SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-B**

FROM: Steve Mack, General Manager

MEETING DATE: June 6, 2013

SUBJECT: DISCUSSION/ACTION RE APPROVAL OF RESOLUTION 13-14 AUTHORIZING WATER REVENUE REFUNDING BONDS IN AN AMOUNT NOT TO EXCEED $10,000,000 AND THE EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST, A BOND PURCHASE AGREEMENT AND AN OFFICIAL STATEMENT AND AUTHORIZING CERTAIN RELATED MATTERS

RECOMMENDED ACTION: Approve Resolution 13-14 which authorizes refinancing of District United States Department of Agriculture (USDA) Bonds (Prior Bonds) and other related activities.

FISCAL IMPACT: Refinancing/refunding District bonds may save District up to $53,059 annually.

DISCUSSION:

BACKGROUND

In the 1990 election, constituents within the District approved the authorization of general obligation bonds for capital improvements to the District's water system. While the 1990 general obligation bond election did pass, and that authorization was used for the Prior Bonds, there never was an ad valorem tax used to make the annual payments. Instead, a "Flat Charge" was used. Therefore, the Prior Bonds are not a true General Obligation Bond repaid from ad valorem property taxes, but rather a Revenue Bond repaid from the Flat Charge.

The Prior Bonds consist of two series of loans with the USDA. The initial loan was for $8,000,000 at a fixed rate of 5.0% with a final maturity of 2031. There is $5,651,307 outstanding on this loan. The second loan was for $4,000,000 at a fixed rate of 4.5% with a final maturity of 2042. There is $3,605,000 currently outstanding on this loan. Both USDA loans are callable at any time with no prepayment penalty.

Given the low interest rate environment, the Prior Bonds are a refunding candidate. At the Board Meeting of March 7, 2013, the Board received

information on three proposals to refund the Prior Bonds. At the Budget Committee Meeting on March 14th, the Committee reviewed the proposals and recommended using Brandis Tallman as underwriter, and Meyers Nave as Bond and Disclosure Counsel. At the Special Board Meeting of March 21st, Brandis Tallman (in person) and Meyers Nave (via phone) answered questions and discussed the refunding process. At the Board Meeting of April 4th, staff was given direction to proceed with refunding the Prior Bonds (the "Refunding"), and contracts with Brandis Tallman and Meyers Nave were approved.

THE REFUNDING PROCESS

Throughout April and May, the financing team drafted the legal documents, which structure the transaction, and drafted the Preliminary Official Statement, which describes the credit to potential investors. Additionally, the financing team and District staff worked with Standard & Poor's Rating Agency to obtain a rating on the Refunding Bonds, and two bond insurers to obtain bond insurance for the Refunding Bonds. Bond insurance will allow for the purchase of a surety bond to meet the reserve requirement rather than funding the reserve requirement from bond proceeds, which would be more expensive.

Standard & Poor's has rated the Refunding Bonds "AA-", which is an excellent rating, especially for a first time issuer. The best economic result is obtained if bond insurance and the surety bond are purchased from Build America Mutual, a AA rated bond insurer.

INTEREST RATE MARKET

Since the financing team presented to the Board at its special meeting of March 21st, interest rates have increased (see Figure 1 below). The 10-year National AAA GO Municipal Market Data ("MMD") yield was 1.95% on March 21st. On May 29th, the 10-year MMD yield was 2.07%. However, the 10-year MMD had dropped to 1.66% on May 1st. The largest jump in rates occurred since May 22nd when the 10-year MMD yield was at 1.86%. On May 22nd, Federal Reserve Chairman Ben Bernanke spoke to Congress and mentioned that the Fed may be considering tapering their asset purchase program of $85 billion a month, sending Treasury interest rates on a steep incline since, a run-up of over 20 basis points over 5 trading days. Municipal bonds have taken their lead from Treasury securities.

REFUNDING RESULTS

Based on the current Bond Market conditions, Brandis Tallman estimates the par amount of the 2013 Refunding Bonds to be $8,840,000. The all-in true interest cost is estimated to be 3.70%. The average fiscal year savings are estimated to be $53,059 and total savings are $1,575,442. Net present value savings are $986,113 or 10.65%. This far exceeds the minimum industry standard of 3.0%. Because the structure of the refunding is a Revenue Bond rather than a General Obligation bond, the savings from the refinancing can stay with the District.

It is now appropriate to approve the refinancing agreements so that this transaction can go forward. Resolution 13-14 makes this happen by authorizing approval of several documents:

- The **Official Statement** is the prospectus for the bond offering. It discloses information to the investing public about the District, what the bonds are being issued for and the source of repayment for the bonds.
- The **Continuing Disclosure Agreement** states that the District agrees to annually provide its audited financial statement to US Bank, the dissemination agent. US Bank will then disseminate it to the market place on a nationally recognized bond market website. In addition to the audit, there will be a check list of yes or no questions that the District will answer every year. A copy of this agreement is in the Official Statement as an appendix.
- The **Bond Purchase Contract** is the agreement between the issuer (the District) and the underwriter. It outlines the terms of the bond sale such as interest rates, bond prices, and underwriter's discount (the underwriter's fee). Brandis Tallman is buying the bonds from the District and selling them to the public.
- The **Indenture of Trust** is the document that outlines the legal structure/framework of the bond issue.

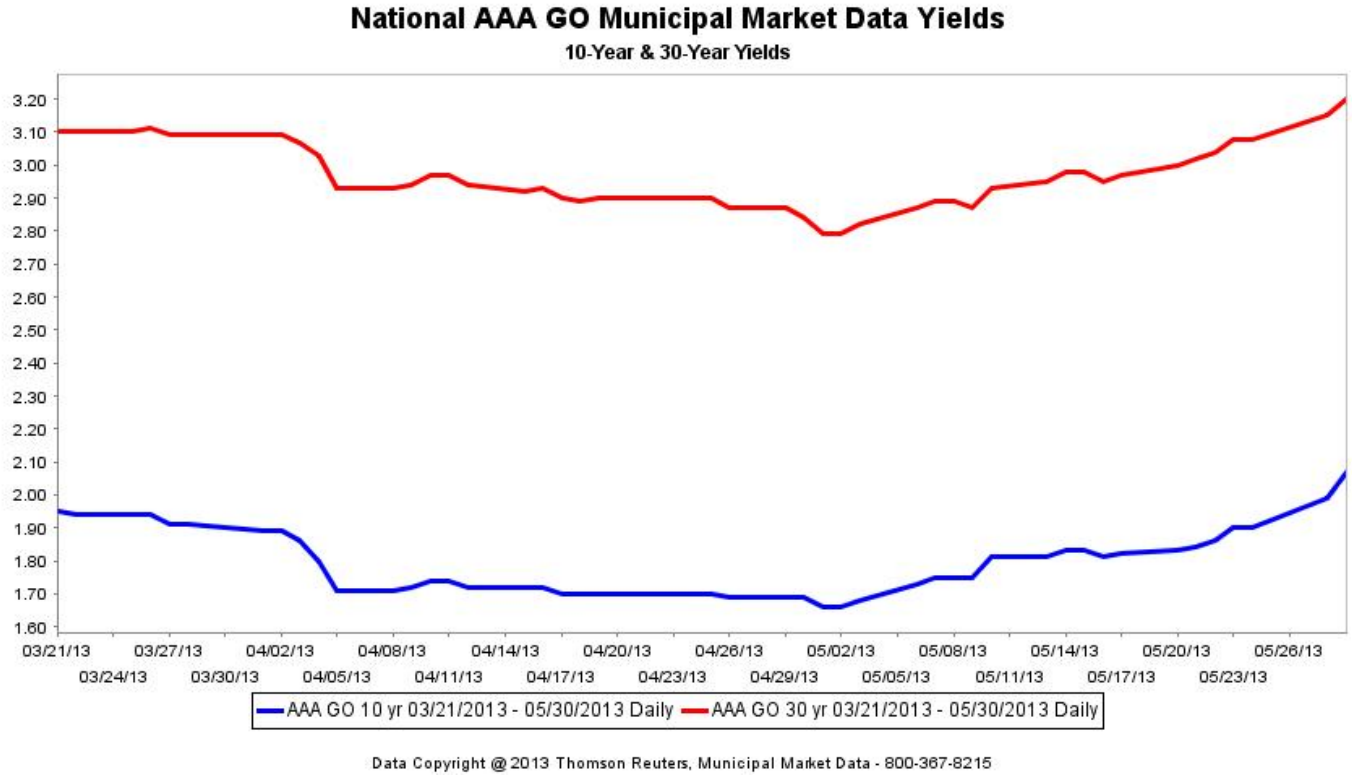
With the approval of Resolution 13-14, Brandis Tallman will move forward with the refinancing. They will work with Disclosure Counsel, Henry Har, to finish the Preliminary Official Statement to send to the printer. That usually takes 1-3 days to finish, so by Tuesday, June 10, 2013, it will be printed and posted electronically for Brandis Tallman to email and mail hard copies to investors. Brandis Tallman will market the bonds for 1-2 weeks and then price. Brandis Tallman will have a pre-pricing call with the District General Manager the day before pricing to discuss the result of their pre-sale marketing, market conditions, and how similar bonds have been priced. Brandis Tallman will show the District Manager a spread sheet of sales comparables of water and sewer bonds that have been priced and go over their preliminary interest rate pricing and why they came up with the interest

rates they are suggesting. Their pricing will be based on investor feedback and market conditions for pricing an insured AA water revenue bond with an underlying rating of AA-.

The following morning, pricing day, Brandis Tallman will have their bond sale which will consist of a 3 hour order period for investors to call them to put in their bond orders. After the order period, Brandis Tallman will have another call with the District Manager late morning to discuss the results of the order period. They will let the District know how orders came in and how the pricing went, and if they have to make some modifications: re-price more aggressively on certain maturities since they were over-subscribed (more orders than bonds) or have to make the rates a little higher because the market was moving away from the original pricing . If the market is stable and the order period goes moderately well (Brandis Tallman has sold 50% of the issue), they will then commit to buying the bonds by signing the Bond Purchase Contract. Once both parties sign the Contract that day, then Brandis Tallman owns the bonds, no matter what happens in the market.

About 2 weeks after the bond sale, Brandis Tallman will close the transaction by working with Bond Counsel and the Trustee to set up wires so the proceeds of the bond sale go to the Trustee and then pay off the USDA on the same day. We expect that to happen in early July.

Figure 1:



RESOLUTION NO. 13-14

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SWEETWATER SPRINGS WATER DISTRICT AUTHORIZING THE ISSUANCE OF WATER REVENUE REFUNDING BONDS IN AN AMOUNT NOT TO EXCEED $10,000,000 AND THE EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST, A BOND PURCHASE AGREEMENT AND AN OFFICIAL STATEMENT AND AUTHORIZING CERTAIN RELATED MATTERS

WHEREAS, the Sweetwater Springs Water District (the "District") is duly organized and existing under the laws of the State of California and is authorized pursuant to Articles 9, 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (commencing with Section 53550) to issue refunding bonds for the purpose of refinancing the outstanding principal amount of its Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 and Improvement District No. 1 General Obligation Bonds of 1990, Series 2003 (collectively, the "Prior Obligations"); and

WHEREAS, in order to provide funds to refinance the Prior Obligations, the District proposes to issue its Sweetwater Springs Water District Water Revenue Refunding Bonds in the aggregate principal amount of not to exceed $10,000,000 (the "Bonds"); and

WHEREAS, the Bonds will be issued and secured pursuant to the terms of an Indenture of Trust (the "Indenture"), between the District and U.S. Bank National Association, as trustee (the "Trustee"); and

WHEREAS, the Board of Directors of the District (the "Board") finds that the refinancing of the Prior Obligations will result in substantial savings to the District; and

WHEREAS, this Board has determined to sell the Bonds to Brandis Tallman LLC (the "Underwriter") pursuant to the Bond Purchase Agreement (the "Bond Purchase Agreement") for offer and sale by the Underwriter to members of the general public, and in connection with the offering of the Bonds, the District caused to be prepared an Official Statement (the "Official Statement") describing, among other things, the District, the Indenture and the Bonds, a preliminary form of which is on file with the Secretary of the Board; and

WHEREAS, the District has duly considered such transactions, including, without limitation, the Indenture, the Bond Purchase Agreement and the Official Statement, and wishes at this time to approve said transactions in the public interests of the District.

BE IT RESOLVED, by the Board of Directors of the Sweetwater Springs Water District, as follows:

Section 1. Issuance of Bonds. The Board hereby approves the issuance of the Bonds by the District in the aggregate principal amount of not to exceed $10,000,000 for the purposes hereinbefore described.

Section 2. Indenture. The President, Vice President and General Manager and/or their designees (the "Authorized Officers") are each hereby authorized and directed to execute, for and on behalf of the District, the Indenture, in substantially the form filed with the Secretary of the Board, with such changes therein as any of the Authorized Officers shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. Bond Purchase Agreement. The Board hereby approves the Bond Purchase Agreement between the District and the Underwriter, in substantially the form filed with the Secretary of the Board. The Authorized Officers are each hereby authorized and directed, for and on behalf of the District, to accept the offer of the Underwriter to purchase the Bonds as provided in the Bond Purchase Agreement and to execute and deliver the Bond Purchase Agreement in substantially said form, with such changes therein as any of the Authorized Officers shall approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that such changes shall not specify a principal amount of the Bonds exceeding $10,000,000, a true interest cost in excess of 4.25% or result in less than 3% present value debt service savings.

Section 4. Official Statement and Continuing Disclosure Agreement. The Board hereby approves the preliminary Official Statement describing the Bonds, the Indenture and the District in substantially the form filed with the Secretary of the Board. The Authorized Officers are each hereby authorized and directed to execute a certificate ("Rule 15c2-12 Certificate"), for and on behalf of the District, deeming the preliminary Official Statement to be final as of its date, except for certain final pricing and related information pursuant to Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). Prior to the printing and distribution of the preliminary Official Statement and execution and delivery of the Rule 15c2-12 Certificate, the Authorized Officers may authorize such changes therein as become necessary in furtherance of the completeness and accuracy of the information contained therein. Distribution of such preliminary Official Statement to prospective purchasers of the Bonds is hereby approved.

The Authorized Officers are each hereby authorized to execute, for and on behalf of the District, the final form of the Official Statement in substantially the form of the preliminary Official Statement as printed and distributed and as finalized to include the final pricing and related information as it may be modified by such changes therein as such Authorized Officer shall deem necessary, desirable or appropriate, and the execution of the final Official Statement by such Authorized Officer shall be conclusive evidence of the approval of any such changes. Distribution of such final Official Statement to purchasers of the Bonds is hereby approved.

In addition, the Board hereby authorizes and directs each of the Authorized Officers to execute and deliver a Continuing Disclosure Agreement, as required by the provisions of the Indenture, the form of which is included as an appendix to the Official Statement, to enable the Underwriter to satisfy the requirements of Rule 15c2-12 with respect to the Bonds.

Section 5. Bank Qualification. This Board, confirming that it has no present intention of providing for issuance of any further tax-exempt obligations of the District during calendar year 2013, believes that the reasonably anticipated amount of tax-exempt obligations which will be issued by the District in calendar year 2013 will not exceed $10,000,000, and the Bonds are hereby designated as qualified tax-exempt obligations pursuant to Section 265(b)(3)(B) of the Code.

Section 6. Further Actions. The Authorized Officers are hereby authorized to take all actions and execute any and all documents described in this Resolution and otherwise necessary or desirable to effect the execution and delivery of the Indenture and to make any changes to the forms of the legal documents approved in this Resolution as necessary or desirable to comply with the terms of municipal bond insurance; to change the dates and the percentages in the rate covenant and additional debt test contained in any documents approved at this meeting from the dates and percentages on the forms submitted to this meeting; and to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance of the Bonds and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Indenture, the Bond Purchase Agreement, the Preliminary Official Statement, the Official Statement, and the Continuing Disclosure Certificate. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved. The Authorized Officers are further authorized to take all actions and execute any and all documents necessary or desirable to refund, defease, redeem and otherwise provide for the payment of any of the District's outstanding Prior Obligations which are to be refinanced in connection with the issuance of the Bonds.

Section 7. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on June 6, 2013, by the following vote.

Director	**Aye**	**No**
Sukey Robb-Wilder	_____	_____
Tim Lipinski	_____	_____
Richard Holmer	_____	_____
Gaylord Schaap	_____	_____
Victoria Wikle	_____	_____

_____
Richard Holmer
President of the Board of Directors

_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

2073383.2

MEYERS NAVE DRAFT – 5/30/13

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2013

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: S&P: "___" (Insured Bonds Only)
"AA-" (Underlying)
(See "RATINGS" herein.)

In the opinion of Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein.

$_____
SWEETWATER SPRINGS WATER DISTRICT
(COUNTY OF SONOMA, CALIFORNIA)
WATER REVENUE REFUNDING BONDS
SERIES 2013
(BANK QUALIFIED)

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013 (the "Bonds") are being issued pursuant to an Indenture of Trust, dated as of July 1, 2013 (the "Indenture") between the Sweetwater Springs Water District (the "District") and U.S. Bank National Association (the "Trustee"), and will be secured as described herein. The Bonds are being issued (i) to provide funds to refinance certain obligations of the District; (ii) to purchase a reserve fund policy for the Bonds; and (iii) to pay certain costs of issuing the Bonds. Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference.

The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing September 1, 2013, and principal of the Bonds will be paid on the dates set forth in the maturity schedule on inside cover hereof. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds purchased but will receive a credit on the books of the nominees of such purchasers. So long as Cede & Co. is the registered owner of the Bonds, payments of principal and interest will be paid by the Trustee to DTC for subsequent disbursement to its participants who will remit such payments to the beneficial owners of the Bonds.

Payment of principal of and interest on the Bonds (the "Debt Service Payments") are payable from Net Revenues of the District's Water System. The Debt Service Payments are a special limited obligation of the District, payable from and secured by a pledge of and first lien on all Net Revenues, subject to the parity lien, if any, of any Parity Obligations as provided for in the Indenture (as described herein).

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary casualty redemption prior to maturity as set forth herein. See "THE BONDS -- Redemption of the Bonds" herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM AND SECURED SOLELY BY THE NET REVENUES PLEDGED THEREFOR IN THE INDENTURE AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON ANY PROPERTY OF THE DISTRICT, OR ANY OF THE DISTRICT'S INCOME OR RECEIPTS, EXCEPT THE NET REVENUES. THE BONDS ARE NOT A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT OF THE DISTRICT, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS ARE PLEDGED TO THE PAYMENT OF THE BONDS, AND THE DISTRICT IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION THEREFOR. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE DEBT SERVICE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

[The scheduled payment of principal of and interest on the Bonds maturing on September 1, 20__ through September 1, 20__, inclusive (the "Insured Bonds") when due will be guaranteed under an insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of Bonds by [INSURER]. **The Bonds maturing on September 1, 20__ through September 1, 20__, inclusive, are not covered by the Insurance Policy.]**

[INSURER LOGO]

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds.

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on by Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, as general counsel and as Disclosure Counsel to the District. It is anticipated that the Bonds in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about _____, 2013.

BRANDIS TALLMAN LLC

Date: _____, 2013

MATURITY SCHEDULE

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP®
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				

$_____ ___% Term Bonds due September 1, 20__, Price ____%, Yield ____%
CUSIP® : _____

$_____ ___% Term Bonds due September 1, 20__, Price ____%, Yield ____%
CUSIP® : _____

[* Insured Bonds.]

® CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

[INSERT VICINITY MAP OF GUERNEVILLE]

SWEETWATER SPRINGS WATER DISTRICT

BOARD OF DIRECTORS

Richard Holmer, President
Victoria Wikle, Vice President
Tim Lipinski, Financial Coordinator
Sukey Robb-Wilder, Director
Gaylord Schaap, Director

DISTRICT STAFF

Steve Mack, General Manager
Julie A. Kenny, Secretary

SPECIAL SERVICES

Bond and Disclosure Counsel
Meyers, Nave, Riback, Silver & Wilson,
A Professional Law Corporation
San Francisco, California

Trustee
U.S. Bank National Association
San Francisco, California

District General Counsel
Meyers, Nave, Riback, Silver & Wilson,
A Professional Law Corporation
Santa Rosa, California

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have not been any changes in the affairs of the District since the date hereof. All summaries of the documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

[[INSURER] ("___") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, ___ has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding ___ supplied by ___ and presented under the heading "MUNICIPAL BOND INSURANCE" and in APPENDIX G – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."]

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF. THE PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

$_____
SWEETWATER SPRINGS WATER DISTRICT
(COUNTY OF SONOMA, CALIFORNIA)
WATER REVENUE REFUNDING BONDS
SERIES 2013
(BANK QUALIFIED)

INTRODUCTION

General

The purpose of this Official Statement of Sweetwater Springs Water District (the "District") is to furnish information regarding the issuance and sale of $_____ principal amount of Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013 (the "Bonds") pursuant to the provisions of an Indenture of Trust, dated as of July 1, 2013 (the "Indenture") between the District and U.S. Bank National Association (the "Trustee"). The Bonds will be issued pursuant to the provisions of Articles 9, 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53550) of the California Government Code, as amended (the "Bond Law"), and a resolution of the District adopted June [6], 2013 (the "Resolution").

The District

The District was formed in 1988 for purposes of purchasing the water supply and distribution system from Citizen Utilities Company. The District is located in the unincorporated towns of Guerneville, Rio Nido, Monte Rio and Villa Grande and serves approximately 2,000 acres in the lower Russian River Basin of Sonoma County (the "County").

