
2010 INSTALLMENT PURCHASE CONTRACT

by and between the

IMPERIAL IRRIGATION DISTRICT

and the

IMPERIAL IRRIGATION DISTRICT
FINANCING CORPORATION

RELATING TO THE
IMPERIAL IRRIGATION DISTRICT
SUBORDINATE REVENUE CERTIFICATES OF PARTICIPATION
(2010 WATER SYSTEM PROJECT)

Executed and Entered Into as of _____ 1, 2010

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2010 INSTALLMENT PURCHASE CONTRACT

This 2010 Installment Purchase Contract (the “2010 Installment Purchase Contract”), executed and entered into as of _____ 1, 2010, by and between the Imperial Irrigation District, an irrigation district duly organized and existing pursuant to the laws of the State of California (the “District”), and the Imperial Irrigation District Financing Corporation, a nonprofit public benefit corporation duly organized and existing pursuant to the laws of the State of California (the “Corporation”);

WITNESSETH:

WHEREAS, the Corporation has agreed to assist the District by acquiring those certain improvements for the water system of the District described herein (the “2010 Water System Project”) and by selling the 2010 Water System Project to the District as provided herein; and

WHEREAS, the District has agreed to make scheduled installment payments (the “2010 Installment Payments”) to the Corporation for the purchase of the 2010 Water System Project from the Corporation as provided herein; and

WHEREAS, the District and the Corporation hereby certify that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of the 2010 Installment Purchase Contract do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the 2010 Installment Purchase Contract;

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

ARTICLE I

DEFINITIONS

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

Accountant’s Report

“Accountant’s Report” means an audited financial report prepared and signed by an Independent Certified Public Accountant and filed with the District.

Additional Installment Purchase Contract

“Additional Installment Purchase Contract” means any additional Installment Purchase Contract executed by the District pursuant to applicable law and the conditions and terms of Section 4.03, the Installment Payments under which are payable from and secured by a pledge of and lien on the Net Revenues on a parity with the 2010 Installment Payments payable hereunder.

Annual Debt Service

“Annual Debt Service” means, for any Fiscal Year, the Debt Service in such Fiscal Year.

Business Day

“Business Day” means any day other than a Saturday, a Sunday or a legal holiday on which the Trustee is open for corporate trust business at its Principal Corporate Trust Office and on which the Federal Reserve System is open for business.

[Certificate Insurer

“Certificate Insurer” means _____, as the issuer of a municipal bond insurance policy insuring the payment when due of the interest and principal evidenced and represented by the Certificates as provided therein.]

Certificates

“Certificates” means the Imperial Irrigation District 2010 Subordinate Revenue Certificates of Participation (2010 Water System Project) authorized by the Trust Agreement and at any time outstanding thereunder that are executed and delivered by the Trustee pursuant to Article II thereof.

Corporation

“Corporation” means the Imperial Irrigation District Financing Corporation, a nonprofit public benefit corporation duly organized and existing pursuant to the laws of the State of California.

Date of Operation

“Date of Operation” means, with respect to any uncompleted Water System Project, the estimated date by which such Water System Project will have been completed and, in the opinion of the District, will be ready for use and operation by the District.

Debt Service

“Debt Service” means, for any Fiscal Year, the sum of the payments of interest and principal required to be paid at the times provided in all Parity Obligations that would have accrued during such Fiscal Year if all such payments were deemed to accrue daily in equal amounts from, in each case, the next preceding payment date of interest or principal or the date of the pertinent Parity Obligation, as the case may be; provided, that as to any Parity Obligation bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Debt Service shall be one hundred ten per cent (110%) of the greater of (a) the daily average interest rate on such Parity Obligation during the twelve (12) calendar months next preceding the date of such calculation (or the portion thereof that such Parity Obligation has borne interest) or (b) the most recent effective interest rate on such Parity Obligation prior to the date of such calculation; and provided further, that as to any Parity Obligation having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Obligation were being paid in substantially equal annual amounts over a period of twenty (20) years from the date of the first such principal payment under such Parity Obligation; and provided further, that as to any Parity Obligation or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligation or such portions thereof, such accreted

discount shall not be treated as interest in the calculation of Debt Service; and provided further, that the amount on deposit in a Reserve Fund for any Parity Obligation on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligation and in each preceding year until such amount is exhausted; and provided further, that any payments received from the federal government in connection with “Build America Bonds” as set forth in the American Recovery and Reinvestment Tax Act of 2009 or such other similar programs enacted by the federal government shall be deducted for purposes of calculating Debt Service to the extent such payments have been pledged as security for the Parity Obligation.

District

“District” means the Imperial Irrigation District, an irrigation district duly organized and existing pursuant to the laws of the State of California.

Event of Default

“Event of Default” means an event defined as such in Sections 6.01(a), (b), (c) or (d).

Federal Securities

“Federal Securities” means the obligations described in subsections (1), (2) and (3) of Paragraph A of the definition of “Permitted Investments” contained in Section 1.01 of the Trust Agreement.

Fiscal Year

“Fiscal Year” means the twelve-month period terminating on December 31 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

Generally Accepted Accounting Principles

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

Independent Certified Public Accountant

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

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a member of the board of directors or officer or employee of the District, but which firm may be regularly retained by the District to audit the accounting records of the District and make reports thereon to the District.

