

NEW ISSUE - BOOK-ENTRY ONLY

NOT RATED

(See "NO RATING" herein.)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, under existing law, the interest component of each Installment Purchase Payment, and the allocable portion thereof distributable in respect of any Certificate, is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986, as amended, from the gross income of the owner of such Certificate for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See, however, "TAX MATTERS" herein regarding certain other tax considerations.

\$1,735,000

**CERTIFICATES OF PARTICIPATION
(Reservation Main Canal Improvements Project)
Series 2004**

**Evidencing the Direct, Undivided Fractional Interests of the Owners
Thereof in Installment Payments to be Made by the
BARD WATER DISTRICT
As the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
BARD WATER DISTRICT
FINANCING CORPORATION**

Dated: Date of Delivery

Due: May 1, as shown on the inside cover hereof

The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of April 1, 2004 (the "Trust Agreement"), by and among the District, the Bard Water District Financing Corporation (the "Corporation") and Wells Fargo Bank, National Association (the "Trustee") to (i) finance certain capital improvements to the Water Enterprise, (ii) fund a reserve fund, and (iii) pay expenses related to the execution and delivery of the Certificates, as more fully described herein. The Certificates evidence the right to receive an undivided fractional interest in Installment Payments to be made by the District pursuant to an Installment Sale Agreement dated as of April 1, 2004 (the "Installment Sale Agreement"), by and between the District and the Corporation.

The Installment Sale Agreement is a limited obligation of the District secured by a pledge of the Net Revenues of the Water Enterprise and certain other moneys held in the funds and accounts created pursuant to the Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT" herein.

The Certificates shall be executed and delivered as fully registered certificates, initially in the denominations of \$5,000 each or any integral multiple thereof, and, when delivered, will be registered in the name of Cede & Co., a nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of the Certificates will not receive physical certificates representing the Certificates, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Owner of the Certificates, principal, premium, if any, and interest with respect to the Certificates will be paid by the Trustee (hereinafter defined) directly to DTC, which will, in turn, remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. See "THE CERTIFICATES — Book-Entry Only System." Interest with respect to the Certificates is payable semiannually on each May 1 and November 1, commencing November 1, 2004, to the Owners thereof on the fifteenth day of the calendar month preceding an interest payment date (a "Record Date"), or by wire transfer to an account in the United States designated by any Owner of Certificates in the aggregate principal amount of \$1,000,000 or more, if the Trustee has received a written request for such wire transfer from such owner prior to the applicable Record Date. Principal and premium, if any, payable with respect to the Certificates is payable upon surrender of the Certificates upon maturity or prior redemption at the principal corporate trust office of the Trustee.

The Certificates are subject to optional and mandatory prepayment prior to maturity as described herein.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT SALE AGREEMENT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION, OR A PLEDGE OF THE FAITH AND CREDIT OF THE DISTRICT. THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT 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.

This cover page contains information for quick reference only. It is not a summary of the Certificates or the security therefor. Investors must read the entire Official Statement to obtain information essential to the making of an investment decision.

The Certificates are offered when, as and if executed and delivered and received by the Underwriter, subject to the delivery of the legal opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Ewing, Johnson, Graves & Driskill, El Centro, California, counsel to the District, for the Corporation by Fulbright & Jaworski L.L.P., Los Angeles, California, counsel for the Corporation, and by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel to the District. It is anticipated that the Certificates in definitive form will be available for delivery in New York, New York, on or about April 28, 2004.

KINSELL, NEWCOMB & DE DIOS, INC.

Official Statement dated April 15, 2004.

No dealer, broker, salesperson or other person has been authorized by the Corporation, the District or the Underwriter to give any information or to make any representations other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed to be a contract with the purchasers of the Certificates. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the 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 set forth herein has been obtained from the Corporation, 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 information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the District or any other party described herein subsequent to the date as of which such information is presented. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

MATURITY SCHEDULE

\$1,735,000
CERTIFICATES OF PARTICIPATION
(Reservation Main Canal Improvements Project)
Series 2004

\$1,735,000 Serial Certificates

Maturity Date (May 1)	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$ 55,000	2.050 %	2.200 %
2006	60,000	2.450	2.600
2007	60,000	3.000	3.150
2008	65,000	3.300	3.450
2009	65,000	3.600	3.750
2010	65,000	3.800	3.950
2011	70,000	4.350	NRO
2012	75,000	4.600	NRO
2013	75,000	4.850	NRO
2014	80,000	5.000	NRO
2015	85,000	5.150	NRO
2016	90,000	5.100	5.300
2017	90,000	5.200	5.400
2018	95,000	5.350	5.500
2019	100,000	5.375	5.600
2020	110,000	5.700	NRO
2021	115,000	5.750	NRO
2022	120,000	5.800	NRO
2023	125,000	5.850	NRO
2024	135,000	5.900	NRO

BARD WATER DISTRICT

Bard Valley, California

BOARD OF DIRECTORS

Evelyn Berryman, President
Carlos (Jake) Colvin, Vice President
David Nelson, Secretary
Richard Johnson, Director
Gus Nunez, Director

**BARD WATER DISTRICT
FINANCING CORPORATION**

Evelyn Berryman, President
Carlos (Jake) Colvin, Vice President
David Nelson, Secretary
Richard Johnson, Director
Gus Nunez, Director

DISTRICT STAFF

Ron Derma, General Manager

SPECIAL SERVICES

Counsel to the District

Ewing, Johnson, Graves & Driskill
El Centro, California

Special Counsel and Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Underwriter

Kinsell, Newcomb & De Dios, Inc.
Solana Beach, California

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

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OFFICIAL STATEMENT

\$1,735,000
CERTIFICATES OF PARTICIPATION
(Reservation Main Canal Improvements Project)
Series 2004
Evidencing the Direct, Undivided Fractional
Interests of the Owners
Thereof in Installment Payments to be Made by the
BARD WATER DISTRICT
As the Purchase Price for Certain Property
Pursuant to an
Installment Sale Agreement with the
BARD WATER DISTRICT
FINANCING CORPORATION

INTRODUCTION

Authorization

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices (the “Official Statement”), is to provide certain information concerning the sale and delivery of Certificates of Participation (Reservation Main Canal Improvements Project) Series 2004 (the “Certificates”), in aggregate principal amount of \$1,735,000, representing the direct, undivided fractional interests of the registered owners thereof (the “Owners”) in installment payments (the “Installment Payments”) to be made by the Bard Water District (the “District”) pursuant to an Installment Sale Agreement, dated as of April 1, 2004 (the “Installment Sale Agreement”), between the District and the Bard Water District Financing Corporation (the “Corporation”). Capitalized terms used and not otherwise defined herein shall have the meaning set forth in “APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The District is a county water district organized under the constitution and laws of the State of California. The Corporation is a nonprofit public benefit corporation organized under the Corporations Code of the State of California. See “THE CORPORATION” herein.

The Certificates are being issued pursuant to the Constitution and laws of the State of California, and pursuant to a Trust Agreement (the “Trust Agreement”) dated as of April 1, 2004, by and among the District, the Corporation and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

Use of Proceeds

The District will use the proceeds of the sale of the Certificates to: (i) finance certain capital improvements to the Water Enterprise, (ii) fund a reserve fund and (iii) pay costs associated with the execution and delivery of the Certificates. See “ESTIMATED SOURCES AND USES OF FUNDS” below.

Further Information

The District will covenant for the benefit of the Owners of the Certificates to continue to provide certain financial information and operating data relating to the Water Enterprise for the purpose of assisting the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” herein and “APPENDIX D — FORM OF CONTINUING DISCLOSURE AGREEMENT.”

The summaries and references of documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document statute, report, or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for summaries of certain of such definitions. See also “APPENDIX C — PROPOSED FORM OF SPECIAL COUNSEL OPINION.”

THE CERTIFICATES

General

The Certificates will be dated the date of their initial delivery. The Certificates will be executed and delivered as a separate single fully registered Certificate for each maturity of such Certificates in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York (“DTC”), as registered owner of all of the Certificates. The principal of and interest with respect to the Certificates will be paid directly to Cede & Co. by the Trustee as long as DTC or its nominee, Cede & Co. is the registered owner of the Certificates. See “THE CERTIFICATES — Book-Entry Only System” herein.

Interest with respect to the Certificates will be payable at the rates set forth on the inside cover page of this Official Statement on May 1 and November 1 of each year, commencing on November 1, 2004 (each an “Interest Payment Date”) until their respective stated maturity dates or prior prepayment. Interest with respect to the Certificates will be calculated on the basis of a 360 day year comprised of twelve (12) thirty (30) day months. Interest with respect to each Certificate will be payable from the Interest Payment Date preceding its date of execution unless: (i) such date is after the fifteenth (15th) day of the month preceding an Interest Payment Date and on or before the succeeding Interest Payment Date in which case interest is payable from such Interest Payment Date, or (ii) such date is on or before October 15, 2004, in which case interest is payable from the date of their initial delivery.

Principal with respect to the Certificates will be payable on May 1 (each a “Certificate Payment Date”) in the years and in the amounts set forth on the cover page of this Official Statement unless paid through mandatory sinking fund payments or upon prior prepayment, each as hereinafter described.

Optional Prepayment

The Certificates maturing on or after May 1, 2015 shall be subject to prepayment at the option of the District as a whole or in part, on any date on or after May 1, 2014, from any available source of funds, at the following Prepayment Prices (expressed as a percentage of the principal amount of the Certificates to be prepaid) together with accrued interest thereon to the date fixed for prepayment:

<u>Prepayment Date</u>	<u>Prepayment Price</u>
May 1, 2014 through April 30, 2015	102%
May 1, 2015 through April 30, 2016	101
May 1, 2016 and thereafter	100

Mandatory Prepayment From Net Proceeds - Certificates

The Certificates are subject to prepayment prior to their respective stated maturities, as a whole on any date or in part on any Interest Payment Date in the order of maturity as directed by the District in a written request of the District provided to the Trustee or (in the event the District has not directed the order of maturity, in inverse order of maturity) and by lot within each maturity in integral multiples of \$5,000, from prepaid Installment Payments made by the District from Net Proceeds (as defined in “APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –Summary of the Installment Sale Agreement - Definitions”) of casualty insurance or condemnation awards received by the District in connection with the damage, destruction or condemnation of all or any portion of the Water Enterprise, upon the terms and conditions of, and as provided for in the Trust Agreement and the Installment Sale Agreement (provided that such prepayment shall occur on the next Interest Payment Date subsequent to such transfer with respect to which timely notice of prepayment can be provided as required under the Trust Agreement) at a Prepayment Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

Notice of Prepayment

Notice of prepayment of any Certificate will be provided to DTC as registered owner of the Certificates and to the Information Services, and by registered or certified or overnight mail to the Securities Depositories at least thirty days but not more than sixty days prior to the prepayment date. Any failure to receive such notice or any defect in the notice or the mailing shall not affect the validity of the prepayment of any Certificate.

Effect of Prepayment

From and after the date so designated for prepayment, provided that moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment are held by the Trustee, the interest represented by the Certificates so called for prepayment will cease to accrue, said Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement, and the Owners of said Certificates will have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

Debt Service on the Certificates

The following table shows the debt service for the Certificates.

