

**LOAN AGREEMENT
PONDEROSA COMMUNITY SERVICE DISTRICT
WATER SYSTEM UPGRADE Project**

Dated as of August 1, 2013

by and between the

**UNITED STATES OF AMERICA,
acting through
RURAL UTILITIES SERVICE,
UNITED STATES DEPARTMENT OF AGRICULTURE,
as Lender**

and the

**PONDEROSA COMMUNITY SERVICE DISTRICT
as Borrower**

(Revised 9/08)

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LOAN AGREEMENT

THIS LOAN AGREEMENT, (this "Agreement") is dated as of August 1, 2013, and is by and between the UNITED STATES OF AMERICA, acting through RURAL UTILITIES SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE, (the "Lender"), and the **PONDEROSA COMMUNITY SERVICE** District, Springville, California, a community service district duly organized and existing under the laws of the State of California (the "Borrower").

RECITALS:

A. The Borrower owns and operates certain facilities and property for the provision of *water* service for residents within the service area of the Borrower (the Enterprise), and the Borrower now wishes to finance its share of the public improvements certain improvements to the Enterprise as defined herein (the "Project");

B. The Lender is authorized to assist the Borrower in financing the costs of the Project by making loan funds available to the Borrower; and

C. The Borrower is authorized to borrow monies for such financing under the Government Code Section 61116 of the State of California;

NOW, THEREFORE, in consideration of the above and of the mutual covenants hereinafter contained and for other good and valuable consideration, the Lender and Borrower agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

Section 1.1. Definitions All capitalized terms used in this Loan Agreement shall have the respective meanings given such terms herein. In addition, unless the context otherwise requires, the terms defined in this Section 1.1 shall for all purposes of this Loan Agreement have the meanings herein specified.

“Additional Payments” means the amounts payable by the Borrower under Section 3.5.

“Borrower” means the **PONDEROSA COMMUNITY SERVICE** District, Springville, California, a Community Service district organized and operating under the Government Code of California.

“Capitalized Interest” means any amount of interest payable with the proceeds of the Loan and funded with the Loan.

“County” means the County of Tulare, State of California.

“Costs of Issuance” means amount of the costs of and incidental to the completion, execution and delivery of this Loan Agreement as set forth in Exhibit A hereto.

“Coverage Percentage” means the amount of one hundred and one hundred and ten percent (110%).

“Enterprise” means the existing facilities and property owned by the Borrower in connection with *water* system of the Borrower, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the Borrower.

“Federal Securities” means direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or obligations the timely payment of principal of and interest on which are guaranteed by, the United States of America.

“Fiscal Year” means the twelve-month period beginning July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the Borrower from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited to connection charges and earnings on the investment of any funds held by the Borrower; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying bonded indebtedness of the Borrower and (b) the proceeds of any special assessments or special taxes levied upon real property by the Borrower for the purpose of paying debt service on special assessment bonds or special tax obligations of the Borrower.

“Interest Rate” means the rate of interest per annum on the unpaid principal balance of the Loan computed on a 365-day year as set forth in Exhibit A.

“Lender” means the United States of America, acting through the Rural Utilities Service, United States Department of Agriculture, or any successor agency thereto.

“Loan” means the principal amount of the loan made by the Lender to the Borrower under Section 3.1, as such amount is shown in Exhibit A.

“Loan Fund” means the special fund established under Section 3.02 hereof to make Loan Repayments.

“Loan Repayment or Loan Repayments” means the installments of principal and interest on the Loan required to be paid under Section 3.4 (including any prepayment thereof under Sections 6.2 or 6.3) as shown in Exhibit A.