Independent Engineer

“Independent Engineer” means any firm of civil engineers specializing in water systems comparable to the Water System duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the District, and each of whom --

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a member of the board of directors or officer or employee of the District, but which firm may be regularly retained by the District to provide engineering services relating to the Water System for the District.

Installment Payment Date; 2010 Installment Payment Date

“Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District pursuant to any Installment Purchase Contract. “2010 Installment Payment Date” means any date on which 2010 Installment Payments are scheduled to be paid by the District pursuant hereto, being January 1 and July 1 of each year in which 2010 Installment Payments are due.

2010 Installment Payment Fund

“2010 Installment Payment Fund” means the Imperial Irrigation District 2010 Installment Purchase Contract Installment Payment Fund established pursuant to Section 5.01 of the Trust Agreement.

Installment Payments; 2010 Installment Payments

“Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District pursuant to all Installment Purchase Contracts. “2010 Installment Payments” means the Installment Payments scheduled to be paid by the District pursuant hereto.

Installment Purchase Contracts; 2000 Installment Purchase Contract; 2002 Installment Purchase Contract; 2004 Installment Purchase Contract; 2010 Installment Purchase Contract

“Installment Purchase Contracts” means the 2010 Installment Purchase Contract and all Additional Installment Purchase Contracts. “2000 Installment Purchase Contract” means the 2000 Installment Purchase Contract executed and entered into as of December 1, 2000, by and between the District and the Corporation, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith. “2002 Installment Purchase Contract” means the 2002 Installment Purchase Contract executed and entered into as of January 1, 2002, by and between the District and the Corporation, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith. “2004 Installment Purchase Contract” means the 2004 Installment Purchase Contract executed and entered into as of April 1, 2004, by and between the District and the Corporation, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith. “2010 Installment Purchase Contract” means this 2010 Installment Purchase Contract executed and entered into as of _____ 1, 2010, by and between the District and the Corporation, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith.

Law

“Law” means the Irrigation District Law, being Division 12 of the Water Code of the State of California.

Maintenance and Operation Costs

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

Maximum Annual Debt Service

“Maximum Annual Debt Service” means, as of the date of calculation, the greatest Debt Service in the current or any future Fiscal Year.

Net Revenues

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

Parity Obligation

“Parity Obligation” means any obligation of the District entered into pursuant to Section 4.03 the interest on and principal of which is payable on a parity with the payment of the 2010 Installment Payments.

Payment Funds

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

Principal Corporate Trust Office

“Principal Corporate Trust Office” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office of the Trustee as may be designated in writing to the Corporation and the District from time to time by the Trustee.

Purchase Price

“Purchase Price” means the principal amount of the 2010 Installment Payments plus the interest thereon owed by the District to the Corporation for the purchase of the 2010 Water System Project under the terms hereof pursuant to Section 3.01.

Reserve Funds; 2010 Reserve Fund

“Reserve Funds” means all reserve funds established to secure the interest on and principal of all Parity Obligations. “2010 Reserve Fund” means the Imperial Irrigation District 2010 Subordinate Revenue Certificates of Participation (2010 Water System Project) Reserve Fund established pursuant to Section 5.03 of the Trust Agreement.

Reserve Fund Requirement

“Reserve Fund Requirement” means the amount defined as such in the Trust Agreement.

Revenue Fund

“Revenue Fund” means the Imperial Irrigation District Water System Revenue Fund established and maintained pursuant to the Installment Purchase Contracts.

Revenues

“Revenues” means all gross income and revenue received by the District from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including without limitation all charges, fees, rates and tolls received by the District for water and the other services of the Water System and all rental and other income derived by the District in connection with or relating to the Transfer Agreements, all interest or investment income received by the District from the investment of any money in the Revenue Fund and in all Payment Funds and in all Reserve Funds, and all other income and revenue howsoever derived by the District from the ownership or operation of the Water System, but excluding all proceeds of assessments and all refundable deposits made to establish credit and advances or contributions in aid of construction. Revenues shall not include any amount received pursuant to the Loan Guarantee.

Senior Obligations

“Senior Obligations” means the 2000 Installment Purchase Contract, the 2002 Installment Purchase Contract, the 2004 Installment Purchase Contract and those two certain loan contracts by and between the State of California, Department of Water Resources and the District in the aggregate principal amount of \$_____, and any obligation of the District whose interest on and principal of which is payable on a parity with such Senior Obligations.

Subordinate Net Revenues

“Subordinate Net Revenues” means for any time period the Net Revenues less debt service on the Senior Obligations during that same time period.

Transfer Agreements

“Transfer Agreements” means the Agreement for Transfer of Conserved Water by and between the District and San Diego County Water Authority, dated April 29, 1998, as amended, and the subsequent Quantification Settlement Agreement and all other related agreements entered into by the District with, among others, The Metropolitan Water District of Southern California, Coachella Valley Water District, the State of California and the United States Department of Interior.

Treasurer

“Treasurer” means the Treasurer of the District.

Trust Agreement

“Trust Agreement” means the Trust Agreement executed and entered into as of _____ 1, 2010, by and among the Trustee, the Corporation and the District relating to the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Trustee

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing pursuant to the laws of the United States of America, as original Trustee under the Trust Agreement, at its Principal Corporate Trust Office, or any successor bank or trust company or national banking association which may at any time be substituted in place of the original or any successor Trustee pursuant to the Trust Agreement as Trustee thereunder, at its Principal Corporate Trust Office.