The District is the sole provider of water service for residential, commercial, industrial and agricultural customers within its service area. Approximately 95% of District connections are residential users.

For other information concerning the District and the Water System, see "THE DISTRICT AND THE WATER SYSTEM" herein. A copy of the audited financial statements of the District for the year ended June 30, 2012 is attached hereto as APPENDIX C.

For other selected demographic and economic information, see "APPENDIX B - GENERAL INFORMATION REGARDING THE COUNTY OF SONOMA" hereto.

Purpose

The Bonds are being issued by the District to (i) refund the District's Improvement District No. 1 General Obligation Bonds of 1990, Series 1992, issued in the original principal amount of $8,000,000, of which $5,680,000 is currently outstanding, and Improvement District No. 1 General Obligation Bonds of 1990, Series 2003, issued in the original principal amount of $4,000,000, of which $3,605,000 is currently outstanding (collectively, the "Prior Obligations"), (ii) purchase a reserve fund policy for the Bonds, and (iii) pay certain costs of issuance of the Bonds (including expenses incurred in connection with the refunding of the Prior Obligations).

See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Prior Obligations were issued to finance the acquisition and improvements to the water system (the “Water System”). See “THE DISTRICT AND THE WATER SYSTEM” herein for a description of the Water System.

Security for the Bonds

The Bonds are payable from, and secured by a lien on, the Net Revenues (as described in “SECURITY FOR THE BONDS - General” herein), and from certain interest and other income derived from certain funds and accounts held under the Indenture. Under the Indenture, the District has irrevocably pledged all Net Revenues to the payment of the Debt Service Payments, subject to the terms and conditions of the Indenture. Net Revenues are held in the Debt Service Fund of the District under the Indenture. See “SECURITY FOR THE BONDS” herein.

The District is authorized to issue additional Parity Obligations secured by the Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. Payment of the Debt Service Payments is on a parity with the obligation of the District to make payments on bonds issued in connection with loans made to the District by the State Department of Water Resources in the original principal amount of $2,870,000, of which $1,318,112 is currently outstanding (the “DWR Loans”) and installment sale agreement held by Citizens Business Bank in the original principal amount of $3,000,000, of which $2,546,821 is currently outstanding (the “Citizens Installment Sale”).

See also “THE BONDS – Issuance of Parity Obligations” herein for a description of the conditions upon which the District may issue additional obligations with a lien on parity with the lien on Net Revenues.

Pursuant to the Indenture, the District has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Water System. See “SECURITY FOR THE BONDS - Rate Covenant” herein.

[Payment of the principal and interest on the Bonds maturing on September 1, 20__ through September 1, 20__, inclusive (the “Insured Bonds”) when due will be guaranteed under a municipal bond insurance policy (the “Insurance Policy”) to be issued by [INSURER] (the “Insurer”) simultaneously with the issuance of the Insured Bonds. **The Bonds maturing on September 1, 20__ through September 1, 20__, inclusive, are not covered by the Insurance Policy.** See “MUNICIPAL BOND INSURANCE” and “RISK FACTORS – Insurer Default” herein.]

Risk Factors

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement, or that the District’s expenses for operating and maintaining the Water System will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment.

See “RISK FACTORS” herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment

quality of the Bonds, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies and changes in law.

Limited Obligations

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS IS A LIMITED OBLIGATION OF THE DISTRICT AND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES PLEDGED UNDER THE INDENTURE. THE FULL FAITH AND CREDIT OF THE DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE NET REVENUES AND CERTAIN OTHER AMOUNTS ON DEPOSIT UNDER THE INDENTURE, ARE PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OF OR INTEREST WITH RESPECT TO THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Forward-Looking Statements

This Official Statement contains forward-looking statements, including (i) statements containing projections of Net Revenues and other financial items, (ii) statements of future economic performance of the Water System, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, (collectively, the "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement, including without limitation statements under "THE DISTRICT AND THE WATER SYSTEM," and "SECURITY FOR THE BONDS" regarding the financial position, capital resources and status of the District and the Water System are Forward-Looking Statements. Although the District believes that the expectations reflected in such Forward-Looking Statements are reasonable, no assurance can be given that such expectations will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the District (collectively, the "Cautionary Statements") are disclosed in this Official Statement. All Forward-Looking Statements attributable to the District are expressly qualified in their entirety by the Cautionary Statements.

Summaries Not Definitive

Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference. Definitions of certain terms used in this Official Statement, and the summaries of and references contained herein to the Indenture, the Bonds, the Continuing Disclosure Agreement, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

Copies of the documents described herein will be available at the office of the District, 17081 Highway 116, Suite B, P.O. Box 48, Guerneville, CA 95446.

THE REFUNDING PLAN

The District is issuing the Bonds, in part, to provide moneys necessary to redeem in full the Prior Obligations. Such portion of the proceeds of the Bonds will be transferred to the United States Department of Agriculture, which is the holder of the Prior Obligations, and upon such transfer, the Prior Obligations will be redeemed in full.

CONTINUING DISCLOSURE

The District has covenanted, pursuant to a Continuing Disclosure Agreement, dated as of July 1, 2013 (the "Disclosure Agreement"), for the benefit of holders and beneficial owners of the Bonds to provide, or cause to be provided, certain financial information and operating data relating to the District by not later than March 1 in each year following the end of the District's Fiscal Year (which currently would be June 30), commencing with the report for the Fiscal Year ended June 30, 2013 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in "APPENDIX E." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule"). Within the past five years, the District has not been subject to any continuing disclosure obligations, and therefore has not failed to file in a timely manner its audits and the annual reports, as required by the Rule. The District has retained U.S. Bank National Association, as dissemination agent, to assist with its continuing disclosure obligations under the Disclosure Agreement.

THE BONDS

Description of the Bonds

The Bonds shall be delivered in the form of fully registered Bonds, without coupons, in denominations of $5,000 or any integral multiple thereof, and shall be dated the date of initial delivery thereof. The Bonds will mature on the dates and in the amounts set forth on the front cover of this Official Statement. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Bonds, all payments on the Bonds will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See "Book-Entry Only System" below.

Interest on the Bonds shall be payable on March 1 and September 1 of each year, commencing September 1, 2013, and continuing to and including the date of maturity or prior redemption, whichever is earlier. Principal of the Bonds shall become payable on September 1 in each of the years and in the amounts set forth on the inside cover page of this Official Statement. Principal and premium, if any, of the Bonds shall be payable upon presentation and surrender thereof at the corporate trust office of the Trustee in San Francisco, California. Interest on the Bonds shall be based on a 360-day year composed of twelve 30-day months and shall be payable by check from the Trustee mailed on each Interest Payment Date by first class mail to the registered Owners as of the close of business on the 15th day of the calendar month (whether or not such day is a Business Day) preceding an Interest Payment Date (the "Record

Date") at their addresses shown on the registration books maintained by the Trustee. Upon the written request from any Owner of Bonds aggregating at least $1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment Date, by wire in Federal Reserve funds to an account within the United States on the Interest Payment Date, with regard to which such payment is made. See "Book-Entry Only System" below for a description of how interest and principal will be paid while the Book-Entry System is in effect.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on September 1, 20__, are subject to redemption prior to their stated maturity, at the option of the District, in whole, or in part by lot (in such amounts and of such maturities as may be specified by the District, or if the District fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) on any date on or after September 1, 20__, from any source of available moneys, at a redemption price equal to the principal amount thereof, without premium, plus interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Term Bond maturing on September 1, 20__ is subject to mandatory redemption in part by lot on September 1 in each year commencing September 1, 20__ at the principal amount thereof, without premium, plus accrued interest thereon to the date fixed for redemption in accordance with the following schedule:

Term Bond Maturing September 1, 20__

Date (September 1)	Amount

_____
† Maturity

The Term Bond maturing on September 1, 20__ is subject to mandatory redemption in part by lot on September 1 in each year commencing September 1, 20__ at the principal amount thereof, without premium, plus accrued interest thereon to the date fixed for redemption in accordance with the following schedule:

Term Bond Maturing September 1, 20__

Date (September 1)	Amount

_____
† Maturity

If some but not all of such Term Bonds have been redeemed pursuant to optional redemption described above the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the District.

Extraordinary Casualty Redemption. The Bonds are subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Water System, which Net Proceeds are deposited in the Payment Fund and credited towards the prepayment of the Debt Service Payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such call and redemption, moneys of the District may be used to purchase Outstanding Bonds prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date.

Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed (other than pursuant to sinking fund redemption), the Bonds to be redeemed shall be selected by the Trustee among maturities as designated in writing by the District and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the District, the Bonds may be redeemed by any maturity or maturities selected by the District, and by lot within a maturity. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of $5,000. In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

Notice of Redemption. The Trustee shall give notice (the "Redemption Notice"), at the expense of the District, of the redemption of the Bonds not less than 20 or more than 60 days prior to the redemption date to the registered owners of the Bonds to be redeemed to the address shown on the Bond Register.

Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable. Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Prior to the date that the redemption notice for optional redemption under the Indenture is first mailed as aforesaid, (a) funds shall be placed with the Trustee to pay the principal of such Bonds, the accrued and unpaid interest thereon to the redemption date and the premium, if any, thereon, or (b) such notice of redemption shall state that any redemption is conditional on such funds being deposited with the Trustee on the redemption date and that failure to make such a deposit shall not constitute an event of default under the Indenture. If such conditions are not satisfied or such funds are not so deposited by such date, such Bonds shall not be subject to redemption and the holders thereof shall have the same rights as if no such notice had been given. In such event, the Bond Trustee shall promptly give notice thereof to the owners of such Bonds by first class mail, postage prepaid.

Effect of Redemption. If, on said redemption date, moneys sufficient for the redemption of all the Bonds to be redeemed, together with interest to said redemption date shall be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said redemption date, interest with respect to the portion of Bonds to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said redemption date, interest with respect to such portion of Bonds shall continue to be payable until paid at the same rates as they would have been payable had they not been called for redemption.

Issuance of Parity Obligations

The District has covenanted in the Indenture that, except for bonds issued to fully or partially refund the Bonds or Parity Obligations, the District will not issue or incur any Parity Obligations unless:

(i) The District is not in default under the terms of the Indenture; and

(ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the District for the latest Fiscal Year or any more recent twelve (12) month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligation is issued or incurred, as shown by the books of the District, plus, at the option of the District, the additional allowance described below, shall have amounted to at least 1.25 times the sum of the Debt Service Payments coming due and payable in any future Fiscal Year and the annual debt service for such Fiscal Year on all Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations in the Fiscal Year in which such sum is the greatest.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained in subsection (ii) above:

(A) an allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be constructed or acquired with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed or acquired from moneys from any source but which, during all or any part of such Fiscal Year or 12-month period, were not in service, all in an amount equal to the estimated additional annual Net Revenues to be derived from such additions, improvements and extensions during the first full Fiscal Year following the completion thereof, all as shown by a certificate of the District, may be added to such Net Revenues for the purpose of applying the restriction contained in subsection (ii) above;

(B) an allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year or 12-month period, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, as shown by a certificate of the District.

The provisions of subsection (ii) above will 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 the reserve fund deposit required pursuant to subsection (iii) above) will be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, if (i) at the time of the incurring of such Parity Obligations, the District certifies in writing that maximum annual debt service on such Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds or Parity Obligations to be refunded, and (ii) the final maturity of such Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

In order to maintain the parity relationship of the Debt Service Payments to all Parity Obligations permitted under the Indenture, the District has covenanted in the Indenture that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Debt Service Payments, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Debt Service Payments and not prior thereto; provided that the District will not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Debt Service Payments on a timely basis. In such event, the District will make Debt Service Payments and payments on such Governmental Loan on a pro rata basis.

If interest on any Parity Obligation is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest payments with respect to such Parity Obligations will be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations required in subsection (ii) above.

Subordinate Obligations. Notwithstanding the foregoing, nothing in the Indenture will be construed as prohibiting the issuance by the District of subordinated debt secured by Net Revenues.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F - BOOK ENTRY PROVISIONS" herein.

Neither the District nor the Trustee can and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to

the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District nor the Trustee are responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds received from the sale of the Bonds are to be applied as follows:

Sources of Funds:

Principal Amount of Bonds
Net Original Issue Premium

TOTAL SOURCES

Uses of Funds:

Refund Prior Obligations[(1)]
Costs of Issuance[(2)]

TOTAL USES

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(1) See "THE REFUNDING PLAN" above.
(2) Includes fees of Bond Counsel, Disclosure Counsel and Trustee, Underwriter's discount, premium for the Insurance Policy and Reserve Fund Insurance Policy, and other costs of issuing the Bonds.

DEBT SERVICE

The following illustrates the annual debt service for the Bonds as of September 1 of each year.

Period Ending (September 1)	Principal	Interest	Total Debt Service
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
TOTALS			

SECURITY FOR THE BONDS

General

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS IS A LIMITED OBLIGATION OF THE DISTRICT AND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES PLEDGED UNDER THE INDENTURE. THE FULL FAITH AND CREDIT OF THE DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE NET REVENUES AND CERTAIN OTHER AMOUNTS ON DEPOSIT UNDER THE INDENTURE, ARE PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OF OR INTEREST WITH RESPECT TO THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Pledge of Net Revenues

The Bonds are secured by a pledge of the Net Revenues received by the District from the operation of the Water System, as those terms are defined below and upon all money and securities on deposit in certain accounts under the Indenture, including the Reserve Fund. The obligation of the District to make Debt Service Payments from Net Revenues is absolute and unconditional, and until such time as all Debt Service Payments shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made), the District will not, under any circumstances, discontinue, abate or suspend any payment due under the Indenture when due, whether or not the Water System is operating or operable or has been completed, or whether or not the Water System is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Indenture for any cause whatsoever.

All Net Revenues are irrevocably pledged by the District to the payment of Debt Service Payments and debt service on Parity Obligations (including payments securing the DWR Loans and Citizens Installment Sale) as provided in the Indenture, and the Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Net Revenues, there may be apportioned such sums for such purposes as are expressly permitted by the Indenture, including payment of debt service on any Parity Obligations. This pledge shall constitute a first lien on the Net Revenues for the payment of the Debt Service Payments and debt service on any Parity Obligations in accordance with the Indenture. **The Bonds are not secured by a direct lien on the Water System or any other property of the District.**

In the Indenture, the District covenants that, so long as any Bonds are outstanding, the District will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the Debt Service Payments or Parity Obligations. The District is authorized to issue additional Parity Obligations secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the

Indenture. See "THE BONDS – Issuance of Parity Obligations" herein. The District is also authorized to issue subordinate debt secured by Net Revenues.

"Net Revenues" are, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Expenses becoming payable during such period.

"Operation and Maintenance Expenses" means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Water System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Expenses do not include (i) debt service payable on obligations incurred by the District with respect to the Water System, including but not limited to the Debt Service Payments and any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Gross Revenues" means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) investment earnings on amounts held in the Revenue Fund or in any other fund established with respect to the Water System, (c) the proceeds of any ad valorem property taxes levied for the purposes of paying bonded indebtedness of the District, and (d) rental income related to the Water System. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System. Gross Revenues will also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

Debt Service Payments

The Indenture requires the District to pay all Debt Service Payments directly to the Trustee on the applicable Due Date. The District is required to pay Debt Service Payments without offset or deduction of any kind. "Due Date" means the fifth (5th) business day of the month prior to each Interest Payment Date. See APPENDIX A hereto. See also "Pledge of Net Revenues" above.

The District's obligation to make Debt Service Payments is a special obligation of the District payable solely from the Net Revenues and other funds provided for in the Indenture. Neither the Bonds nor the obligation of the District to make Debt Service Payments constitutes a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction or an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

Rate Covenant

The District has covenanted in the Indenture that it shall fix, prescribe, revise and collect such rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

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

(ii) All Debt Service Payments and all payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority;

(iii) Amounts necessary to bring the amount of funds in the Reserve Fund up to the Reserve Requirement within one year of a draw thereon; and

(iv) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which 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 services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 125% of the amount described in the clause (ii) above for such Fiscal Year.

For purposes of calculating the interest on any Outstanding Parity Obligations, if interest on any Parity Obligations is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest on such Parity Obligations shall be excluded to the extent such interest is reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations set forth above.

Reserve Fund

The District has agreed to establish and maintain so long as any Bonds are outstanding a separate fund, to be held by the Trustee for and on behalf of the District, to be known as the Reserve Fund. [The Reserve Fund will initially be funded by a reserve fund policy from the Insurer (the "Reserve Fund Policy") in the initial maximum principal amount of $_____, subject to reduction and reinstatement in accordance with the terms thereof. The District has pledged and granted a first and exclusive lien on and a security interest in the Reserve Fund to the Trustee for the benefit of the Owners in order to secure the District's obligations to pay the Debt Service Payment scheduled to be paid under the Indenture. The premium on the Reserve Fund Insurance Policy, if any, will be fully paid at or prior to the issuance of the Bonds. The Reserve Fund Policy will provide that, upon the later of (i) the Business Day next following the Business day of receipt by the Insurer of a Notice of Nonpayment presented by the Trustee to the Insurer; or (ii) the payment date of the Bonds as specified in the Notice of Nonpayment, the Insurer will make a deposit of funds with the Trustee, or its successor, in an amount sufficient to pay principal and interest on the Bonds, to the extent of amounts available under the Reserve Fund Policy up to the Policy Limit.]

If amounts on deposit in the Reserve Fund are, at any time, less than the applicable Reserve Requirement, such deficiency will be made up by the District from the first available Net Revenues after required payment of Debt Service Payments over a twelve (12) month period, in twelve (12) substantially equal payments, and the Reserve Fund will be valued monthly until amounts on deposit therein equal the Reserve Requirement.

"Reserve Requirement" means, as of any date of calculation by the District, the lesser of (i) 10% of the initial principal amount of the Bonds, (ii) an amount equal to Maximum Annual Debt Service, or (iii) 125% of average annual Debt Service Payments payable under the Indenture. See "APPENDIX A - SUMMARY OF THE INDENTURE - Reserve Fund" herein.

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

Bond Insurance

[Payment of the principal and interest on the Insured Bonds when due will be insured by the Insurance Policy) to be issued by the Insurer) simultaneously with the issuance of the Insured Bonds. **The Bonds maturing on September 1, 20__ through September 1, 20__, inclusive, are not covered by the Insurance Policy.** See "MUNICIPAL BOND INSURANCE" and "RISK FACTORS – Insurer Default" herein.]

Application of Gross Revenues

Payments from Revenue Fund. The District has covenanted that all Gross Revenues, when and as received, will be received and held by the District in trust for the benefit of Bondholders and payments with respect to Parity Obligations, and will be deposited by the District immediately upon receipt in the Revenue Fund, which the District has covenanted in the Indenture to establish and maintain throughout the term of the Bonds. All Gross Revenues shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

All Gross Revenues in the Revenue Fund shall be set aside by the District and applied in the following order of priority:

(1) **Operation and Maintenance Expenses.** The District agrees and covenants to pay all Operation and Maintenance Expenses (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Expenses, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) **Debt Service Payments.** Debt Service Payments payable pursuant to the Indenture and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms hereof and of such Parity

Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) **Reserve Funds.** Payments required pursuant to the Indenture, or with respect to Parity Obligations, to replenish debt service reserve funds established for Parity Obligations shall be made in accordance with the terms of the Indenture and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) **General Expenditures**. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above will be used for expenditure for any lawful purpose of the District, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due under the Indenture or under Parity Obligations.

Payment of Debt Service Payments. On or before each Due Date, the District will withdraw from the Debt Service Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds pursuant to the Indenture and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund on the following dates and in the following amounts:

(1) Interest Component. On or before each Due Date, an amount which is equal to the amount to become due on such Bonds on the next succeeding Interest Payment Date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

(2) Principal Component. On or before each Due Date, an amount which, together with any moneys already on deposit with the Trustee and available to make such payment, is not less than the entire amount of the next succeeding maturing principal coming due on the Bonds after such date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

MUNICIPAL BOND INSURANCE

[There follows under this caption certain information concerning the terms of the Insurance Policy and the Insurer that has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the District as to the accuracy, completeness or adequacy of such information, nor as to the absence of material adverse changes in such information subsequent to the date of this Official Statement. The District has not made any independent investigation of the Insurer or the Insurance Policy, and reference is made to the information set forth below and in APPENDIX G hereto for a description thereof.

The following information and the specimen of the Insurance Policy attached as APPENDIX G hereto have been furnished by the Insurer for use in this Official Statement.]

Insurance Policy

[TO COME]

Insurer

[TO COME]

THE DISTRICT AND THE WATER SYSTEM

General Information

The District was formed in 1988 for purposes of purchasing the water supply and distribution system from Citizen Utilities Company. The District is located in the unincorporated towns of Guerneville, Rio Nido, Monte Rio and Villa Grande and serves approximately 2,000 acres in the lower Russian River Basin of the County.

The District is the sole provider of water service for residential, commercial, industrial and agricultural customers within its service area. Approximately 95% of District connections are residential users.

The District is governed by a five person board of directors elected at large. The current Board of Directors (the "Board") is as follows:

Name	Term Expires
Richard Holmer, President	2014
Victoria Wikle, Vice President	2016
Tim Lipinski, Financial Coordinator	2016
Sukey Robb-Wilder, Director	2014
Gaylord Schaap, Director	2014

The Water System is under the direction of Mr. Steve Mack, the General Manager of the District, and is operated by a staff of 10 full-time employees.