“Maintenance and Operation Costs” means the reasonable expenses of management, operation and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including but not limited to administrative costs of the Borrower attributable to the Enterprise and the financing thereof; but in all cases excluding: (a) interest expense relating to unsecured obligations of the Borrower and excluding depreciation, replacement and obsolescence charges or reserves therefor and excluding amortization of intangibles or other bookkeeping entries of a similar nature; and (b) all payments of principal of and interest on the Prior Obligations, and any other payments required to be made under the instruments authorizing the issuance of the Prior Obligations which, by the terms of such instruments, are secured by a pledge of or lien upon any of the Gross Revenues which is superior to the lien established hereunder for the security of the Loan Repayments.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year during the Term of this Loan Agreement by totaling the following amounts for such Fiscal year:

(a) The aggregate amount of the Loan Repayments coming due and payable in such Fiscal Year under the Loan Agreement, except to the extent payable from any security deposit under Section 6.1;

(b) the principal amount of all outstanding Parity Obligations (if any) coming due and payable by their terms in such Fiscal year; and

(c) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of Parity Obligations which would be outstanding in such Fiscal Year if such Parity Obligations are retired as scheduled, but deducting and excluding from such aggregate amount the amount of any such Parity Obligations already retired.

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

“Parity Obligations” means any bonds, notes or other obligations of the Borrower payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Loan Repayments.

“Principal Amounts” means the amounts of principal of the Loan payable with the Loan Repayments.

“Prior Obligations” means any obligations of the Borrower payable from and secured by a pledge of and a prior lien upon any of the Net Revenues and not on a parity with the Loan Repayments.

“Project” means the District’s WATER SYSTEM UPGRADE Project, consisting of all of the facilities and improvements to be acquired, constructed and installed by the Borrower from the proceeds of the Loan and constituting part of the Enterprise, as described more fully in Exhibit B attached hereto and by this reference incorporated herein.

“Project Fund” means the special fund established under Section 3.02 hereof to pay the Costs of Issuance, the costs of the acquisition, construction and installation of the Project and related costs.

“Reserve Requirement” means the requirements of the Lender that the Borrower establish certain reserves for the purposes and in the amounts specified in Section 3.2.

“State” means the State of California.

“Term of this Loan Agreement” or **“Term”** means the time during which this Loan Agreement is in effect, as provided in Section 3.3.

“Treasurer” means the chief financial officer or finance director of the Borrower, who may be the treasurer/tax collector of the County as the ex-officio treasurer for purposes of this Loan Agreement.

Section 1.2. Exhibits. The Exhibits A and B are attached to, and by reference made a part of, this Loan Agreement.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1. Borrower's Representations, Covenants and Warranties The Borrower represents, covenants and warrants to the Lender as follows:

(a) Due Organization and Existence. The Borrower is duly organized and existing under the laws of the State.

(b) Authorization. The laws of the State authorize the Borrower to enter into this Loan Agreement and to enter into the transactions contemplated herein, and to carry out its obligations under this Loan Agreement, and the Board of Directors of the Borrower has duly authorized the execution and delivery of this Loan Agreement.

(c) No Violations. Neither the execution and delivery of this Loan Agreement, nor the fulfillment of or compliance with its terms and conditions, nor the consummation of the transactions contemplated by it, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Borrower is now a party or by which the Borrower is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the Borrower, other than as set forth herein.

(d) Article XIII D. The Borrower has taken and successfully completed proceedings under and in full compliance with Article XIII D of the California Constitution and regulations thereunder for the establishment of increased utility rates and charges to the extent required to meet its obligations to make payments under the Agreement.

Section 2.2. Lender's Representations, Covenants and WarrantiesThe Lender represents, covenants and warrants to the Borrower as follows:

(a) Investigation of Project. The Lender hereby certifies that it has had access to, and has made a complete investigation of, the facts and circumstances relating to the project and proceedings of the Borrower for the Project, including without limitation, the follows:

(i) The nature and purpose of the Project;

(ii) The application of proceeds of the Loan to the Project;

(iii) The nature of the Lender's risks hereunder;

(iv) The Lender's rights and remedies under any Event of Default hereunder;
and

(v) The Lender is satisfied that its investigation has disclosed all facts which are material to the Project and to this Loan Agreement.

(b) Assignment. As provided in Section 4.8 herein, the Lender may assign this Loan Agreement, its right to receive Loan Repayments from the Borrower, or its duties and obligations hereunder to any other person, firm or corporation.