DEBT SERVICE SCHEDULE

<u>Payment Dates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
November 1, 2004		\$ 43,060.92	\$ 43,060.92
May 1, 2005	\$ 55,000	42,355.00	97,355.00
November 1, 2005		41,791.25	41,791.25
May 1, 2006	60,000	41,791.25	101,791.25
November 1, 2006		41,056.25	41,056.25
May 1, 2007	60,000	41,056.25	101,056.25
November 1, 2007		40,156.25	40,156.25
May 1, 2008	65,000	40,156.25	105,156.25
November 1, 2008		39,083.75	39,083.75
May 1, 2009	65,000	39,083.75	104,083.75
November 1, 2009		37,913.75	37,913.75
May 1, 2010	65,000	37,913.75	102,913.75
November 1, 2010		36,678.75	36,678.75
May 1, 2011	70,000	36,678.75	106,678.75
November 1, 2011		35,156.25	35,156.25
May 1, 2012	75,000	35,156.25	110,156.25
November 1, 2012		33,431.25	33,431.25
May 1, 2013	75,000	33,431.25	108,431.25
November 1, 2013		31,612.50	31,612.50
May 1, 2014	80,000	31,612.50	111,612.50
November 1, 2014		29,612.50	29,612.50
May 1, 2015	85,000	29,612.50	114,612.50
November 1, 2015		27,423.75	27,423.75
May 1, 2016	90,000	27,423.75	117,423.75
November 1, 2016		25,128.75	25,128.75
May 1, 2017	90,000	25,128.75	115,128.75
November 1, 2017		22,788.75	22,788.75
May 1, 2018	95,000	22,788.75	117,788.75
November 1, 2018		20,247.50	20,247.50
May 1, 2019	100,000	20,247.50	120,247.50
November 1, 2019		17,560.00	17,560.00
May 1, 2020	110,000	17,560.00	127,560.00
November 1, 2020		14,425.00	14,425.00
May 1, 2021	115,000	14,425.00	129,425.00
November 1, 2021		11,118.75	11,118.75
May 1, 2022	120,000	11,118.75	131,118.75
November 1, 2022		7,638.75	7,638.75
May 1, 2023	125,000	7,638.75	132,638.75
November 1, 2023		3,982.50	3,982.50
May 1, 2024	135,000	3,982.50	138,982.50
TOTAL	\$1,735,000	\$1,119,028.42	\$2,854,028.42

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the issuance of the Certificates.

SOURCES AND USES OF FUNDS

Sources of Funds	
Principal amount of Certificates	\$1,735,000.00
Less Original Issue Discount	(8,737.85)
Less Underwriter's Discount	(23,422.50)
Total Sources of Funds	\$1,702,839.65
Uses of Funds	
Cost of Issuance Fund ⁽¹⁾	\$57,527.15
Reserve Fund	145,312.50
Construction Fund ⁽²⁾	1,500,000.00
Total Uses of Funds	\$1,702,839.65

(1) Includes fees and expenses of Special Counsel, Disclosure Counsel, the Trustee, printing expenses and other costs associated with the execution and delivery of the Certificates.

SECURITY AND SOURCES OF PAYMENT

Security and Sources of Payment for the Certificates

General. Pursuant to the Installment Sale Agreement, the District is obligated to make Installment Payments from all Net Revenues. The combined totals of such Installment Payments are equal to the principal and interest components of the Certificates. The obligation of the District to make the Installment Payments is absolute and unconditional, and until such time as the Purchase Price has been paid in full (or provision for the payment thereof has been made pursuant to the Installment Sale Agreement), the District will not discontinue or suspend any Installment Payments required to be paid by it under the Installment Sale Agreement when due, whether or not the Water Enterprise or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part and such payments will not be subject to reduction whether by offset, abatement or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

Limited Liability. The obligation of the District to make the Installment Payments pursuant to the Installment Sale Agreement is a special obligation of the District payable solely from Net Revenues, the Revenue Fund, and other funds described in the Installment Sale Agreement and in the Trust Agreement, 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. Neither the full faith and credit nor the taxing power of the District, the County of Imperial, the State of California or any of its political subdivisions is pledged for the payment of the Installment Payments.

The District is not required to advance any moneys derived from any source of income other than the Revenues, the Revenue Fund and the other funds provided in the Installment Sale Agreement and in the Trust Agreement for the payment of the Installment Payments or for the performance of any

agreements or covenants required to be performed by it contained therein. The District may, however, 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 Installment Payments are not secured by, and the Owners have no security interest in or mortgage on, the Water Enterprise or any other real property of the District, and no default by the District will result in the loss of the Water Enterprise or any other real property of the District. Should the District default, the Trustee may declare the entire principal of the unpaid Installment Payments and accrued interest thereon to be due and payable immediately, whereupon the same shall become immediately due and payable. The Trustee may by mandamus or other action or proceeding or by suit at law or in equity enforce its rights against the District or any director, officer or employee thereof, compel the District to perform and carry out its duties under the Law and the agreements and covenants contained in the Installment Sale Agreement required to be performed by it, or by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Corporation or the Trustee or require the District and its directors, officers and employees to account as the trustee of an express trust. See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — SUMMARY OF THE INSTALLMENT SALE AGREEMENT - Events of Default and Remedies of the Corporation."

Pledge of Net Revenues. All Net Revenues and all amounts on deposit in the Revenue Fund are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Sale Agreement and the Net Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Sale Agreement. Such pledge constitutes a lien on Net Revenues and, subject to application of Revenues and all amounts on deposit in the Revenue Fund as permitted in the Installment Sale Agreement, the Revenue Fund and other funds and accounts created under the Installment Sale Agreement for the payment of the Installment Payments and all other Contracts and Bonds in accordance with the terms of the Installment Sale Agreement and the Trust Agreement.

Under the Installment Sale Agreement, "Revenues" are defined to include all income, rents, rates, fees, charges or other money derived from the ownership or operation of the Water Enterprise including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, or other moneys derived by the District from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water Enterprise; (2) the proceeds of any stand-by or capacity charges or acreage assessments collected by the District and receipt of property taxes; and (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves; but excluding: (1) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District; (2) all income, rents, rates, fees, charges or other moneys derived by the District from operations not related to the Water Enterprise; and (3) any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds, notes or other indebtedness hereafter issued or which are otherwise not legally available for payment of Installment Payments.

Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Sale Agreement, the District agrees and covenants that all Revenues shall be received by the District in trust under the Installment Sale Agreement and shall be deposited when and as received in a special fund designated as the "Revenue Fund," which fund is created and established by the Installment Sale Agreement and which fund the District agrees and covenants to maintain and to hold in trust separate and apart from other funds so long as any Installment Payments or Certificates remain unpaid. Moneys in the Revenue Fund shall be used and applied by the District as provided in the Installment Sale Agreement. Investment earnings received by the Trustee from the investment of moneys on deposit in the

Certificate Payment Fund, Cost of Issuance Fund and the Reserve Fund are to be retained by the Trustee and applied by it as provided for in the Trust Agreement.

The District shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. Thereafter, all remaining moneys in the Revenue Fund shall be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority, and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in the Installment Sale Agreement.

Certificate Payment Fund. On or before each Installment Payment Date (commencing on October 25, 2004) until the Certificates have been paid or provision for their payment has been made as provided in the Trust Agreement, the District shall, from the moneys in the Revenue Fund, transfer to the Trustees for deposit in the Certificate Payment Fund the Installment Payment due and payable on that Installment Payment Date. The District shall also, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

Such deposit to the Certificate Payment Fund shall be reduced to the extent amounts on deposit therein are available for application to the Installment Payment due and payable on said Installment Payment Date.

All money in the Certificate Payment Fund shall be used and withdrawn by the Trustee in accordance with the Trust Agreement.

Reserve Fund. On or before each Installment Payment Date until the Certificates have been paid or provision for their payment has been made as provided in the Trust Agreement, the District shall, from the remaining moneys in the Revenue Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee as provided in the Trust Agreement for deposit in the Reserve Fund and such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the Installment Sale Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement and/or such other reserve funds or accounts to an amount equal to the amount required to be maintained therein; provided, however, that the District may provide for all or a portion of the Reserve Requirement by means of a Qualified Reserve Fund Credit Instrument or a combination of other than cash and Permitted Investments pursuant to the Trust Agreement.

No transfer of moneys for deposit to the Reserve Fund in connection with the Installment Payments need be made if the amount contained therein is at least equal to the Reserve Requirement.

Moneys on deposit in the Revenue Fund not necessary to make any of the payments required above, may be expended by the District at any time for any purpose permitted by law.

Additional Contracts and Bonds. The Installment Sale Agreement provides that the District may at any time incur obligations or indebtedness on a parity with the Certificates (“Contracts” or “Bonds”) provided:

(a) No Event of Default shall have occurred and be continuing, and the District shall deliver a certificate to that effect to the Trustee;

(b) The Net Revenues, calculated in accordance with accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, in either case verified by a certificate or opinion of an Independent Certified Public Accountant, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service;

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

(d) The trustee or fiscal agent for such Contracts or Bonds shall be the same entity performing the functions of Trustee under the Trust Agreement.

The provisions of paragraph (b) above do not apply to any Contracts or Bonds if all of the proceeds of such Contracts or Bonds (other than proceeds applied to pay costs of executing such Contracts or issuing such Bonds and to make a reserve fund deposit required pursuant to paragraph (c) above) shall be deposited in an irrevocable escrow for the purpose of paying the principal of and interest and premium (if any) on any Installment Payments or on any outstanding Contracts or Bonds.

For purposes of making the calculations required in paragraph (b) above, Net Revenues shall include investment earnings on the Reserve Fund transferred to the Trustee for deposit in the Certificate Payment Fund.

Amount and Collection of Rates, Fees and Charges. In the Installment Sale Agreement the District covenants that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Revenues sufficient to pay the following amounts in the following order of priority:

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

(2) All Installment Payments and payments of principal of and interest on any Bonds or Contracts as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Installment Payments or interest on any Bonds or Contracts are payable from proceeds of the Certificates or Bonds or Contracts deposited for such purpose;

(3) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement; and

(5) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the 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 Enterprise during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to (i) one hundred ten percent (110%) of the amount described in the preceding clause (2) for such Fiscal Year, or (ii) one hundred fifteen percent (115%) of the amount described in the preceding clause (2) for such Fiscal Year.

Reserve Fund. A Reserve Fund is established with the Trustee by the Trust Agreement and will be funded in an amount equal to the Reserve Requirement, initially, \$145,312.50. If one day prior to any Interest Payment Date, or if such date is not a Business Day, then the preceding Business Day, the money in the Certificate Payment Fund is insufficient to make the payments required by the Trust Agreement with respect to the Certificates on such Interest Payment Date, the Trustee will transfer from the Reserve Fund to the Certificate Payment Fund the amount of such insufficiency. All earnings in excess of the Reserve Requirement and all amounts on deposit in the Reserve Fund on the date no Certificates remain outstanding shall be transferred upon the Written Order of the District delivered to the Trustee.

The District may satisfy the Reserve Requirement to deposit a specified amount in the Reserve Fund by the deposit of a Qualified Reserve Fund Credit Instrument, which may consist of an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company rated in one of the two highest rating categories by Moody's and Standard & Poor's, and which meets the other requirements of the Trust Agreement. Upon deposit of the Qualified Reserve Fund Credit Instrument, the Trustee is to pay to the District from amounts in the Reserve Fund an amount equal to the principal of the Qualified Reserve Fund Credit Instrument. See "APPENDIX B — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – SUMMARY OF THE TRUST AGREEMENT - Definitions."

RISK FACTORS

The purchase of the Certificates involves investment risk. Such risk factors include, but are not limited to, the following matters.

No Liability of the Corporation to the Certificate Owners

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Certificate Owners with respect to the payment when due of Installment Payments, or with respect to the observance or performance of other agreements, conditions, covenants and terms required to be observed or performed by the District under the Installment Sale Agreement or any related documents or with respect to the performance by the Trustee of any duty required to be performed by it under the Trust Agreement.

Limited Recourse on Default

If the District defaults on its obligations to make Installment Payments, the Trustee, as assignee of the Corporation, has the right to accelerate the Installment Payments. However, in the event of a default and such acceleration, there can be no assurance that the Trustee will have sufficient revenues to pay the accelerated Certificates.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the execution and delivery of the Certificates as a result of future acts or omissions of the Corporation or the District in violation of its covenants contained in the Trust Agreement and the Installment Sale

Agreement. Should such an event of taxability occur, the Certificates are not subject to special prepayment or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

Projected Operating Results

Although the Corporation believes that the District's projections of future Net Revenues of the Water Enterprise are reasonable, there can be no assurance that actual Net Revenues will match the projections due to changes in general economic conditions and similar factors. In addition, the Water Enterprise and economic development within the service area of the District are subject to comprehensive federal, State and local regulations. There can be no assurance that the Water Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the District.

Water Enterprise Expenses And Collections; Damage

There can be no assurance that the District's expenses for the Water Enterprise will remain at the levels described in this Official Statement. Changes in technology, governmental regulatory requirements, or increases in the cost of operations, 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, and could also decrease demand.

Although the District has covenanted to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the time necessary to make timely payments with respect to the Certificates.

