Bonds Not Hedge Bonds.

(i) District represents that none of the Prior Issues of the Bonds is or will become a "hedge bond" within the meaning of section 149(g) of the Code.

(ii) Without limitation of paragraph (i) above: the District believes (A) that on the date of issuance of each Prior Issue that was not a refunding issue, the District reasonably expected that at least 85% of the spendable proceeds of that Prior Issue would be expended within the three-year period commencing on such date of issuance, and (B) no more than 50% of the proceeds of that Prior Issue were invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(k) Elections. The District hereby directs and authorizes any Authorized Representative to make elections permitted or required pursuant to the provisions of the Code or the Tax Regulations, as such Representative (after consultation with Bond Counsel) deems necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

(l) Closing Certificate. The District agrees to execute and deliver in connection with the issuance of the Bonds a *Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986*, or similar document containing additional representations and covenants pertaining to the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, which representations and covenants are incorporated as though expressly set forth herein.

**Section 6.07. Waiver of Laws.** The District shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the District to the extent permitted by law.

**Section 6.08. Protection of Security and Rights of Owners.** The District will preserve and protect the security of the Bonds and the Owners. From and after the date of issuance of any Bonds, such Bonds shall be incontestable by the District.

**Section 6.09. Further Assurances.** The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the



better assuring and confirming unto the Owners of the rights and benefits provided in this Indenture.

**Section 6.10. Maintenance, Utilities, Taxes and Assessments.** So long as any Bonds remain Outstanding, all improvement, repair and maintenance of the Enterprise shall be the responsibility of the District, and the District shall pay for or otherwise arrange for the payment of all utility services supplied to the Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Enterprise resulting from ordinary wear and tear.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the District affecting the Enterprise or its interest or estate therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid so long as any Bonds remain Outstanding as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee shall notify the District that, it has been advised by counsel or otherwise been notified, by nonpayment of any such items, the interest of the Owners hereunder will be materially adversely affected, in which event the District shall promptly pay such taxes, assessments or charges or provide the Trustee with full security against any loss which may result from nonpayment, in form satisfactory to the Trustee.

**Section 6.11. Operation of Enterprise.** The District covenants and agrees to operate or cause the operation of the Enterprise in an efficient and economical manner and to operate, maintain and preserve, or cause the operation, maintenance and preservation of, the Enterprise in good repair and working order. The District covenants that, in order to fully preserve and protect the priority and security of the Bonds, the District shall pay from the Revenues, and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or charge upon the Revenue prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the District to pay the Debt Service payments in accordance herewith.

**Section 6.12. Insurance.** The District shall maintain public liability insurance policies in protection of the District and the members of the board of directors and the officers and employees of the District, which policy or policies shall provide for indemnification against direct or contingent loss or liability for damages for bodily and personal injury, death, or property damage occasioned by reason of the ownership or operation of the Enterprise, and which policy or policies of public liability insurance shall be with responsible insurers in amounts as are customarily insured against by cities or public districts owning and operating water systems similar to the Enterprise; provided, that such public liability and property damage insurance may be maintained as part of or in conjunction with any other public liability insurance

coverage carried by the District, and may be maintained in the form of self-insurance by the District.

The District shall procure and maintain insurance against such casualty risks to the facilities of the Enterprise as are customarily insured against in connection with similar water systems (excluding any insurance on buried pipelines), with an extended coverage endorsement and a vandalism and malicious mischief coverage endorsement, which insurance shall be with responsible insurers in amounts as are customarily insured against by cities or public districts owning and operating water systems similar to the Enterprise; provided, that such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance coverage carried by the District, and may be maintained in the form of self-insurance by the District.

The District shall pay when due the premiums on all such insurance policies, which insurance policies shall be maintained so long as such insurance is available from reputable insurance companies at reasonable costs. All such policies of insurance shall provide that the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

**Section 6.13. Restriction on Sale of Enterprise.** The District will not sell, lease or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of the Net Revenues, unless and until the Trustee receives a written opinion of Bond Counsel to the effect that such sale, lease or disposition will not adversely affect the exclusion of the interest on any Bond from the gross income of the owner thereof for federal income tax purposes. The District will not enter into any agreement which impairs the operation of the Enterprise or any part thereof necessary to secure adequate Net Revenues for the payment of the Bonds or which would otherwise impair the rights of the District with respect to the Net Revenues or the operation of the Enterprise. Any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Enterprise, or any material or equipment that has become worn out, may be sold if such sale will not impair the ability of the District to pay Debt Service on the Bonds and if the proceeds of such sale are deposited in the Water Enterprise Fund.