ARTICLE III

TERMS OF LOAN

Section 3.1. The Loan. The Lender hereby agrees to lend to the Borrower and the Borrower hereby agrees to borrow from the Lender, the amount of the Loan under the terms and provisions set forth in this Loan Agreement. The Loan shall be made by the Lender to the Borrower in immediately available funds in one or more advances, as determined by the Lender. If the Loan is made in more than one advance, the date and amount of each advance shall be recorded in the Record of Advances in Exhibit A. The purpose of the Loan shall be to finance the acquisition, construction and installation of the Project, pay the Costs of Issuance and provide for Capitalized Interest, if part of the Loan. The Borrower shall disburse the proceeds of the Loan for only for such purposes. The Loan is made under the Consolidated Farm and Rural Development Act, as amended and the regulations issued thereunder and shall be subject to such Act and regulations.

Section 3.2. Application of Loan Proceeds; Funds. The proceeds of the Loan shall be disbursed by the Lender to Borrower in accordance with the regulations and procedures of the Lender. On or before any advance of the Loan by the Lender, the Borrower shall cause to be established and maintained with the Treasurer the following special funds:

(a) The Loan Fund. The Loan Fund shall be established by the Borrower to pay the Loan Repayments as herein provided. Any portion of the Loan specified as Capitalized Interest shall be deposited in the Loan Fund.

(b) The Project Fund. The Project Fund shall be established by the Borrower with the proceeds of the Loan remaining after the deposits set forth in 3.2 (a) above. Amounts in the Project Fund shall be applied by the Borrower to pay, or to reimburse the Borrower for payment of, the Costs of Issuance and the cost of acquiring, construction, improving and equipping the Project. Monies in the Project Fund shall be held and disbursed by the Borrower in accordance with the requirements of the Lender, including, if required, the establishment of a supervised bank account. After payment of all of the Costs of Issuance and of the costs of the Project, any monies remaining in the Project Fund shall be transferred to the Loan Fund to make Loan Repayments.

(d) The Reserve Fund. Within one calendar year of the date of this Loan Agreement, the Borrower shall cause the Reserve Fund be established with the Treasurer from the Net Revenues by depositing a sum equal to one-tenth of an average annual Loan Repayment each year for a period of ten years from the date of this Loan Agreement such that Reserve Fund shall equal approximately one year's annual Loan Repayment. Monies in the Reserve Fund may be used to make Loan Repayments in the event there are not otherwise available sufficient sums to pay for the Loan Repayments and for only such other purposes as may be approved by the Lender, including, but not limited to the Maintenance and Operation and improvement of the Enterprise, except that in the event that the amount in the Reserve Fund is equal to exceeds the outstanding amount of the Loan, then the Reserve Fund shall be applied in liquidation of the Loan.

Section 3.3. Term The Term of this Loan Agreement shall begin on the date of this Loan Agreement and end on the date shown in Exhibit A.

Section 3.4. Loan Repayments.

(a) **Obligation to Pay.** The Borrower hereby agrees to repay the Loan at the Interest Rate on the unpaid principal balance of the Loan payable in the Loan Repayments in the respective amounts and on the respective Loan Repayment Dates specified in Exhibit A.

(b) **Effect of Prepayment.** In the event that the Borrower prepays the Loan Repayments in full under Article VI, the Borrower's obligations under this Loan Agreement shall thereupon end, including but not limited to the Borrower's obligation to pay Loan Repayments under this Section 3.4, subject, however, to the provisions of Section 6.1 in the case of prepayment by application of a security deposit. Partial prepayments may be made under Sections 6.2 or 6.3, but only in the minimum amount specified in Exhibit A.

(c) **Rate of Overdue Payments.** In the event the Borrower should fail to make any Loan Repayment when due, the payment in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid, and the Borrower agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment.

Section 3.5. Additional Payments. In addition to the Loan Repayments, the Borrower shall pay when due all costs and expenses incurred by the Lender to comply with the provisions of the Loan Agreement, including but not limited to all Costs of Issuance, annual compensation due to the Treasurer, including all costs and expenses of the Treasurer payable as a result of the performance of and compliance with the duties of the Treasurer under the Loan Agreement, and all costs and expenses of auditors, engineers and accountants.