Additionally, the Installment Sale Agreement requires the District to maintain insurance or self-insurance, but only if and to the extent available at reasonable cost from reputable insurers. In the event of total loss of the Water Enterprise, there can be no assurance that insurance proceeds will be adequate to redeem all Outstanding Certificates or that losses in excess of the insured amount will not occur.

Earthquake Risk

The service area of the Water Enterprise shares with most regions of the State of California a history of seismic activity.

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Net Revenues through damage to the Water Enterprise and/or adversely affecting the economy of the surrounding area. There is no requirement that the District or the Corporation acquire earthquake insurance with respect to the Water Enterprise.

Voter Initiatives — State Constitutional Amendment

California's voter initiative process allows measures which qualify for the ballot to be approved or disapproved by voters in a State of California statewide election. From time to time initiative measures could be adopted which adversely affect the ability of the District to generate Net Revenues.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID 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. Such provisions could adversely affect the financial condition of the District, its ability to comply with covenants under the Installment Sale Agreement and/or its ability to pay Installment Payments. In such event, there can be no assurance that remedies will be available to fully protect the interests of Certificate Owners. See “Limitations on Remedies.”

Article XIID contains several new provisions affecting the ability of local governments to impose or increase “fees” and “charges,” defined for purposes of Article XIID to mean “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (which term may include tenancies). All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The District does not believe that its water charges are fees or charges imposed as an incident of property ownership within the meaning of Article XIID, although no assurance can be given that a court would not determine otherwise. The District believes that its water charge, even if considered a “fee” or “charge” for purposes of Article XIID, would satisfy all of these requirements. However, in any legal action contesting the validity of a fee or charge, the District will have the burden of proving compliance with Article XIID and no assurance can be given that a court would not determine otherwise. Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The District must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the District may not impose or increase the fee and charge, including any increase in its water charges.

Article XIID states that, beginning July 1, 1997, all “fees” or “charges” must comply with its provisions. It is unclear how the provisions of Article XIID will be applied to fees or charges established prior to such date. The District does not plan to conduct any new hearings, elections or other proceedings with respect to any of its existing fees or charges for water service.

In addition to the provisions described above, Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters within the District’s jurisdiction could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. “Assessment,” “fee” and “charge” are not defined in Article XIIC and it is unclear whether the definitions of such terms contained in Article XIID (which are generally property-related as described above) apply with respect to Article XIIC. No assurance can be given that such voters will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges. The District believes that the initiative power cannot be used to alter covenants in the Installment Sale Agreement concerning the imposition of the

District's water charges or reduce or repeal such charges to the extent that the District could not meet its Installment Payment obligations.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible to predict the outcome of such determination.

Limitations on Remedies

The ability of the District to comply with the covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay all Installment Payments in a timely manner may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "California Constitution Articles XIIC and Article XIID." Furthermore, any remedies available to the Certificate Owners upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Trust Agreement, the rights and obligations under the Certificates and the Trust Agreement 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 limitations on legal remedies against public agencies in the State of California. The opinion to be delivered by Fulbright & Jaworski L.L.P., Special Counsel, concurrently with the execution and delivery of the Certificates, that the Certificates evidence valid and binding obligations and the Trust Agreement constitute valid and binding obligations of the Corporation and the District will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the execution and delivery of the Certificates will be similarly qualified. See "APPENDIX C - PROPOSED FORM OF SPECIAL COUNSEL OPINION." In the event the Corporation or the District fail to comply with their respective covenants under the Trust Agreement or to cause the timely payment of all principal or interest with respect to the Certificates, there can be no assurance that available remedies will be adequate to fully protect the interest of the holders of the Certificates.

Capital Improvement Costs

Bids for costs of the capital improvements will not be received in their entirety until after the date of issuance of the Certificates. No assurance can be given that the costs of the capital improvements, when bids are received, will not exceed cost estimates for the capital improvements. If the actual costs of the capital improvements exceed the budgeted and approved costs, the District expects to reduce capital improvement costs by eliminating or downsizing certain non-critical components of the capital improvements or use its cash reserves to fund any deficiency.

Capital Improvement Completion

In the event the sources of funds the District has available to complete the capital improvements are not sufficient for such purpose, and the District is unable to successfully reduce capital improvement costs as summarized above, the District will have to obtain funding elsewhere to complete the capital improvements. Under such circumstance, the District could issue Bonds or enter into Contracts to fund the completion of the capital improvements. The ability to issue and sell Bonds or entering into Contracts will depend upon whether or not the District can comply with the rate covenant and other requirements of the Installment Sale Agreement for issuing Bonds or entering into Contracts. No assurance can be given

that the District will be able to finance the completion of the capital improvements. In the event of noncompletion of the capital improvements, the ability of the Water Enterprise to generate Net Revenues sufficient to pay debt service on the Certificates could be impaired.

THE WATER ENTERPRISE

Description

The Water Enterprise, operated by the District, presently serves the easterly side of the Bard Valley from its head at the All American Canal, southward along the Colorado River and easterly to the Quechen Indian Reservation. The District operates and maintains the Reservation Division of the U.S. Bureau of Reclamation's Yuma Project, located in the Bard Valley of southeastern California. The Yuma Project is one of the USBR's oldest projects, being constructed in the first decade of the 20th century. The 14,676 acres of irrigated farmland in Bard Valley include 7,556 acres of land on the Quechan Indian Reservation and 7,120 acres of private land.

The Water Enterprise includes an irrigation canal called the Reservation Main Canal, which is the primary irrigation system to be improved with the proceeds of the Certificates. The land served from the Reservation Main Canal includes a mix of private lands and Quechan Indian lands.

There are approximately 67 miles of canals and laterals delivering irrigation water on the Reservation Division and about 29 miles of open gravity drains that discharge into the Colorado River at two locations. There are 13.25 miles of additional drainage to intercept seepage from the All-American Canal.

The most important crops grown in the Bard Valley are medjool dates, citrus, cotton, alfalfa, hay, wheat and produce. Some crops are grown year round in this warm dry climate and usually not much frost is present.

Source of Water Supply

The District's water supply comes from diversions from the Colorado River. The District receives the highest priority with respect to water rights from the Colorado River, standing above the State of Colorado which is second in priority. The United States Bureau of Reclamations authorizes water entitlements to the District from the Colorado river on an annual basis.

Future Capital Improvements

The capital improvements currently identified by the District are listed below. A portion of this project is intended to be financed from proceeds of the Certificates. The remaining costs will be funded with a combination of grants from North American Development Bank and U.S. Bureau of Reclamation and contributions from the Quechan Indian Tribe.

**BARD WATER DISTRICT
WATER ENTERPRISE
PROPOSED CAPITAL IMPROVEMENTS**

<u>Project</u>	<u>Estimated Cost</u>
Reservation Main Canal	\$13,400,000

Source: Bard Water District

In addition to the above proposed capital improvements, the District may designate other projects as capital improvements to be financed with proceeds of the Certificates, and may determine not to proceed with any of the above capital improvements.

Water Enterprise Rates and Charges

The District's current rate structure is \$45.00 an acre for delivery of five acre feet per year of regular soil or delivery of eight acre feet per year of sandy soil. Excess water rate is \$10.50 per acre foot for water delivered over the basic allotment for normal soil.

The District rates for the past 5 years were as follows:

2003 - \$45.00
2002 - \$45.00
2001 - \$45.00
2000 - \$41.00
1999 - \$41.00

Furthermore, the District has implemented a Reservation Main Canal Improvement Project (RMIP) charge of \$18.50 per acre foot per year. Such RMIP charge will automatically expire on December 31, 2024.

Billing and Collection Procedures

Bard Water District landowners and lessees may pay the full amount of annual charges due on or before January 10 or divide the annual charges into two equal installments. The first installment must be paid by January 10 of the current year and the second installment by July 10. Interest at the rate of 1% per month will be added to delinquent accounts.

Historic Water Deliveries

The following table presents a summary of historic water deliveries from 1998 through 2002.

**BARD WATER DISTRICT
WATER ENTERPRISE
HISTORIC DELIVERIES
(IN ACRE-FEET)**

<u>Year</u>	<u>Water Deliveries</u>
1998	71,436
1999	68,905
2000	65,901
2001	64,715
2002	<u>66,947</u>
Average	67,581

Source: Bard Water District.

Ten Largest Customers

The following table sets forth the ten largest customers in water revenues of the Water Enterprise for the year ending June, 2003.

**BARD WATER DISTRICT
WATER ENTERPRISE
TEN LARGEST CUSTOMERS**

<u>Customer</u>	<u>Acres Owned</u>
T&A Anthony Costa & Sons	Unknown ⁽¹⁾
Evelyn Berryman	397.54
Harley Berryman	339.25
George Boskovich	253.95
Imperial Date Garden	231.81
Carlos Colvin	201.31
Richard Johnson	176.30
Ed Wavers	171.80
Johnny Cloud	171.62
Royal Medjool	171.22

(1) Although T&A Anthony Costa & Sons owns the largest amount of land within the District, the actual number of acres owned is unknown because the land is leased to other farmers.

Source: Bard Water District.

Management and Employee Relations

The District has 16 employees assigned directly to the Water Enterprise. Operations and maintenance of the Water Enterprise are carried out under the general supervision of the General Manager.

Ron Derma has been serving as the General Manager of the District over the past 25 years and has been an employee of the District since 1981.

DISTRICT FINANCIAL INFORMATION

Financial Statements

A copy of the most recent financial statements of the District audited by Schwark, Vaughan & Perry (the “Auditor”) is included as Appendix A hereto (the “Financial Statements”). The Auditor’s letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations, changes in fund balances and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The summary operating results contained under the caption “DISTRICT FINANCIAL INFORMATION — Historic Operating Results” are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

Historic Operating Results

The following tables are summaries of operating results of the Water Enterprise of the District, for the last five fiscal years. These results have been derived from the District’s Financial Statements. The tables have not been audited by the Auditor.

**WATER ENTERPRISE
HISTORIC OPERATING RESULTS
FISCAL YEAR ENDED JUNE 30, 2001 THROUGH 2003**

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue:			
Indian Unit Assessment & Excess Water	\$395,974	\$527,770	\$506,046
Siphon Drop Distribution ¹	109,450	360,174	50,251
Water Assessments & Excess Water	321,707	315,903	353,979
Tax Apportionments & Miscellaneous	17,006	37,227	34,028
Interest Income	42,952	28,185	18,558
Ranch 5 ²	11,023	15,701	20,377
Sale of Used Equipment	<u>4,951</u>	<u>2,780</u>	<u>--</u>
Total Revenues	\$1,146,968	\$1,287,740	\$983,239
Expenses:			
Salaries & Wages	\$381,379	\$412,248	\$432,086
Systems Repairs & Maintenance	72,962	105,782	51,598
Insurance	76,007	76,033	76,701
Fees – Irrig., Legal, Accounting, Etc.	63,310	60,792	84,134
Major Structure Improvements	40,267	57,540	18,651
Other Expenses	29,305	40,306	16,003
Transportation	39,285	39,758	40,422
Equipment	79,933	37,326	55,671
Payroll Taxes & Employee Benefits	29,569	29,709	34,812
Communications	8,414	11,363	9,891
Grass Carp Expenses	4,908	10,376	19,311
Supplies	5,469	7,022	17,720
Other Capital Improvements	17,750	6,402	367,259
Office Expenses	5,417	4,689	3,757
Utilities	<u>4,535</u>	<u>4,308</u>	<u>4,249</u>
Total Expenses	\$858,510	\$903,654	\$1,232,263
Excess of Revenue over Expense	288,458	384,086	(249,024)
General Fund, Beginning of Year	331,575	601,004	976,379
Transfer Interest on Indian Unit Reserve Fund	(9,709)	(4,070)	(2,802)
Transfer Interest on Bard Unit Reserve Fund	<u>(9,320)</u>	<u>(4,641)</u>	<u>(3,196)</u>
General Fund, End of Year	<u>\$601,004</u>	<u>\$976,379</u>	<u>\$721,357</u>

1. Represents revenue received by the District for an 11.49% interest in the Siphon Drop Powerplant operated by the Yuma County Water Users' Association.

2. Represents revenue received by the District for the delivery of water to an area outside the District under an agreement with the U.S. Bureau of Reclamation and the Quechen Indian Tribe.