Water Storage and Distribution System

The District currently has approximately 3,047 single-family residential connections, 346 multi-family connections, 146 commercial connections and 22 public facility connections. These customers are served through two separate water supply and distribution systems. The Guerneville system serves the northern area of its service area and consists of three wells, eighteen storage tanks with a total storage capacity of 1,245,000 gallons and five pressure zones. The Monte Rio system serves the southern area of its service area and consists of two wells, a filtration plant, eight storage tanks with a total storage capacity of 580,000 gallons and five pressure zones.

Sources of Water Supply

The District's source of water supply is entirely from groundwater which is underflow from the Russian River. The District operates three wells in the Guerneville system and two wells in the Monte Rio system. No other users in these areas affect these wells. However, summer water flows in the Russian River are provided thorough discharges from Lake Mendocino from Coyote Dam and Lake Sonoma from Warm Springs Dam. The District obtains approximately 614 acre-feet per year (AFY) from three wells in the Guerneville system and approximately 213 AFY from two wells in the Monte Rio system. The District is currently

limited to 1,137 AFY by its water rights permit, which the District believes is sufficient to meet future needs.

Historical Water Deliveries

The table below sets forth a five-year history of water deliveries from the District measured in acre-feet.

Table 1
WATER DELIVERIES
(in acre-feet*)
Fiscal Years 2007-08 through 2011-12

2007-08	2008-09	2009-10	2010-11	2011-12
666	661	595	588	578

Source: District.

Water Demand and Demand Management

In a typical year, the District provides its customers with approximately 600 AFY. Demand is below the District's licensed water right of 1,137 AFY. However, the District experiences approximately 25 percent in system loses, resulting in annual production of approximately 800 AFY.

The District's water demand management practices are detailed in its Urban Water Management Plan, which is updated every five years and was most recently adopted on October 6, 2011. Among other components, the Urban Water Management Plan provides an urban water shortage contingency analysis and a three-stage rationing plan, which involves both voluntary and mandatory rationing that could lead to a reduction in water use of up to 50%. The rationing stages may be triggered by a supply shortage or contamination in the water supply source in the Guerneville and Monte Rio systems. A water crisis within the District's service area could also cause the shortage conditions and implementation of any rationing stage as appropriate.

Measures to overcome revenue impacts of water rationing include maintaining reserves and possible rate increases. The District maintains a budget reserve equal to ten percent of its annual operating budget expenses (approximately $1.6 million Operating Budget expenses) for disaster-related expenses. See " – District Reserve Policy." This reserve amount is approximately $160,000 for Fiscal Year 2012-13. The District anticipates that operating costs would increase by approximately ten percent (or $160,000) during these major water shortage events. The District believes it would have sufficient reserves to a major water shortage emergency for up to one year without rate increases, but the financial impact of such an event would be substantial. During this time the District would assess the need for rate increases consistent with the level of water shortage in order to encourage reduced water use while developing sufficient revenues for sustained operations.

* An acre-foot is a volume of water that will cover an acre to a depth of one foot, and equals 43,560 cubic feet, or approximately 325,851 gallons.

District Reserve Policy

A formal District Reserve Policy was approved by the Board in September 2009. The District Reserve Policy allows the District to gauge its financial health and adequately plan for the future and allows ratepayers to follow this planning. The District Reserve Policy has the following components:

- Budget Reserve – a reserve based on ten percent of the Operating Budget expenses for emergencies, such as a natural disaster. See " – Water Demand and Demand Management."

- Economic Reserve – a reserve based on 15 percent of the Operating Budget expenses for economic downturn or other economic crisis.

- Debt Repayment Reserve – a reserve based on 25 percent of all payments for principal and interest on all District loans to ensure funding is available to repay existing District debt.

- Capital Reserve – a reserve based on 25 percent of the nominal Capital Budget of $1 million for similar issues with the capital program.

The District Reserve Policy was established by the Board and can be eliminated at any time by the Board. Although the District has no present intention to eliminate the District Reserve Policy, the District Reserve Policy is not a covenant under the Indenture, and thus Bondholders cannot reasonable expect that moneys from the District Reserve Policy will be available to pay debt service on the Bonds, and there is no assurance that the District will maintain the District Reserve Policy while the Bonds are outstanding.

Environmental and Regulatory Issues Relating to the Water System

In order to ensure that tap water is safe to drink the California Department of Public Health ("CDPH") prescribe regulations that limit the amount of certain contaminants in water provided by public water systems.

The Water System is in compliance with all current regulatory requirements. Water quality testing conducted in 2012 by the District met or exceeded water quality standards set by CDPH.

The District is not aware of any environmental or regulatory issues that would materially adversely impact the Water System or interfere with the District's ability to generate Net Revenues sufficient to pay the Installment Payments.

Projected Maintenance and Capital Improvements

Since the District began operations in 1992 by purchasing the Water System from Citizen Utilities Company, it has spent over $13 million in a Capital Improvement Program ("CIP") to bring its Water System up to currently acceptable standards, as measured by water quality, system leaks, system losses, and fire protection.

Major Anticipated Capital Improvements. The District has an approved $4.4 million CIP for Fiscal Years 2014 through 2019, which the District intends to spend on capital projects to improve the Water System's transmission and distribution system.

Specific projects in the capital improvement program for the Water System include:

- Hidden Valley Road - Replacement of 3,900 linear feet (lf) of existing main and appurtenances with 67 services, 1 fire hydrant.

- Canyon 1 (Rio Nido) Replace approximately 3,900 feet of existing mainline and 75 services along Canyon 1 Rd., Memory Ln., Memory Park Rd.

- Old Monte Rio Road – Replace 5,800 lf of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly.

- Park Ave. replace approximately 2900 lf of main line on Park Ave. and McLane Ave., 37 services. Loop two deadend lines.

- Woodland Drive - Replace approximately 1,900 feet of existing mainline and 27 associated services along Woodland Drive in the main pressure zone.

The District increased its Base Rate and Water Usage Charges by three percent beginning with bills issued after July 1, 2013. This Fiscal Year 2014 rate increase follows two similar three percent rate increases that took effect in the past two fiscal years and is the third three percent rate increase which is part of a 9-year plan to develop sustainable funding for its ongoing CIP. See " – Historical and Projected Rate Increases."

Customer Base

Active Water Service Connections. The table below sets forth a five-year summary of active water service connections for the Water System.

Table 2
Active Water Service Connections

Year	Number of Accounts
2007-08	3595
2008-09	3564
2009-10	3564
2010-11	3572
2011-12	3571

Source: District.

Customer Base Summary. The following table summarizes the number of accounts, consumption, and revenues for the Water System by type of customer for active water accounts during Fiscal Year 2011-12.

Table 3
Summary of Water Accounts, Usage and Revenues by Customer Type
Fiscal Year 2011-12

Customer Type	Number of Accounts	Consumption (HCF†)	% of Total	Revenues (1)	% of Total
Residential					
Single-family	3047	162,405	65.3%	$353,592	63.1%
Multi-family	346	47,829	19.2%	$96,070	17.1%
Non-Residential					
Commercial	146	34,432	13.8%	$99,798	17.8%
Institutional	22	4,148	1.7%	$11,093	2.0%
Total	3561	248,814	100.0%	$560,553	100.0%

(1) Represents all water sales revenues based only on water consumption, and excludes revenues from service charges.
Source: District.

Largest Users. The following table shows the top ten water users in the District based on water consumption in Fiscal Year 2011-12.

Table 4
Top Ten Customers by
Water Consumption (in HCF)
Fiscal Year 2011-12

Customer Name	Customer Type	Consumption (HCF)	% of Total All Users
Safeway	Comm	2,964	1.2%
Dawn Ranch Lodge	Comm	2,239	0.9%
Cal Water	Multi Fam	2,051	0.8%
Applewood Inn	Comm	1,958	0.8%
West Sonoma Inn	Comm	1,777	0.7%
Rien's Beach	Multi Fam	1,321	0.5%
St. Joseph's DeLaSalle Institute	Comm	1,310	0.5%
Cipora Properties	Multi Fam	1,147	0.5%
Midway Car Wash	Comm	1,090	0.4%
Robert Weiss	Multi Fam	1,072	0.4%
Total Top Ten		16,929	6.8%
Total All Users		248,814	

Source: District.

† Hundred cubic feet (HCF) is a unit of measure of water volume, equivalent to 748 gallons

Water Rates and Charges

Rate-Setting Process. The District establishes water rates through a 45-day notice and public hearing process in compliance with Proposition 218. See "RISK FACTORS – Proposition 218."

Water Rate Structure. The District's bimonthly water rates include a base rate charge, water usage charge and capital debt reduction charge. The base rate charge and capital debt reduction charge are adjusted by a multiple unit charge for all units beyond the first unit for residential multi-family accounts. A meter multiplier is based on larger meter flow capacity when compared to the base 5/8 inch meter and is applied to commercial and public accounts for the base rate and capital debt reduction charges. All accounts are billed for a water usage charge which charges for water usage. The water usage charge includes four tiers with higher charges for higher water usage (see Table 6 below). In addition, the District receives income, consisting of a flat charge of $198 per meter, which is collected by the County as part of property tax payments and transferred to the District.

The District engaged Brelje & Race to conduct a water rate study in 2007 (the "Rate Study"). The Rate Study recommended that the District adopt a 0.55 multiple unit multiplier for residential multi-family accounts and a certain multiplier based on meter size (specifically, 2.5 for 1 inch, 5 for 1-1/2 inch and 8 for 2 inch) for commercial and public accounts with respect to the base rate charge, water usage charge, capital debt reduction charge and flat charge. The District followed the Rate Study recommendations regarding both residential multi-family accounts and commercial and public accounts with respect to the base rate charge, water usage charge and capital debt reduction charge. However, the District did not follow the Rate Study recommendations regarding the residential multi-family accounts or the commercial and public accounts with respect to the flat charge (specifically, the District did not adopt a 0.55 multiple unit multiplier for residential multi-family accounts or a multiplier based on meter size for commercial and public accounts). See "RISK FACTORS – Proposition 218."

Historical and Projected Rate Increases. The table below shows a 4-year history of base rate water service charges for the Water System, which reflects three years of three percent rate increases which are part of a 9-year plan to increase funding for sustainable capital improvements to the District's Water System.

Table 5
Historical and Current Base Rate Structure

	Effective July 1, 2009	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
Bimonthly Water Service Charge by Meter Size (1)				
5/8 inch	$50.00	$51.50	$53.05	$54.65
1 inch	$125.00	$128.75	$132.60	$136.60
1-1/2 inch	$250.00	$257.50	$265.25	$273.20
2 inch	$400.00	$412.00	$424.35	$437.10

(1) The base rate and capital reduction charges are increased by the multiple unit multiplier of 0.55 for multi-family accounts and meter size multiplier of 2.5 for 1 inch, 5 for 1-1/2 inch and 8 for 2 inch for commercial and public accounts.

Source: District.

The table below shows the District's current base rate, water usage and capital debt reduction charges.

Table 6
Base Rate, Water Usage, and Capital Debt Reduction Charges for 2013-14

	Tier 1	Tier 2	Tier 3	Tier 4
Water Usage Charge	**$ 1.25**	**$ 2.50**	**$ 3.75**	**$ 5.45**

A. Residential Single Family; no meter multiplier

	Base Rate	Tier 1 Max Usage (Hcf)	Tier 2 Max Usage (Hcf)	Tier 3 Max Usage (Hcf)	Tier 4 Max Usage (Hcf)	Capital Debt Reduction Charge (CDRC)
Any meter size	$ 54.65	8	20	80	>80	$ 10.00

B. Residential Multiple Family – Multiple Unit Multiplier is 0.55 for every extra unit; no meter multiplier; charges for 2-4 units below.

Any meter size	Base Rate	Tier 1	Tier 2	Tier 3	Tier 4	CDRC
2 units	$ 84.71	12.4	31	124	>124	$ 15.50
3 units	$ 114.77	16.8	42	168	>168	$ 21.00
4 units	$ 144.82	21.2	53	212	>212	$ 26.50

C. Commercial and Public – meter multiplier based on meter size; no multiple unit multiplier.

Meter Size (in)	Base Rate	Tier 1	Tier 2	Tier 3	Tier 4	CDRC
0.625	$ 54.65	8	20	80	>80	$ 10.00
1	$ 136.60	20	50	200	>200	$ 25.00
1.5	$ 273.20	40	100	400	>400	$ 49.95
2	$ 437.10	64	160	640	>640	$ 79.95

The table below shows a six-year projection of rate increases based on the District's plan to increase rates by three percent each year for six more years as part of its nine-year plan to increase funding for sustainable capital improvements to the District's Water System. See "RISK FACTORS – Proposition 218."

Table 7
Planned Base Rate Changes
2014 through 2019*

Bimonthly Water Service Charge by Meter Size (1)	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016	Effective July 1, 2017	Effective July 1, 2018	Effective July 1, 2019
5/8 inch	56.28	57.96	59.70	61.49	63.34	65.24
1 inch	140.69	144.91	149.26	153.73	158.35	163.10
1-1/2 inch	281.38	289.82	298.51	307.47	316.69	326.19
2 inch	450.20	463.71	477.62	491.95	506.71	521.91

* Assumes 3% annual increases which are subject to Board approval and public hearing process in compliance with Proposition 218. See "RISK FACTORS – Proposition 218."

(1) The base rate and capital reduction charges are increased by the multiple unit multiplier of 0.55 for multi-family accounts and meter size multiplier of 2.5 for 1 inch, 5 for 1-1/2 inch and 8 for 2 inch for commercial and public accounts.

Source: District.

Billing, Collection and Delinquencies

Billing and Collection Procedure. The District bills for water service bimonthly. Bills for service are due and payable 25 days after the date of billing. Any unpaid portion of bills is considered delinquent if not fully paid by the due date. Shortly after the due date, a Notice of Delinquency is mailed to the customer and the account is assessed a late fee of $5 or five percent of the bill, whichever is greater.

A Turn Off Notice is posted at the account street address (i.e., not the mailing address) approximately 40 days after the bill is mailed, and the account is assessed a $25 posting fee. Water service will be turned off for non-payment approximately two days after the Turn Off Notice is posted and 42 days after the bill is mailed. A $50 reconnect fee is added to the bill to reconnect.

Approximately 15 days after the service is disconnected for non-payment, a Final Notice is mailed to the customer, and the account scheduled for referral by the District to a collections agency for payment.

Delinquencies. The table below shows the delinquency rate for water bills for the prior four fiscal years is shown below, based on the delinquent amounts sent to the collection agency in relation to total water sales each year, along with the delinquency rate for annual assessments of the flat charge collected on the property tax bill for the past four fiscal years.

Table 8
Historic Water Charge and Annual Assessment Delinquency Rates

Fiscal Year	Water Charge Delinquency Rate	Annual Assessment Delinquency Rate
2008-09	0.3%	1.7%
2009-10	1.1%	1.4%
2010-11	0.2%	1.1%
2011-12	0.7%	1.8%

Source: District.

WATER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the most recent audited financial statement of the Water System, for the fiscal year ending June 30, 2012 (the "Financial Statements"), is attached as APPENDIX C. The Financial Statements were prepared by Moss, Levy & Hartzheim, LLP, Certified Public Accountants, Culver City, California (the "Auditor"). The Financial Statements should be read in their entirety.

The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed *any post-audit review of the financial condition or operations of the District. In addition, the Auditor has not reviewed this Official Statement.*

Historical Revenues and Expenses

The following table presents a four-year history of the revenues, expenses and changes in net assets for the Water System.

Table 9
Statement of Revenues and Expenses and Changes in Net Assets
Fiscal Years 2008-09 through 2011-12

	Audited 2008-09	Audited 2009-10	Audited 2010-11	Audited 2011-12
Revenues				
Water Sales (1)	1,957,737	$2,005,265	$2,018,065	$2,053,643
Property Tax Assessment (flat charge)	751,758	762,521	810,292	738,661
Non-Operating Revenues	237,111	183,384	172,875	143,856
Total Revenues	**2,946,606**	**2,951,170**	**3,001,232**	**2,936,160**
Operating Expenses				
Salaries and Benefits	997,640	1,069,029	1,085,675	1,113,431
Services and Supplies	577,573	531,647	465,511	493,821
Repair and Maintenance	0	0	0	967
Total Operating Expenses	**1,575,213**	**1,600,676**	**1,551,186**	**1,608,219**
Non-Operating Expenses				
Interest	543,955	668,179	649,695	630,649
Total Non-Operating Expenses	**543,955**	**668,179**	**649,695**	**630,649**
Total Expenses	**2,119,168**	**2,268,855**	**2,200,881**	**2,238,868**
Income (loss) before Other Items and Depreciation Expense	**827,438**	**682,315**	**800,351**	**697,292**
Other Income	646,912	575,304	1,584,133	623,968
Depreciation Expense	(524,458)	(534,225)	(576,797)	(609,377)
Change in Net Assets (Net Income)	**949,892**	**723,394**	**1,807,687**	**711,883**

(1) Represents all water sales revenues, including water consumption and service charges.
Source: District.

Historical Revenues, Expenses and Debt Service Coverage

The table below presents a historical record of coverage on the District's outstanding water revenue obligations provided by Net Revenues.

Table 10
Historical Revenues, Expenses and Debt Service Coverage
2007-08 through 2011-12

Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12
Revenues					
Water Sales	$1,926,813	$1,957,737	$2,005,265	$2,018,065	$2,053,643
Property Tax Assessment (flat charge)	785,315	751,758	762,521	810,292	738,661
Non-Operating Revenues	325,153	237,111	183,384	172,875	143,856
Total Revenues	3,037,281	2,946,606	2,951,170	3,001,232	2,936,160
Operation Expenses					
Salaries and Benefits	908,542	997,640	1,069,029	1,085,675	1,113,431
Services and Supplies	502,276	577,573	531,647	465,511	494,788
Total Operation Expenses	1,410,818	1,575,213	1,600,676	1,551,186	1,608,219
Net Revenues	1,626,463	1,371,393	1,350,494	1,450,046	1,327,941
Debt Service (1)	853,136	972,648	1,092,971	1,089,801	1,091,166
Debt Service Coverage Ratio	1.91x	1.41x	1.24x	1.33x	1.22x

(1) Represents Debt Service on the Prior Obligations (which are being refunded with a portion of the proceeds of the Bonds) and the Parity Obligations. See “FINANCING PLAN” and “SECURITY FOR THE BONDS.”

Source: District.

Projected Revenues, Expenses and Debt Service Coverage

Projections. The table below presents projected Water System revenues, expenses and debt service coverage ratios. Assumptions regarding these projections are set forth below.

Table 11
Projected Revenues, Expenses and Debt Service Coverage
2012-13 through 2017-18*

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Revenues						
Water Sales (1)	$2,187,360	$2,253,000	$2,320,590	$2,390,208	$2,461,914	$2,535,771
Property Tax Assessment (flat charge) (2)	759,600	759,600	759,600	759,600	759,600	759,600
Non-Operating Revenues (3)	143,900	153,900	163,900	163,900	163,900	163,900
Total Revenues	3,090,860	3,166,500	3,244,090	3,313,708	3,385,414	3,459,271
Operation Expenses						
Salaries and Benefits (1)	1,094,960	1,111,005	1,144,335	1,178,665	1,214,025	1,250,446
Services and Supplies (1)	524,670	520,930	536,558	552,655	569,234	586,311
Total Operation Expenses	1,619,630	1,631,935	1,680,893	1,731,320	1,783,259	1,836,757
Net Revenues	1,471,230	1,534,565	1,563,197	1,582,388	1,602,155	1,622,514
Debt Service* (4)	1,088,043	1,032,561	1,032,761	1,034,211	1,035,361	1,031,286
Debt Service Coverage Ratio*	1.35x	1.49x	1.51x	1.53x	1.55x	1.57x

* Preliminary, subject to change for Fiscal Years 2013-14 through 2017-18.
(1) Projected for Fiscal Year 2012-13 and budgeted for Fiscal Year 2013-14. Thereafter, estimated increase of 3% a year.
(2) Estimated at the average of Fiscal Years 2008, 2009, 2010 and 2012 (2011 was an outlier year with a larger amount).
(3) Estimated flat for Fiscal Year 2013, with a $10,000 increase in Fiscal Year 2014 and 2015 for a cell tower lease and flat thereafter.
(4) Represents Debt Service on the Prior Obligations and the Parity Obligations for Fiscal Year 2012-13 and Debt Service on the Bonds and the Parity Obligations thereafter. See "SECURITY FOR BONDS."
Source: District.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds.

General

Payment of principal of and interest on the Bonds depends upon the revenues derived from operation of the Water System. Some of the events which could affect the revenues received by the Water System are set forth below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and the order in which the risks are discussed does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The Bonds are limited obligations of the District and are not secured by a legal or equitable pledge or charge or lien upon any property of the District or any of its income or receipts, except the Net Revenues. The District is obligated under the Indenture to make debt service payments solely from Net Revenues. There is no assurance that the District can succeed in operating the Water System such that the Net Revenues in the future will be sufficient for that purpose.

Water System Demand and Growth

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement under the heading "THE DISTRICT AND THE WATER SYSTEM." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the District's rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. There can be no assurance that any other entity with regulatory authority over the Water System will not adopt further restrictions on operation of the Water System.