Section 3.6. Borrower's Obligations.

(a) **Special Obligation.** The Borrower's obligation to pay the Loan Repayments and the Additional Payments shall be a special obligation of the Borrower limited solely to the Net Revenues. Under no circumstances shall the Borrower be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Loan Repayments and the Additional Payments, nor shall any other funds or property of the Borrower be liable for the payment of the Loan Repayments and the Additional Payments. Notwithstanding the foregoing provisions of this Section, however, nothing herein is intended to prohibit the Borrower voluntarily from making any payment hereunder from any source of available funds of the Borrower.

(b) **Obligation Absolute.** The obligation of the Borrower to pay the Loan Repayments and any Additional Payments from the Net Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right to setoff, counterclaim or recoupment arising out of any action or proceeding or otherwise with respect to the Project or the Enterprise, whether hereunder or otherwise, or out of any obligation alleged to be owing to the Borrower by the Lender or the Treasurer. Until such time as all of the Loan Repayments and all of the Additional Payments shall have been fully paid or prepaid, the Borrower (i) will not suspend or discontinue payment of any Loan Repayments or Additional Payments, (ii) will perform and observe all other agreements contained in this Loan Agreement, and (iii) will not terminate this Loan Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, sale of the Enterprise, the taking by

eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the Lender or the Treasurer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement.

(c) Legal Actions. The Borrower may, however, at the Borrower's own cost and expense and in the Borrower's own name or in the name of the Lender prosecute or defend any action or proceeding or take any other action involving third persons which the Borrower deems reasonably necessary in order to secure or protect the Borrower's rights hereunder, and in such event the Lender hereby agrees to cooperate fully with the Borrower.

Section 3.7. Pledge and Application of Net Revenues

(a) Pledge. All of the Net Revenues and all moneys on deposit in any of the funds and accounts established hereunder are hereby irrevocably pledged to the punctual payment of the Loan Repayments and any Parity Obligations, and the Net Revenues and such other funds shall not be used for any other purpose so long as any of the Loan Repayments and any Parity Obligations remain unpaid, provided, however, that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by this Section 3.7. Except for any Prior Obligations, such pledge shall constitute a first and exclusive lien on the Net Revenues and such other moneys for the payment of the Loan Repayments and any Parity Obligations in accordance with the terms hereof and the terms of the Parity Obligations. The Borrower and the Lender hereby agree that such pledge of the Net Revenues is intended and shall be construed in all respects to be subject to the payment of the Prior Obligations, which are hereby acknowledged to be secured by a superior pledge and lien are established by the Parity Obligations.

(b) Deposit Into Special Fund; Transfers to Make Loan Repayments. All of the Gross Revenues shall be deposited by the Borrower immediately upon receipt in one or more special funds to be held and maintained by the Borrower. The Borrower covenants and agrees that all Net Revenues will be held by the Borrower in such special fund or funds in trust for the benefit of the Lender and for the benefit of the owners of any Prior Obligations and/or Parity Obligations. On or before each Loan Repayment Date during the Term of this Loan Agreement, commencing at least two business days before the first Loan Repayment Date, the Borrower shall withdraw from such special fund or funds and transfer to the Treasurer, for deposit in the Loan Fund, an amount of Net Revenues equal to the aggregate amount of the Loan Repayment coming due and payable on the next succeeding Loan Repayment Date. Any amounts on deposit in the Loan Fund on any Interest Payment Date shall be credited towards the amount then required to be deposited by the Borrower with the Treasurer pursuant to the preceding sentence. In addition, the Borrower shall withdraw from special funds such amounts of Net Revenues at such times as shall be required to: (i) make up any deficiency in the Reserve Fund, the notice of which deficiency shall have been given by the Treasurer to the Borrower; and (ii) pay the principal of and interest on any Prior Obligations and/or Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Prior Obligations and/or Parity Obligations.