Source: Bard Water District

Projected Operating Results and Debt Service Coverage

The District's estimated projected operating results for the Water Enterprise for the fiscal years ending June 30, 2004 through June 30, 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart set forth below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**WATER ENTERPRISE
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
FISCAL YEAR ENDED JUNE 30, 2004 THROUGH 2008**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenue:					
Bard Unit Operation and Maintenance	\$ 320,000	\$328,000	\$336,200	\$344,605	\$353,220
Indian Unit Operation and Maintenance	389,186	398,916	408,889	419,111	429,589
Ranch 5 ¹	8,400	10,000	10,000	10,000	10,000
Excess Water	20,000	20,000	20,000	20,000	20,000
Special District Revenue	10,000	10,000	10,000	10,000	10,000
Interest Income	20,000	20,000	20,000	20,000	20,000
Siphon Drop Distribution ²	65,000	50,000	50,000	50,000	50,000
Drain #4 Pumps ³	2,500	2,500	2,500	2,500	2,500
RMIP Charge	<u>131,720</u>	<u>131,720</u>	<u>131,720</u>	<u>131,720</u>	<u>131,720</u>
Total Revenues	\$ 966,806	\$971,136	\$989,309	\$1,007,936	\$1,027,029
Expenses:					
Salary	\$ 390,705	\$400,473	\$410,484	\$420,747	\$431,265
Office Expense	4,000	4,100	4,203	4,308	4,415
Insurance (JPJA/EMP)	68,000	69,700	71,443	73,229	75,059
Employee Benefits/Taxes	28,000	28,700	29,418	30,153	30,907
Rentals	3,000	3,075	3,152	3,231	3,311
Building Repair and Maintenance	2,500	2,563	2,627	2,692	2,760
Other Expenses	4,500	4,613	4,728	4,846	4,967
Fees/Legal/Accounting.	58,000	59,450	60,936	62,460	64,021
Safety Equipment	700	718	735	754	773
Light Equipment Repairs	6,000	6,150	6,304	6,461	6,623
Structures and Improvements	33,500	34,338	35,196	36,076	36,978
Vehicle/Equipment Purchasing	10,000	10,250	10,506	10,769	11,038
Concrete Lining	14,782	15,152	15,530	15,919	16,317
Parts & Supplies	23,000	23,575	24,164	24,768	25,388
Operational Supplies	3,826	3,922	4,020	4,120	4,223
Communication/Telephone	9,000	9,225	9,456	9,692	9,934
Equipment Rental	26,000	26,650	27,316	27,999	28,699
System Maintenance	2,600	2,665	2,732	2,800	2,870
Weed Control	25,000	25,625	26,266	26,922	27,595
Wood Gates	2,500	2,563	2,627	2,692	2,760
Metal Gates	6,500	6,663	6,829	7,000	7,175
Fuel & Oil	38,000	38,950	39,924	40,922	41,945
Drain #4	3,500	3,588	3,677	3,769	3,863
Grass Carp	4,000	4,100	4,203	4,308	4,415
Utilities	4,500	4,613	4,728	4,846	4,967
Bank Charges	150	154	158	162	166
Contingency	<u>14,867</u>	<u>15,239</u>	<u>15,620</u>	<u>16,010</u>	<u>16,410</u>
Total Expenses	\$ 787,130	\$787,130	\$787,130	\$787,130	\$787,130
Excess of Revenue over Expense	\$ 179,676	184,006	202,179	220,806	239,899
Maximum Annual Debt Service	\$145,312.50	\$145,312.50	\$145,312.50	\$145,312.50	\$145,312.50
Debt Service Coverage	1.24	1.27	1.39	1.52	1.65

1. Represents revenue received by the District for the delivery of water to an area outside the District under an agreement with the U.S. Bureau of Reclamation and the Quechen Indian Tribe.

2. Represents revenue received by the District for an 11.49% interest in the Siphon Drop Powerplant operated by the Yuma County Water Users' Association.

3. Represents revenue received by the District from a water pump used for atypical circumstances such as increased rainfall.

Source: Bard Water District

THE CORPORATION

The Bard Water District Financing Corporation was organized in 2004 pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code), for the purpose of rendering financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing and selling of buildings, building improvements, equipment, electrical, water, sewer, road and other public improvements, lands and any other real or personal property for the benefit of the residents of the District and surrounding areas. The Board of Directors of the District serves as the Corporation's board of directors. Except for the assignment of the Installment Sale Agreement (including the Installment Payments) to the Certificate Trustee, the Corporation has no financial obligation to the Owners of the Certificates.

TAX MATTERS

Tax Exemption

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Certificates for the interest component of each Installment Payment (the "Payment Interest"), and the allocable portion thereof distributable in respect of each Certificate (the "Certificate Interest Distribution"), to be and remain excluded from the gross income of the owner of such Certificate for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income federal income tax purposes retroactive to the date of delivery of the Installment Sale Agreement and of the Certificates. The District and the Corporation have covenanted in the Installment Sale Agreement and in the Trust Agreement to maintain the exclusion pursuant to section 103(a) of the Code of the Payment Interest from the gross income of the Corporation and its assigns, and of the Certificateholders, respectively, for federal income tax purposes.

Upon the issuance of the Certificates, Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, will deliver its opinion that, under existing law, and assuming compliance with the aforementioned covenants, the Payment Interest allocable to and the Certificate Interest Distributions in respect of a Certificate are excluded pursuant to section 103(a) of the Code from the gross income of the owner of the Certificate for federal income tax purposes; inasmuch as the Installment Sale Agreement is not a "specified private activity bond" within the meaning of section 57(a)(5) of the Code, neither the Payment Interest nor any Certificate Interest Distribution is an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. It is noted that the Payment Interest allocable to and Certificate Interest Distributions in respect of a Certificate owned by a corporation for federal income tax purposes may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such amounts are taken into account in determining the adjusted earnings of that corporation (75 percent of the excess (if any) of such adjusted current earnings over the alternative minimum taxable income being an adjustment to the alternative minimum taxable income (determined without regard to the adjustment or to the alternative tax net operating loss deduction)). Further, on that same day Special Counsel will render its opinion, based solely on the foregoing, and upon existing provisions of the laws of California, that such Payment Interest and Certificate Interest Distribution is exempt from personal income taxes of the State of California.

Special Counsel has not undertaken to advise in the future whether any events after the date of delivery of the Installment Sale Agreement and the Certificates may affect the tax status of the Payment Interest and Certificate Interest Distributions. No assurance can be given that future legislation, or amendments to statutes of the State of California, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of such amounts from personal income

taxes of the State of California or of the exclusion of such amounts from the gross income of the owners of Certificates for federal income tax purposes. Furthermore, Special Counsel will express no opinion as to any federal, state, or local tax law consequences with respect to the Installment Sale Agreement, Certificates, Payment Interest, or Certificate Interest Distributions, if any action is taken with respect to the Installment Sale Agreement, the Certificates, or the proceeds thereof, permitted or predicated upon the advice or approval of counsel if such advice or approval is given by counsel other than Fulbright & Jaworski L.L.P.

Although Special Counsel is of the opinion that Payment Interest and Certificate Interest Distributions in respect of a Certificate are exempt from state personal income taxation and excluded from the gross income of the owner thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Certificate. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of Certificates should be aware that: (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Certificates or, in the case of financial institution, that portion of an owner's interest expense allocated to the Certificates; (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including Payment Interest and Certificate Interest Distributions in respect of Certificates owned by such companies; (iii) Payment Interest and Certificate Interest Distributions accrued in respect of Certificates owned by certain foreign corporations doing business in the United States for federal income tax purposes could be subject to a branch profits tax imposed by section 884 of the Code; (iv) passive investment income, including Payment Interest and Certificate Interest Distributions accrued in respect of Certificates interest on Certificates owned by Subchapter S corporations for federal income tax purposes that have Subchapter C earnings and profits at the close of a taxable year may be subject to federal income taxation under section 1375 of the Code if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, Payment Interest and Certificate Interest Distributions accrued in respect of Certificates interest on Certificates owned by such recipients for federal income tax purposes; and (vi) under section 32(i) of the Code, receipt of investment income, including Payment Interest and Certificate Interest Distributions accrued in respect of Certificates interest on Certificates may disqualify the owner thereof from obtaining the earned income credit. Special Counsel has expressed no opinion regarding any such other tax consequences.

Original Issue Discount

The excess of the stated prepayment price at maturity of the Certificates over the initial offering price to the public of the Certificates set forth on the cover of this Official Statement is treated as "original issue discount" in respect of the Certificates. Such original issue discount accruing in respect of a Certificate is treated as additional interest on the Installment Sale Agreement and Interest Distribution in respect of Certificates excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount in respect of any Certificate purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Certificate on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount in respect of such a Certificate accruing during each period is added to the adjusted basis of such Certificate to determine taxable gain upon disposition (including sale, prepayment or payment on maturity) of such Certificate. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Certificate should consult his or

her own tax advisors with respect to the tax consequences of ownership of certificates in respect of which there is original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount in respect of such certificates under federal individual and corporate alternative minimum taxes.

CERTAIN LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, will render an opinion with respect to the validity and enforceability of the Certificates, the Installment Sale Agreement and the Trust Agreement. See “APPENDIX C — PROPOSED FORM OF SPECIAL COUNSEL OPINION.” Certain legal matters will be passed upon for the District by its Disclosure Counsel, Fulbright & Jaworski L.L.P., Los Angeles, California. Certain legal matters will be passed upon for the District by its counsel, Ewing, Johnson, Graves & Driskill, El Centro, California, and for the Corporation by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California.

ABSENCE OF LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of the District, threatened at the present time seeking to restrain or to enjoin the execution or delivery of the Certificates or the Installment Sale Agreement or the Trust Agreement or in any way contesting or affecting the validity or enforceability of the Certificates, the Installment Sale Agreement, the Trust Agreement or any action of the Corporation or the District contemplated with respect to the foregoing.

In the opinion of counsel to the District, there are not pending any suits contesting or affecting the collection of Revenues or which would have a material adverse effect on the Water Enterprise, the financial condition of the District, including the District’s ability to make Installment Payments, or the receipt of Revenues.

CONTINUING DISCLOSURE

The District will undertake all responsibilities for any continuing disclosure with respect to holders of the Certificates as described below, and the Corporation shall have no liability to the holders of the Certificates or any other person with respect to the Rule (as defined below) as it relates specifically to the District.

The District will covenant prior to closing for the benefit of holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the Water Enterprise by not later than February 15 following the end of the fiscal year for the District (which fiscal year end currently is June 30) (each an “Annual Report”), commencing with the report for the fiscal year ending June 30, 2003. The District will covenant prior to closing for the benefit of holders and beneficial owners of the Certificates to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports will be filed by the Trustee, as Dissemination Agent, on behalf of the District with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the Trustee on behalf of 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 in “APPENDIX D— FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). Neither the Corporation nor the District has ever failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

UNDERWRITING

The Underwriter purchased the Certificates at a purchase price of \$1,702,839.65, representing the principal amount of the Certificates, less an Original Issue Discount of \$8,737.85 and an Underwriter's discount of \$23,422.50. The Underwriter intends to offer the Certificates to the public initially at the prices set forth on the inside front cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

NO RATING

Neither the District nor the Corporation has made, and does not contemplate making, any application for a rating on the Certificates.

AVAILABILITY OF DOCUMENTS

Copies of the Installment Sale Agreement, the Trust Agreement and complete copies of the audited financial statements of the District for the fiscal year ended June 30, 2003 are available, upon request and payment of expenses for photocopying and mailing, from the Trustee.

MISCELLANEOUS

There are descriptions herein of certain documents and reports which are brief summaries thereof and which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statement 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 Certificates or between the Corporation and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the Corporation and the District.

BARD WATER DISTRICT
FINANCING CORPORATION

By _____ /s/ Ron Derma
President

BARD WATER DISTRICT

By _____ /s/ Evelyn Berryman
General Manager

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE
BARD WATER DISTRICT FOR
FISCAL YEAR ENDING JUNE 30, 2003**

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summaries of the Trust Agreements and the Installment Sale Agreement are not intended to be complete or definitive statements of the contents thereof. Reference is made to the complete documents for the complete terms thereof.

SUMMARY OF THE TRUST AGREEMENT

Definitions

Agreement. The term “Agreement” means the Trust Agreement, as originally executed or as it may from time to time be amended as provided for in the Trust Agreement.