Water System Expenses

There can be no assurance that the District's expenses for the Water System will be consistent with the levels described in this Official Statement. Increases in the cost of purchased water, changes in the cost of purchased water, technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Environmental Laws and Regulations

The Water System is subject to a wide variety of local, State, and federal health and environmental laws. Among the types of regulatory requirements faced by such facilities are air and water quality requirements. Such regulations, as they may be from time to time

amended or subsequently enacted could affect the Net Revenues available to make the debt service payments on the Bonds.

The kind and degree of water treatment which is effected through the Water System is regulated, to a large extent, by the federal government and the State of California. Treatment standards are set forth in federal and state law control the operations of the Water System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standers upon the Water System, the District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Parity Obligations

Although the District has covenanted not to issue additional obligations payable from Net Revenues senior to the Debt Service Payments, the Indenture permits the issuance by the District of certain indebtedness which may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Debt Service Payments, if certain coverage tests are met (see "THE BONDS – Issuance of Parity Obligations" herein). These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued or incurred, the debt service coverage for the Debt Service Payments securing the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Debt Service Payments and such additional indebtedness.

Geologic, Topographic and Climatic Considerations

The District is located in an area of California that is subject to geologic conditions (such as earthquakes), topographic conditions (such as landslides and floods) and climatic conditions (such as droughts). If there were to be an occurrence of severe geologic, topographic or climatic activity in the area of the District, there could be an interruption in the service provided by the Water System, resulting in a temporary reduction in the amount of Net Revenues available to pay Debt Service Payments when due.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes, assessments, fees and charges imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges, except those which are pledged to the repayment of debt. If such a repeal or reduction in District fees

or charges were to occur, and it was held that any such taxes, assessments, fees or charges were not pledged to any debt repayment, the District's ability to make Debt Service Payments could be adversely affected.

In addition, while the matter is not free from doubt, Proposition 218 imposed restrictions on the levy of charges for "property-related services." In July 2006 the California Supreme Court confirmed that a public agency's charges for ongoing water delivery are "fees and charges" within the meaning of Proposition 218. As a result, voters within the boundaries of the District could adopt an initiative measure that reduced or repealed water rates and charges levied by the District, although it is not clear (and has not been determined by State courts) whether such action would be enforceable where such fees and charges are pledged to the repayment of indebtedness.

The District believes that its fees for Water service will not be adversely affected by the application of the procedural requirements of Proposition 218, and that Proposition 218 would not have any immediate adverse effect on its ability to operate its Water System. However, there can be no assurance of the availability of remedies to protect fully the interest of the holders of the Bonds.

Constitutional Limit on Appropriations, Fees and Charges

If a portion of the Water System rates or connection charges were determined by a court to exceed the reasonable costs of providing service, any fee which the District charges may be considered to be a "special tax," which under Articles XIIIA or XIIID of the California Constitution must be authorized by a two-thirds vote of the affected electorate. This requirement is applicable to the District's rates for service provided by the Water System. The reasonable cost of service provided by the Water System has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the State courts have determined that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing Water System improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in the Government Code of the State of California (Section 66000 *et seq*.).

Under Article XIIIB of the California Constitution, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation," which consists of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the "appropriations limit" is to be based on certain Fiscal Year 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIIIB, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District is of the opinion that the rates and use charges imposed by the District in connection with the Water System do not exceed the costs it reasonably bears in providing such services.

Limited Recourse on Default

If the District defaults on its obligation to make Debt Service Payments, the Trustee has the right to accelerate the total unpaid principal amounts of the Debt Service Payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Net Revenues to pay the accelerated Debt Service Payments.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

No Obligation to Tax

The obligation of the District to pay the Debt Service Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Debt Service Payments does not constitute a debt or indebtedness of the State or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the State electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues and adversely affecting the security of the Bonds.

Impact of State Budget

The State is experiencing serious budgetary shortfalls for the current and immediately succeeding Fiscal Years. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. Given the magnitude of the State's budgetary deficit, it is possible that future legislation will impact revenues of local agencies. These developments at the State level will most likely adversely affect local governments.

In response to the shift of local agency revenues to school funding in Fiscal Years 2004/05 and 2005/06, Proposition 1A, entitled "Protection of Local Government Revenues,"

was approved on the November 2, 2004 ballot ("Proposition 1A"). Proposition 1A amended the California Constitution to, among other things, prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (and only then if (x) such amounts were agreed to be repaid with interest within three years, (y) the State had repaid any other borrowed amounts, and (z) such borrowing could not occur more often than twice in ten years). In 2009 the State Legislature exercised its authority and suspended the protection of Proposition 1A for Fiscal Year 2009/10, and authorized approximately $1.9 billion to be borrowed from local governments through the suspension of Proposition 1A. Each county auditor reduced by 8% the *ad valorem* property tax revenue that was distributed to each city, county, and special district for Fiscal Year 2008/09, and transferred such revenues to educational funds. The State could again suspend the protection of Proposition 1A.

The District currently does not anticipate that the State budget problems will materially adversely impact the operation of its water operations or its ability to pay Debt Service Payments or any of its other obligations as when due.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District or authority in violation of their respective covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until prepaid under one of the other redemption provisions contained in the Indenture.

Legislation affecting the tax exemption of interest on the Bonds may be considered by the United States Congress and the State legislature. Federal and state court proceedings and the outcome of such proceedings could also affect the tax exemption of interest on the Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax exemption of interest on the Bonds or the market value of the Bonds.

IRS Audit of Tax-Exempt Issues

The IRS has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar obligations).

Insurer Default

[The Insurer. In the event that the District fails to provide funds to make payment of the principal of and interest on the Insured Bonds when the same shall become due, any owner of such Insured Bonds shall have a claim on the Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory redemption resulting from default or otherwise, the payments guaranteed under the Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration. The Insurance Policy does not insure the payment of any premium payable upon the redemption of the Insured Bonds.

Purchasers of the Insured Bonds should also note that, while the Insurance Policy will insure payment of the principal amount (but not any premium) paid to any owner of the Insured Bonds in connection with the mandatory or optional redemption of any Insured Bond which is recovered from such owner as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Insurer to the Owner only at the times and in the amounts as would have been due absent such redemption unless the Insurer chooses to pay such amount at an earlier date or dates.

So long as the Insurer performs its obligations under the Insurance Policy, the Insurer shall be deemed to be the sole holder of the Insured Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent of direction or taking any other action that the Owners of such Insured Bonds are entitled to take pursuant to the Indenture pertaining to defaults and remedies, and the duties and obligations of the Trustee.

In the event that the Insurer is unable to make payments of principal of and interest on the Insured Bonds as such payments become due, the Insured Bonds are payable solely from moneys received by the Trustee pursuant to the Indenture.

In the event that the Insurer is required to pay principal of or interest on the Insured Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Insured Bonds.

The long-term ratings on the Insured Bonds are dependent, in part, on the claims paying ability or financial strength ratings, as applicable, of the Insurer. The Insurer's current claims paying ability or financial strength ratings are predicated upon a number of factors which could change over time and could result in downgrading of the ratings on the Insured Bonds insured by the Insurer. Such a downgrade could adversely affect the market price for, and marketability of, the Insured Bonds. The Insurer is not contractually bound to maintain its present claims paying ability or financial strength ratings in the future. See "RATINGS" herein.

Creditworthiness of the Insurer. The Insurer's obligation under the Insurance Policy is a general obligation of the Insurer. Default by the Insurer may result in insufficient funds being available to pay the principal of and interest on the Insured Bonds. In such event, the remedies available to the applicable Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Insurer, which has the right, acting with the Trustee, without Owner consent, to amend the applicable provisions of the Indenture governing defaults and remedies and to direct the Trustee to direct remedies with respect to such obligation. The Insurance Policy does not insure the payment of redemption premiums.

Developments over the past few years which have been the subject of substantial discussion in the financial press and which affect the bond insurance business, including that of the Insurer, have had a serious adverse effect on the financial condition of a number of bond insurers, weakening their credit status as reflected in their credit ratings. Therefore, when making an investment decision on the Insured Bonds a prospective Owner should look to the ability of the District to pay the Debt Service Payments which secure the Insured Bonds and not solely to the Insurer's ability to pay claims under the Insurance Policy.

No review of the business or affairs of the Insurer has been conducted by the District or the Underwriter in connection with the offering of the Bonds. No assurance can be given by the District or the Underwriter as to the Insurer's ability to pay claims under the Insurance Policy. See "MUNICIPAL BOND INSURANCE" herein and "APPENDIX G" hereto for further information concerning the Insurer and the Insurance Policy, including instructions for obtaining certain financial information concerning the Insurer.]

TAX MATTERS

The following discussion of federal income tax matters written to support the promotion and marketing of the Bonds *was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.*

In the opinion of Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, Bond Counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver at the time of issuance of the Bonds the opinion substantially in the form set forth in APPENDIX D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax

consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code, or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code, or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of

future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties (such as the Beneficial Owners) other than the District and its appointed counsel would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

BANK QUALIFIED

The District has designated the Bonds "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, and, in the case of certain financial institutions (within the meaning of Section 265(b)(3) of the Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest on the Bonds.

NO LITIGATION

There is no action, suit or proceeding known to be pending or, to the knowledge of the District, threatened, questioning the existence or powers of the District, restraining or enjoining the issuance or delivery of the Bonds or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing, or any claims or actions which if determined against the District, either individually or in the aggregate, would have a material adverse effect on the financial conditions of the District or the ability of the District to pay principal or interest on the Bonds.

RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") is expected to assign its municipal bond rating of ["___ (stable outlook)" to the Insured Bonds, with the understanding that, upon issuance of the Insured Bonds, a policy insuring the payment when due of principal of and interest on the Insured Bonds will be issued by the Insurer. See "MUNICIPAL BOND INSURANCE" herein for a discussion of recent actions taken by the rating agencies with respect to the Insurer. Furthermore, Standard & Poor's has assigned an underlying rating of] "AA-" to the Bonds.

The ratings reflect only the views of such organization, and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Standard & Poor's, if, in the judgment of Standard & Poor's rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any downward revision or withdrawal of any rating obtained. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

PROFESSIONAL FEES

In connection with the issuance of the Bonds, fees payable to Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation as Bond Counsel and Disclosure Counsel, and U.S. Bank National Association, as Trustee, are contingent upon the issuance of the Bonds. Although it is serving as Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds, Bond Counsel represents the Underwriter in connection with other financings and matters unrelated to the Bonds.

CERTAIN LEGAL MATTERS

Upon the delivery of the Bonds, Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, San Francisco, California, Bond Counsel, will issue its opinion approving the validity of the Bonds, the form of which opinion is set forth in APPENDIX D hereto. Certain legal matters will be passed on by Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, as general counsel and as Disclosure Counsel to the District.

UNDERWRITING

The District has agreed to sell the Bonds to Brandis Tallman LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of $_____ (being the principal amount of the Bonds, less an Underwriter's discount in the amount of $_____, plus net original issue premium of $_____, and less the premiums for the Insurance Policy and Reserve Policy, to be wired to the Insurer, in the aggregate amount of $_____). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any such Bonds are purchased. The Underwriter intends to offer the Bonds to the public initially at the prices and/or yield set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Bonds to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

ADDITIONAL INFORMATION

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement have been authorized by the members of the District.

SWEETWATER SPRINGS WATER DISTRICT

By: _____
General Manager

APPENDIX A

SUMMARY OF THE INDENTURE

APPENDIX B

GENERAL INFORMATION REGARDING THE COUNTY OF SONOMA

The following information concerning the unincorporated towns of Guerneville, Rio Nido, Monte Rio and Villa Grande (the "Towns") and County of Sonoma (the "County") is included only for the purpose of supplying general information regarding the area of the Towns and County. The Bonds are not a debt of any of the Towns, County, the State or any of its political subdivisions, and none of the Towns, County, the State or any of its political subdivisions is liable therefor.

General Description and Background

The District is the public water supply for the unincorporated Towns. The Towns are located in the Lower Russian River Valley of the County. The County is the twenty-ninth largest county in California, covering 1,768.23 square miles, of which 10.88 percent is water. The County is a coastal community, with 76 miles of coastline and has numerous climates that can change quickly. Bordered on the south by Marin County, to the north by Mendocino County and on the northeast by Lake County, to the east is Napa County, and to the southeast Solano and Contra Costa Counties. The County measures 30 miles north to south and is only marginally smaller from east to west.

Population

The following table lists population figures for the County and the State for the last five calendar years.

SONOMA COUNTY AND STATE OF CALIFORNIA
Population Estimates
Calendar Years 2008 through 2012
(As of January 1)

Calendar Year	Sonoma County	State of California
2008	476,650	36,856,222
2009	480,598	37,077,204
2010	484,084	37,309,382
2011	486,778	37,570,307
2012	489,283	37,826,160

Source: State Department of Finance.

Employment and Industry

The following table shows the average annual estimated numbers of wage and salary workers by industry for the County for the years 2008 through 2012. Figures do not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

Sonoma County
Civilian Labor Force, Employment and Unemployment
Calendar Years 2008 through 2012
Annual Averages

	2008	2009	2010	2011	2012
Civilian Labor Force [1]	260,100	256,600	256,300	256,400	256,900
Employment	245,200	231,900	229,500	231,200	234,900
Unemployment	14,900	24,700	26,800	25,200	22,000
Unemployment Rate	5.7%	9.6%	10.5%	9.8%	8.6%
Wage and Salary Employment: [2]					
Management Occupations	10,960	10,410	9,930	9,380	9,410
Business and Financial Operations	9,390	8,080	9,280	10,440	10,640
Computer and Mathematical	4,000	3,230	2,900	3,130	3,020
Architecture and Engineering	3,810	3,870	3,260	2,710	2,870
Life, Physical and Social Science	1,720	1,710	1,870	1,310	1,420
Community and Social Services	3,850	3,010	2,250	2,020	1,930
Legal	830	770	570	580	640
Education, Training and Library	14,290	12,830	12,050	11,480	12,140
Arts, Design, Entertainment, Sports and Media	2,500	2,250	1,960	2,070	2,060
Healthcare Practitioners and Technical	9,760	9,180	9,440	10,130	10,560
Healthcare Support	4,680	4,790	4,740	4,670	5,230
Protective Service	3,030	2,960	3,630	3,420	3,300
Food Preparation and Serving-Related	17,530	18,090	17,120	16,690	16,590
Building and Grounds Cleaning and Maintenance	6,640	6,610	6,480	6,410	6,320
Personal Care and Service	4,550	5,040	4,810	4,770	4,770
Sales and Related	20,580	20,310	19,230	19,380	19,190
Office and Administrative Support	34,540	30,560	28,190	26,380	27,580
Farming, Fishing and Forestry	2,450	2,280	2,200	2,390	2,360
Construction and Extraction	12,520	11,160	8,960	7,190	6,500
Installation, Maintenance and Repair	5,660	5,440	5,610	5,460	5,850
Production	11,640	11,580	11,280	10,880	10,550
Transportation and Material Moving	11,600	11,640	10,860	10,070	9,590

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

Major Employers

The table below lists the largest manufacturing and non-manufacturing employers within the County as of 2013:

SONOMA COUNTY
Major Employers
2013 (Listed Alphabetically)

Employer Name	Location	Industry
ABM Janitorial Service	Santa Rosa	Janitor Service
Agilent Technologies Inc.	Santa Rosa	Instruments-Measuring
Amica Mutual Insurance Company	Petaluma	Insurance
Amy's Kitchen Inc.	Santa Rosa	Frozen Food Processors
Army National Guard Recruiter	Santa Rosa	State Government-National Security
Arterial Vascular Engineering	Santa Rosa	Engineering
Fairmont Sonoma Mission Inn & Spa	Sonoma	Hotels & Motels
Fairmont-Sonoma Mission Inn	Sonoma	Hotels & Motels
Friedman Brothers Hardware	Santa Rosa	Hardware-Retail
JDS Uniphase Corp	Santa Rosa	Optical Instruments & Lenses
Korbel Champagne Cellars	Guerneville	Wineries
North Bay Construction Inc.	Petaluma	General Contractors
Petaluma Valley Hospital	Petaluma	Hospitals
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Santa Rosa Police Department	Santa Rosa	Police Departments
Sonoma County Fire & Emergency	Santa Rosa	Government Offices-County
Sonoma County Radio Mntnc Shop	Santa Rosa	Government Offices-County
Sonoma County Sheriff	Santa Rosa	Sheriff
Sonoma Developmental Center	Eldridge	Cognitive Disability-Development Disability Services
Sutter Medical Center – Santa Rosa	Santa Rosa	Hospitals
Walmart	Windsor	Department Stores
Walmart	Rohnert Park	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change retail stores data for 2009 is not comparable to that of prior years.

During calendar year 2011, total taxable sales transactions in the County were reported to be $6,962,114,000, a 7.3% increase over the total taxable transactions of $6,485,950,000 that were reported in the County during calendar year 2010. Summaries of historic taxable sales within the County during the past five years for which data is available are shown in the following table. Annual figures are not yet available for 2012.

SONOMA COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Sales Transactions
(Dollars in Thousands)

	Retail and Food Stores[1]		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	6,352	$5,404,597	17,638	$7,877,195
2008	6,581	5,009,164	17,764	7,369,109
2009[1]	10,645	4,413,001	16,810	6,263,829
2010[1]	10,997	4,583,801	17,303	6,485,950
2011[1]	10,799	4,895,477	16,972	6,962,114

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Only years 2009-2011 include Food Stores.

Construction Activity

The following tables show a five-year summary from calendar year 2008 to 2012 of the number of new housing units and valuation of building permits issued in the County.

SONOMA COUNTY
New Housing Units Building Permits

	2008	2009	2010	2011	2012
Single Family Units	544	371	287	449	312
Multifamily Units	68	71	190	183	248
Total Units	612	442	477	632	560

Source: U.S. Bureau of the Census.

SONOMA COUNTY
Building Permit Valuation

	2008	2009	2010	2011	2012
New Single Family	$143,081,750	$95,407,386	$67,650,877	$115,244,272	$91,879,218
New Multifamily	9,154,487	13,484,885	19,869,443	16,125,001	33,068,580
Total	152,236,237	108,892,271	87,520,320	131,369,273	124,947,798

Source: U.S. Bureau of the Census.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2011-12

APPENDIX D

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

Sweetwater Springs Water District
Guerneville, California

Re: $_____ Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013

Ladies and Gentlemen:

We have acted as Bond Counsel to the Sweetwater Springs Water District (the "District") in connection with the issuance and sale of $_____ aggregate principal amount of the District's Water Revenue Refunding Bonds, Series 2013 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California, including the provisions of Articles 9, 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended, a resolution adopted by Board of Directors of the District on June [6], 2013 (the "Resolution"), an Indenture of Trust, dated as of July 1, 2013 (the "Indenture"), between the District and U.S. Bank National Association, as trustee. The proceeds of the Bonds are being used to refinance certain outstanding obligations of the District. The District is obligated under the Indenture to pay principal of and interest on the Bonds solely from Net Revenues (as defined in the Indenture). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Resolution, the Indenture, the Tax Certificate, certificates of the District, the Trustee and others, opinions of counsel to the District and the Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted to be taken or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions or events are taken or do occur, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights of the owners of the Bonds and the enforceability of the Bonds or the Indenture may be subject to bankruptcy, insolvency,

reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, we are of the following opinions:

1. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding special obligations of the District, payable solely from the sources provided therefor in the Indenture.

2. The Indenture has been duly adopted by the District and constitutes the valid and binding obligation of the District enforceable against the District in accordance with its terms. The Indenture creates a valid lien on and pledge of the Net Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture, on a parity with all additional parity obligations issued pursuant to the Indenture.

3. The obligation of the District to make payments on the Bonds does not constitute a debt of the District, or of the State of California or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is exempt from personal income taxes of the State of California. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earning when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on the Bonds.

In rendering the opinion in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the District with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Indenture as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

Other provisions of the Code may give rise to adverse federal income tax consequences to particular holders of the Bonds. The scope of this opinion is limited to matters addressed

above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

MEYERS, NAVE, RIBACK, SILVER & WILSON

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

SWEETWATER SPRINGS WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2013

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of July 1, 2013, is executed by the Sweetwater Springs Water District (the "District") and U.S. Bank National Association (the "Dissemination Agent"), as dissemination agent in connection with the issuance of the $_____ aggregate principal amount of the District's Water Revenue Refunding Bonds, Series 2013 (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2013 (the "Indenture"), between the District and U.S. Bank National Association, as trustee (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Reports provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the President or General Manager of the District, or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Fiscal Year" shall mean the twelve month period beginning on July 1 of each year and ending on June 30 of the following year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean the MSRB.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, annually not later than March 1 in each year following the end of the District's Fiscal Year, commencing with the report for Fiscal Year ending June 30, 2013, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the District and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date specified in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) provide notice to the District that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the most recent audited financial statements of the District prepared in accordance with generally accepted accounting principles promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. In addition, for years following the Fiscal Year ending June 30, 2013, the Annual Report shall contain an annual updating of the following tables and information contained in the Official Statement:

(i) A history of active water service connections substantially in the form of Table 2 contained in the Official Statement.

(ii) A breakdown of water customers substantially in the form of Table 3 contained in the Official Statement.

(iii) A description of the 10 largest customers of Water System (based on consumption) substantially in the form of Table 4 contained in the Official Statement.

(iv) A summary of the current and planned water rate structure substantially in the form of Tables 5, 6 and 7 contained in the Official Statement.