(c) Other Uses Permitted. The Borrower shall manage, conserve and apply the Net Revenues on deposit in such special fund in such a manner that all deposits required to be made pursuant to the preceding paragraph will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred

and be continuing hereunder, the Borrower may at any time and from time to time use and apply moneys in such special fund or (i) the payment of Additional Payments, (ii) the acquisition and construction of extensions and betterments to the Enterprise; (iii) the prepayment of the Loan and any Prior and/or Parity Obligations, or (iv) any other lawful purpose of the Borrower which are directly incurred by the Enterprise.

ARTICLE IV

COVENANTS OF THE BORROWER

Section 4.1. Release and Indemnification. The Borrower shall and hereby agrees to indemnify and save the Lender and its officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on or about the Enterprise by the Borrower, (b) any breach of default on the part of the Borrower in the performance of any of its obligations under this Loan Agreement, (c) any intentional misconduct or negligence of the Borrower or of any of its agents, contractors, servants, employees or licensees with respect to the Enterprise, and (d) any intentional misconduct or negligence of any lessee of the Borrower with respect to the Enterprise. No indemnification is made under this Section 4.1 or elsewhere in this Loan Agreement for willful misconduct, negligence, or breach of duty under this Loan Agreement by the Lender, its officers, agents, employees, successors or assigns.

Section 4.2. Sale or Eminent Domain Taking of Enterprise. Except as provided herein, the Borrower covenants that the Enterprise shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole. Neither the Net Revenues nor any other funds pledged or otherwise made available to secure payment of the Loan Repayments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of this Loan Agreement. The Borrower shall not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the Loan Repayments, or which otherwise would impair the rights of the Lender with respect to the Net Revenues. If any substantial part of the Project shall be sold, the payment thereof shall either (a) be used for the acquisition or construction of improvements, extensions or facilities constituting part of the Project, or (b) be paid to the Treasurer for deposit into the Loan Fund, to be used to pay or prepay the Loan Repayments in the manner provided in this Loan Agreement.

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the Borrower, shall either (a) be used for the acquisition or construction of improvements and extension of the Enterprise, or (b) be paid to the Treasurer for deposit into the Loan Fund to be used to pay or prepay the Loan Repayments in the next available prepayment date under Section 6.3.

Section 4.3. Insurance. The Borrower shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise shall be used to repair or rebuild such damaged or destroyed portion of the Enterprise, and to the extent not so applied, shall be paid to the Treasurer for deposit into the Loan Fund used to prepay the Loan Repayments on the next available prepayment date under Section 6.3. The Borrower shall also maintain with responsible insurers worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Borrower and the Lender.

Section 4.4. Records and Accounts. The Borrower shall keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books shall, upon prior request, be subject to the reasonable inspection of the Lender or its representative(s) authorized in writing.

The Borrower shall cause the books and accounts of the Enterprise to be audited annually by an independent certified public accountant or firm of certified public accountants, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Lender or Lender's representatives at the office of the Borrower and at the office of the Treasurer. In addition, a copy of the final audit report shall be provided to the Lender's area or other office responsible for servicing the Loan, the identification and location of which office shall be supplied to the Borrower by the Lender in writing.

The Borrower shall cause to be published annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, a summary statement showing the amount of Gross Revenues, the disbursements from Gross Revenues and from other funds of the Borrower in reasonable detail, and a general statement of the financial and physical condition of the Enterprise and of the Borrower. The Borrower shall furnish a copy of the statement to the Treasurer and to the Lender.

Section 4.5. Rates and Charges.

(a) To the fullest extent permitted by law, the Borrower shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with existing unencumbered fund balances which are lawfully available to the Borrower for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) All Maintenance and Operation Costs estimated by the Borrower to become due and payable in such Fiscal Year;
- (ii) Any Prior Obligations;
- (iii) The Loan Repayments and any Parity Obligations;
- (iv) All payments coming due and payable during such Fiscal Year and required for compliance with this Loan Agreement; and
- (v) All payments required to meet any other obligations of the Borrower which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues during such Fiscal Year.