Assignment Agreement. The term “Assignment Agreement” means that certain Assignment Agreement dated as of April 1, 2004 by and between the Corporation and the Trustee, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Business Day. The term “Business Day” means a day other than: a Saturday or Sunday or a day on which (i) banks located in the city in which the principal corporate trust office of the Trustee is located are not required or authorized to remain closed, and (ii) on which The New York Stock Exchange is not closed.

Certificate Payment Fund. The term “Certificate Payment Fund” means the fund by that name established in the Trust Agreement.

Certificate Year. The term “Certificate Year” means the period beginning on the date of initial execution and delivery of the Certificates and ending on April 30, 2004, and each successive one-year or shorter period thereafter, beginning May 1, 2004 until there are no Outstanding Certificates.

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

Code. The term “Code” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

Corporate Trust Office. The term “Corporate Trust Office” means the corporate trust office of the Trustee in Los Angeles, California, or such other office designated by the Trustee from time to time.

Cost of Issuance Fund. The term “Cost of Issuance Fund” means the fund by that name established in the Trust Agreement.

Delivery Date. The term “Delivery Date” means, with respect to the Certificates, the date on which such Certificates were executed and delivered to the original purchaser thereof.

Depository or DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

Fair Market Value means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "fair market value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit the value of which is determined in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) the value of which is determined in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security-State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California, but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

Information Services means Financial Information, Inc.'s "Daily Called Special Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Reports; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a request of the District delivered to the Trustee.

Installment Payment Date. The term "Installment Payment Date" means each date on which an Installment Payment is scheduled to be paid by the District pursuant to the Installment Sale Agreement.

Installment Payments. The term "Installment Payments" means the Series 2004 Installment Payments payable by the District pursuant to the Installment Sale Agreement, and in the amounts and at the times set forth in the Installment Sale Agreement.

Installment Sale Agreement. The term "Installment Sale Agreement" means the Installment Sale Agreement dated as of April 1, 2004 by and between the District and the Corporation, as originally executed or as it may from time to time be amended in accordance with its terms.

Interest Payment Date. The term "Interest Payment Date" means May 1 and November 1 of each year, commencing November 1, 2004.

Letter of Representations. The term "Letter of Representations" means the letter of the District and the Trustee, if required, delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates setting forth the basis on which the Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Nominee. The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

Outstanding. The term "Outstanding," when used as of any particular time with reference to Certificates, means (subject to certain provisions of the Trust Agreement) all Certificates theretofore or thereupon executed and delivered by the Trustee except

1. Certificates canceled by the Trustee or delivered to the Trustee for cancellation;
2. Certificates paid or deemed to have been paid within the meaning of that section of the Trust Agreement relating to discharge of the Trust Agreement; and
3. Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to that section of the Trust Agreement related to mutilated, lost, destroyed or stolen Certificates.

Owner. Unless the context clearly indicates otherwise, the term “Owner” or “Certificate Owner” or “Owner of Certificates” or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate as shown on the registration books maintained by the Trustee pursuant to the Trust Agreement.

Participants. The term “Participants” means those brokerdealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

Permitted Investments means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (the Trustee being entitled to conclusively rely upon the investment direction of the District as a certification to it that such investment is a Permitted Investment with no duty to determine Fair Market Value):

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or
- (2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.
- (3) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Rural Economic Community Development Administration (formerly the Farmers Home Administration)
 - General Services Administration
 - U.S. Maritime Administration
 - U.S. Department of Housing & Urban Development (HUD)
 - Federal Financing Bank;
- (4) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Farm Credit System Financial Assistance Corporation
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - Federal Housing Administration
- (5) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- senior debt obligations rated “AAA” by Standard & Poor’s Corporation (S&P) and “Aaa” by Moody’s Investors Service, Inc. (Moody’s) issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies;
- (6) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks, including the Trustee and its affiliates, that have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturity no more than 360 days after the date of purchase. (Ratings on holding companies are not to be considered as the rating of the bank);
- (7) Commercial paper that is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and that matures not more than 270 days after the date of purchase;
- (8) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P (such funds may include funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services);
- (9) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state that are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
- (A) that are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or
- (B) that are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) above, which escrow (i) may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (10) General obligations of any state of the United States of America with a rating of at least “A2/A” or higher by both Moody’s and S&P; and
- (11) Investment Agreements.

Prepayment Price. The term “Prepayment Price” means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion thereof) plus the

applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and the Trust Agreement.

Project. The term “Project” means any additions, betterments or improvements to the District’s Water Enterprise designated by the Board of Directors of the District as a Project, the acquisition and construction of which is to be paid for by the proceeds of any Contracts or Obligations.

Qualified Reserve Fund Credit Instrument means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Trust Agreement provided that all of the following requirements are met: (i) the long-term credit rating of such bank or insurance company at the time of delivery of such letter of credit or surety bond is rated in one of the two highest rating categories by Moody’s and S&P; (ii) such letter of credit or surety bond has a term of at least twelve (12) months; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Trust Agreement; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies that may exist from time to time in the amounts available to repay the principal of and interest on the Certificates.

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

Reserve Fund. The term “Reserve Fund” means the fund by that name established in the Trust Agreement.

Reserve Requirement. The term “Reserve Requirement” means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Certificates; 125% of average Installment Payments for that and all subsequent Certificate Years; or maximum aggregate Installment Payments for that or any subsequent Certificate Year.

S&P means Standard & Poor’s, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the District.

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

Special Counsel. The term “Special Counsel” means (a) Fulbright & Jaworski L.L.P., or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

State. The term “State” means the State of California.

Statement of the Corporation or District. The term “Statement of the Corporation or District” means a statement signed by or on behalf of (a) the Corporation by its President or a Vice President or (b)

the District by the President or any member of the Board of Directors or its General Manager or Finance Director or by any person who is specifically authorized by resolution of the District (a certified copy of which has been delivered to the Trustee) to sign or execute such a document on its behalf. If and to the extent required by the provisions of the Trust Agreement relating to certain rules of construction, each Statement of the Corporation or District shall include the statements provided for in the Trust Agreement regarding rules of construction.

Trustee. The term “Trustee” means Wells Fargo Bank, National Association, a national banking association, duly organized and existing under and by virtue of the laws of the United States of America having a corporate trust office in Los Angeles, California, or its successor as Trustee under the Trust Agreement.

Water Enterprise. The term “Water Enterprise” shall have the same meaning given such term in the Installment Sale Agreement.

Written Consent of the Corporation or District, Written Order of the Corporation or District, Written Request of the Corporation or District, Written Requisition of the Corporation or District. The terms “Written Consent of the Corporation or District,” “Written Order of the Corporation or District,” “Written Request of the Corporation or District,” and “Written Requisition of the Corporation or District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (a) the Corporation by its President or a Vice President or (b) the District by the President or any member of the Board of Directors or its General Manager or Finance Director or by any person who is specifically authorized by resolution of the District (a certified copy of which has been delivered to the Trustee) to sign or execute such a document on its behalf.

Pledge of Installment Payments and Other Moneys

The Installment Payments are irrevocably pledged to, and shall be used for, timely payments with respect to the Certificates, and the Installment Payments shall not be used for any other purpose while any of the Certificates remains Outstanding. This pledge shall constitute a first and exclusive lien on the Installment Payments in accordance with the terms of the Trust Agreement.

All Installment Payments to which the Corporation may at any time have been entitled (including income or profit from investments pursuant to the Trust Agreement) are to be made directly to the Trustee; if any such Installment Payment is received by the Corporation at any time, it shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. The Trustee shall deposit all Installment Payments as and when received in the Certificate Payment Fund. All moneys at any time deposited in the Certificate Payment Fund shall be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, subject only to the interest of the Owners of the Certificates, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes herein set forth.

All earnings derived from the investment of funds on deposit in the Certificate Payment Fund shall be retained therein. On the day 10 days before each Interest Payment Date or, if such day is not a Business Day, on the next preceding Business Day, the Trustee shall transfer all earnings from the Reserve Fund not used to meet the Reserve Requirement and for which the Trustee has not received an instruction pursuant to the Trust Agreement to the Certificate Payment Fund.

Amounts deposited into the Certificate Payment Fund shall be held as a credit against the obligation of the District with respect to its payment of the immediately succeeding Installment Payment; on the day 10 days before an Interest Payment Date or, if such day is not a Business Day, on the next

preceding Business Day, the Trustee shall notify the District in writing of the amount necessary to be deposited in the Certificate Payment Fund to pay the Installment Payment coming due on the next Interest Payment Date.

Investment of Moneys

Any moneys in the Certificate Payment Fund, the Cost of Issuance Fund and the Reserve Fund shall be invested by the Trustee, upon the Written Request of the District, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund; provided, however, that any Permitted Investments purchased with moneys in the Reserve Fund will mature in five years or less from the date of purchase. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the District, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (7) of the definition thereof.

The Trustee may sell or present for prepayment any obligations so purchased at the direction of the District whenever it shall be necessary in order to provide moneys to meet any payments and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle moneys held in any of the funds or accounts established pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee under the Trust Agreement shall be accounted for separately notwithstanding such commingling.

Except as required by the covenants to maintain tax-exempt status contained in the Trust Agreement, the value of investments shall be determined on or before each July 1, October 1, January 1 and April 1, and shall be calculated as follows: (a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; (b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; (c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and (d) as to any investment not specified above: the value thereof established by prior agreement between the District and the Trustee.

In making any valuations of securities hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.

Certain Covenants of the District and the Corporation

Corporation and District to Comply with Installment Sale Agreement. Each of the Corporation and District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Installment Sale Agreement and, together with any assignee thereof, to enforce such Installment Sale Agreement against the other party thereto in accordance with its terms.

The Corporation and the District each will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Sale Agreement to be kept, performed and complied with by it.

The Corporation and the District each agrees not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement.

District Budgets. On or prior to the ninetieth day of each Fiscal Year, the District shall certify to the Trustee that the amounts budgeted for payment of Installment Payments are fully adequate for the payment of all Installment Payments due under the Installment Sale Agreement for such Fiscal Year as well as payments to the Reserve Fund pursuant to the Trust Agreement. If the amounts so budgeted are not adequate for the payment of Installment Payments due under the Installment Sale Agreement, the District will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the District in the then ensuing Fiscal Year for the payment of Installment Payments due under the Installment Sale Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the District.

Tax Covenants. The District and the Corporation covenant as follows:

(a) Definitions. When used in the Trust Agreement, the following terms have the following meanings:

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

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Installment Sale Agreement. The District and the Corporation acknowledge that the Installment Sale Agreement is intended to be treated for federal income tax purposes as an obligation the debt service on which comprises the mandatory rental or installment payments, respectively, that undivided interests in the form of certificates of participation were or are to be sold in respect of that obligation, and that the “Gross Proceeds” of that obligation include the proceeds of sale of such certificates of participation and any other amounts that, had such certificates of participation comprised an issue of governmental obligations, would be “proceeds” or “replacements proceeds” of such issue.

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

“*Nonpurpose Investment*”, with respect to any issue of governmental obligations (including the Installment Sale Agreement), means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of such obligations are invested and that is not acquired to carry out the governmental purposes of such obligations.

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

“*Yield*” of

(1) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and

(2) the Installment Sale Agreement has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Become Taxable. The District and Corporation shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts in respect of the Installment Sale Agreement (including any amounts derived from the sale or offering of the Certificates), or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds, in a manner that if made or omitted, respectively, would cause any Interest Component of Series 2004 Installment Payment to become includable in the gross income, as defined in section 61 of the Code, of the Corporation or its assignees for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the District receives a written opinion of Special Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion from gross income for federal income tax purposes of any Interest Component of Series 2004 Installment Payment, the District and Corporation shall comply with each of the specific covenants in the section of the Trust Agreement requiring compliance with certain tax covenants. The Corporation shall not assign the Installment Sale Agreement, or any interest therein, unless the assignee, other than the Trustee, shall have assumed and undertaken the obligations of the Corporation with respect to accounting records and reports under the Trust Agreement; provided further, however, that no such assignment permitted unless the Corporation shall have undertaken to cooperate with the assignee in its satisfaction of such obligations. Any assignment described in the previous sentence having been completed, each reference to "Corporation" in the Trust Agreement with respect to covenants regarding accounting records and reports thereafter shall be treated as a reference also to the assignee.