Nothing herein shall restrict the ability of the District to sell or lease any portion of the Enterprise if such portion is immediately repurchased or relet by the District or an entity related to the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Enterprise exercising any remedy that would deprive the District or a related entity of or otherwise interfere with its right to own and operate such portion of the Enterprise.

**Section 6.14. Against Competitive Facilities.** To the extent that it can so legally obligate itself, the District covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the territory of the District any wastewater system competitive with the Enterprise.

## ARTICLE VII.

### EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

**Section 7.01. Events of Default and Acceleration of Maturities.** The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable.

(c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Trustee; provided, however, that if in the reasonable opinion of the District the default stated in the notice (other than a default in the payment of any fees and expenses owing to the Trustee) can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default hereunder if the District shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the District of a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law of the United States of America, or if a federal or state court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the Federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any federal or state court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of their property.

Upon the occurrence and during the continuance of any Event of Default the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding, the Trustee shall, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the net effective rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and

expenses of the Trustee, together with interest thereon at the prime rate of the Trustee then in effect, and any and all other defaults that have been noticed (other than payment defaults) to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee or the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the District and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**Section 7.02. Application of Funds Upon Acceleration.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture and all other funds then held by the Trustee hereunder shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of fees, charges and expenses of the Trustee (including fees and disbursements of its counsel and financial consultants) incurred in and about the performance of its powers and duties under this Indenture; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

**Section 7.03. Other Remedies; Rights of Owners.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in Section 7.01, at law or in equity to enforce the payment of the principal of and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture. Such available remedies shall include the right to seek specific performance of the District's obligations hereunder.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Bonds and indemnified as provided in Section 8.06, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VII, as the Trustee, being advised by counsel, shall deem in the interests of the Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy

shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

**Section 7.04. Power of Trustee to Control Proceeding.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact. Trustee's counsel shall not be deemed under any circumstances to be counsel to the Owners. Communications between the Trustee and Trustee's counsel shall be deemed confidential and privileged entitled to all protection under the law.

**Section 7.05. Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenue and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

**Section 7.06. Non-Waiver.** Nothing in this Article VII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners at the respective dates of maturity, as herein provided, out of the Net Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies

on any such subsequent default or breach. No delay or omission of the Trustee or any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Owners by the Bond Law or by this Article VII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

**Section 7.07. Rights and Remedies of Owners.** No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity acceptable to the Trustee in its sole discretion against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee has not received any inconsistent direction during such 60-day period from the Owners of a majority in aggregate principal amount of the Outstanding Bonds.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner to receive payment of the principal of and interest on such Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

**Section 7.08. Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## ARTICLE VIII.

### THE TRUSTEE

#### Section 8.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture and no implied duties or covenants whatsoever shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a corporate trustee would exercise or use under the circumstances.

(b) The District may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and the District shall remove the Trustee if at any time requested to do so by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding or their attorneys duly authorized in writing, or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing. Any such removal shall be made upon at least thirty (30) days' prior written notice to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation to the District and by giving the Owners notice of such resignation by mail at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee pursuant to the terms hereof. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the District or the Trustee shall petition any federal or state court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture, shall signify its acceptance of such appointment by executions and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such

successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the Bonds and to the Owners at the respective addresses shown on the Registration Books. If the District fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

(e) Any Trustee appointed under this Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation or association included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or State agency, so long as any Bonds are Outstanding. If such corporation or association publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining agency above referred to then for the purpose of this subsection (e), the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

**Section 8.02. Merger or Consolidation.** Any bank or association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or association or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or association or trust company shall be eligible under subsection (e) of Section 8.01 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

**Section 8.03. Liability of Trustee.**

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the District, and the Trustee shall not and does not assume responsibility or liability for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or the Bonds, nor shall the Trustee incur any responsibility or liability in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it and expressly disclaims any obligation to make any such undertaking. The Trustee shall only be responsible for the



representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. The Trustee may become the Owner with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder, other than a payment default unless and until the trust administrator of this Indenture shall have received written notice thereof at the Trust Office in accordance with this Indenture. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it, nor shall have any duty or obligation to monitor continuing notice filing requirements, if any.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it is not assured to its satisfaction that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided, however, that if the Trustee shall advance any such funds at anytime the Trustee shall be entitled to immediate reimbursement at the highest rate permitted by law.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys or receivers and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, receiver or attorney appointed in good faith by it hereunder.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of Owners pursuant to this Indenture, unless such Owners shall have offered to the Trustee such security or indemnity acceptable to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy; and provided further that in the event the Trustee shall act, the scope of its obligations and duties thereunder shall not thereby be deemed, under any circumstances, to be expanded.