(b) In addition, the Borrower shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues which, together with existing unencumbered fund balances which are lawfully available to the Borrower in such Fiscal Year, are at least equal to the Coverage Percentage of the amount of Loan Repayments and any payments of principal and interest on any Prior Obligations and/or Parity Obligations coming due and payable during such

Fiscal Year. In the event that the amount of such existing unencumbered fund balances, excluding Net Revenues, becomes less than the amount of Maximum Annual Debt Service during any Fiscal Year, the Borrower shall to the fullest extent permitted by law thereupon fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during such Fiscal Year which are sufficient to yield Net Revenues in such Fiscal Year (excluding connection charges) at least equal to one hundred percent (100%) of the amount of Loan Repayments and Reserve Requirements and any payments of principal and interest on any Prior and/or Parity Obligations coming due and payable during such Fiscal Year.

Section 4.6. Additional Obligations; Prior Obligations. The Borrower shall not issue or incur any bonds or other obligations having any priority in payment of principal or interest out of the Net Revenues over the Loan Repayments. Without limiting the generality of the foregoing sentence, the Borrower shall not issue or incur any bonds or other obligations on a parity with the Prior Obligations. The Borrower shall faithfully perform and observe all of the covenants and agreements on its part provided in the ordinances and resolution authorizing the Prior Obligations, and shall not suffer any event of default to occur with respect to any of the Prior Obligations.

Section 4.7. Parity Obligations. Except for obligations incurred to prepay or post a security deposit for the Loan in whole or in part under Section 6.1, the Borrower shall not issue or incur any Parity Obligations without the prior written approval of the Lender unless:

- (a) The Borrower is not then in default under the terms of this Loan Agreement; and
- (b) The Net Revenues (excluding connection charges), calculated in accordance with sound accounting principles, as shown by the books of the Borrower for the latest Fiscal Year or as shown by the books of the Borrower for any twelve (12) month period selected by the Borrower in its sole discretion ending not more than ninety (90) days prior to the adoption of the resolution or ordinance authorizing such Parity Obligations, in either case verified by a certificate or opinion of an independent certified public accountant employed by the Borrower, plus, at the option of the Borrower, any or all of the items hereinafter in this Section designated (i) and (ii), at least equal one hundred twenty percent (120%) of the amount of Maximum Annual Debt Service.

The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring Parity Obligations under the Loan Agreement are the following:

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements, and extensions for the first thirty-six (36) 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 Borrower.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or such

twelve (12) month period, was not in effect, 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 such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an independent certified public accountant employed by the Borrower.

(c) To the extent required under the instruments creating the Parity Obligation, there shall be established from the proceeds of such Parity Obligations, or otherwise, a reserve fund for the security of such Parity Obligations, in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the Borrower with respect to such Parity Obligations during any Fiscal Year or (ii) the maximum amount then permitted under applicable law.

Section 4.8. Assignment by the Lender. The rights of the Lender under this Loan Agreement, including the right to receive and enforce payment of the Loan Repayments, are assignable should the Lender elect to do so. The Borrower hereby acknowledges and consents to this provision and such assignment.

Section 4.9. Assignment by the Borrower. Neither the Loan nor this Loan Agreement may be assigned by the Borrower without the written consent of the Lender, and such reasonably withheld.

Section 4.10. Amendment of this Agreement. This Loan Agreement may be amended by the Borrower and the Lender, but only under the circumstances and to the extent permitted under the regulations of the Lender.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

Section 5.1. Events of Default Defined. The following shall be Events of Default under this Loan Agreement:

(a) Failure by the Borrower to pay any Loan Repayment or to pay other amounts required to be paid hereunder at the time specified herein.

(b) Failure by the Borrower to observe and perform any covenant, condition or agreement on its part, other than in clause (a) of this Section 5.1, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the Borrower by the Lender, provided, however, that the Lender and the Borrower may agree that action by the Borrower to cure such failure may be extended beyond such thirty-day period.