(c) No Private Use or Private Payments. Except as would not cause the Installment Sale Agreement to become a "private activity bond" within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall at all times prior to the making of the final Series 2004 Installment Payment and termination of the Installment Sale Agreement:

(1) require that one or more state or local governmental agencies exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Installment Sale Agreement, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not permit the direct or indirect imposition of any charge or other payment on or by any person or entity who is treated as using Gross Proceeds of the Installment Sale Agreement or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the District.

(d) No Private Loan. Except as would not cause the Installment Sale Agreement to become a "private activity bond" within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall use or permit the use of Gross Proceeds to make or finance loans to any person or entity other than a state or local government. For purposes of

the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause the Installment Sale Agreement to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor Corporation shall directly or indirectly invest or permit the investment of Gross Proceeds of the Installment Sale Agreement at any time prior to the final payment of the 2004 Series Installment Payments and the termination of the Installment Sale Agreement in any Investment, if as a result of such investment the Yield on Investments acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of the Installment Sale Agreement within the meaning of said section 148. For purposes of this paragraph, Yield on Investments shall be determined in accordance with the provisions of section 1.148-5 of the Tax Regulations (which, under certain circumstances, requires Yield to be determined on less than all such Investments).

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall take or omit to take, or permit, any action that would cause the Installment Sale Agreement to be treated as “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

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

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

(1) The District shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day of final payment of the 2004 Series Installment Payments and termination of the Installment Sale Agreement. However, to the extent permitted by law, the District may commingle Gross Proceeds with other money of the District, provided that the District separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the District shall calculate the Rebatable Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder, which the District shall maintain with its official transcript of proceedings relating to the execution and delivery of the Installment Sale Agreement until six years after the final Computation Date, and to provide promptly to the Corporation a copy of each said calculation.

(3) In order to assure the excludability of the Interest Component of Series 2004 Installment Payments from the gross income of the owners thereof for federal income tax purposes, the District shall make or cause to be made rebate payments at the times and in the

amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, which payments shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder.

(4) The District shall cause the exercise of reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), that if nevertheless an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after the error has been or with the exercise of reasonable diligence would have been discovered), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) of the Tax Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall enter into any transaction that reduces the amount required to be paid to the United States pursuant to section 148(f) of the Code because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and the Yield of the Installment Sale Agreement had been irrelevant to each party.

(j) Installment Sale Agreement Not Hedge Bond. The District represents that the Installment Sale Agreement is not and will not become a "hedge bond" within the meaning of section 149(g) of the Code.

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

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

The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee shall have no independent duty to review any calculations or enforce the compliance by the District or the Corporation with any rebate requirements.

Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books shall be available for inspection by the District and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee shall furnish to the District a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created under the Trust Agreement held by it.

Compliance with Trust Agreement. The Trustee will not execute, or permit to be executed, any Certificates in any manner other than in accordance with the provisions of the Installment Sale Agreement, and the District will not suffer or permit any default by it to occur under the Installment Sale Agreement, but will faithfully observe and perform all the covenants, conditions and requirements of the Trust Agreement.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Trust Agreement, the Corporation and the District will each well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America, 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 Corporation or the District respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts. The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the Project by the District, and all other contracts and agreements affecting or involving the Project to the extent that the District is a party thereto.

Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Certificate Owner, 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 Enterprise or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and, to the extent permitted by law, shall indemnify and save the Trustee, the Corporation and every Certificate 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.

The District shall defend against every suit, action or proceeding at any time brought against the Trustee, the Corporation or any Certificate Owner upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee, the Corporation or any Certificate Owner under the Trust Agreement; provided that the Trustee, the Corporation or any Certificate Owner at such party's election may appear in and defend any such suit, action or proceeding. To the extent permitted by law, the District shall indemnify and hold harmless the Trustee, the Corporation and the Certificate Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Certificate Owners against any attorneys fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a party by reason of ownership of Certificates. The District shall promptly reimburse the Corporation or any Certificate Owner in the full amount of any attorneys fees or other expenses which it or such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Trust Agreement or the Certificates, provided that such litigation shall be concluded favorably to such party's contentions therein.

Recordation and Filing. The Trustee, at the written direction of the District, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in the Trust Agreement and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Certificate Owners and the rights and security interests of the Trustee. The District shall do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of the Trust Agreement and the Assignment Agreement.

Eminent Domain. If all or any part of the Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the proceeds therefrom shall be applied in the manner specified in the Installment Sale Agreement.

Further Assurances. Whenever and so often as requested so to do by the Trustee or any Certificate Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, 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 Certificate Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Trust Agreement.

Default and Remedies

Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the District pursuant to the Installment Sale Agreement, the Trustee shall, give written notice to the District and the Corporation, of the delinquency and the amount of the delinquency no later than one (1) Business Day following the date upon which such delinquent Installment Payment was due.

Action on Default or Termination. Upon the occurrence of an Event of Default (as that term is defined in the Installment Sale Agreement), which event shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, the Trustee, at the written direction of the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding shall be entitled, upon notice in writing to the District, to accelerate the unpaid Installment Payments under the Installment Sale Agreement and to exercise the remedies provided to the Corporation in the Installment Sale Agreement.

Upon declaration of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with the Installment Sale Agreement, the Trustee may apply all moneys received as Installment Payments and all moneys held in any fund or account under the Trust Agreement to the payment of the entire principal amount of the Certificates and the accrued interest with respect thereto, with interest on the overdue Certificates at the rate or rates of interest applicable to the Certificates if paid in accordance with their terms.

Other Remedies of the Trustee. The Trustee shall have the right:

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

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

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the District and its directors, officers and employees to account as the trustee of an express trust.

Trustee Appointed Agent for Certificate-Owners; Direction of Proceedings. The Trustee is appointed the agent and attorney of the Owners of all Certificates outstanding for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the

Certificates Outstanding shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, provided such direction shall be in accordance with law and the provisions of the Trust Agreement and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Certificate owners not parties to such a direction.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Certificates Outstanding opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Trust Agreement, or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

The Trustee

The District, or, if the District is in default under the Installment Sale Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding, may by written request to the Trustee, remove the Trustee and any successor thereto, and may appoint a successor Trustee, but any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000), and subject to supervision or examination by federal or state authorities. If such bank 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 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the District and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving 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 at the expense of the District petition the appropriate court having jurisdiction to

appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to the Trust Agreement, 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 Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District or the Corporation, and may act as depositary, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Corporation or the District as freely as if it were not Trustee.

Amendments

Amendments Permitted. The Trust Agreement and the rights and obligations of the Corporation, the District, the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee, provided, however, that no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its respective written consent thereto.

The Trust Agreement and the rights and obligations of the Corporation, the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment to the Trust Agreement which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Corporation or the District contained in the Trust Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Trust Agreement reserved to or conferred upon the Corporation or the District, but only if such addition or surrender does not adversely affect the interests of the Owners of the Certificates;

(ii) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement, as the Corporation or the District may deem necessary or desirable, but only if such cure, correction or supplementation does not adversely affect the interests of the Owners of the Certificates; and

(iii) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto.

Amendment of Particular Certificates. The provisions of the Trust Agreement regarding amendments thereto shall not prevent any Owner from accepting any amendments to the particular Certificates held by him or her, provided that due notation thereof is made on such Certificates.

Defeasance

Discharge of Trust Agreement. When the obligations of the District under the Installment Sale Agreement shall cease pursuant to Article IX of the Installment Sale Agreement (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate and become void, and after provision for payment of amounts due the Trustee thereunder, the Trustee shall turn over to the District, as an overpayment of Installment Payments, any surplus in the Certificate Payment Fund and all balances remaining in any other funds or accounts (other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Certificates), and after such payment, unless otherwise provided in the Trust Agreement, the Trust Agreement shall become void.

SUMMARY OF THE INSTALLMENT SALE AGREEMENT

Definitions

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Additional Revenues

The term "Additional Revenues" means, with respect to the execution of any Contract or the issuance of any Bonds, any or all of the following amounts:

a. An allowance for Net Revenues from any additions or improvements to or extensions of the Water Enterprise to be financed from the proceeds of such Contracts or Bonds or from any other source, all in an amount equal to seventy-five percent (75%) of the estimated additional Net Revenues to be derived from such additions, improvements and extensions for the first twelve (12) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the District.

b. An allowance for Net Revenues arising from any increase in the charges made for service from the Water Enterprise which has become effective prior to the execution of such Contracts or the issuance of such Bonds in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, all as shown by the certificate or opinion of an Independent Certified Public Accountant.

Agreement

The term "Agreement" means the Installment Sale Agreement, by and between the District and the Corporation, dated as of April 1, 2004, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Bonds

The term “Bonds” means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are on a parity with the Series 2004 Installment Payments and which are secured by a pledge of and lien on the Revenues.

Construction Costs

The term “Construction Costs” means, with respect to the Water Enterprise, all costs of the Project that are paid from moneys on deposit in the Construction Fund including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the Project;
- (b) obligations incurred for labor and materials in connection with the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the Project;
- (d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commission, and for supervising construction, as well as for the performance of all other duties required by or consequent to the Project;
- (e) any sums required to reimburse the Corporation or the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the Project; and
- (f) all financing costs incurred in connection with the Project, including but not limited to Costs of Issuance and other costs incurred in connection with the Installment Sale Agreement and the financing of the Project.

Contracts

The term “Contracts” means this Installment Sale Agreement and any amendments and supplements to the Installment Sale Agreement, and all contracts of the District authorized and executed by the District, the Installment Payments under which are on a parity with the Series 2004 Installment Payments and which are secured by a pledge and lien on the Net Revenues.

Corporation

The term “Corporation” means Bard Water District Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Cost of Issuance

The term “Cost of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Corporation or the District which are related to the authorization, execution and delivery of the Trust Agreement and the Installment Sale Agreement and the related sale of the Certificates, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by them, filing fees, initial fees and charges of

the Trustee, fees and charges of the Corporation, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of any financial advisor, fees and charges for preparation, execution, delivery and safe keeping of the Certificates, the premium for any policy of municipal bond insurance applicable to Certificates, and any other charge, cost or fee in connection with the original sale, execution and delivery of the Certificates.

Date of Operation

The term “Date of Operation” means, with respect to any uncompleted component of the Project, the estimated date by which such component will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the District.

Debt Service

The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest accruing during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds),

(2) those portions of the principal amount of all outstanding serial Bonds maturing in such period and in the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts,

(3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts, and

(4) those portions of the Installment Payments required to be made during such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such Installment Payments were deemed to accrue daily during such period in equal amounts (except to the extent the interest evidenced and represented thereby is to be paid from the proceeds from the sale of certificates of participation in Installment Payments under any Contract):

provided that, as to any such Bonds or Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be assumed to be the highest of: (i) the actual rate on the date of calculation, or if the Bonds or Installment Payments are not yet outstanding, the initial rate (if established and binding), (ii) if the Bonds or Installment Payments have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(1) if interest on the Bonds or Installment Payments is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest rate on direct United States Treasury obligations with comparable maturities plus fifty (50) basis points;

provided further that if any series or issue of such Bonds or Installment Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt

Service shall be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Installment Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or Installment Payments or portions thereof bearing no interest but which are sold at a discount that accretes with respect to such Bonds or Installment Payments or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Debt Service shall also include any amounts owed by the District to the issuer of a Reserve Fund credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, if and to the extent the District chooses to satisfy the Series 2004 Reserve Fund Requirement with a Qualified Reserve Fund Credit Instrument.

District

The term “District” means Bard Water District, a County Water District duly organized and existing under and by virtue of the laws of the State of California.

Event of Default

The term “Event of Default” means an event described in the Installment Sale Agreement.

Fiscal Year

The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Independent Certified Public Accountant

The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District and the Corporation pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant

The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, and who, or each of whom:

- (1) is in fact independent and not under domination of the District or the Corporation;

(2) does not have any substantial interest, direct or indirect, with the District or the Corporation; and

(3) is not connected with the District or the Corporation as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Installment Payment Date; Series 2004 Installment Payment Date

The term “Installment Payment Date” means each date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term “Series 2004 Installment Payment Date” means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

Installment Payments; Series 2004 Installment Payments; Interest Component of Series 2004 Installment Payments

The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts. The term “Series 2004 Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Sale Agreement. The term “Interest Component of Series 2004 Installment Payment”, with respect to any Series 2004 Installment Payment, means the “Amount Attributable to Interest” in respect of such payment as reflected in Exhibit A to the Installment Sale Agreement.