(v) A statement of net assets for the Water Fund substantially in the form of Table 9 contained in the Official Statement.

(vi) Historic revenues, expenditures and debt service coverage for the Water System substantially in the form of Table 10 contained in the Official Statement.

In addition to any of the information expressly required to be provided under this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than 10 business days after the occurrence of the event:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) If the District obtains knowledge of the occurrence of a Listed Event described in Section 5(a), and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the District determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(8) or (a)(9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30)

days written notice to the District. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the District, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the District and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Bonds, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto, including without limitation, fees and expenses of its attorneys), or any Bond owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SWEETWATER SPRINGS WATER DISTRICT

By: _____
General Manager

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Sweetwater Springs Water District

Name of Issue: Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013

Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement. The District anticipates that the Annual Report will be filed by _____.

Dated:_____

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By:_____
Authorized Officer

cc: District

APPENDIX F

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. THE DISTRICT AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE TRUSTEE AND THE DISTRICT SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF

ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture.

APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

2071750.5

MEYERS NAVE DRAFT – 5/30/13

$_____
SWEETWATER SPRINGS WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2013

PURCHASE CONTRACT

June __, 2013

Sweetwater Springs Water District
17081 Highway 116, Suite B
Guerneville, CA 95446

Ladies and Gentlemen:

Brandis Tallman LLC (the "Underwriter") hereby offers to enter into this Purchase Contract with you, the Sweetwater Springs Water District (the "District"), for the purchase by the Underwriter and the delivery by you of the Bonds specified below. The Bonds are being issued by the District for the purpose of (i) refunding the District's Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 and Improvement District No. 1 General Obligation Bonds of 1990, Series 2003 (collectively, the "Prior Obligations"), (ii) purchasing a reserve fund insurance policy for the Bonds, and (iii) paying the costs of issuing the Bonds. This offer is made subject to acceptance by you prior to 5:00 p.m., California time, on the date hereof. Upon such acceptance, this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon you and the Underwriter. All terms not defined herein shall have the meanings set forth in the Indenture (defined below).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter agrees to purchase from the District, and the District agrees to sell to the Underwriter, all (but not less than all) of the $_____ aggregate principal amount of the District's Water Revenue Refunding Bonds Series 2013 (the "Bonds"), at the purchase price of $_____ (being the principal amount of the Bonds, less an Underwriter's discount in the amount of $_____, plus/less [net] original issue premium/discount of $_____, and less the premiums for the Policy and Reserve Policy (as defined herein), to be wired to [INSURER] (the "Insurer"), in the aggregate amount of $_____).

The Bonds will have the maturities and bear interest at the rates set forth on Exhibit A hereto. The Bonds will be subject to redemption as set forth in the Official Statement herein described. The Bonds will be dated as described in the Official Statement. The Bonds will be issued in book-entry form only.

The District acknowledges and agrees that: (i) the primary role of the Underwriter is to purchase securities for resale to investors in an arms-length commercial transaction between the

District and the Underwriter and that the Underwriter has financial and other interests that differ from those of the District, (ii) the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the District or any other person or entity and has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated hereby and the discussions, undertakings and proceedings leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the District on other matters), (iii) the only obligations the Underwriter has to the District with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract, except as otherwise provided by applicable rules and regulations of the SEC or the rules of the MSRB and (iv) the District has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in connection with the transaction contemplated herein.

2. Authorizing Instruments and Law. The Bonds shall be issued pursuant to the provisions of a resolution (the "Resolution") adopted by the District on June [6], 2013 authorizing the issuance of the Bonds. The Bonds are issued pursuant to an Indenture of Trust, dated as of July 1, 2013 (the "Indenture"), between the District and U.S. Bank National Association (the "Trustee"), and shall be as described in the Indenture.

The Bonds are limited obligations of the District payable primarily from and secured by certain net revenues (the "Net Revenues") pledged under the Indenture.

3. Offering the Bonds. The Underwriter agrees to offer all the Bonds to the public initially at the prices (or yields) set forth on the cover pages of the Official Statement of the District pertaining to the Bonds, dated June __, 2013 (together with all appendices thereto, the "Official Statement"). Subsequent to the initial public offering of the Bonds, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. "Public Offering" shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold.

4. Delivery of Official Statement on the Date Hereof. The District shall deliver to the Underwriter two (2) copies of the Official Statement manually executed on behalf of the District by an authorized representative. The District shall also deliver a sufficient number of copies of the Official Statement to enable the Underwriter to distribute a single copy of each Official Statement to any potential customer of the Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending on the End Date (defined below). The District shall deliver these copies to the Underwriter within seven (7) business days after the execution of this Purchase Contract and in sufficient time to accompany or precede any sales confirmation that requests payment from any customer of the Underwriter. The Underwriter shall inform the District in writing of the End Date, and covenants to file the Official Statement with the Municipal Securities Rulemaking Board (the "MSRB") on a timely basis.

"End Date" as used herein is that date which is the earlier of:

(a) ninety (90) days after the end of the underwriting period, as defined in SEC Rule 15c2-12 adopted by the Securities and Exchange Commission on June 28, 1989 ("Rule 15c2-12"); or

(b) the time when the Official Statement becomes available from the MSRB, but in no event less than twenty-five (25) days after the underwriting period (as defined in Rule 15c2-12) ends.

The District has authorized the use of the Official Statement in connection with the public offering of the Bonds. The District also has consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated June [11], 2013 relating to the Bonds in connection with the public offering of the Bonds (which, together with all appendices thereto, is herein called the "Preliminary Official Statement"). Authorized officers of the District have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12, with the exception of certain final pricing and related information referred to in Rule 15c2-12. The Underwriter has distributed a copy of each Preliminary Official Statement to potential customers on request.

5. The Closing. At 9:00 A.M., California time, on July __, 2013, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Underwriter, the District will deliver (i) the Bonds in book-entry form through the facilities of The Depository Trust Company ("DTC") in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, San Francisco, California, or another place to be mutually agreed upon by the District and the Underwriter. The Underwriter will accept such delivery from the District. The Underwriter will pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer of immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the "Closing."

6. District Representations, Warranties and Covenants. The District represents, warrants and covenants to the Underwriter that:

(a) The District is a water district of the State of California (the "State"), duly organized and validly existing pursuant to the Constitution and laws of the State, and has all necessary power and authority to enter into and perform its duties under the Indenture, the Continuing Disclosure Agreement, dated as of July 1, 2013 (the "Continuing Disclosure Agreement"), by and between the District and the Trustee, the Official Statement and this Purchase Contract (collectively, the "District Documents").

(b) The Bonds, when issued in accordance with the Indenture, will be legally valid and binding special obligations of the District, entitled to the benefits of the Indenture and enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(c) To the best knowledge of the District, neither the execution and delivery of the District Documents, or the approval and execution of the Official Statement or this Purchase Contract, and compliance with the provisions on the District's part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, materially conflicts with or constitutes a material breach of or default under nor materially contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the District under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the District Documents.

(d) The District Documents have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against cities in the State of California.

(e) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory agency having jurisdiction over the District required for the consummation by the District of the transactions contemplated by the Official Statement and this Purchase Contract.

(f) To the best knowledge of the District, there is, and on the Closing (as hereinafter defined) there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the District to restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the District Documents or the authority of the District to approve this Purchase Contract, or enter into the District Documents or contesting the powers of the District to enter into or perform its obligations under any of the foregoing or in any way contesting the powers of the District in connection with any action contemplated by this Purchase Contract or to restrain or enjoin the execution of, or; except as described in the Preliminary Official Statement and the Official Statement, the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, nor is there any reasonable basis for any such action, suit, proceeding or investigation.

(g) The Preliminary Official Statement provided to the Underwriter has been deemed final by the District, as required by Rule 15c2-12. As of the date thereof and at all times

subsequent thereto up to and including the End Date, the information relating to the District, the Bonds, the Water System and the District Documents contained in the Official Statement was and will be materially complete for its intended purposes. The information relating to the District, the Bonds, the Water System and the District Documents contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) The District agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the District will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign corporation in any jurisdiction where it is not so qualified.

(i) By official action of the District prior to or concurrently with the execution hereof, the District has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the District of the obligations on its part contained in the District Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Contract.

(j) To the best knowledge of the District, it is not in breach of or default under any material applicable law or administrative regulation of the State of California or the United States or any material applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or is otherwise subject and in connection with which the District is obligated to make payments from its own funds, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument the consequence of which could be the materially and adversely affect the performance of the District under the District Documents.

(k) If between the date of this Purchase Contract and the End Date an event occurs, of which the District has knowledge, which might or would cause the information relating to the District, the Water System or the District's functions, duties and responsibilities contained in the Official Statement, as may be then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the District will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the District will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the District.

(l) If the information relating to the Water System, the District, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subparagraph, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(m) The District covenants that it will comply with all tax covenants relating to it in the District Documents, the Tax Certificate of the District and this Purchase Contract.

(n) Substantially all the proceeds from the sale of the Bonds (after deducting the expenses of issuance and sale of the Bonds paid for from such proceeds) will be used to refinance the Prior Obligations, and the District will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indenture, as amended from time to time.

(o) The District will deliver all opinions, certificates, letters and other instruments and documents reasonably required by the Underwriter and this Purchase Contract.

(p) Any certificate of the District delivered to the Underwriter shall be deemed a representation and warranty by the District to the Underwriter as to the statements made therein.

(q) As of the time of acceptance hereof and as of the Closing the District does not and will not have outstanding any indebtedness which is secured by a lien on the District' s general fund except as disclosed in the Official Statement.

(r) Between the date of this Purchase Contract and the date of Closing, the District will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any certificates, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, secured by a lien on the District's general fund.

(s) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the District of its obligations in connection with, the District Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(t) The District has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that either the District is a bond issuer whose arbitrage certifications may not be relied upon.

(u) Except as otherwise described in the Official Statement, the District has not failed in any material respect to comply with any undertaking of the District under Rule 15c2-12 in the previous five years.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the District of its respective obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations hereunder are and shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the District contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing:

(i) the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter;

(ii) there shall be in full force and effect such resolutions (the "Authorizing Resolutions") as, in the opinion of Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation ("Bond Counsel"), shall be necessary in connection with the transactions on the part of the District contemplated by this Purchase Contract, the Official Statement and the District Documents;

(iii) the District shall perform or have performed its obligations required as specified in the District Documents to be performed at or prior to Closing; and

(iv) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(k), or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the District Documents and the District shall not be in default in the payment of principal or interest on any of its bonded indebtedness which default shall adversely impact the ability of the District to make payments on the Bonds.

(d) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the District if at any time at or prior to the Closing:

(i) any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of the District Documents in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the President or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or state court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other Federal or State authority materially adversely affecting the Federal or State tax status of the District, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the States or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority

or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to market the Bonds; or

(vi) a general banking moratorium shall have been established by federal or State authorities; or

(vii) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds (it being acknowledged by the Underwriter that as of the date hereof no such event is occurring); or

(viii) the commencement of any action, suit or proceeding described in Paragraphs 6(f) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(ix) there shall be in force a general suspension of trading on the New York Stock Exchange; or

(x) an event described in paragraph (k) of Section 6 hereof shall have occurred which, in the reasonable professional judgment of the Underwriter, requires the preparation and publication of a supplement or amendment to the Official Statement; or

(xi) any rating or credit outlook of the Bonds by a national rating agency shall have been withdrawn or downgraded.

(xii) any rating or credit outlook of the Insurers by a national rating agency shall have been withdrawn or downgraded.

(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents:

(i) Bond Opinion. The approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as APPENDIX D to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion was addressed to them.

(ii) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

1) The statements and information contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE BONDS" (except for the information under the captions "Book-

Entry Only System"), "SECURITY FOR THE BONDS" and "TAX MATTERS," and in APPENDICES A and E, are accurate in all material respects; and

2) The Bonds are exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended.

(iii) District Counsel Opinion. An opinion of District Counsel, dated as of the Closing and addressed to Bond Counsel and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter, to the following effect:

1) the District is a political subdivision and special district duly organized and validly existing under the Constitution and the laws of the State of California;

2) the preparation and distribution of the Preliminary Official Statement and the Official Statement and this Purchase Contract have been duly approved by the District;

3) the resolution of the District approving and authorizing the execution and delivery of the Official Statement and the District Documents has been duly adopted at a meeting of the governing body of the District which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and such resolution is in full force and effect and has not been amended, modified or rescinded;

4) except as disclosed in the Official Statement, to the best knowledge of the attorneys working on this matter, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the current actual knowledge of such counsel, threatened against or affecting the District, which would adversely impact the District's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin any of the transactions referred to herein or contemplated hereby or in any way contesting or affecting the validity of the District Documents, or the transactions described in the Official Statement;

5) except as disclosed in the Official Statement, to the current actual knowledge of the attorneys working on this matter, the execution and delivery of the District Documents and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District a breach

of or default under any agreement or other instrument to which the District is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the District is subject;

6) the District Documents have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against cities in the State of California;

7) no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California is required for the valid authorization, execution and delivery of the District Documents and the approval of the Official Statement; and

8) nothing has come to his attention which would lead him to believe that the information relating to the District and the Water System contained in the Official Statement contains an untrue statement or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(iv) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to Bond Counsel and the Underwriter, in form and substance acceptable to counsel for the Underwriter substantially to the following effect:

1) The Trustee is a national banking association duly organized and validly existing under the laws of the United States.

2) The Trustee has duly authorized the execution and delivery of the Indenture and the Continuing Disclosure Agreement.

3) The Indenture and the Continuing Disclosure Agreement have been duly entered into and delivered by the Trustee and assuming due, valid and binding authorization, execution and delivery by the other parties thereto, constitute the legal, valid and binding obligations of the Trustee enforceable against the Trustee in accordance with their respective terms, except as the enforceability thereof may be limited by applicable bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally, or by general principles of equity.

4) acceptance by the Trustee of the duties and obligations under the Indenture and the Continuing Disclosure

Agreement and compliance with provisions thereof will not conflict with or constitute a breach of or default under any law or administrative regulation to which the Trustee are subject.

5) All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the Trustee of their duties and obligations under the Indenture and the Continuing Disclosure Agreement have been obtained and are in full force and effect.

(v) Disclosure Counsel Opinion. An opinion, dated the date of the Closing addressed to the District and the Underwriter, of Meyers, Nave, Riback, Silver & Wilson, A Professional Law Corporation, disclosure counsel, to the effect that based upon their participation in the preparation of the Official Statement as Disclosure Counsel to the District and without having undertaken to determine independently the accuracy or completeness of the contents in the Official Statement, such counsel has no reason to believe that the Official Statement, as of its date and as of the Closing Date (except for the financial statements and the other financial and statistical data included therein and the information included therein relating to The Depository Trust Company and the book-entry system (as such terms are defined in the Official Statement), and in the Appendices thereto as to all of which no opinion or belief need be expressed) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(vi) District Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the District satisfactory in form and substance to the Underwriter, (a) confirming as of such date the representations and warranties of the District contained in this Purchase Contract; (b) certifying that the District has complied with all agreements, covenants and conditions to be complied with by the District at or prior to the Closing under the District Documents; (c) certifying that to the best of such official's knowledge, no event affecting the District has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading; and (d) certifying that the District has authorized and consented to the inclusion in the Official Statement of the District's financial report and accountant's opinion for the year ended June 30, 2012, and no further consent of any party is required for such inclusion.

(vii) Trustee's Certificate. A Certificate of the Trustee, dated the date of Closing, addressed to the District and the Underwriter, in form and substance acceptable to counsel for the Underwriter to the following effect:

1) The Trustee is duly organized and existing as a national banking association in good standing under the laws of the United

States, having the full power and authority to accept and perform its duties under the Indenture and the Continuing Disclosure Agreement;

2) Subject to the provisions of the Indenture, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture; and

3) The Trustee has duly authorized and executed the Indenture and the Continuing Disclosure Agreement.

(viii) Transcript. A transcript of all proceedings relating to the authorization and issuance of the Bonds.

(ix) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the District by a duly authorized officer of the District.

(x) Documents. An original executed copy of each of the District Documents.

(xi) District Resolution. A copy certified by the Secretary or Assistant Secretary of the District, of each resolution of the District relating to the District Documents, the actions contemplated thereby, provided that such resolution may be contained in the transcript provided pursuant to Paragraph 7(e)(viii) above.

(xii) IRS Form 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(xiii) Tax Certificate. A tax certificate in form satisfactory to Bond Counsel.

(xiv) Rating. Evidence as of the Closing Date satisfactory to the Underwriter that the Bonds have received, at a minimum, a rating of "___" from Standard & Poor's Ratings Services ("S&P"), assuming delivery of the Policy (defined below), and underlying rating of "AA-" from S&P without regard to the Policy, and that such ratings have not been revoked or downgraded.

(xv) Bond Insurance. An executed municipal bond insurance policy (the "Policy") of the Insurer, insuring the scheduled payment of principal of and interest on the insured Bonds (as set forth in Exhibit A hereto), substantially in the form attached as APPENDIX G of the Official Statement.

(xvi) Debt Service Reserve Insurance Policy. An executed debt service reserve insurance policy (the "Reserve Policy") of the Insurer, substantially in form acceptable to Bond Counsel and the Underwriter.

(xvii) Opinion of Counsel to Insurer. An opinion of counsel to the Insurer, dated as of the date of Closing, addressed to the Underwriter and the District in form and

substance acceptable to Bond Counsel and the Underwriter, substantially to the effect that: (i) the Insurer has been duly incorporated and is validly existing and in good standing under the laws of the State of its incorporation; (ii) the Policy and the Reserve Policy constitute the legal, valid and binding obligations of the Insurer enforceable in accordance with their respective terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, rehabilitation and other similar laws of general applicability relating to or affecting creditors' and/or claimants' rights against insurance companies and to general equity principles; and (iii) the information contained in the Official Statement under the caption "MUNICIPAL BOND INSURANCE" does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(xviii) Certificate or opinion of an independent certified public accountant that the issuance of the Bonds complies with the parity obligation issuance requirements under the Citizens Installment Sale.

(xix) CDIAC Statement. A copy of the Notice of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(xx) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary.

If the District shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract may be terminated by the Underwriter, and neither the Underwriter nor the District shall be under any further obligation hereunder.

8. Expenses. The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid, the expenses incident to the performance of the obligations of the District hereunder including but not limited to:

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the District Documents and the cost of preparing, printing, issuing and delivering the Bonds;

(b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the District;

(c) the fees and disbursements of Bond Counsel and Disclosure Counsel;

(d) the cost of preparation and printing the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter;

(e) charges of rating agencies for the rating of the Bonds;

(f) the cost of printing of the District Documents; and

(g) the expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including any advertising expenses.

The Underwriter shall pay: (i) the cost of preparation and printing of any 'blue sky" filings; (ii) all "blue sky" filing fees in connection with the public offering of the Bonds; (iii) fees, if any, payable to the California Debt and Investment Advisory Commission, the MSRB, the fees associated with obtaining CUSIP numbers for the Bonds, and fees of the Public Securities Association and the California Public Securities Association in connection with the execution and delivery of the Bonds; and (iv) all other expenses incurred by them in connection with the public offering of the Bonds not outlined in (a) through (g) above.

9. Notice. Any notice or other communication to be given to the Underwriter may be given by delivering the same to Brandis Tallman LLC, 22 Battery Street, Suite 500, San Francisco, CA 94111 Attn.: Rick Brandis. Any notice or other communication to be given to the District pursuant to this Purchase Contract may be given by delivering the same in writing to such entity, at the addresses set forth on the cover page hereof.

10. Entire Agreement. This Purchase Contract, when accepted by the District, shall constitute the entire agreement between the District and the Underwriter and is made solely for the benefit of the District and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the District's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Purchase Contract.

11. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the District without the prior written consent of the other parties hereto.

12. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

13. State of California Law Governs. The validity, interpretation and performance of the District Documents shall be governed by the laws of the State.

14. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

BRANDIS TALLMAN LLC, as Underwriter

By: _____
Title: _____

Accepted as of the date first stated above:

SWEETWATER SPRINGS WATER DISTRICT

By: _____
General Manager

EXHIBIT A

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			

$_____ ___% Term Bonds due September 1, 20__, Price ____%, Yield ____%

$_____ ___% Term Bonds due September 1, 20__, Price ____%, Yield ____%

* Insured maturities

2081151.3

INDENTURE OF TRUST

between the

SWEETWATER SPRINGS WATER DISTRICT

and

U.S. BANK NATIONAL ASSOCIATION, as Trustee

RELATING TO THE

$_____
SWEETWATER SPRINGS WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2013

Dated as of July 1, 2013

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APPENDIX A FORM OF BOND A-1

INDENTURE OF TRUST

This INDENTURE OF TRUST (the "Indenture"), dated as of July 1, 2013, between the SWEETWATER SPRINGS WATER DISTRICT, a water district duly organized and validly existing under and by virtue of the Constitution and laws of the State of California (the "District") and U.S. Bank National Association, a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H:

WHEREAS, the District has previously issued its Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 (the "1992 Obligations") and Improvement District No. 1 General Obligation Bonds of 1990, Series 2003 (the "2003 Obligations" and together with the 1992 Obligations, the "Prior Obligations") pursuant to Resolution No. 64, as amended by Resolution No. 79, adopted by the Board of Directors of the District on October 9, 1991 and March 16, 1992, respectively (collectively, the "1992 Bond Resolution") with respect to the 1992 Obligations and Resolution No. 03-15, adopted by the Board of Directors of the District on April 3, 2003 (the "2003 Bond Resolution" and together with the 1992 Bond Resolution, the "Prior Bond Resolutions") with respect to the 2003 Obligations;

WHEREAS, the District is authorized pursuant to Articles 9, 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53550) of the California Government Code, as amended, to issue revenue bonds to provide funds to refund its outstanding indebtedness which is payable from Net Revenues (as defined herein); and

WHEREAS, in order to refund the Prior Obligations, the District has decided to issue its Water Revenue Refunding Bonds, Series 2013 in an aggregate principal amount of $_____, secured by Net Revenues as provided herein; and

WHEREAS, the District hereby certifies that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Indenture by such party does exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Indenture;

NOW, THEREFORE, IN CONSIDERATION OF THE PROMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes hereof, and of any amendment hereof or supplement hereto, of the Bonds and of any certificate, opinion, request or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

"1992 Bond Resolution" means Resolution No. 64, as amended by Resolution No. 79, adopted by the Board of Directors of the District on October 9, 1991 and March 16, 1992, respectively, with respect to the 1992 Obligations.