Unrestricted Reserves

“Unrestricted Reserves” means the unrestricted net assets of the District as shown in the District’s statements of net assets.

Water System

“Water System” means all facilities for obtaining, storing and delivering water and related facilities for the disposition of drainage water now owned or operated by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Water System, whether located within or without the District, including the 2010 Water System Project, together with all improvements to such facilities, properties, structures or works or any part thereof hereafter acquired or constructed.

Water System Project; 2010 Water System Project

“Water System Project” means any improvements to the Water System designated by the District as a designated Water System Project of the District, the cost of the purchase of which is to be paid for by the proceeds of any Installment Purchase Contract. The “2010 Water System Project” means those certain improvements for the Water System to be acquired by the District pursuant hereto, comprising conservation measures which will facilitate the District’s ability to perform its obligations under the Transfer Agreements, together with such additions thereto or less such deletions therefrom as shall be specified by the District (in accordance with the 2010 Installment Purchase Contract) stating that such

additions henceforth constitute part of the 2010 Water System Project or that such deletions henceforth do not constitute part of the 2010 Water System Project, as the case may be.

ARTICLE II

THE 2010 WATER SYSTEM PROJECT

SECTION 2.01. Acquisition, Sale and Purchase of the 2010 Water System Project. The Corporation agrees to finance the acquisition costs of the 2010 Water System Project and to sell the 2010 Water System Project to the District, and the District agrees to purchase the 2010 Water System Project from the Corporation, all as provided herein; and in order to implement this provision, the Corporation hereby appoints the District as its agent for the purpose of financing such acquisition costs, and the District hereby agrees to enter into such purchase contracts as may be necessary, as agent for the Corporation, to provide for the complete acquisition of the 2010 Water System Project, and the District hereby agrees that as such agent it will cause the acquisition of the 2010 Water System Project to be diligently completed as provided herein; provided, that the District shall only be obligated for the payment of costs or expenses (whether as agent for the Corporation or otherwise) for the acquisition of the 2010 Water System Project from the funds available to the District hereunder.

In the event the Corporation fails to observe or perform any agreement, condition, covenant or term contained herein required to be observed or performed by it, the District may institute such action or proceeding against the Corporation as the District may deem necessary to compel the observance or performance of such agreement, condition, covenant or term, or to recover damages for the nonobservance or nonperformance thereof. The District may, at its own cost and expense and in its own name or in the name of the Corporation, prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to protect or secure its rights hereunder, and in such event the Corporation agrees to cooperate fully with the District and to take all action necessary to effect the substitution of the District for the Corporation in any action or proceeding if the District shall so request.

SECTION 2.02. Additions to or Deletions from the 2010 Water System Project. The District may at any time make additions to or make deletions from the 2010 Water System Project, but only if the District first files with the Trustee a certificate of the District:

- (a) identifying the work to be added to the 2010 Water System Project and/or the work to be deleted from the 2010 Water System Project; and
- (b) stating (in the case of such an addition) that the estimated costs of the acquisition of such addition to the 2010 Water System Project are not greater than the funds available to the District hereunder to pay such estimated costs and that such addition is included in the list of projects approved by the California Infrastructure and Economic Development Bank.

SECTION 2.03. Title to the 2010 Water System Project. Upon acquisition of each portion of the 2010 Water System Project by the District, all right, title and interest therein shall automatically vest in the District, which automatic vesting shall occur without further action by the Corporation; provided, that the Corporation shall, if requested by the District or if necessary to assure such automatic vesting of such right, title or interest, execute and deliver any and all documents required to assure such vesting.

ARTICLE III

2010 INSTALLMENT PAYMENTS

SECTION 3.01. Purchase Price of the 2010 Water System Project.

(a) The Purchase Price to be paid by the District hereunder to the Corporation for the purchase of the 2010 Water System Project shall be the sum of the principal installments of the District's obligations hereunder plus the interest to accrue on the unpaid balance of such principal installments from the date hereof over the term hereof (subject in each case to any right of prepayment provided in Section 3.03) plus the 2010 Reserve Fund deposits as provided in Section 4.02.

(b) The principal amount of the District's obligations hereunder is _____ dollars (\$_____).

(c) The principal installments of the District's obligations hereunder shall be due on the following 2010 Installment Payment Dates, and the interest on the unpaid balance of such principal installments shall accrue from the date hereof on such principal installments at the following annual rates of interest per annum (determined on the basis of a 360-day year), and shall be paid by the District as and constitute interest paid on the principal installments of the District's obligations hereunder, namely:

2010 Installment Payment Date <u>(July 1)</u>	<u>Principal Installment</u>	<u>Interest Rate</u>
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SECTION 3.02. Payment of the 2010 Installment Payments. The District shall, subject to any right of prepayment as provided in Section 3.03, pay the Corporation the 2010 Installment Payments as herein provided, without offset or deduction of any kind, by paying the principal installments of the 2010 Installment Payments annually in the amounts and on July 1 in each of the years in accordance with Exhibit A attached hereto and incorporated herein and made a part hereof, and by paying the interest installments of the 2010 Installment Payments, which interest installments shall be paid on _____, and semiannually thereafter on January 1 and July 1 in each of the years in the amounts in accordance with Exhibit A attached hereto and incorporated herein and made a part hereof; provided, that in the event the District fails to make any 2010 Installment Payment when due, the defaulted 2010 Installment Payment shall continue as an obligation of the District, and the District shall pay the same with interest thereon from the due date thereof at the rate of interest applicable thereto.