(i) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(j) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the District of the Enterprise. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from this Indenture for the existence, furnishing or use of the Enterprise.

(k) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or other disclosure material prepared or distributed with respect to the Bonds.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. Force majeure shall include, but not be limited to, acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

The Trustee shall not be required to review or inspect, and shall not be deemed to have notice of, the contents of any financial statement delivered to the Trustee under this Section, it being expressly understood that the Trustee shall only receive and hold such documents as a repository for examination and copying by any Owner at such Owner's expense during business hours on Business Days with reasonable prior notice.

**Section 8.04. Right to Rely on Documents.** The Trustee shall be protected in acting upon any notice, direction, requisition, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with its counsel with regard to legal questions, and the opinion of such counsel or counsel to the District shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the District and such Written Certificate, Written Request or Written Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Written Certificate, Written Request or Written Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

**Section 8.05. Preservation and Inspection of Documents.** All documents received by the Trustee under the provisions of this Indenture shall be retained in their respective possession and shall be subject at all reasonable times to the inspection of the District and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

**Section 8.06. Compensation and Indemnification.** Absent any fee agreement between the Trustee and the District to the contrary, the District shall pay to the Trustee (solely from Revenues) from time to time the compensation for all services rendered under this Indenture and also all reasonable expenses and disbursements, incurred in and about the performance of its powers and duties under this Indenture. In the event the Trustee advances its own funds for the payment of the Bonds or for the protection or benefit of the Owners, the District shall promptly reimburse the Trustee for such advances with interest at the maximum rate allowed by law.

The District shall indemnify, defend and hold harmless the Trustee and its officers, directors, agents and employees, against any loss, liability or expense (including legal fees and expenses) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. As security for the performance of the obligations of the District under this Section 8.06, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of or interest on particular Bonds. The rights of the Trustee and the obligations of the District under this Section 8.06 shall survive the resignation or removal of the Trustee or the discharge of the Bonds and this Indenture.

## **ARTICLE IX.**

### **MODIFICATION OR AMENDMENT OF THIS INDENTURE**

#### **Section 9.01. Amendments Permitted.**

(a) This Indenture and the rights and obligations of the District and of the Owners and of the Trustee may be modified or amended from time to time and at any time, by an indenture or indentures supplemental hereto, which the District and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, exclusive of Bonds disqualified as provided in this Indenture, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture except as permitted herein, or deprive the Owners of the lien created by this Indenture on such Net Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify any of the rights or obligations of the Trustee hereunder without its written consent thereto. It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) This Indenture and the rights and obligations of the District, of the Trustee and the Owners may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any Owner, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners, including, without limitation, for any one or more of the following purposes:

(i) add to the covenants and agreements of the District in this Indenture contained, other covenants and agreements thereafter to be observed, to pledge or assign

additional security for the Bonds (or any portion thereof), or to limit or surrender any right or power herein reserved to or conferred upon the District;

(ii) make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Owners, in the opinion of Bond Counsel;

(iii) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

(iv) modify, amend or supplement this Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxation of interest on the Bonds.

(e) Notice of any modification hereof or amendment hereto shall be given by the District to each rating agency which then maintains a rating on the Bonds at least fifteen (15) days prior to the effective date of the related Supplemental Indenture.

**Section 9.02. Effect of Supplemental Indenture.** Upon the execution of any Supplemental Indenture pursuant to this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District, the Trustee and all Owners shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

**Section 9.03. Endorsement of Bonds; Preparation of New Bonds.** Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the District so determines shall, bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of

such execution and presentation of his Bonds for the purpose at the Trust Office or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Trust Office, without cost to any Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

**Section 9.04. Amendment of Particular Bonds.** The provisions of this Article IX shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him or her.

## ARTICLE X.

### DEFEASANCE

**Section 10.01. Discharge of Indenture.** Any portion or all of the Outstanding Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable hereunder by the District with respect to such Bonds:

- (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or non-callable Federal Securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or
- (c) by delivering such Bonds to the Trustee for cancellation.