"1992 Obligations" means the District's outstanding Improvement District No. 1 General Obligation Bonds of 1990, Series 1992.

"2003 Bond Resolution" means Resolution No. 03-15, adopted by the Board of Directors of the District on April 3, 2003 with respect to the 2003 Obligations.

"2003 Obligations" means the District's outstanding Improvement District No. 1 General Obligation Bonds of 1990, Series 2003.

"Authorized Officer" means, with respect to the District, its President, Vice President or General Manager or any other person designated as an Authorized Representative of the District by a Written Certificate of the District signed by its President, Vice President or General Manager, and filed with the Trustee.

"Bond Year" means the period from the Closing Date through September 1, 2013, and thereafter the twelve-month period commencing on September 2 of each year through and including September 1 of the following year.

"Bonds" means the $_____ principal amount of Water Revenue Refunding Bonds, Series 2013 authorized hereby and at any time Outstanding hereunder that are issued by the District under and pursuant to Article II of this Indenture.

"Bond Counsel" means Meyers, Nave, Riback, Silver & Wilson or any other attorney or firm of attorneys appointed by and acceptable to the District, of nationally-recognized experience in the execution and delivery of obligations the interest in which is excludable from gross income for federal income tax purposes under the Code.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Principal Office is authorized to be closed.

"Certificate of the District" means an instrument in writing signed by an Authorized Officer.

"Citizens Certificates" mean the certificates of participation held by Citizens Business Bank, executed and delivered in the original principal amount of $3,000,000.

"Closing Date" means the date on which the Bonds are delivered to the original purchasers thereof, which date is July __, 2013.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"Continuing Disclosure Agreement" shall mean the agreement by that name, dated as of July 1, 2013, between the District and the dissemination agent named therein.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged); and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

"Debt Service Account" means the account of that name established by the Trustee pursuant to Section 3.04 hereof.

"Debt Service Payments" mean the payments of Debt Service on the Bonds due hereunder.

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District relating to the refunding of the Prior Obligations, including but not limited to filing costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of Bonds and charges and fees in connection with the foregoing.

"Delivery Costs Fund" means the fund of that name established by Section 3.02 hereof.

"Depository" means (a) initially, DTC, and (b) any other qualified securities depository acting as Depository pursuant to Section 2.11 hereof.

"Depository System Participant" means any participant in the Depository's book entry system.

"District" means the Sweetwater Springs Water District, a water district duly organized and existing under the Constitution and laws of the State of California, including the County Water District Law (California Water Code Section 30000 *et seq.*), and its successors and assigns.

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

"Due Date" means the fifth (5th) Business Day of the month prior to each Interest Payment Date.

"DWR Loans" means, collectively, the loans from the State Department of Water Resources, issued in the original aggregate principal amount of $2,870,000.

"Event of Default" means an event of default described in Section 6.01 hereof.

"Federal Securities" mean (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually

against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Fiscal Year" means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

"Generally Accepted Accounting Principles" mean the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for special districts in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

"Government" means the United States of America, acting through the United States Department of Agriculture.

"Governmental Loan" means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Water System, and the obligation of the District to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Debt Service Payments.

"Gross Revenues" means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) investment earnings on amounts held in the Revenue Fund or in any other fund established with respect to the Water System, (c) the proceeds of any ad valorem property taxes received by the District, other than ad valorem property taxes levied for the purpose of paying bonded indebtedness of the District, and (d) rental income related to the Water System. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

"Indenture" means this Indenture of Trust between the Trustee and the District, dated as of July 1, 2013, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith.

"Independent Certified Public Accountant" means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice, and practicing as such, under the laws of the State of California, appointed and paid by the District, and each of whom--

1. is in fact independent and not under the domination of the District;

2. does not have a substantial financial interest, direct or indirect, in the operations of the District; and

3. is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to audit the accounting records of and make reports thereon to the District.

"Information Services" means in accordance with then-current guidelines of the Securities and Exchange Commission, one or more services selected by the District which are then providing information with respect to called Bonds as the District may designate in a certificate delivered to the Trustee.

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

"Maximum Annual Debt Service" means the largest annual Debt Service on the Bonds during the period from the date of such determination through the final maturity date of the Bonds.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Expenses becoming payable during such period.

"Nominee" means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of a Depository designated pursuant to Section 2.11 hereof.

"Operation and Maintenance Expenses" means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Water System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Expenses do not include (i) debt service payable on obligations incurred by the District with respect to the Water System, including but not limited to the Debt Service Payments and any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.02) all Bonds except:

(1) Bonds canceled by the Trustee;

(2) Bonds paid or deemed to have been paid within the meaning of Section 9.01; and

(3) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered hereunder.

"Owner" or "Bondowner" means the registered owner of any Outstanding Bond.

"Parity Obligations" means the DWR Loans, the Citizens Certificates and indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred by the District and secured by a pledge of and lien on Net Revenues equally and ratably with the Debt Service Payments.

"Payment Fund" means the fund by that name established in Section 3.03 hereof.

"Permitted Investments" mean any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the District as a certification that such investment constitutes a Permitted Investment):

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

<u>Farmers Home Administration (FmHA)</u>
Certificates of beneficial ownership

<u>Federal Housing Administration Debentures (FHA)</u>

<u>General Services Administration</u>
Participation certificates

<u>Government National Mortgage Association (GNMA or "Ginnie Mae")</u>
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)

U.S. Maritime Administration
Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local District Bonds
New Communities Debentures – U.S. Government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. Government guaranteed public housing notes and bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank System
Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation certificates
Senior debt obligations

Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit System
Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. Certificates of deposit secured at all times by collateral described in 1 and/or 2 above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks including the Trustee and its affiliates. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral; and unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the

short-term obligations of which are rated on the date of purchase in one of the two highest rating categories by S&P and by Moody's.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

7. Investment agreements, including GIC's, forward purchase agreements and reserve fund put agreements.

8. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime -1" or "A2" or better by Moody's and "A-1" or "A" or better by S&P.

11. Repurchase agreements for 30 days or less must follow the following criteria:

(i) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

12. Asset-backed Securities: As authorized in Government Code Section 53601(n), investment in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service.

13. Mortgage-backed Securities: As authorized in Government Code Section 53601(n), investment in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of asset-backed and mortgage-backed securities may not exceed 20% of the District's portfolio in total.

14. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "A" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

15. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

16. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

17. The Sonoma County Pooled Treasury Portfolio.

"Principal Office" means the corporate trust office of the Trustee set forth in Section 10.13 (except for payment, surrender and exchanges of the Bonds which shall be the corporate trust office of the Trustee located at 60 Livingston Avenue, St. Paul, MN 55101), or such other or additional offices as may be designated by the Trustee.

"Prior Bond Resolutions" means, collectively, the 1992 Bond Resolution and the 2003 Bond Resolution.

"Prior Obligations" means, collectively, the District's outstanding 1992 Obligations and 2003 Obligations.

"Record Date" means the fifteenth day of the calendar month prior to an Interest Payment Date.

"Redemption Account" means the account of that name established by the Trustee pursuant to Section 3.04 hereof.

"Reserve Requirement" means, as of any date of calculation, the lesser of (i) 10% of the initial principal amount of the Bonds, (ii) an amount equal to Maximum Annual Debt Service, or (iii) 125% of average annual Debt Service Payments payable hereunder; provided, that as of the Closing Date, the Reserve Requirement shall be equal to the amount set forth in Section 3.02 hereof.

"Reserve Fund" means the fund by that name established pursuant to Section 3.11.

"Responsible Officer" means any officer of the Trustee assigned by the Trustee to administer the trusts established hereunder.

"Revenue Fund" means the fund of the District into which it deposits Gross Revenues.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill Incorporated, its successors and assigns.

"Securities Depositories" mean The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: 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 writing to the Trustee.

"State" means the State of California.

"Subordinate Debt" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues subordinate to the Bonds.

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor or any other bank or trust company which may at any time be substituted in its place as provided in Section 7.01.

"Water System" means the entire existing system of the District for the collection, transmission, distribution and sale of water within the service area of the District, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

Section 1.02. Equal Security. In consideration of the acceptance of the Bonds by the Owners, this Indenture shall be deemed to be and shall constitute a contract by and among the Trustee, the District and the Owners to secure the full and final payment of the interest and principal and redemption premiums, if any, to be made by the District on the Bonds, subject to the agreements, conditions, covenants and terms contained herein; and all agreements, conditions, covenants and terms contained herein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Bonds over any other Bonds by reason of the number or date thereof or the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

TERMS AND CONDITIONS OF BONDS

Section 2.01. Authorization of Bonds. The District hereby authorizes the issuance of the Bonds in the aggregate principal amount of $_____. The Bonds shall be designated "Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013."

Section 2.02. Denominations, Medium, Method and Place of Payment and Dating of Bonds. The Bonds shall be issued in the form of fully registered Bonds in denominations of five thousand dollars ($5,000) or any integral multiple thereof. Subject to the provisions of Section 2.11 hereto, the interest, principal and redemption premiums, if any, on the Bonds shall be payable by check in lawful money of the United States of America. Subject to the provisions of Section 2.11 hereof, interest on the Bonds shall be payable on their Interest Payment Dates by

check mailed via first class mail on the Interest Payment Date by the Trustee to the respective Owners thereof as of the Record Date at their addresses as they appear in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 hereof or, upon the written request from any Owner of Bonds aggregating at least $1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment Date, by wire in Federal Reserve funds to an account within the United States on the Interest Payment Date, with regard to which such payment is made. The principal of the Bonds shall be payable on September 1 in each of the years and in the principal amounts as follows, or on redemption prior thereto, upon surrender thereof at the Principal Office of the Trustee.

Year (September 1)	**Principal Amount**	**Interest Rate**

The Bonds shall be dated as of the Closing Date, and bear interest from the Interest Payment Date immediately preceding the date of authentication thereof by the Trustee, unless such date of authentication is on or after the fifteenth (15th) day of the calendar month prior to an Interest Payment Date, in which case they shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before _____ 15, 2013, in which case they shall bear interest from the Closing Date.

Section 2.03. Interest on the Bonds. Interest on the Bonds shall be paid on each Interest Payment Date at the rates per annum set forth in Section 2.02 hereof, calculated on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.04. Form of Bonds. The Bonds and the assignment to appear thereon shall be in substantially the form set forth in Appendix A hereto with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

Section 2.05. Execution of Bonds. The Bonds shall be executed by the manual or facsimile signature of the President or District Manager of the District, or his or her authorized representatives, and shall be attested to by the manual or facsimile signature of the District Secretary or assistant secretary. The Bonds shall be authenticated by the manual signature of an authorized officer of the Trustee.

Section 2.06. Transfer and Exchange of Bonds. Subject to the provisions of Section 2.11 hereof, (a) each Bond shall be transferable only upon a register of the names of each Owner (the "Bond Register"), which shall be kept for that purpose at the Principal Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof

together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall provide in the name of the transferee, a new Bond or Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond pursuant to Section 4.01 hereof, in which case the principal amount of the new Bond shall be equal to the unredeemed principal amount of the Bond submitted for transfer).

(b) The Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the District nor the Trustee shall be affected by any notice to the contrary. The District agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence or willful misconduct under the Indenture, in so treating such Owner.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Article. All Bonds surrendered in any such exchanges or transfers shall forthwith be canceled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the District and the Trustee may make a charge sufficient to reimburse any of them for any tax, fee or other governmental charge, other than one imposed by the District, required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provision hereof, the cost of preparing each new Bond and any other expenses of the District or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge other than one imposed by the District) shall be paid by the District. The Trustee shall not be obliged to effect any exchange or transfer of any Bond during the period after the mailing of notice calling such Bond or a portion thereof for redemption, nor during the fifteen (15) days preceding the giving of such notice of redemption.

Section 2.07. Bond Registration Books. The Trustee shall keep or cause to be kept at its Principal Office sufficient records for the registration and registration of transfers of the Bonds, which shall, during normal business hours upon reasonable prior written notice be open to inspection by the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations consistent herewith as it may prescribe, register or transfer or cause to be registered or transferred, on the Bond Register, Bonds as hereinbefore provided.

Section 2.08. Temporary Bonds. Pending preparation of the definitive Bonds, any Bonds delivered under the Indenture may be initially delivered in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the

District, shall be without coupons and may contain such reference to any of the provisions hereof as may be appropriate. Every temporary Bond shall be authenticated by the Trustee and be delivered by the Trustee upon the same conditions and in substantially the same manner as definitive Bonds. If the Trustee delivers temporary Bonds, it shall authenticate and furnish definitive Bonds without delay and, thereupon, the temporary Bonds shall be surrendered for cancellation at the Principal Office of the Trustee and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same interest rate or rates and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds delivered pursuant hereto.

Section 2.09. Bonds Mutilated, Destroyed, Lost or Stolen. If any Bond shall become mutilated, the Trustee, at the expense of the Owner of said Bond, shall authenticate and deliver a new Bond of like tenor 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 or redelivered to, or upon the order of, the District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall authenticate and deliver a new Bond of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a reasonable fee for each new Bond delivered under this Section and of the reasonable expenses which may be incurred by the Trustee in carrying out the duties under this Section 2.09. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds secured by the Indenture. The Trustee shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section 2.09, in lieu of delivering a new Bond for a Bond which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such Bond upon receipt of indemnification satisfactory to the Trustee.

Section 2.10. Evidence of Signatures of Bond Owners and Ownership of Bonds. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bond Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bond Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the holding and ownership of Bonds shall be sufficient for any purpose hereof (except as otherwise herein provided), if made in the Form of the Assignment attached to the Bond in Appendix A hereto.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated

which to the Trustee may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the District or the Trustee in pursuance of such request or consent.

Section 2.11. Book Entry System.

(a) Original Delivery. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each maturity. Upon initial delivery, the ownership of each such Bond shall be registered on the Bond Register kept by the Trustee in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the District holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Bond Register, or any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the District elects to redeem the Bond in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Bond Register, of any amount with respect to principal, premium, if any, or interest on the Bonds, or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The District and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bonds for the purpose of payment of principal of, premium, if any, and interest on such Bonds for the purpose of giving notices of redemption and other matters with respect to such Bonds, for the purpose of registering transfers of ownership of such Bonds, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than an Owner shall receive a Bond evidencing the obligation of the District to make payments of principal, interest and premium, if any, pursuant to this Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice of the District shall promptly, but in no event later than two (2) Business Days after receipt thereof, deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, to the extent it has not already done so the District shall execute and deliver to such Depository a letter (the "Letter of Representations") representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way

limit the provisions of subsection (a) above or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. In addition to the execution and delivery of such letter, the District may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. In the event that either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the District determines to terminate the Depository as such, then the District shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the District and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees in the Letter of Representations to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the District fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Bond Register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Section 2.11 hereof.

In the event the District determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain Bonds, the District may notify the Depository System Participants of the availability of such Bond through the Depository. In such event, the Trustee will, at the expense of the District, authenticate, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository so requests, the District shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate Bonds evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (ii) to arrange for another qualified securities depository to maintain custody of a single Bond evidencing such Bonds, all at the District's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bonds and all notices with respect to such Bonds shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed in writing by the Depository.

Section 2.12. Limitations on Future Obligations Secured by Net Revenues .

(a) No Obligations Superior to Debt Service Payments. In order to protect further the availability of the Net Revenues and the security for the Debt Service Payments and any Parity Obligations, the District hereby agrees that the District shall not, so long as any Bonds are outstanding, issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the Debt Service Payments or such Parity Obligations. The District may issue or incur Subordinate Debt as provided herein.

(b) Parity Obligations. The District further covenants that, except for bonds issued to fully or partially refund the Bonds or Parity Obligations, the District shall not issue or incur any Parity Obligations unless:

(i) The District is not in default under the terms of this Indenture; and

(ii) Net Revenues , calculated on sound accounting principles, as shown by the books of the District for the latest Fiscal Year or any more recent twelve (12) month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligation is issued or incurred, as shown by the books of the District, plus, at the option of the District, the additional allowance described below, shall have amounted to at least 1.25 times the sum of the Debt Service Payments coming due and payable in any future Fiscal Year and the annual debt service for such Fiscal Year on all Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations in the Fiscal Year in which such sum is the greatest.

Either or both of the following items may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii):

(A) an allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be constructed or acquired with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been constructed or acquired from moneys from any source but which, during all or any part of such Fiscal Year or 12-month period, were not in service, all in an amount equal to the estimated additional annual Net Revenues to be derived from such additions, improvements and extensions during the first full Fiscal Year following the completion thereof, all as shown by a certificate of the District, may be added to such Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii);

(B) an allowance for earnings arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year or 12-month period, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, as shown by a certificate of the District.

The provisions of subsection (b)(ii) 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 the reserve fund deposit required pursuant to subsection (b)(iii) of this Section) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, if (i) at the time of the incurring of such Parity Obligations, the District certifies in writing that maximum annual debt service on such Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds or Parity Obligations to be refunded, and (ii) the final maturity of such Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

In order to maintain the parity relationship of the Debt Service Payments to all Parity Obligations permitted hereunder, the District covenants that all payments in the nature of principal and interest or reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Debt Service Payments, and reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Debt Service Payments and not prior thereto; provided that the District shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Debt Service Payments on a timely basis. In such event, the District shall make Debt Service Payments and payments on such Governmental Loan on a pro rata basis.

(c) Treatment or Reimbursements. If interest on any Parity Obligation is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest payments with respect to such Parity Obligations shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations required in subsection (b)(ii) above.

(d) Subordinate Obligations. The District may issue bonds or other obligations secured by a lien on Gross Revenues or Net Revenues which is subordinate to the lien established under this Indenture, upon such terms and in such principal amounts as the District may determine.

ARTICLE III

PROCEEDS OF BONDS; PLEDGE OF NET REVENUES

Section 3.01. Delivery of Bonds; Payment of Debt Service; Pledge of Net Revenues. The Trustee is hereby authorized to authenticate the Bonds and upon receipt of the proceeds of sale thereof deliver the Bonds to the initial purchaser thereof upon receipt of a Certificate of the District.

All of the Net Revenues are pledged hereunder for the payment of Parity Obligations, including the Bonds, and all moneys on deposit in the Payment Fund established under the Indenture are hereby irrevocably pledged, charged and assigned to the punctual payment of the Bonds, and except as otherwise provided herein, the Net Revenues and such other funds shall not

be used for any other purpose so long as any of the Bonds remain Outstanding. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Debt Service Payments, the Bonds and any Parity Obligations in accordance with the terms hereof.

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 and the Bonds, nor shall any other funds or property of the District be liable for the payment of the Debt Service Payments, the Bonds or 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 to the District or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the District by the Trustee. The District hereby acknowledges that its obligation to make Debt Service Payments hereunder is absolute and unconditional, free of deductions and without abatement, offset, recoupment, diminution or set-off whatsoever. 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 with respect to the Bonds, (b) will perform and observe all other agreements contained in this Indenture, and (c) will not terminate this Indenture for any cause, 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 Water System, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture.

Nothing contained in this Section shall be construed to release the Trustee from the performance of any of the agreements on its part contained herein, and in the event the Trustee shall fail to perform any such agreements, the District may institute such action against the Trustee as the District may deem necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the preceding paragraph. The District may, however, at the District's own cost and expense and in the District's own name prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District's rights hereunder.

Section 3.02. Depositing of Proceeds of Bonds and Other Amounts. On the Closing Date the Trustee shall receive $_____ (principal amount of the Bonds of $_____), less an underwriter's discount of $_____, [less net original issue discount] [plus net original issue

premium] of $_____) and less the amount wired directly to the bond insurer as provided herein as the purchase price of the Bonds. A portion of the purchase price of the Bonds in the amount of $_____ shall be wired directly to the bond insurer for the payment of the premiums for a bond insurance policy for the Bonds and surety bond to satisfy the Reserve Requirement. The Trustee shall deposit $_____ of the Bond proceeds to the Reserve Fund and $_____ of the Bond proceeds to the Delivery Costs Fund, which funds are hereby established and shall be held hereunder, and shall transfer $_____ of the Bond proceeds to the Government (which is the holder of the Prior Obligations) to refund the outstanding Prior Obligations in full. The Trustee may establish a temporary fund or account in its records to facilitate such deposits or transfers.