Subject to Section 4.01 herein, the obligation of the District to pay the 2010 Installment Payments from the Net Revenues as herein provided is absolute and unconditional, and until such time as the 2010 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Section 7.01), the District will not discontinue or suspend any 2010 Installment Payments required to be made by it under this section, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to abatement because of any damage to or destruction or condemnation of the Water System or any part thereof, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

SECTION 3.03. Prepayment of the 2010 Installment Payments. The District may prepay the principal installments of the 2010 Installment Payments becoming due and payable on and after July 1, 2021, on any date on or after July 1, 2020, as a whole or in part (with each prepayment from such dates as may be selected by the District in integral multiples of five thousand dollars (\$5,000) principal amount), from any source of available funds, at a prepayment price equal to the principal amount prepaid plus accrued interest thereon to the date of prepayment, without a prepayment premium.

Before making any prepayment pursuant to this section, the District shall give written notice to the Corporation specifying the date on which the prepayment will be made, which date shall be not less than sixty-five (65) days from the date such notice is given.

Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder until all 2010 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Section 7.01).

ARTICLE IV

REVENUES

SECTION 4.01. Pledge of Net Revenues; Revenue Fund. Except as provided below, and subject to the prior and senior lien of the Senior Obligations, all Net Revenues are hereby irrevocably pledged to the payment of the 2010 Installment Payments and the payment of the interest on and principal of all other Parity Obligations in accordance with the terms hereof and thereof as provided herein and therein, and the Net Revenues shall not be used for any other purpose while any Debt Service remains

unpaid; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by this article. Except with respect to the prior and senior lien of the Senior Obligations, this pledge shall constitute a first and exclusive lien on the Net Revenues for the payment of the 2010 Installment Payments and the payment of the interest on and principal of all other Parity Obligations in accordance with the terms hereof and thereof; and the 2010 Installment Payments shall be secured and payable on a parity with all other Installment Payments.

In the event the QSA is terminated for any reason, Net Revenues only in the amount equal to the difference between the sum of the scheduled 2010 Installment Payments during the twenty-four month period beginning on the first day following the termination of the QSA and the amount held in the Reserve Fund under the Trust Agreement as of the date of termination of the QSA shall be irrevocably pledged to the payment of the 2010 Installment Payments.

All Revenues shall be deposited as and when received in the "Imperial Irrigation District Water System Revenue Fund," which fund is currently existing in the treasury of the District and which fund the District agrees and covenants to continue to maintain so long as any 2010 Installment Payments remain unpaid, and all money in the Revenue Fund shall be used for the payment of Maintenance and Operation Costs and, subject to the provisions in the agreements relating to the Senior Obligations, for the payment of the Debt Service and for making the deposits into the Reserve Funds and shall not be used for any other purpose while any of the 2010 Installment Payments remain unpaid; provided, that pending the use by the District of the money in the Revenue Fund for the foregoing purposes, such money may be invested by the District in Permitted Investments (as that term is defined in the Trust Agreement).

SECTION 4.02. Allocation of Revenues. All money held in the Revenue Fund shall first be used by the District as and when needed to pay Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) as they become due and payable. All remaining money in the Revenue Fund shall be used, subject to the requirements of the agreements relating to the Senior Obligations, as follows: (a) On the fifth (5th) Business Day prior to January 1 and July 1 of each year, beginning on the fifth (5th) Business Day prior to _____, the District shall, from the money then remaining in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting interest on all other Parity Obligations) for deposit in the 2010 Installment Payment Fund the amount of the interest installment becoming due hereunder on the next succeeding January 1 or July 1, as the case may be; and (b) On the fifth (5th) Business Day prior to July 1 of each year, beginning on the fifth (5th) Business Day prior to July 1, 20____, the District shall, from the money then remaining in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting principal of all other Parity Obligations) for deposit in the 2010 Installment Payment Fund the amount of the principal installment becoming due hereunder on the next succeeding July 1; and (c) On January 1 and July 1 of each year, beginning on _____, the District shall, from the money then remaining in the Revenue Fund, transfer to the Trustee (on a parity with the transfers for the replenishment of all Reserve Funds) for deposit in the 2010 Reserve Fund one-half (1/2) of the amount determined by the Trustee to be necessary prior to the first such transfer to restore the 2010 Reserve Fund to the Reserve Fund Requirement over the next twelve (12) months, except that if the deficiency in the 2010 Reserve Fund was occasioned by a reduction in the market valuation thereof (rather than a transfer therefrom), such deposit shall be equal to the total amount determined by the Trustee to be necessary prior to such transfer to restore the 2010 Reserve Fund to the Reserve Fund Requirement; provided, that no such transfers to and deposits need be made if the amount available and contained in the 2010 Installment Payment Fund is at least equal to the interest installment becoming due hereunder on the next succeeding January 1 or July 1, as the case may be, plus the principal installment becoming due hereunder on the next succeeding July 1 and if the amount contained in the 2010 Reserve Fund is equal to the Reserve Fund Requirement.