If the District shall also pay or cause to be paid all other sums payable hereunder, then and in that case, at the election of the District (evidenced by a Written Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge such Bonds and this Indenture with respect to such Bonds), and notwithstanding that any of such Bonds shall not have been surrendered for payment; this Indenture and the pledge of Net Revenues and other assets made under this Indenture with respect to such Bonds and all covenants, agreements and other obligations of the District under this Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee shall be authorized to take such actions and execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction. In the event all Outstanding Bonds are paid as provided in this Section 10.01, the Trustee shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of any Bonds not theretofore surrendered for such payment or redemption and after payment of amounts due to the Trustee under the Indenture.

**Section 10.02. Discharge of Pledge of Net Revenues.** Upon the deposit with the Trustee, in trust, at or before maturity, of money or non-callable Federal Securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then the pledge of Net Revenues in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

The District may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation shall be deemed to be paid and retired.

**Section 10.03. Deposit of Money or Securities with Trustee.** Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or noncallable Federal Securities in the necessary amount to pay or redeem any Bonds, the money or non-callable Federal Securities so to be deposited or held may include money or non-callable Federal Securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, all unpaid interest and premium, if any, thereon to the redemption date; or

(b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the District and the Trustee, provide money sufficient to pay the principal of and interest and premium, if any, on the Bonds to be paid, as such principal and interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the District) to apply such money to the payment of such principal of and interest and premium, if any, on such Bonds, and (ii) the District shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

In the event of an advance refunding to pay or redeem any Bonds, the District shall cause to be delivered a verification report of an independent nationally recognized certified public

accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Indenture, if no separate escrow agreement is utilized), the terms of the escrow agreement or this Indenture, if applicable, shall be controlling.

**Section 10.04. Unclaimed Funds.** Notwithstanding any provisions of this Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of such Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when such Bonds became due and payable, shall be repaid to the District free from the trusts created by this Indenture and at the request of the Trustee an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee shall (at the cost of the District) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

## ARTICLE XI.

### MISCELLANEOUS

**Section 11.01. Liability of District Limited to Net Revenues.** Notwithstanding anything in this Indenture or in the Bonds contained, the District shall not be required to advance any moneys derived from any source other than the Bonds or Net Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. Nevertheless, the District may, but shall not be required to, advance for any of the purposes hereof any funds of the District that may be made available to it for such purposes.

**Section 11.02. Limitation of Rights to Parties, Owners.** Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the District, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Trustee and the Owners.



**Section 11.03. Funds and Accounts.** Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations hereunder.

**Section 11.04. Waiver of Notice; Requirement of Mailed Notice.** Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

**Section 11.05. Destruction of Bonds.** Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and, upon written request of the District, deliver a certificate of such destruction to the District.

**Section 11.06. Severability of Invalid Provisions.** If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

**Section 11.07. Notices.** All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective either (a) upon transmission by facsimile transmission or other form of telecommunication, confirmed by the recipient (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The District or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District: Nipomo Community Services District  
P.O. Box 326  
Nipomo, CA 93444-0326  
Attention: General Manager  
Fax No.: (805) 929-1932

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.  
400 South Hope Street, Suite 400  
Los Angeles, CA 90071  
Attention: Corporate Trust  
Fax No.: (213) 630-6215

**Section 11.08. Evidence of Rights of Owners.** Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the District if made in the manner provided in this Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

**Section 11.09. Disqualified Bonds.** In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, unless all outstanding Bonds are then so owned or held, Bonds which are known by the Trustee to be owned or held by or for the account of the District or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.09 if the pledgee shall certify to the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any

other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the District shall specify to the Trustee those Bonds which are disqualified pursuant to this Section 11.09 and the Trustee may rely upon the District's representation.

**Section 11.10. Money Held for Particular Bonds.** The money held by the Trustee for the payment of the interest or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto, *subject, however,* to the provisions of Section 10.04 hereof, but without any liability for interest thereon.

**Section 11.11. Waiver of Personal Liability.** No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the principal or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

**Section 11.12. Successor Is Deemed Included in All References to Predecessor.** Whenever in this Indenture either the District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

**Section 11.13. Execution in Several Counterparts.** This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

**Section 11.14. Governing Law.** This Indenture shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the Nipomo Community Services District has caused this Indenture to be signed in its name by its President and The Bank of New York Mellon Trust Company, N.A., in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

NIPOMO COMMUNITY SERVICES DISTRICT

By: \_\_\_\_\_  
President

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

FORM OF BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE OF TRUST) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

R-\_\_\_\_\_

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UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF SAN LUIS OBISPO