Interest Payment Date

The term “Interest Payment Date” means May 1 and November 1 of each year, commencing November 1, 2004.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means, as of the date of any calculation and with respect to all outstanding Contracts and Bonds, the maximum sum obtained for the current or any future Certificate Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Certificate Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Certificate Year pursuant to the Installment Sale Agreement; and

(b) the principal amount of all outstanding Contracts and Bonds, if any, coming due and payable by their terms in such Certificate Year; and

(c) the amount of interest which would be due during such Certificate Year on the aggregate principal amount of all outstanding Contracts and Bonds, if any, which would be outstanding in such Certificate Year if such Contracts and Bonds were retired as scheduled; provided, however, that with respect to any Contracts and Bonds which bear interest at a variable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J.J. Kinney Index (or, in the event and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations as may be selected by the District in its sole discretion).

Net Proceeds

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

Net Revenues

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

Operation and Maintenance Costs

The term “Operation and Maintenance Costs” means

(1) Costs spent or incurred for maintenance and operation of the Water Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water Enterprise in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water Enterprise, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and

(2) All other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the Certificates or of the Installment Sale Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Project

The term “Project” means any additions, betterments, extensions or improvements to the Water Enterprise designated by the District as a Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Corporation under the terms of the Installment Sale Agreement.

Revenue Fund

The term “Revenue Fund” means the fund by that name established pursuant to the Installment Sale Agreement.

Revenues

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

(1) all income, rents, rates, fees, charges, or other moneys derived by the District from the sale, furnishing and supplying of water, or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water Enterprise, plus

(2) the proceeds of any stand-by or capacity charges collected by the District and receipt of property taxes, plus

(3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves,

and excluding

(1) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and

(2) all income, rents, rates, fees, charges or other moneys derived by the District from operations not related to the Water Enterprise, and

(3) any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds, notes or other indebtedness hereafter issued or which are otherwise not legally available for payment of Installment Payments.

Series 2004 Reserve Fund Requirement

The term “Series 2004 Reserve Fund Requirement” means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Certificates; (ii) 125% of the average Installment Payments for that and all subsequent Certificate Years; or (iii) maximum aggregate Installment Payments for that or any subsequent Certificate Year.

Special Counsel

The term “Special Counsel” means (a) Fulbright & Jaworski L.L.P., or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations of states and their political subdivisions and duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

Trust Agreement

The term “Trust Agreement” means the Trust Agreement dated as of April 1, 2004 by and among the District, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee

The term “Trustee” means Wells Fargo Bank, National Association, acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

Water Enterprise

The term “Water Enterprise” means the whole and each and every part of the irrigation system of the District, including the portion thereof existing on the date of the Installment Sale Agreement, and including all additions, betterments, extensions and improvements to such system or any part thereof hereafter acquired or constructed.

Written Consent of the Corporation or District, Written Order of the Corporation or District, Written Request of the Corporation or District, Written Requisition of the Corporation or District

The terms “Written Consent of the Corporation or District,” “Written Order of the Corporation or District,” “Written Request of the Corporation or District,” and “Written Requisition of the Corporation or District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Corporation by its President or a Vice President or (ii) the District by the Manager or Finance Director or by any person who is specifically authorized by resolution, of the District (a certified copy of which has been delivered to the Trustee) to sign or execute such a document on its behalf.

Certain Covenants of the District

Compliance with Installment Sale Agreement and Ancillary Agreements. The District will punctually pay the Series 2004 Installment Payments in strict conformity with the terms of the Installment Sale Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Sale Agreement required to be observed and performed by it, and will not terminate the Installment Sale Agreement for any cause.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it; and it is expressly understood and agreed by and between the parties to the Installment Sale Agreement that each of the agreements, conditions, covenants and terms contained in each of the Installment Sale Agreement and the Trust Agreement is an essential and material term of the purchase of and payment for the Water Enterprise by the District pursuant to and in accordance the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The District will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as provided in the Installment Sale Agreement. The District may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a pledge of and lien on Revenues or any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the Installment Sale Agreement. The District will not issue any evidences of indebtedness or incur other obligations which are payable from and secured by a pledge of and lien on Revenues senior to the pledge of and lien on Revenues of the Series 2004 Installment Payments.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water Enterprise or any part thereof necessary to secure adequate Revenues for the payment of the Series 2004 Installment Payments, or which would otherwise impair the rights of the Corporation under the Installment Sale Agreement or the operation of the Water Enterprise. Any real or personal property which has become nonoperative or which is not needed for the efficient and

proper operation of the Water Enterprise, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the Series 2004 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Installment Sale Agreement shall restrict the ability of the District to sell any portion of the Water Enterprise if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water Enterprise exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water Enterprise.

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

Tax Covenants. The District and the Corporation covenant as follows:

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

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

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Installment Sale Agreement. The District and the Corporation acknowledge that Agreement is intended to be treated for federal income tax purposes as an obligation the debt service on which comprises the mandatory rental or installment payments, respectively, that undivided interests in the form of certificates of participation were or are to be sold in respect of that obligation, and that the “Gross Proceeds” of that obligation include the proceeds of sale of such certificates of participation and any other amounts that, had such certificates of participation comprised an issue of governmental obligations, would be “proceeds” or “replacements proceeds” of such issue.

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

“*Nonpurpose Investment*”, with respect to any issue of governmental obligations (including the Installment Sale Agreement), means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of such obligations are invested and that is not acquired to carry out the governmental purposes of such obligations.

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

“*Yield*” of

(1) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and

(2) the Installment Sale Agreement has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Become Taxable. The District and Corporation shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts in respect of the Installment Sale Agreement (including any amounts derived from the sale or offering of the Certificates), or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds, in a manner that if made or omitted, respectively, would cause any Interest Component of Series 2004 Installment Payment to become includable in the gross income, as defined in section 61 of the Code, of the Corporation or its assignees for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the District receives a written opinion of Special Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion from gross income for federal income tax purposes of any Interest Component of Series 2004 Installment Payment, the District and Corporation shall comply with each of the specific covenants in the Trust Agreement. The Corporation shall not assign the Installment Sale Agreement, or any interest therein, unless the assignee, other than the Trustee, shall have assumed and undertaken the obligations of the Corporation under these tax covenants; provided further, however, that no such assignment permitted unless the Corporation shall have undertaken to cooperate with the assignee in its satisfaction of such obligations. Any assignment described in the previous sentence having been completed, each reference to “Corporation” in these tax covenants thereafter shall be treated as a reference also to the assignee.

(c) No Private Use or Private Payments. Except as would not cause the Installment Sale Agreement to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall at all times prior to the making of the final Series 2004 Installment Payment and termination of the Installment Sale Agreement:

(1) require that one or more state or local governmental agencies exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Installment Sale Agreement, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not permit the direct or indirect imposition of any charge or other payment on or by any person or entity who is treated as using Gross Proceeds of the Installment Sale Agreement or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the District.

(d) No Private Loan. Except as would not cause the Installment Sale Agreement to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall use or permit the use of Gross Proceeds of the Certificates to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross

Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause the Installment Sale Agreement to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor Corporation shall directly or indirectly invest or permit the investment of Gross Proceeds of the Installment Sale Agreement at any time prior to the final payment of the 2004 Series Installment Payments and the termination of the Installment Sale Agreement in any Investment, if as a result of such investment the Yield on Investments acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of the Installment Sale Agreement within the meaning of said section 148. For purposes of this paragraph, Yield on Investments shall be determined in accordance with the provisions of section 1.148-5 of the Tax Regulations (which, under certain circumstances, requires Yield to be determined on less than all such Investments).

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall take or omit to take, or permit, any action that would cause the Installment Sale Agreement to be treated as “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

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

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

(1) The District shall account for all Gross Proceeds of the Installment Sale Agreement (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day of final payment of the 2004 Series Installment Payments and termination of the Installment Sale Agreement. However, to the extent permitted by law, the District may commingle Gross Proceeds of the Installment Sale Agreement with other money of the District, provided that the District separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the District shall calculate the Rebateable Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder, which the District shall maintain with its official transcript of proceedings relating to the execution and delivery of the Installment Sale Agreement until six years after the final Computation Date, and to provide promptly to the Corporation a copy of each said calculation.

(3) In order to assure the excludability of the Interest Component of Series 2004 Installment Payments from the gross income of the owners thereof for federal income tax purposes, the District shall make or cause to be made rebate payments at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, which payments shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder.

(4) The District shall cause the exercise of reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), that if nevertheless an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after the error has been or with the exercise of reasonable diligence would have been discovered), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) of the Tax Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall enter into any transaction that reduces the amount required to be paid to the United States pursuant to section 148(f) of the Code because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and the Yield of the Installment Sale Agreement had been irrelevant to each party.

(j) Agreement Not Hedge Bond. The District represents that more of the Installment Sale Agreement is not and will not become a "hedge bond" within the meaning of Section 149(g) of the Code.

Maintenance and Operation of the Water Enterprise. The District will maintain and preserve the Water Enterprise in good repair and working order at all times and will operate the Water Enterprise in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

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 Revenues or the funds or accounts created under the Installment Sale Agreement or under the Trust Agreement or on any funds in the hands of the District pledged to pay the Series 2004 Installment Payments or to the Owners prior or superior to the lien of the Series 2004 Installment Payments or which might impair the security of the Series 2004 Installment Payments, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Insurance. The District will procure and maintain or cause to be procured and maintained insurance relating to the Water Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water Enterprise) as are usually covered in connection with facilities similar to the Water Enterprise, so long as such insurance is available from reputable insurance companies at reasonable costs.

In the event of any damage to or destruction of the Water Enterprise caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water Enterprise. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water Enterprise shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water Enterprise, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water Enterprise, then the excess Net Proceeds shall be applied in part to the

prepayment of Series 2004 Installment Payments as provided in the Installment Sale Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2004 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced by the Installment Sale Agreement prior to the final due date of the Series 2004 Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water Enterprise, and/or not to construct other additions, betterments, extensions or improvements to the Water Enterprise; and thereupon such Net Proceeds shall be applied to the prepayment of Series 2004 Installment Payments as provided in the Installment Sale Agreement and to the retirement of such Bonds and Contracts.

The District will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water Enterprise.

Any insurance maintained under the Installment Sale Agreement may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water Enterprise and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained under the Installment Sale Agreement shall provide that the Corporation and the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Records.

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

The District will prepare and file with the Corporation and the Trustee annually within two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2003);

- (1) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and
- (2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water Enterprise, as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

The District will prepare annually not more than two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2004) a summary report showing in reasonable detail the Revenues and the Operation and Maintenance Costs for such Fiscal Year and containing a general statement of the physical condition of the Water Enterprise. The District will furnish

a copy of such summary report to the Corporation and upon request to any investment bankers, security dealers and others interested in the Series 2004 Installment Payments.

Protection of Security and Rights of the Corporation. The District will preserve and protect the security of the Installment Sale Agreement and the rights of the Corporation to the Series 2004 Installment Payments under the Installment Sale Agreement and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water Enterprise, or any part thereof or upon the 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 Enterprise, or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates, fees and charges applicable to the Water Enterprise and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

If (1) the District files with the Corporation and the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water Enterprise proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Corporation and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Sale Agreement will not be substantially impaired (which determination shall be final and conclusive), then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Revenue Fund.

If the foregoing conditions are not met, then such Net Proceeds shall be applied by the District in part to the prepayment of Series 2004 Installment Payments as provided in the Installment Sale Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2004 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Sale Agreement and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in the Installment Sale Agreement.

Continuing Disclosure. The District will comply with the continuing disclosure requirements promulgated under Securities and Exchange Commission Rule 15c2-12(b)(5) and will also comply with the terms of the Continuing Disclosure Agreement.

Access to the Water Enterprise. The District agrees that the Corporation, the Trustee and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Water Enterprise. The District further agrees that the Corporation and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Water Enterprise as may be reasonably necessary to cause the proper maintenance of the Water Enterprise in the event of failure by the District to perform its obligations hereunder.