On July 1 of each year, beginning on July 1, 20____, all remaining money in the Revenue Fund, after the foregoing withdrawals and deposits have been made, shall be withdrawn from the Revenue Fund and deposited by the Treasurer in such fund as the District may determine for expenditure for any lawful purpose of the District.

On and after the termination date of the QSA, the above-described allocation of Revenues shall be limited by the amount of Net Revenues pledged to the payment of the 2010 Installment Payments set forth in Section 4.01 hereof.

SECTION 4.03. Additional Parity Obligations. Other than additional Senior Obligations, the District will not incur any obligations payable from Net Revenues superior to the payment of the 2010 Installment Payments, although the District may at any time execute and deliver any Parity Obligation to refund existing Installment Sale Agreements that results in gross debt service savings. Furthermore, the District may any time execute and deliver any Parity Obligation to finance any Water System Project, the Debt Service on which Parity Obligation is payable on a parity with the payment by the District of the 2010 Installment Payments from the Net Revenues, if

(a) The Subordinate Net Revenues for the most recently audited Fiscal Year of the District, or as shown by the books of the District for any more recent twelve (12) month period selected by the District, including adjustments to give effect to increases in charges, fees, rates or tolls for the use of the Water System approved and in effect as of the date of calculation (in an amount equal to _____ per cent (___%) of the estimated additional Net Revenues for such Fiscal Year if such increase had been in effect during the whole of such Fiscal Year), shall have produced a sum equal to at least one hundred ten per cent (110%) of the average Annual Debt Service as computed by the District for the first five (5) Fiscal Years following the latest Date of Operation of any uncompleted Water System Project; and

(b) The Water System Project to be financed with the proceeds of such Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted Water System Projects) the charges, fees, rates or tolls estimated to be fixed and prescribed for the use of the Water System for each Fiscal Year from the Fiscal Year in which such Parity Obligation is executed and delivered to and including the first complete Fiscal Year after the latest Date of Operation of all uncompleted Water System Projects are economically feasible and reasonably considered necessary, based on projected operations for such period, all as determined by the District;

provided, that notwithstanding the foregoing, no such Parity Obligation shall be executed and delivered if an Event of Default of the District hereunder shall have occurred and shall be then continuing.

ARTICLE V

COVENANTS OF THE DISTRICT

SECTION 5.01. Compliance with the 2010 Installment Purchase Contract. The District will punctually pay the 2010 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the 2010 Installment Purchase Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to any portion of the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required

to be observed and performed by it, whether express or implied. The District will, so long as any 2010 Installment Payments remain unpaid, maintain the Revenue Fund and apply the money therein as provided herein.

SECTION 5.02. Against Encumbrances. The District will not make any use of or encumber the Net Revenues except as provided herein; provided, that so long as the District is not in default hereunder, the District may issue any obligations subordinate to the Installment Purchase Contracts that are payable from any Net Revenues then remaining in the Revenue Fund on July 1 of each year.

SECTION 5.03. Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Revenues. The District will not enter into any agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the 2010 Installment Payments or which would otherwise impair the rights of the District with respect to the Net Revenues or the operation of the Water System.

SECTION 5.04. Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, purchase, 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, purchase, maintain or operate within the District any water system competitive with the Water System.

SECTION 5.05. Tax Covenants.

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

“Code” means the Internal Revenue Code of 1986.

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

“Gross Proceeds” means any Proceeds and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the 2005 Certificates.

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

“Nonpurpose Investment” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the 2005 Certificates are invested and that is not acquired to carry out the governmental purposes of the 2005 Certificates.

“Proceeds,” with respect to an issue of governmental obligations, has the meaning set forth in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds).

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

“Tax Regulations” means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code.

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

(b) Not to Cause Interest Component to Become Taxable. Each of the Corporation and the District covenants that it shall not use, and shall not permit the use of, and shall not omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, could cause the interest component of the 2010 Installment Payments to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Trustee receives a written Opinion of Counsel to the effect that failure to comply with such covenant will not adversely affect such exclusion of the interest component of the 2010 Installment Payments from the gross income of the owner thereof for federal income tax purposes, the Corporation and the District shall comply with each of the specific covenants in this Section.

(c) Private Use and Private Payments. Except as would not cause this 2010 Installment Purchase Contract to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations, each of the Corporation and the District shall take all actions necessary to assure that the Corporation and/or the District at all times prior to the making of the final 2010 Installment Payment and termination of this 2010 Installment Purchase Contract:

(1) exclusively owns, operates, possesses and provides any services necessary to allow and maintain each function of every property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of this 2010 Installment Purchase Contract and not use or permit the use of such Gross Proceeds (including through any contractual arrangement with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government (a “nongovernmental person”), unless such use is solely as a member of the general public; and

(2) does not directly or indirectly impose or accept any charge or other payment by or for the benefit of any person or entity (other than a state or local government) who is treated as using any Gross Proceeds of this 2010 Installment Purchase Contract or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds.