Section 3.03. Deposit of Debt Service Payments. All Debt Service Payments with respect to the Bonds shall be paid directly by the District to the Trustee on the applicable Due Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms hereof and shall be deposited by it as and when received in the Debt Service Account of the Payment Fund, which fund the Trustee hereby agrees to establish and maintain as provided in Section 3.04 so long as any Bonds are Outstanding.

The Net Revenues of the Water System shall be received and deposited by the District in the Debt Service Fund held by the District. On or before each Due Date, the District shall withdraw from the Debt Service Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds pursuant to Article IX and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund on the following dates and in the following amounts:

(1) Interest Component. On or before each Due Date, an amount which is equal to the amount to become due on such Bonds on the next succeeding Interest Payment Date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

(2) Principal Component. On or before each Due Date, an amount which, together with any moneys already on deposit with the Trustee and available to make such payment, is not less than the entire amount of the next succeeding maturing principal or mandatory sinking account payment coming due on the Bonds after such date; provided, however, that the District may be entitled to certain credits on such payments as set forth above.

Section 3.04. Payment Fund. Within the Payment Fund the Trustee shall establish a Debt Service Account and a Redemption Account. Debt Service Payments made by the District shall be deposited by the Trustee in the Debt Service Account. Such payments shall be net of amounts already on deposit therein that are in excess of the amount required to accumulate therein pursuant to Section 3.01. The Trustee shall transfer the money contained in the Debt Service Account and the Redemption Account at the following respective times in the following

respective accounts in the following order of priority in the manner hereinafter provided, each of which accounts the Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding, and the money in each of such accounts shall be disbursed only for the purposes and uses hereinafter authorized:

(a) Debt Service Account. All moneys in the Debt Service Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds on each Interest Payment Date or mandatory redemption dates, as applicable.

(b) Redemption Account. The Trustee, on the optional redemption date specified in the Certificate of the District filed with the Trustee at the time that any moneys to accomplish any such optional redemption are paid to the Trustee, shall deposit in the Redemption Account the amount of such payment. All money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal on the Bonds to be optionally redeemed on their respective redemption dates.

Section 3.05. Use of Money in the Delivery Costs Fund.

(a) The Trustee shall disburse funds from the Delivery Costs Fund to pay Delivery Costs only upon receipt of a signed certificate (stating the amount to be disbursed and the party or parties being paid) approved by the Authorized Officer of the District and accompanied by an invoice or statement for each such amount.

(b) Upon payment of all Delivery Costs, which shall be determined by a certificate to that effect by an Authorized Officer of the District delivered to the Trustee, or upon the date occurring four (4) months after the Closing Date, whichever occurs first, the Trustee shall transfer all funds remaining in the Delivery Costs Fund to the Debt Service Account, and the Delivery Costs Fund shall thereupon be closed.

Section 3.06. Receipt and Deposit of Gross Revenues; Revenue Fund.

The District covenants and agrees that all Gross Revenues, when and as received, will be received and held by the District in trust for the benefit of Bond owners and payments with respect to Parity Obligations, and will be deposited by the District in the Revenue Fund (which the District hereby covenants and agrees to maintain so long as any Bonds remain Outstanding) and will be accounted for and held in trust for the benefit of Bond owners and for payments with respect to Parity Obligations in the Revenue Fund. All Gross Revenues shall be disbursed, allocated and applied solely to the uses and purposes set forth in this Article III.

All Gross Revenues in the Revenue Fund shall be set aside by the District or deposited by the District with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

(1) Operation and Maintenance Expenses. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to pay all Operation and Maintenance Expenses (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Expenses, the payment of

which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) Debt Service Funds. Debt Service Payments payable pursuant to Section 3.01 hereof and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. Payments required pursuant to Section 3.11 hereof, or with respect to Parity Obligations, to replenish debt service reserve funds established for Parity Obligations shall be made in accordance with the terms hereof and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the District, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations.

The parties hereto acknowledge that although all Parity Obligations are secured equally and ratably by applicable Net Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The District shall make such transfers from the Revenue Fund necessary to effectuate such obligations' parity claim on such Net Revenues contemplated hereby.

Section 3.07. Held in Trust. The moneys and investments held by the Trustee under Sections 3.03, 3.04 and 3.05 are irrevocably held in trust for the benefit of the Owners, and for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Indenture, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Trustee or the District.

Section 3.08. Commingling of Moneys in Funds. The Trustee is directed by the District to commingle any of the funds held by it pursuant to this Indenture into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee.

Section 3.09. Liability of District Limited. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than Net Revenues legally available therefor in the Revenue Fund and the other funds provided herein for the payment of the Debt Service Payments or for the performance of any agreements or covenants contained herein required to be performed by it. The District may, however, but shall not be required to, advance moneys for any such purpose so long as such

moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Debt Service Payments and the other amounts due hereunder is a special obligation of the District payable solely from the moneys legally available therefor hereunder, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 3.10. Arbitrage Covenant. The District hereby covenants with the Owners of the Bonds that, notwithstanding any other provision of this Indenture, it will make no use of the proceeds of the Bonds which would cause the Bonds or the Prior Obligations to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended. The Trustee hereby covenants with the Owners of the Bonds that it will comply with the express provisions of this Indenture and will follow the written directions of the District and, notwithstanding anything to the contrary contained herein, so long as the Trustee shall have complied with the written instructions of the District, if any, with respect to making any rebate to the United States of America, the Trustee shall conclusively be deemed to have complied with its obligations hereunder and shall not be liable if the Bonds become arbitrage bonds.

Section 3.11. The Reserve Fund; Replenishment. The Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding the Reserve Fund. The Reserve Fund shall initially be funded, and shall continuously be funded, in an amount equal to the Reserve Requirement. The Trustee shall hold the Reserve Fund in trust and shall apply moneys in the Reserve Fund in accordance with the following provisions.

If, two (2) Business Days prior to any Interest Payment Date, the money in the Payment Fund does not equal the amount required to be paid to the Bond Owners on such date, the Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency.

If, following valuation or calculation thereof, the amount available and contained in the Reserve Fund (valued as provided in Section 10.09 hereof) exceeds the Reserve Requirement and if the Trustee does not have actual knowledge of an Event of Default hereunder, the Trustee shall withdraw the amount of such excess from the Reserve Fund. The Trustee shall deposit such amount in the Debt Service Account. For purposes of determining the amount on deposit in the Reserve Fund, the Trustee shall make a valuation of the Reserve Fund as of September 1 of each year. Except for such withdrawals, all money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making the payments of principal and interest on the Bonds in the event that amounts on deposit in the Payment Fund are insufficient for such purposes.

If amounts on deposit in the Reserve Fund shall, at any time, be less than the applicable Reserve Requirement, such deficiency shall be made up by the District from the first available Net Revenues after required payment of Debt Service Payments over a twelve (12) month

period, in twelve (12) substantially equal payments, and the Reserve Fund shall be valued monthly until amounts on deposit therein equal the Reserve Requirement.

In lieu of depositing and maintaining moneys in the Reserve Fund, the District may deliver to the Trustee for deposit in the Reserve Fund an irrevocable surety bond issued by a bond insurance company with a credit rating or claims-paying ability at the time of such delivery in one of the two highest rating categories of S&P or Moody's. Any such surety bond shall (i) permit the Trustee to obtain amounts thereunder which, together with any amounts on deposit in the Reserve Fund, are not less than the Reserve Requirement and (ii) shall contain no restrictions on the ability of the Trustee to receive payment thereunder other than a certification by the Trustee that the funds drawn thereunder are to be used to pay Debt Service on the Bonds. Such surety bond shall provide that the Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which the Reserve Fund moneys may be applied. The Trustee shall make a drawing under such surety bond (a) whenever moneys are required for the purposes for which Reserve Fund moneys may be applied and (b) 30 days prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys are available in the Reserve Fund in the amount of the Reserve Requirement.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Terms of Redemption.

(a) Extraordinary Casualty Redemption. The Bonds shall be subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Water System, which Net Proceeds are deposited in the Payment Fund and credited towards the prepayment of the Debt Service Payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

(b) Optional Redemption. The Bonds maturing on September 1, 20__, shall be subject to redemption prior to their stated maturity, at the option of the District, in whole, or in part by lot (in such amounts and of such maturities as may be specified by the District, or if the District fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) on any date on or after September 1, 20__, from any source of available moneys, at a redemption price equal to the principal amount thereof, without premium, plus interest accrued thereon to the date fixed for redemption.

(c) Sinking Fund Redemption of Bonds. The Bonds maturing September 1, 20___ shall be subject to mandatory sinking fund redemption in part, by lot, commencing on September 1, 20__, from mandatory sinking fund payments set aside in the Debt Service Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	Principal Amount To Be Redeemed

The Bonds maturing September 1, 20___ shall be subject to mandatory sinking fund redemption in part, by lot, commencing on September 1, 20__, from mandatory sinking fund payments set aside in the Debt Service Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	Principal Amount To Be Redeemed

If some but not all of such Bonds have been redeemed pursuant to subsection (b) above the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the District (notice of which determination shall be given by the District to the Trustee).

(d) Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such call and redemption, moneys of the District may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the District prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date.

Section 4.02. Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed (other than pursuant to sinking fund redemption), the Bonds to be redeemed shall be selected by the Trustee among maturities as designated in writing by the District and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the District, the Bonds may be redeemed by any maturity or maturities selected by the District, and by lot within a maturity. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of $5,000.

In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

Section 4.03. Notice of Redemption. When redemption is authorized or required pursuant to this Article, the Trustee shall give notice (the "Redemption Notice"), at the expense of the District, of the redemption of the Bonds. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable. Such notice in respect of optional or extraordinary casualty redemption shall not be provided unless there has been deposited with the Trustee funds sufficient to pay such redemption price (except in the case of redemption resulting from the issuance of refunding obligations).

Subject to the provisions stated above, the Trustee shall take the following actions with respect to such Redemption Notice:

(a) (i) At least twenty (20) but not more than sixty (60) days prior to the redemption date or (ii) immediately upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds, the Trustee shall cause Redemption Notices to be given to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register maintained by the Trustee.

(b) At least twenty (20) days prior to the redemption date, such Redemption Notice shall be given to each of the Securities Depositories.

(c) At least twenty (20) days prior to the redemption date, such Redemption Notice shall be given to one of the Information Services selected by the District.

Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds. Each check or other payment method used by the Trustee for the purpose of redeeming Bonds shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Prior to the date that the redemption notice for optional redemption under Section 4.01(b) hereof is first mailed as aforesaid, (a) funds shall be placed with the Trustee to pay the principal of such Bonds, the accrued and unpaid interest thereon to the redemption date and the premium, if any, thereon, or (b) such notice of redemption shall state that any redemption is conditional on such funds being deposited with the Trustee on the redemption date and that failure to make such a deposit shall not constitute an event of default under the Indenture. If such conditions are not satisfied or such funds are not so deposited by such date, such Bonds shall not be subject to redemption and the holders thereof shall have the same rights as if no such notice had been given. In such event, the Bond Trustee shall promptly give notice thereof to the owners of such Bonds by first class mail, postage prepaid.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Trustee shall authenticate and deliver to the Owner thereof a new Bond or Bonds equal to the unredeemed principal amount of the Bond surrendered.

Section 4.05. Effect of Redemption. Notice having been given as aforesaid, and the moneys for the redemption, including interest to the applicable redemption date of the Bonds to be redeemed, having been set aside in the Redemption Account or Debt Service Account, the portion of Bonds to be redeemed shall become due and payable on said redemption date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Bonds shall be paid at the unpaid principal amount and premium, if any, with respect thereto, plus any unpaid and accrued interest to said redemption date.

If, on said redemption date, moneys sufficient for the redemption of all the Bonds to be redeemed, together with interest to said redemption date shall be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said redemption date, interest with respect to the portion of Bonds to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said redemption date, interest with respect to such portion of Bonds shall continue to be payable until paid at the same rates as they would have been payable had they not been called for redemption. All moneys held by or on behalf of the Trustee for the redemption or payment of particular Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed or paid for the lesser of two (2) years or the period ending one day prior to the date such moneys would escheat to the State. Subject to any applicable escheat laws, after the earlier of two (2) years or the period ending one day prior to the date such moneys would escheat to the State, the Trustee will pay over to the District the unclaimed money for the years to which such money applies, if any, and thereafter the Owners of such Bonds shall be entitled to payment on their Bonds only from the District and only from the amounts so paid to the District. The Trustee shall have no obligation to determine what applicable escheat law applies, but shall only be required to follow the District's written instructions to comply with this Section.

ARTICLE V

COVENANTS OF THE DISTRICT AND THE TRUSTEE

Section 5.01. Compliance with Indenture. The District will not suffer or permit any material default by it to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by it.

Section 5.02. Observance of Laws and Regulations. The District will truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Water System by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District with respect to the Water System to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 5.03. Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Owner holding at least 25% in principal amount of the Bonds from time to time, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System, whether now existing or hereafter developing and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Section 5.04. Accounting Records and Statements. The Trustee will keep proper accounting records in which accurate entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Debt Service Payments, and such accounting records shall be available for inspection by the District or any Owner or his or her agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee. So long as any Bonds are Outstanding, the Trustee will furnish each month to the District and any Owner who may so request in writing (at the expense of such Owner) a statement covering the receipts, deposits and disbursements of the Debt Service Payments for the preceding monthly period; provided, that the Trustee shall not be obligated to deliver a statement for any fund or account that (i) has a balance of zero, or (ii) has not had any activity since the last reporting date.

Section 5.05. Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by this Indenture.

Section 5.06. Against Encumbrances. The District hereby covenants that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Bonds. The District will not make any pledge of or place any lien on the Net Revenues, provided that the District may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations, or subordinate to the pledge of Net Revenues herein.

Section 5.07. Against Sale or Other Disposition of Property. Except in the ordinary course of business, the District will not sell, lease, encumber or otherwise dispose of the Water System or any part thereof; provided however, any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof. The proceeds (if any) of such sale or exchange, if less than $25,000 in a Fiscal Year, shall be deposited in the Revenue Fund. The proceeds (if any) of such sale or exchange, if greater than $25,000 in a Fiscal Year, shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of facilities constituting part of the Water System, or (b) to the extent not so used, be paid to the Trustee to be applied to pay or redeem the Bonds or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee.

The District will not enter into any agreement or lease which would materially impair the rights of the Owners or the operation of the Water System.

Section 5.08. Against Competitive Facilities. Except for any utility system existing as of the date hereof, the District will not, to the extent permitted by law, acquire, 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, authority, District or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Water System; provided, however, that the District may assign all or a portion of the Water System to another entity upon delivery to the Trustee of an opinion of nationally recognized bond counsel that such assignment will not adversely affect the tax-exempt status of the Bonds, and provided such entity assumes the obligations of the District hereunder.

Section 5.09. Tax Covenants. The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest on the Bonds to become includable in gross income for federal income tax purposes. To that end, the District hereby makes the following specific covenants:

(a) The District hereby covenants that it shall not make or permit any use of the proceeds of the Bonds that may cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The District covenants that the proceeds of the Bonds will not be used as to cause the proceeds on the Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(c) The District covenants not to take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

Section 5.10. Operation of the Water System. The District covenants and agrees to operate, or cause to be operated, the Water System in accordance with customary standards and practices applicable to similar facilities.

Section 5.11. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the District or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the District shall not be obligated to make such payment so long as the District contracts such payment in good faith.

Section 5.12. Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the District is a party thereto.

Section 5.13. Insurance. So long as the Bonds are Outstanding, the District shall at all times maintain insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System, either in the form of self-insurance or with responsible insurers. The District shall also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners, either in the form of self-insurance or with responsible insurers. The Trustee is not responsible for the adequacy of such insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Water System shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water System, and to the extent not so applied, shall be paid to the Trustee to be applied to redeem the Bonds under Section 4.01(a) hereof or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee. The District covenants that it will commence such replacement, repair, restoration, modification or improvement or indicate that such replacement, repair, restoration, modification or improvement is not economically feasible within 180 days of receipt of such Net Proceeds.

Section 5.14. Books and Accounts; Financial Statements . The District shall keep proper books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The District shall cause the books and accounts of the Water System to be audited annually by an Independent Accountant, not more than two hundred ten (210) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Owners at the office of the District.

The Trustee shall not be required to review, and shall not be deemed to have notice of, the contents of the books and records of the District, any financial statement or statement of insurance coverage delivered to the Trustee hereunder, it being expressly understood that the Trustee shall only receive and hold such documents as repository for examination and copying by any Owner at such Owner's expense during business hours on Business Days.

Section 5.15. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Water System or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the District shall not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Section 5.16. Collection of Rates and Charges. (a) The District hereby covenants that it shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

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

(ii) All Debt Service Payments and all payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority;

(iii) Amounts necessary to bring the amount of funds in the Reserve Fund up to the Reserve Requirement within one year of a draw thereon; and

(iv) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which 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 services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 125% of the amount described in the preceding clause (ii) for such Fiscal Year.

(b) For purposes of calculating the interest on any Outstanding Parity Obligations, if interest on any Parity Obligations is reasonably anticipated to be reimbursed to or on behalf of the District by the United States of America, then interest on such Parity Obligations shall be excluded to the extent such interest is reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations set forth in (a) above.

(c) If, in any Fiscal Year, charges for the services and facilities of the Water System which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues insufficient to meet the covenant set forth in paragraph (a), the District covenants and agrees to employ an independent consultant to make recommendations as to a revision of the rates, fees and charges of the Water System or the methods of operation of the Water System that will result in producing Net Revenues in the amount specified in paragraph (a) of this Section 5.16. Copies of the recommendations of such consultant shall be filed with the Trustee.

The District covenants and agrees that it shall, promptly upon its receipt of such recommendations from such consultant, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the District Board of Directors that such recommendations, in whole or in part, are in the best interests of the District, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. In the event that the District fails to comply with such recommendations, subject to the applicable requirements or restrictions imposed by law and to the determination of the District Board of Directors of the District that such recommendations are in the best interests of the District, or its assignee, may, in addition to the rights and remedies elsewhere set forth herein, and shall, upon the written request of the Owners of a majority in principal amount of the Bonds then Outstanding, and being indemnified to its satisfaction therefor, institute and prosecute an action or proceeding in a court of competent jurisdiction to compel the District to comply with the recommendations and requirements of this paragraph (c). If the District complies in all material respects with the reasonable recommendations of the consultant in respect to said rates, fees, charges and methods of operation or collection, the District will be deemed to have complied with the covenants contained in this Section 5.16 notwithstanding that Net Revenues shall be less than the amount required under this Section 5.16 for such Fiscal Year; provided, however, that such rates, fees, charges and methods of operation or collection shall produce Net Revenues equal to at least 100% of (i) the Debt Service Payments coming due and payable during such Fiscal Year, and (ii) all payments required with respect to Parity Obligations; provided further, that this sentence shall not be construed as in any way excusing the District from taking any action or performing any duty required under this Indenture or be construed as constituting a waiver of any other Event of Default.

Section 5.17. Eminent Domain Proceeds. Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, at the election of the District (evidenced by a Written Certificate of the District filed with the Trustee) shall either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be paid to the Trustee to be applied to redeem the Bonds under Section 4.01(a) hereof or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee.

Section 5.18 Continuing Disclosure to Owners The District and the Trustee shall comply with and carry out all of their respective duties under the Continuing Disclosure Agreement. Notwithstanding any other provisions of this Indenture, failure of the District or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee shall, at the written direction of any Participating

Underwriter (as defined in the Continuing Disclosure Agreement) or the holders of at least 25% aggregate principal amount of Outstanding Bonds, but only to the extent indemnified for its fees and expenses, including those of its attorneys, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Section 5.19. Rebate of Excess Investment Earnings to United States.

(a) Obligation to Calculate Excess Investment Earnings. The District shall calculate or cause to be calculated, and shall provide or cause to be provided written notice to the Trustee of, the excess investment earnings (as defined in the Code, "Excess Investment Earnings") at such times and in such manner as may be required pursuant to the Code. The District shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations is given promptly to the Trustee.

(b) Rebate to United States. The District agrees to deposit with the Trustee, promptly upon the receipt of any calculations made pursuant to the preceding subsection (a), the amount of Excess Investment Earnings so calculated. The Trustee shall deposit all amounts paid to it for such purpose by the District in the Rebate Fund, which fund the Trustee hereby agrees to establish when required to deposit any funds therein and maintain so long as any Bonds are Outstanding. The Trustee shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the District for such purpose from time to time. Payments to the United States of America shall be made to the address prescribed by the Code as the same may be from time to time in effect with such reports and statements as may be prescribed by the Code. Following payment in full to the United States of America of all amounts due and owing under this subsection (b) and under the Code, the Trustee shall withdraw from the Rebate Fund and transfer to the District all amounts remaining on deposit in the Rebate Fund.

(c) Investment Transactions. The District shall assure that Excess Investment Earnings are not paid or disbursed except as required in this Section 5.19. To that end the District shall assure that investment transactions are on an arm's-length basis. In the event that Permitted Investments consist of certificates of deposit or investment contracts, investment in such Permitted Investments shall be made in accordance with the procedures described in the Code.

(d) Maintenance of Records. The District shall keep, and retain for a period of six (6) years following the retirement of the Bonds, records of the determinations made pursuant to this Section 5.19.

(e) Engagement of Professional Services. In order to provide for the administration of this Section 5.19, the District may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the District may deem appropriate.