Events of Default and Remedies of the Corporation

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made in the due and punctual payment of any Series 2004 Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the agreements or covenants required to be performed by it under the Installment Sale Agreement, 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 Corporation; provided, however, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such sixty (60) day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(3) if the District shall file a petition or answer 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 a court of competent jurisdiction shall approve a petition filed with or without 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;

then and in each and every such case during the continuance of such Event of Default specified in clause (3) above, the Corporation shall, and for any other such Event of Default the Corporation may, by notice in writing to the District, declare the entire principal amount of the unpaid Series 2004 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2004 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the Series 2004 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2004 Installment Payments or such Contract or Bond

if paid in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Series 2004 Installment Payments 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 Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, 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.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Installment Sale Agreement, all Revenues thereafter received shall be applied in the following order -

First, to the payment, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants and legal counsel;

Second, to the payment of the Operation and Maintenance Costs; and

Third, to the payment of the entire principal amount of the unpaid Series 2004 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2004 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Other Remedies of the Corporation. The Corporation shall have the right --

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

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

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

Notwithstanding anything contained herein, the Corporation shall have no security interest in or mortgage on the Water Enterprise or any other real property of the District and no default hereunder shall result in the loss of the Water Enterprise or any other real property of the District

Non-Waiver. A waiver of any default or breach of duty or contract by the Corporation 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 Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy 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 Corporation by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

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

Remedies Not Exclusive. No remedy conferred upon or reserved to the Corporation or the Certificate Owners by the Installment Sale Agreement, or as provided in the Trust Agreement, 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 under the Installment Sale Agreement or under the Trust Agreement 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 the Law or any other law.

Discharge of Obligations

When:

(1) all or any portion of the Series 2004 Installment Payments shall have become due and payable or a written notice of the District to prepay all or any portion of the Series 2004 Installment Payments shall have been filed with the Trustee; and

(2) there shall have been deposited with the Trustee at or prior to the Series 2004 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2004 Installment Payments, sufficient moneys and Investments, issued by the United States of America and described in clause (2), (3) or (9) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Series 2004 Installment Payments to their respective Series 2004 Installment Payment Dates or prepayment date or dates as the case may be; and

(3) provision shall have been made for paying all fees and expenses of the Trustee,

then and in that event, if an opinion of Special Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Sale Agreement with respect to such discharge of obligations shall not adversely affect the tax exempt status of the interest portion of the Series 2004 Installment Payments, the right, title and interest of the Corporation in the Installment Sale Agreement and the obligations of the District under the Installment Sale Agreement shall, with respect to all or such portion of the Series 2004 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Series 2004 Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of Series 2004 Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Sale Agreement other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Series 2004 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Series 2004 Installment Payments and shall be applied by the Trustee to the payment of the Series 2004 Installment Payments of the District.

APPENDIX C

PROPOSED FORM OF SPECIAL COUNSEL OPINION

[Dated the Date of Closing]

Bard Water District
1473 Ross Road
Winterhaven, California 92283

Bard Water District Financing Corporation
1473 Ross Road
Winterhaven, California 92283

\$1,735,000
CERTIFICATES OF PARTICIPATION
(Reservation Main Canal Improvements Project)
Series 2004

Ladies and Gentlemen:

In our role as Special Counsel with respect to the execution and delivery of the Certificates of Participation (Reservation Main Canal Improvements Project) Series 2004 (the "Certificates"), evidencing the direct, undivided fractional interests of the owners thereof in Installment Payments to be made by the Bard Water District (the "District") as the Purchase Price for certain property pursuant to an Installment Sale Agreement, dated as of April 1, 2004 (the "Installment Sale Agreement") by and between the District and the Bard Water District Financing Corporation (the "Corporation"), we have examined certified copies of the proceedings taken in connection therewith. We have also examined supplemental documents furnished to us and have obtained such certificates and documents from public officials as we have deemed necessary for the purposes of this opinion. The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2004 (the "Trust Agreement"), by and among the District, the Corporation and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and pursuant to the authorizing Resolutions of the Board of Directors of the Corporation and the Board of Directors of the District. Proceeds of the Certificates will be applied to: (i) finance certain capital improvements to the Water Enterprise; (ii) to fund a reserve fund or purchase a reserve fund surety bond; and (iii) to pay costs related to the execution and delivery of the Certificates. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Trust Agreement and the Installment Sale Agreement, as applicable.

The Certificates are executed and delivered as fully registered certificates in the denomination of \$5,000 or any integral multiple thereof. The Certificates are dated, and bear interest from, the date of their initial delivery. The interest component of the Certificates is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2004.

The Certificates are subject to prepayment prior to maturity as provided in the Trust Agreement.

Based upon the foregoing, we are of the opinion that:

1. The Trust Agreement has been duly and validly authorized, executed and delivered by the District and, assuming such Trust Agreement constitutes the legally valid and binding obligation of the Corporation and the Trustee, constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms, and the Certificates are entitled to the benefits of the Trust Agreement.

2. The Trust Agreement has been duly and validly authorized, executed and delivered by the Corporation and, assuming such Trust Agreement constitutes the legally valid and binding obligation of the District and the Trustee, constitutes the legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

3. The Installment Sale Agreement has been duly and validly authorized, executed and delivered by the District and, assuming such Installment Sale Agreement constitutes the legally valid and binding obligation of the Corporation, constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms.

4. The Installment Sale Agreement has been duly and validly authorized, executed and delivered by the Corporation and, assuming such Installment Sale Agreement constitutes the legally valid and binding obligation of the District, constitutes the legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

5. The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the execution and delivery of the Certificates for the component of each Installment Payment designated as interest in the Installment Sale Agreement (the "Payment Interest"), and the allocable portion thereof distributable in respect of each Certificate (the "Certificate Interest Distribution"), to be and remain excluded from the gross income of the owner thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income of such owner for federal income tax purposes retroactive to the date of delivery of the Certificates. The Corporation and the District have covenanted in the Trust Agreement, and the District has covenanted also in the Installment Sale Agreement, to maintain the exclusion pursuant to section 103(a) of the Code of the Payment Interest from the gross income of the owner thereof for federal income tax purposes.

In our opinion, under existing law, and assuming compliance with the aforementioned covenant, the Payment Interest allocable to and the Certificate Interest Distributions in respect of a Certificates are excluded pursuant to section 103(a) of the Code from the gross income of the owner thereof for federal income tax purposes; inasmuch as the Installment Sale Agreement is not a "specified private activity bond" within the meaning of section 57(a)(5) of the Code, neither the Payment Interest nor any Certificate Interest Distribution is an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. It is noted that the accrual of Payment Interest allocable to and Certificate Interest Distributions in respect of a Certificate owned by a corporation may affect the computation of income, upon which the alternative minimum tax is imposed, to the extent that such amounts are taken into account in determining the adjusted earnings of that corporation (75 percent of the excess (if any) of such adjusted current earnings over the alternative minimum taxable income being an adjustment to the alternative minimum taxable income (determined without regard to the adjustment or to the alternative tax net operating loss deduction)). Further, based solely on the foregoing, and upon existing provisions of the California Revenue and Tax Code, we are of the opinion that Payment Interest allocable to and the Certificate Interest Distributions in respect of a Certificate are not subject to taxation under the California personal income tax.

We have not undertaken to advise in the future whether any events after the date of delivery of the Installment Sale Agreement may affect the tax status of the Payment Interest or Certificate Interest Distributions. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exclusion of such amounts from the gross income of the owner of Certificates for federal income tax purposes. Furthermore, we express no opinion as to any federal, state, or local tax law consequences with respect to the Installment Sale Agreement, Certificates, Payment Interest, or Certificate Interest Distributions, if any action is taken with respect to the Installment Sale Agreement, the Trust Agreement, the Certificates, or the proceeds thereof, permitted or predicated upon the advice or approval of counsel if such advice or approval is given by counsel other than us.

Except as stated in the preceding paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Installment Sale Agreement or Certificates. We have not been requested to express, and do not express, any view as to the compliance by any person with federal and state securities laws. With the exception of the opinions expressed above, we have not been requested to express and do not express, any opinion as to any matter affected by any taxing or other law of the State of California.

The foregoing opinions are qualified to the extent that the enforceability of the Trust Agreement and the Certificates, respectively, may be limited by any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of April 1, 2004, is executed and delivered by the Bard Water District (the “District”) and Wells Fargo Bank, National Association, as Trustee (the “Trustee”) under the Trust Agreement (as defined below) and Dissemination Agent hereunder (the “Dissemination Agent”) in connection with the execution and delivery of Certificates of Participation (Reservation Main Canal Improvements Project) Series 2004 (the “Certificates”), in aggregate principal amount of \$1,735,000 representing the direct, undivided fractional interests of the registered owners thereof in installment purchase payments to be made by the District as the purchase price for certain property, pursuant to an Installment Sale Agreement, dated as of April 1, 2004 (the “Installment Sale Agreement”), between the District and the Bard Water District Financing Corporation (the “Corporation”). The Certificates are being delivered pursuant to a Trust Agreement dated as of April 1, 2004 (the “Trust Agreement”), among the Corporation, the District and the Trustee. The District, the Trustee and Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District, Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. The District, Trustee and the Dissemination Agent acknowledge that the Corporation has no responsibility for continuing disclosure.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, 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 Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Disclosure Representative” shall mean the 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 Trustee from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website at www.sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriter” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Repository” shall mean each National Repository and each State Repository.

“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.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than February 15 of each year, commencing February 15, 2005, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with the first sentence of this subsection (b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository or to the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) to the extent known to the Dissemination Agent file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
2. The tabular financial information and operating data contained in the Official Statement under the following headings presented on an annual basis, for the subject Fiscal Year:
 - (i) THE WATER ENTERPRISE - Historic Water Deliveries
 - (ii) THE WATER ENTERPRISE - Ten Largest Customers
 - (iii) DISTRICT FINANCIAL INFORMATION - Historic Operating Results

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

SECTION 5. Reporting of Significant Events.

- (a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:
 1. principal and interest payment delinquencies;
 2. non-payment related defaults;
 3. modifications to rights of Certificateholders;
 4. optional, contingent or unscheduled bond calls;
 5. defeasances;
 6. rating changes;
 7. adverse tax opinions or events adversely affecting the tax-exempt status of the Certificates;
 8. unscheduled draws on the debt service reserves reflecting financial difficulties;
 9. unscheduled draws on credit enhancements reflecting financial difficulties;

10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Certificates.

(b) The Trustee shall, within one (1) Business Day or as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Trustee whether or not to report such event to the Certificateholders. In the absence of such direction, the Trustee shall not report such event unless otherwise required to be reported by the Trustee to the Certificateholders under the Trust Agreement. The Trustee may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Trustee shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement with respect to each series of Certificates shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates of such series of Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

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 shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination

Agent shall be Wells Fargo Bank, National Association. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Trustee may amend this Disclosure Agreement (and the Trustee and shall agree to any amendment so requested by the District provided, neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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 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 Trustee to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Certificates, shall

but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or Trustee, as the case may be, 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 Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the respective parties' gross negligence or wilful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Certificateholders, or any other party. Neither the Trustee or the Dissemination Agent shall have any liability to the Certificateholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:	Bard Water District 1473 Ross Road Winterhaven, California 92283 Attention: General Manager
To the Trustee:	Wells Fargo Bank, National Association 707 Wilshire Boulevard, 17 th Floor Los Angeles, California 90017 Attention: Brian Buchanan, Primary Account Manager

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. 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.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be duly executed and delivered by their respective officers as of the date first above written.

BARD WATER DISTRICT

By _____
Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee and Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

\$ _____
CERTIFICATES OF PARTICIPATION
(Reservation Main Canal Improvements Project)
Series 2004
Evidencing the Direct, Undivided Fractional Interests of the Owners
Thereof in Installment Payments to be Made by the
BARD WATER DISTRICT
As the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
BARD WATER DISTRICT FINANCING CORPORATION

Date of Delivery: _____, 2004.

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Installment Sale Agreement dated as of January 1, 2004, between the District and the Corporation. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

on behalf of the District

APPENDIX E

BOOK-ENTRY SYSTEM

The information in this section concerning DTC; and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of each Series of Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. 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.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates: DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices shall be sent to DTC. If less than all of the Certificates 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the Certificates 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 upon DTC's receipt of funds and corresponding detail information from the Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificate certificates are required to be printed and delivered.

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, Certificate certificates will be printed and delivered to DTC.