Without limitation of the foregoing, the District covenants that: (i) it will not transfer any direct or indirect ownership interest in the 2010 Water System Project, and will not lease any portion of the 2010 Water System Project to, any nongovernmental person; (ii) it will not enter into any arrangement for the provision by any nongovernmental person of services relating to any function of the 2010 Water System Project, unless such arrangement is of a type that does not create or enhance a private business use relationship between such nongovernmental person or entity and the 2010 Water System Project; and (iii) it will not enter into any contract for the sale of output from the 2010 Water System Project to any nongovernmental person other than (a) a contract that is a retail requirements contract (containing no contractual term that obligates the purchaser to make payments that are not contingent on the output requirements of the purchaser or that obligates the purchaser to have output requirements), (b) a contract having a term and creating rights in respect of the output of the 2010 Water System Project for a period of not longer than one year and providing for compensation that is at fair market value or is based on generally

applicable and uniformly applied rates or (c) a contract that otherwise is of a type that does not create or enhance a private business use relationship between such nongovernmental purchaser and the 2010 Water System Project.

(d) No Private Loan. Except as would not cause this 2010 Installment Purchase Contract to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the Corporation nor the District shall use or permit the use of Gross Proceeds of this 2010 Installment Purchase Contract to make or finance loans to any nongovernmental person. Without limitation of the foregoing, in no event will: (i) property acquired, constructed or improved with such Gross Proceeds be sold or leased to any nongovernmental person in a transaction that would be treated as creating a debt for federal income tax purposes; (ii) capacity in or service from such property be committed to such person under a take-or-pay, output or similar contract or arrangement; or (iii) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, otherwise be transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause this 2010 Installment Purchase Contract to become “arbitrage bonds” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the Corporation nor the District shall (or shall permit any person to), at any time prior to the final payment of the 2010 Installment Payment and the termination of this 2010 Installment Purchase Contract, directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of this 2010 Installment Purchase Contract within the meaning of said section 148.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the Corporation nor the District shall take or omit to take (or shall permit any person to take or omit to take) any action that would cause this 2010 Installment Purchase Contract to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(g) Information Report. The District shall cooperate in the timely filing by the Corporation of any information required by section 149(e) of the Code with respect to this 2010 Installment Purchase Contract with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

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

(1) Each of the Corporation and 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 the final 2010 Installment Payment and termination of this 2010 Installment Purchase Contract. However, to the extent permitted by law, each of the Corporation and the District may commingle Gross Proceeds of this 2010 Installment Purchase Contract with its other moneys, provided that it separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than within 30 days of each Computation Date, the District shall calculate the Rebate Amount as of such Computation Date in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. The District shall

promptly provide to the Corporation a copy of such calculation, and each of the Corporation and the District shall maintain a copy of the calculation with its official transcript of proceedings relating to the execution and delivery of the Certificates until six years after the final Computation Date.

(3) In order to assure the excludability pursuant to section 103(a) of the Code of the interest component of the 2010 Installment Payments from the gross income of the owners thereof for federal income tax purposes, within 60 days of each Computation Date the District shall pay, or shall provide monies to the Corporation sufficient to pay (and the Corporation shall then pay), to the United States the amount that when added to the future value of previous rebate payments made for this 2010 Installment Purchase Contract equals (i) in the case of the Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the Corporation, or the District on behalf of the Corporation, at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder for execution and filing by the Corporation (or by the District if then permitted under applicable law).

(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 Corporation nor the District shall (or shall permit any person to), at any time prior to the final payment of 2010 Installment Payments and the termination of this 2010 Installment Purchase Contract, enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on this 2010 Installment Purchase Contract not been relevant to either party.

(j) 2010 Installment Purchase Contract Not Hedge Bonds.

(1) Each of the Corporation and the District represents that none of this 2010 Installment Purchase Contract is or will become a "hedge bond" within the meaning of section 149(g) of the Code.

(2) Without limitation of clause (i) above: (A) the Corporation will not authorize the Trustee to execute and deliver the Certificates unless as of the date of execution and delivery of the Certificates and based upon representations made to it by the District, the Corporation reasonably expects that at least 85% of the spendable proceeds of this 2010 Installment Purchase Contract will be expended within the three-year period commencing on such date of issuance; and (B) each of the Corporation and the District covenants that no more than 50% of the proceeds of this 2010 Installment Purchase Contract will be invested at any time in Nonpurpose Investments that would provide a substantially guaranteed yield for a period of four years or more. No portion of the proceeds of this 2010 Installment Purchase Contract will be used to pay principal of, or interest or premium, if any, upon redemption on, any obligation of the District, the Corporation or any other person that is not a nongovernmental person.

(k) Elections. Each of the District and the Corporation hereby directs and authorizes any authorized representative to make such 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 this 2010 Installment Purchase Contract, in the Tax

Certificate (as defined in paragraph (1) below) or similar or other appropriate certificate, form or document.

(1) Closing Certificate. Each of the Corporation and the District agrees to execute and deliver in connection with the execution and delivery of the Certificates 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 (the "Tax Certificate"), which representations and covenants are hereby incorporated herein as though expressly set forth herein.

SECTION 5.06. Prompt Acquisition of the 2010 Water System Project. The District will, as agent for the Corporation, acquire the 2010 Water System Project with all practicable dispatch, and such acquisition will be made in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

SECTION 5.07. Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

SECTION 5.08. Reserved.

SECTION 5.09. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the hands of the District or which might impair the security of the 2010 Installment Payments.

SECTION 5.10. Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be kept, observed and performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the District is a party thereto.