(f) Modification of this Section. Any of the provisions of this Section 5.19 may be amended, modified or deleted in any manner whatsoever in the event that the District

shall cause to be filed with the Trustee written directions making such amendment, modification or deletion, which written directions are accompanied by an opinion of Bond Counsel stating that such amendment, modification or deletion will not cause interest on the Bonds to be includable in gross income of the Bondowners for federal income tax purposes.

ARTICLE VI

DEFAULT AND LIMITATIONS OF LIABILITY

Section 6.01. Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities. If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the District of any Debt Service Payment when and as the same shall become due and payable;

(b) default shall be made by the District in the performance of any of the agreements or covenants contained herein required to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee; except that, if such failure may be remedied but not within such 60-day period and if the District has taken all action reasonably possible to remedy such default within such 60-day period, such default shall not become an Event of Default for so long as the District shall diligently proceed to remedy the default.

(c) the District shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, subject to the provisions of Section 6.02, exercise any remedies available to the Trustee and the Bondowners in law or at equity.

The Trustee shall notify the District promptly of any default under Section 6.01(a) hereof. Upon the occurrence of an Event of Default hereunder, the Trustee may declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with Section 6.07 hereof.

This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and

before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee, including those of its attorneys, and any and all other defaults known to the District (other than in the payment of such principal amount of the Bonds and the accrued interest thereon 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, by written notice to the District, may rescind and annul such declaration and its consequences; but 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 6.02. Other Remedies of the Trustee. The Trustee may (subject to the receipt of indemnity as provided herein):

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the District, or any board member, officer or employee thereof, and compel the District or any such board member, officer or employee to perform and carry out its or his or her duties under applicable law and the agreements and covenants contained herein required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Bondowners hereunder;

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or hereunder; or

(d) by suit in equity upon the happening of an Event of Default require the District and its officers and employees to account as the trustee of an express trust.

Section 6.03. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners 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 of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 6.04. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

Section 6.05. No Liability by the Trustee to the Owners. Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the District, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Debt Service Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained herein.

Section 6.06. Limitation on Owners' Right to Bring Suit. No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to this Indenture, or for the appointment of a receiver or trustee or for any other remedy hereunder, at law or in equity, unless:

(1) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(2) the owners of not less than a majority in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the lien of this Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Bonds and Parity Obligations. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and hereof and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of this Indenture and such rights shall not be impaired without the consent of such Owner.

Section 6.07. Application of Funds Upon Default. All monies received by the Trustee or by any receiver pursuant to any right given or action taken under the provisions of this Article VI, and any other funds then held by the Trustee, shall, after payment of the reasonable costs and

fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee (including fees and expenses of its attorneys and advisors), be deposited in the Debt Service Account and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the funds and accounts maintained by the Trustee under Article III hereof, shall be applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and any Parity Obligations, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds and any Parity Obligations which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds and any Parity Obligations due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds and any Parity Obligations, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds or any Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever the Trustee shall apply such moneys (which shall not include the application of moneys upon the occurrence of any acceleration pursuant to the provisions hereof), it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the special record date in accordance with Article II hereof. The Trustee shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 6.08. Rights of the Owners of Parity Obligations. Notwithstanding anything in this Article VI to the contrary, it is hereby acknowledged and agreed that the rights of the Trustee and the Owners hereunder in and to the Net Revenues and the Water System shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of this Article VI, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

ARTICLE VII

THE TRUSTEE

Section 7.01. Trustee; Duties, Removal and Resignation. By executing and delivering the Indenture, the Trustee accepts the duties and obligations of the Trustee provided in the Indenture, but only upon the terms and conditions set forth in the Indenture.

The District, in its sole discretion, or the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the District shall appoint a successor Trustee, but any such successor shall be a bank, national banking association or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Trustee may at any time resign by giving written notice to the District and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the District an appropriate court having jurisdiction to appoint a successor Trustee or to resign. Subject to the prior sentence, any resignation or removal of the Trustee shall not become effective until written acceptance of appointment by the successor Trustee under the Indenture.

Any Trustee which shall resign or be removed pursuant to this Section shall be entitled to compensation in accordance with Section 7.02 and to reimbursement for all reasonable and proper expenses and advances incurred and not previously reimbursed for its activities in connection with the Indenture and for any indemnification due pursuant to the Indenture and not previously paid. Any Trustee which resigns or is removed, upon payment of its unpaid

compensation and expenses hereunder, shall fully discharge all the right, title and interest of the retiring Trustee and amounts on deposit hereunder shall vest in said successor Trustee, and such retiring Trustee shall promptly pay over, assign and deliver to the successor Trustee any money or other property on deposit pursuant hereto then held by such Trustee, and deliver any and all records, or copies thereof, in respect of the Trustee which it may have.

Section 7.02. Compensation of the Trustee. The District shall pay from time to time, upon receipt of a statement, to the Trustee reasonable compensation for the Trustee's services and shall reimburse the Trustee for all its reasonable advances and expenditures incurred by it in the exercise and performance of its powers and duties under the Indenture. The lien of the Trustee on amounts held by it under the Indenture for its services rendered under the Indenture shall be superior to the rights of the Bond Owners to receive scheduled payments of principal and interest with respect to their Bonds; provided that the Trustee shall have no lien on moneys in the Redemption Account.

The District shall hold harmless and indemnify the Trustee from and against all costs, claims, expenses and liabilities incurred by or asserted against the Trustee in the performance of its duties under this Indenture or any related document, including any such reasonable costs, claims, expenses (including legal fees and expenses) and liabilities incurred in the course of defending itself against any claims or actions or enforcing any remedies under this Indenture or any related document. Any such indemnity shall not extend to any costs, claims, expenses or liabilities adjudicated to have been caused by the negligence or willful misconduct of the Trustee. The indemnification of the Trustee under this Indenture shall extend to its directors, officers, employees and agents. The obligations of the District under this Section shall survive the payment of the Bonds and the discharge of this Indenture, and the resignation or removal of the Trustee.

Section 7.03. Protection to Trustee. The District shall indemnify, protect and hold the Trustee harmless and the Trustee shall incur no liability for acting upon any notice, resolution, consent, order, certificate, report, certificate or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee, in its discretion, may consult with counsel, who may be counsel to the District, with regard to legal questions, and the advice or opinion of such counsel, in the absence of negligence or willful misconduct on the part of the Trustee, shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith in accordance therewith.

Whenever in the administration of its duties under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter.

The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds issued pursuant to the Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and its affiliates, either as sponsor, advisor, principal or agent, may also engage in or be interested in any financial or other transaction with the District, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or other obligations of the District as freely as if it were not Trustee under the Indenture.

The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication of the Bonds, shall be taken and construed as made by and on the part of the District, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof. The Trustee shall not be deemed to make any representations with respect to the security afforded by this Indenture.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. The Trustee shall be fully reimbursed by the District for reasonable expenses incurred in connection with the performance of its obligations under the Indenture. Upon any default by, or misconduct of, any agent, attorney or receiver appointed by the Trustee, the Trustee shall fully pursue all remedies available to it against such attorney, agent or receiver, and the proceeds of the exercise of such remedies shall be used to reimburse the District for any loss it may have suffered as a result of the default or misconduct of such agent, attorney or receiver.

Before taking any remedial action hereunder the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or willful misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Bonds.

The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in this Indenture. 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 their exercise, as a reasonable person would exercise or use in the conduct of such person's own affairs.

The Trustee shall not be deemed to have knowledge of an Event of Default (except in connection with a failure of the District to make Debt Service Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default.

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

No provision of this Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights hereunder.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

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 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.

The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or

defeasance of the Bonds. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers and employees of the Trustee.

Section 7.04. Payment Limited. All payments to be made by the Trustee under and pursuant to this Indenture shall be made only from the corpus, income and proceeds of the amounts on deposit pursuant hereto and only to the extent that the Trustee shall have received sufficient contribution, income and proceeds in accordance with the terms of this Indenture.

Section 7.05. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under Section 7.01 hereof, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 7.06. Funds and Accounts. The Trustee may establish such funds and accounts as it reasonably deems necessary or appropriate to perform its obligations hereunder.

ARTICLE VIII

AMENDMENT OF OR SUPPLEMENT TO INDENTURE

Section 8.01. Amendment or Supplement by Consent of Owners. The Indenture may be amended in writing by agreement between the District and the Trustee, but no such amendment or supplement shall (i) reduce the rate of interest evidenced by the Bonds or extend the time of payment of such interest or reduce the amount of principal thereof or extend the Maturity Date thereof without the prior written consent of the Owner thereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

This Indenture and the rights and obligations of the District, of the Trustee and the Owners of the Bonds 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, but without the consent of any Bond Owners, if the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the District other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the District;

(b) to 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;

(c) 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;

(d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds; or

(e) to authorize the issuance of Parity Obligations.

In the event of any such amendment or supplement, copies of such amendment or supplement and any other documents relating thereto shall be provided by the District to Moody's and S&P (provided such rating agencies are currently rating the Bonds, or any Parity Obligations) at least fifteen (15) days prior to the effective date thereof.

Section 8.02. Disqualified Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in this Article VIII, and shall not be entitled to consent to or take any other action provided in this Article VIII, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for herein shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this Section 8.02. Upon request of the Trustee, the District shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

ARTICLE IX

DEFEASANCE

Section 9.01. Defeasance. Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, before maturity, money which, together with the amounts which are then on deposit in the Payment Fund and available therefor, is fully sufficient to pay such Bonds, including all principal and interest; or

(c) by depositing with the Trustee, under an escrow deposit and trust agreement, cash, non-callable Federal Securities or pre-refunded non-callable municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof) (the "Defeasance Obligations") in such amount as an Independent Certified Public Accountant shall determine will, together with the interest to accrue thereon and moneys then on deposit (or a pro

rata share thereof) in the Payment Fund available therefor, together with the interest to accrue thereon, be fully sufficient to pay and discharge such Bonds (including all principal and interest) at or before their respective maturity dates.

In the event of a refunding as described in paragraph (c) above (i) the District shall cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay such Bonds in full on the maturity or redemption date (the "Verification"), (ii) the escrow instructions shall provide that (A) substitution of a Defeasance Obligation shall not be permitted except with another Defeasance Obligation and upon delivery of a new Verification and (B) reinvestment of a Defeasance Obligation shall not be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) there shall be delivered an opinion of nationally recognized bond counsel to the effect that such Bonds are no longer "Outstanding" under the Indenture. Each Verification and defeasance opinion shall be addressed to the District, the Trustee, the escrow agent, if any, and any other parties as are deemed appropriate by the District at the time of such refunding. In the event a forward purchase agreement will be employed in the refunding, such agreement shall be accompanied by such opinions of counsel.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the District and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon and the obligation of the District to indemnify and pay the Trustee in accordance with Sections 7.02 and 7.03 hereof.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a), (b) or (c), which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the District, shall be paid over to the District pursuant to written instruction from an Authorized Officer of the District and delivery of a certificate of a certified public accountant that such funds are not required to be paid to the Owners.

Section 9.02. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee shall pay such amounts to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for interest and principal represented by such Bonds; provided, however, that before being required to make any such payment to the District, the Trustee may, at the expense of the District, cause to be published once a week for two (2) successive weeks in a financial newspaper a notice that such money remains unclaimed and that after a date named in such notice, which date shall not be less

than thirty (30) days after the date of the first publication of such notice, the balance of such money then unclaimed will be returned to the District.

ARTICLE X

MISCELLANEOUS

Section 10.01. Benefits of Indenture Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained herein required to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

Section 10.02. Successor Deemed Included in all References to Predecessor. Whenever either the District, the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District, the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the District, the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.03. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his or her attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which she purports to act, that the person signing such declaration, request or other instrument or writing 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, or by such other proof as the Trustee or the paying agent, as the case may be, may accept which it may deem sufficient.

Any declaration, request or other instrument in writing of the Owner of any Bond shall bind all future owners of such Bond with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Section 10.04. Waiver of Personal Liability. No board member, officer or employee of the District shall be individually or personally liable for the payment of the interest or principal the Bonds, but nothing contained herein shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.05. Acquisition of Bonds by the District. All Bonds acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Section 10.06. Content of Certificates. Every Certificate of the District with respect to compliance with any agreement, condition, covenant or term contained herein shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions herein relating thereto; (b) a statement that, in the opinion of the signers they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (c) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the District may be based, insofar as it relates to legal matters, upon an opinion of counsel unless the person making or giving such certificate knows that the opinion of counsel with respect to the matters upon which such certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any opinion of counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the District, upon a representation by an officer or officers of the District unless the counsel executing such opinion of counsel knows that the representation with respect to the matters or upon which his or her opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Section 10.07. Notice by Mail. Any notice required to be given hereunder by mail to any Owners of Bonds shall be given by mailing a copy of such notice, first class postage prepaid, to the Owners of such Bonds at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 not less than thirty (30) days nor more than sixty (60) days following the action or prior to the event concerning which notice thereof is required to be given unless this Indenture expressly provides a different provision; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and failure to receive any such notice shall not affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Section 10.08. Funds. Any fund or account required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with industry practice and with due regard for the protection of the security of the Bonds and the rights of the owners.

Section 10.09. Investments.

(a) Amounts on deposit in any fund or account created pursuant to this Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement hereunder, in accordance with such written directions as the District may from time to time provide to the Trustee. Investment directions shall be received at least two (2) Business Days prior to the date of making the investment. If no such direction has been received by the Trustee in sufficient time, in the judgment of the Trustee to comply with such instructions the Trustee may invest

such amounts in Permitted Investments of the type described in paragraph (4) 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 investment directions from the District specifying a specific money market fund and, if no such written investment directions is so received, the Trustee shall hold such moneys uninvested. The Trustee and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this Section 10.09. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. To the extent possible, the Trustee shall provide notice to the District prior to any such sale. Interest or profit received on such investments shall be deposited to the Payment Fund.

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 confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee hereunder.

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

(b) In computing the amount in any fund or account, Permitted Investments shall be valued at market value, exclusive of accrued interest. Valuation shall occur as determined by the District, but not less often than annually.

(c) Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-conforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated upon the written direction of the District.

Section 10.10. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.11. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms contained herein required to be observed or performed by or on the part of the District or the Trustee shall be contrary to law, then such agreement or agreements, such

condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law.

Section 10.12. California Law. This Indenture shall be construed and governed in accordance with the laws of the State of California.

Section 10.13. Notices. All written notices to be given hereunder shall be given by certified mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time.

If to the District:	Sweetwater Springs Water District P.O. Box 48 Guerneville, CA 95446 Attention: General Manager
If to the Trustee:	U.S. Bank National Association One California Street, 10th Floor San Francisco, California 94111 Attention: Global Corporate Trust Services

Section 10.14. Effective Date. This Indenture shall become effective upon its execution and delivery.

Section 10.15. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.16. Payments Due on Days that are not Business Days. In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

IN WITNESS WHEREOF, the parties hereto have executed this Indenture by their officers thereunto duly authorized as of the day and year first written above.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

SWEETWATER SPRINGS WATER DISTRICT

By: _____
General Manager

APPENDIX A
FORM OF BOND

NO.____ $_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
SWEETWATER SPRINGS WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2013

Rate of Interest	Maturity Date	Dated Date	CUSIP
	September 1, 20__	July __, 2013	

REGISTERED OWNER: CEDE & CO.
PRINCIPAL AMOUNT: DOLLARS

The SWEETWATER SPRINGS WATER DISTRICT, a county water district and public entity duly created and lawfully existing under the laws of the State of California (the "District"), for value received, hereby promises to pay (but only out of the Net Revenues hereinafter referred to) to the registered owner specified above or registered assigns on the maturity date specified above (subject to any right of prior redemption provided for) the principal sum specified above, together with interest thereon from the Interest Payment Date (defined below) next preceding the date of authentication hereof (unless such date of authentication is during the period commencing after the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") through and including the next succeeding Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless such date of authentication is on or prior to the first Record Date, in which event it shall bear interest from the Dated Date until the principal hereof shall have been paid at the interest rate per annum specified above, payable on September 1, 2013, and semiannually thereafter on March 1 and September 1 in each year (each, an "Interest Payment Date"); provided, however, that if on the date of authentication of this Bond, interest is then in default on this Bond, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

The principal of this Bond shall be payable in lawful money of the United States of America at the Principal Office (as provided in the Indenture, defined below) of U.S. Bank National Association (the "Trustee"), upon presentation and surrender of this Bond.

Payment of interest on this Bond due on or before the maturity or prior redemption thereof shall be made to the person in whose name such Bond is registered, as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee at its Principal Office, such interest to be paid by check mailed by first class mail on such interest payment date to the registered owner at his or her address as it appears on such books, or, upon the written request from any Owner of Bonds aggregating, at least $1,000,000, received on or prior to the applicable Record Date, by wire transfer to an account within the

United States. Interest on this Bond shall be payable in lawful money of the United States of America and shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

This Bond is one of a duly authorized issue of bonds of the District designed as its "Sweetwater Springs Water District Water Revenue Refunding Bonds, Series 2013" (the "Bonds"), in the aggregate principal amount of _____ Dollars ($_____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates), and is issued under and pursuant to the provisions of an indenture of trust, dated as of July 1, 2013 (the "Indenture"), between the District and the Trustee.

The Bonds are issued to provide funds to refinance certain outstanding obligations of the District. The Bonds are limited obligations of the District and are payable, as to interest thereon and principal solely from Net Revenues (as defined in the Indenture). All the Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of the Net Revenues, which Net Revenues shall be held in trust for the security and payment of the interest on, principal of and redemption premiums, if any, on the Bonds as provided in the Indenture. Neither the faith and credit of the District, the State of California, nor any of its political subdivisions are pledged to the payment of the principal of or interest on the Bonds.

Copies of the Indenture are on file at the Principal Office of the Trustee. Reference is hereby made to the Indenture and to any and all amendments thereof and supplements thereto for a description of the agreements, conditions, covenants and terms securing the Bonds, for the nature, extent and manner of enforcement of such agreements, conditions, covenants and terms, for the rights and remedies of the Owners of the Bonds with respect thereto and for the other agreements, conditions, covenants and terms upon which the Bonds are executed and delivered thereunder.

To the extent and in the manner permitted by the terms of the Indenture, the provisions of the Indenture may be amended or supplemented in writing by the parties thereto (in certain instances without the consent of the Owners of Bonds), but no such amendment or supplement shall (i) reduce the rate of interest evidenced hereby or extend the time of payment of such interest or reduce the amount of principal hereof or extend the Maturity Date hereof without the prior written consent of the Owner hereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Bonds are authorized to be executed and delivered in the form of fully registered Bonds in denominations of five thousand dollars ($5,000) or any integral multiple thereof.

This Bond is transferable or exchangeable by the Owner hereof in person or by the Owner's attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender of this Bond for cancellation accompanied by delivery of a duly executed written instrument of transfer or exchange in a form approved by the Trustee. Upon such transfer or exchange, a new Bond or Bonds of authorized denominations of the same

Maturity Date and interest rate and in the same aggregate principal amount hereof will be executed and delivered by the District and authenticated by the Trustee to the Owner thereof in exchange therefor. The Trustee shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee may treat the Owner hereof as the absolute owner hereof for all purposes, whether or not this Bond shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal and redemption premium, if any, evidenced by this Bond shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge liability evidenced by this Bond to the extent of the sum or sums so paid.

The Trustee shall not be obligated to make any such registration of transfer or exchange of Bonds during the fifteen (15) day period prior to the date on which notice of redemption must be mailed pursuant to the Indenture, or with respect to any Bond which has been selected for redemption pursuant to the Indenture (except any unredeemed portion thereof).

[REDEMPTION PROVISIONS TO COME]

As provided in the Indenture, notice of redemption hereof shall be mailed, first class postage prepaid, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to the Owner of this Bond at such Owner's address as it appears in the registration books maintained by the Trustee, but failure to give any such notice or any defect therein shall not affect the validity of the proceedings for the redemption of this Bond. If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, the interest evidenced hereby shall cease to accrue from and after the date fixed for redemption.

The Trustee has no obligation or liability to the Owners of the Bonds for the payment of the interest or principal or redemption premiums, if any, on the Bonds; but rather the Trustee's sole obligations are to administer, for the benefit of the District and the Owners of the Bonds, the various funds established under the Indenture.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until certificate of authentication and registration hereon endorsed shall have been manually executed and dated by the Trustee.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), 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.

It is hereby certified that all acts and proceedings required by law necessary to make this Bond, when executed by the District, authenticated and delivered by the Trustee and duly issued,

the valid, binding and legal limited obligation of the District have been done and taken, and have been in all respects duly authorized.

IN WITNESS WHEREOF, the SWEETWATER SPRINGS WATER DISTRICT has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its President and attested to by the manual or facsimile signature of its District Secretary, and has caused this Bond to be dated as of the dated date set forth above.

SWEETWATER SPRINGS WATER DISTRICT

By: _____
General Manager

ATTEST:

By: _____
District Secretary

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Indenture which has been authenticated and registered on the date set forth below.

Date: July __, 2013.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

ASSIGNMENT

For value received, the undersigned does hereby sell, assign and transfer unto _____ the within Bonds and does) hereby irrevocably constitute and appoint _____ attorney to transfer such Bond on the register of the Trustee, with full power of substitution in the premises.

Dated: _____

Signature: _____

Note: The signature(s) to 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.

Signature Guaranteed by: _____

Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

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