**NIPOMO COMMUNITY SERVICES DISTRICT**  
**Water Revenue Refunding Bonds, Series 2013A**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
_____%	September 1, 20__	June __, 2013	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The Nipomo Community Services District, a special district duly organized and existing under the laws of the State of California (the "District"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before August 15, 2013 in which event it shall bear interest from the Dated Date specified above;

provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, at the Interest Rate per annum specified above, payable semiannually on March 1 and September 1, in each year, commencing September 1, 2013 (collectively, the "Interest Payment Dates"), calculated on the basis of a 360-day year composed of twelve 30-day months. Principal hereof are payable upon presentation and surrender hereof at the corporate trust office (the "Trust Office") of The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Interest hereon is payable by check of the Trustee mailed by first class mail on the Interest Payment Date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (a "Record Date"), or, upon written request filed with the Trustee prior to such Record Date by a Registered Owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States of America designated by such Registered Owner in such written request.

This Bond is one of a duly authorized issue of bonds of the District designated as the "Nipomo Community Services District Water Revenue Refunding Bonds, Series 2013A (the "Bonds"), in an aggregate principal amount of \$[principal amount] all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates or redemption provisions) and all issued pursuant to the provisions of Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the California Government Code (the "Bond Law"), and pursuant to an Indenture of Trust, dated as of June 1, 2013, by and among the District and the Trustee (the "Indenture") and a resolution of the Board of Directors of the District adopted on May \_\_, 2013, authorizing the issuance of the Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the District) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues (as defined in the Indenture), and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the District thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

All Net Revenues, including Ad Valorem Tax Revenues, and all amounts on deposit in the Water Enterprise Fund (as such terms are defined in the Indenture) are irrevocably pledged to the payment of the Bonds and the Net Revenues shall not be used for any other purpose while any of the Bonds remain outstanding except as permitted by the Indenture. Such pledge constitutes a lien on Net Revenues and, subject to application of Gross Revenues and all amounts on deposit in the Water Enterprise Fund as permitted in the Indenture, on the Water Enterprise Fund and other funds and amounts created under the Indenture for the payment of the Bonds and all Parity Obligations (as such term is defined in the Indenture) in accordance with the terms of the Indenture.

This Bond and the interest hereon and all other Bonds and the interest thereon (to the extent set forth in the Indenture) are special obligations of the District, and are payable from, and are secured by a charge and lien on the Net Revenues including Ad Valorem Tax Revenues (as

such terms are defined in the Indenture), the Water Enterprise Fund and other funds described in the Indenture and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. As and to the extent set forth in the Indenture, all of the Net Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture, to the payment of the principal of and interest on the Bonds.

The rights and obligations of the District and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall extend the fixed maturity of any Bonds, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each Bond so affected.

Bonds maturing on or after September 1, 2024 shall be subject to optional redemption, as a whole or in part on any date prior to the maturity thereof, at the option of the District, on or after September 1, 2023, from funds derived by the District from any source, at the redemption price equal to the sum of the principal amount of the Bonds to be redeemed, together with accrued but unpaid interest to the redemption date, without premium.

The Term Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_, are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on September 1 in each year, commencing September 1, 20\_\_, and September 1, 20\_\_, respectively, at redemption prices equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption, as provided in the Indenture:

Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
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Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
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As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither failure to receive such notice nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default (as defined in the Indenture) shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. This Bond may be exchanged at the Trust Office for Bonds of the same tenor, aggregate principal amount, interest rate and maturity, of other authorized denominations. Transfer or exchange of this Bond will not be permitted during the period established by the Trustee for selection of Bonds for redemption or if this Bond has been selected for redemption.

The District and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Indenture.



IN WITNESS WHEREOF, the Nipomo Community Services District has caused this Bond to be executed in its name and on its behalf with the manual/facsimile signature of its President and attested to by the manual/facsimile signature of its Secretary, all as of the Dated Date specified above.

NIPOMO COMMUNITY SERVICES DISTRICT

By: \_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: \_\_\_\_\_, 2013

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Trustee

By: \_\_\_\_\_  
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- as tenants in common

UNIF GIFT MIN ACT \_\_\_ Custodian

TEN ENT -- as tenants by the entireties

(Cust) - (Minor)  
under Uniform Gifts to Minors Act

JT TEN -- as joint tenants with right of survivorship and not as tenants in common

\_\_\_\_\_  
(State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED  
THOUGH NOT IN THE LIST ABOVE

(FORM OF ASSIGNMENT)

For value received, the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and does hereby irrevocably constitute and appoint attorney, to transfer the same on the registration books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

Notes: Signature(s) must be guaranteed by an eligible guarantor.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.