SECTION 5.11. Insurance. The District will maintain public liability insurance policies in protection of the District and the members of the board of directors and the officers and employees of the District, which policy or policies shall provide for indemnification against direct or contingent loss or liability for damages for bodily and personal injury, death, or property damage occasioned by reason of the ownership or operation of the Water System, and which policy or policies of public liability insurance shall be in amounts as are customarily insured against by cities or public districts owning and operating water systems similar to the Water System; provided, that such public liability and property damage insurance may be maintained as part of or in conjunction with any other public liability insurance coverage carried by the District, and may be maintained in the form of self-insurance by the District.

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

The District will pay when due the premiums on all such insurance policies and will annually furnish to the Trustee, not later than January 1 of each year, a certificate stating that the District has complied with the insurance requirements contained in this section, and all such insurance policies shall be maintained with insurance companies rated at least "A" by Fitch Ratings and "A" by Moody's Investors Service and "A" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

SECTION 5.12. Accounting Records; Financial Statements and Other Reports.

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

(b) The District will prepare and file with the Corporation and the Trustee annually not later than July 31 of each year (commencing with the Fiscal Year ending December 31, 20__) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon prepared by the Independent Certified Public Accountant who examined such financial statements stating (among other things) that nothing came to his attention in connection with such examination that indicated that the District was not in compliance with any of the agreements or covenants contained herein.

SECTION 5.13. Protection of Security and Rights of Corporation. The District will preserve and protect the security hereof and the rights of the Corporation to the 2010 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

SECTION 5.14. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

SECTION 5.15. Amount of Charges, Fees, Rates and Tolls. The District will fix, prescribe and collect charges, fees, rates and tolls for the use of the Water System which are reasonably fair and nondiscriminatory and which are estimated in each Fiscal Year to be at least sufficient to yield Subordinate Net Revenues during such Fiscal Year equal to one hundred ten per cent (110%) of the Debt Service for such Fiscal Year plus the amount necessary to restore the Reserve Funds to the respective amounts required to be on deposit therein in such Fiscal Year; provided, that the District may make adjustments from time to time in such charges, fees, rates and tolls and may make such classification thereof as it deems necessary, but will not reduce the charges, fees, rates and tolls then in effect unless the Subordinate Net Revenues from such reduced charges, fees, rates and tolls are estimated to be sufficient to meet the requirements of this section. If at the end of any Fiscal Year the charges, fees, rates and tolls fixed by the District for the use of the Water System in such Fiscal Year failed to yield Subordinate Net Revenues for such Fiscal Year as required herein, the District will engage an Independent Engineer to recommend revised charges, fees, rates and tolls and the District will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the District that such recommendations, in whole or in part, are in the best interests of the District, implement such revised charges, fees, rates and tolls so as to produce the necessary Subordinate Net Revenues required by this section.

For the sole purpose of determining whether the District has complied with this Section 5.15, the amount of Unrestricted Reserves shall constitute Revenues.

SECTION 5.16. Collection of Charges, Fees, Rates and Tolls. The District will have in effect at all times rules and regulations requiring each user of the Water System to pay the applicable charges, fees, rates and tolls and providing for the billing thereof and for a due date and a delinquency date for each bill, and in each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District will enforce the collection procedures contained in such rules and regulations. To the extent permitted by law, the District will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof).

SECTION 5.17. Notice of Termination of QSA. Immediately upon termination of the QSA, the District shall send a written notice to the California Infrastructure and Economic Development Bank of such termination and the date on which the first payment under the Loan Guarantee will be required.

SECTION 5.18. 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 hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

SECTION 6.01. Events of Default. If one or more of the following Events of Default shall happen, that is to say -

(a) if default shall be made in the due and punctual payment of any 2010 Installment Payment when and as the same shall become due and payable;

(b) if default shall be made by the District in the payment of Debt Service under any other Parity Obligation of the District;

(c) if default shall be made by the District in the performance of any of the other agreements or covenants contained herein or contained in any Installment Purchase Contract required to be performed by it, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Corporation, [the Certificate Insurer] or the Trustee; or

(d) 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 the Trustee may, [with the prior written consent of the Certificate Insurer], and shall, at the direction of [the Certificate Insurer] or the Owners (as that term is defined in the Trust Agreement) of not less than a majority in aggregate principal amount of outstanding Certificates, [with the prior written consent of the Certificate Insurer], by notice in writing to the District,

declare the entire principal amount of the unpaid 2010 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 continued herein to the contrary notwithstanding; provided, that if at any time after the entire principal amount of the unpaid 2010 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 money thereby due shall have been obtained or entered the District shall deposit with the Trustee a sum sufficient to pay the unpaid principal amount of the 2010 Installment Payments due prior to such declaration and the accrued interest thereon, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the entire principal amount of the unpaid 2010 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 Trustee or provision deemed by the Trustee to be adequate shall have been made therefor [and any amounts due and owing to the Certificate Insurer shall have been paid in full], then and in every case the Trustee, [with the prior written consent of the Certificate Insurer], by written notice to the District, may rescind and annul such declaration and its consequences, except that 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; [and provided further, that in the case of an Event of Default, the Corporation shall exercise only such remedies as the Certificate Insurer shall direct or to which it shall consent].

SECTION 6.02. Application of Funds Upon Acceleration. Subject to the provisions in the agreements relating to the Senior Obligations, all money in the Revenue Fund on the date of the declaration of acceleration by the Corporation as provided in Section 6.01 allocable to the Installment Payments made hereunder and all Net Revenues thereafter received by the District allocable to the Installment Payments made hereunder shall be applied as provided in Section 7.04 of the Trust Agreement.

SECTION 6.03. 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 member of the board of directors or officer or employee of the District, and to compel the District or any such member of the board of directors or officer or employee of the District to perform and carry out its or his or her duties under agreements and covenants required to be performed by it or him or her contained herein;

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

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

SECTION 6.04. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the 2010 Installment Payments to the Corporation at their respective due dates or upon prepayment as provided herein from the Net Revenues, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation [(which waiver shall be subject to the prior written consent of the Certificate Insurer)] 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, and 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 applicable 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 [and the Certificate Insurer] shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 6.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by applicable law.

ARTICLE VII

DISCHARGE OF OBLIGATIONS

SECTION 7.01. Discharge of Obligations.

(a) If the District shall pay or cause to be paid all the 2010 Installment Payments at the times and in the manner provided herein, the right, title and interest of the Corporation herein and the obligations of the District hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied.

(b) All or any portion of any unpaid principal installment of the 2010 Installment Payments shall on its scheduled payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the District makes payment of such 2010 Installment Payments and the interest and prepayment premium, if applicable, thereon in the manner provided herein, and money for the purpose of such payment or prepayment is then held by the Trustee.

(c) All or any portion of unpaid principal installment of the 2010 Installment Payments shall, prior to its scheduled payment date or date of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the District shall remain liable for the payment of such 2010 Installment Payments, but only out of the money or securities deposited with the Trustee or an escrow agent as hereinafter described) if (i) there shall have been deposited with the Trustee or such escrow agent either money in an amount which shall be sufficient, or Federal Securities which are not subject to redemption prior to maturity except by the holder thereof (including any such Federal Securities issued or held in book entry form) the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee or such escrow agent at the same time, shall be sufficient, as stated in a report of an Independent Certified Public Accountant addressed to the District and the Trustee, to pay when due the principal installments of such 2010 Installment Payments or such portions thereof and the interest and prepayment premiums, if any, thereon on and prior to their payment dates or their dates of prepayment, as the case may be, (ii) notice of such deposit is given by the District to the Trustee, and (iii) an Opinion of Counsel (as the term is defined in the Trust Agreement) addressed to the District and the Trustee is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest installments of the 2010 Installment Payments not to be exempt from State of California personal income taxes.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Liability of District Limited to Net Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any money derived from any source of income other than the Net Revenues for the payment of the 2010 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein; provided, that the District may advance money for any such purpose so long as such money is derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the 2010 Installment Payments is a special obligation of the District and is payable solely from the Net Revenues, and does not constitute a debt of the District or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

SECTION 8.02. Benefits of the 2010 Installment Purchase Contract Limited to Parties. Except as provided in Section 8.03, nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Corporation [and the Certificate Insurer] any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the District, the Corporation [and the Certificate Insurer], which shall be deemed a beneficiary hereof.

SECTION 8.03. Successor is Deemed Included in all References to Predecessor. Whenever either the District or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 8.04. Waiver of Personal Liability. No member of the board of directors or officer or employee of the District shall be individually or personally liable for the payment of the 2010 Installment Payments, but nothing contained herein shall relieve any member of the board of directors or officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 8.05. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, convenience or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereto," "herewith," "hereunder" and other words of similar import refer to the 2010 Installment Purchase Contract as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 8.06. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and

covenants or portions thereof and shall in no way affect the validity hereof, and the District and the Corporation hereby declare that they would have executed the 2010 Installment Purchase Contract and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 8.07. Assignment. The 2010 Installment Purchase Contract and any rights hereunder may be assigned by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of the District.

SECTION 8.08. Net Contract. The 2010 Installment Purchase Contract shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the 2010 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

SECTION 8.09. California Law. The 2010 Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

SECTION 8.10. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:

Imperial Irrigation District
Attention: General Manager
333 East Barioni Boulevard
P.O. Box 937
Imperial, California 92251

If to the Corporation:

Imperial Irrigation District Financing Corporation
c/o Imperial Irrigation District
Attention: Chief Financial Officer
333 East Barioni Boulevard
P.O. Box 937
Imperial, California 92251

[If to the Certificate Insurer:

Attention: Surveillance Department]

SECTION 8.11. Effective Date. The 2010 Installment Purchase Contract shall become effective upon its execution and delivery.

SECTION 8.12. Execution in Counterparts. The 2010 Installment Purchase Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed the 2010 Installment Purchase Contract by their officers thereunto duly authorized as of the day and year first written above.

IMPERIAL IRRIGATION DISTRICT

By _____
President of the Board of Directors

(SEAL)

ATTEST:

Secretary of the Board of Directors

IMPERIAL IRRIGATION DISTRICT FINANCING CORPORATION

By _____
President

(SEAL)

ATTEST:

Secretary

EXHIBIT A

2010 INSTALLMENT PAYMENT SCHEDULE

<u>2010 Installment Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total 2010 Installment Payment</u>
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<u>2010 Installment Payment Date</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total 2010 Installment Payment</u>
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