(c) The filing by the Borrower of a voluntary petition in bankruptcy, or failure by the Borrower promptly to lift any execution, garnishment or attachment, or adjudication of the Borrower as a bankrupt, or assignment by the Borrower for the benefit of creditors, or the entry by the Borrower into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Borrower in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Section 5.2. Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Lender shall have the right, at its option and without any further demand or notice to:

(a) declare all Principal Amounts of the unpaid Loan Repayments, together with accrued interest thereon at the Interest Rate from the immediately preceding Loan Repayment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable, provided, however, that the provisions of this clause (a) are subject to the condition that if, at any time after the principal components of the unpaid Loan Repayments shall have been so declared due and payable pursuant to the preceding subsection (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Borrower shall deposit with the Treasurer a sum sufficient to pay all principal components of the Loan Repayments coming due prior to such declaration and all matured interest components (if any) of the Loan Repayments, and the reasonable expenses of the Treasurer (including any fees and expenses of its attorneys and court and other collection costs), and any and all other defaults known to the Treasurer (other than in the payment of the principal and interest components of the Loan Repayments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, the Lender, by written notice to the Borrower and to the Treasurer, shall rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; and

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Loan Repayments then due or thereafter to become due during the Term of this Loan Agreement, or enforce performance and observance of any obligation, agreement or covenant

of the Borrower under this Loan Agreement, including, but not limited to, taking possession of the Enterprise and the operation and maintenance thereof and collection of revenues therefrom, and the expenditure of all sums necessary for such operation and maintenance, all for the benefit of the Borrower and/or such other actions as may be authorized under the then-current regulations of the Lender.

Section 5.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Lender is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lender to exercise any remedy reserved to it in this Article V it shall not be necessary to give any notice, other than such notice as may be required in this Article V or by law.

Section 5.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Loan Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

Section 5.5. No Implied Waiver. In the event any covenant or agreement contained in this Loan Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 5.6. Application of Proceeds. All monies received from any proceedings under this Article V, and all other amounts derived by the Lender or the Treasurer as a result of an Event of Default hereunder, shall be transferred to the Treasurer promptly upon receipt thereof and shall be applied by the Treasurer pursuant to and in accordance with the provisions of this Loan Agreement.

ARTICLE VI

PREPAYMENT OF LOAN

Section 6.1. Security Deposit. Notwithstanding any other provision of this Loan Agreement, the Borrower may on any date secure the payment of Loan Repayments in whole or in part, by irrevocably depositing with the Treasurer an amount of cash which, together with other available amounts, is either (a) sufficient to pay all such Loan Repayments, including the principal and interest components thereof, when due under Section 3.4(a), or (b) invested in whole or in part in Federal Securities in such amount as will, in the opinion of an independent certified accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all the aggregate total of the Loan Repayments remaining to be paid under Section 3.4(a) on the next Interest Payment Date which is at least thirty (30) days and not more than ninety (90) days after establishment of such deposit. In the event a security deposit is made under this Section, all obligations of the Borrower under this Loan Agreement, and the pledge of Net Revenues and all other security provided by this Loan Agreement for such obligations, shall cease and terminate, excepting only the obligation of the Borrower to make, or cause to be made, all of Loan Repayments from such security deposit at one time upon the established Interest Payment Date. Such security deposit shall be deemed to be and shall constitute a special escrow fund for the advanced prepayment of such Loan Repayments. Nothing herein shall be deemed to permit an advanced defeasance or refunding of the obligations under this Loan Agreement.

Section 6.2. Optional Prepayment. The Borrower shall have the option to prepay the unpaid principal balance of the Loan in whole, or in part in any integral multiple of the amount shown in Exhibit A, or any Loan Repayment Date, by paying a prepayment price equal to the principal amount of the Loan to be prepaid, together with the interest required to be paid on such date. Such prepayment price shall be deposited by the Treasurer in the Loan Fund to be applied to the prepayment of Loan Agreement. The Borrower shall give the Treasurer notice of its intention to exercise its option not less than sixty (60) days in advance of the date of exercise.

Section 6.3. Mandatory Prepayment from Insurance or Eminent Domain. The Borrower shall be obligated to prepay the unpaid principal balance of the Loan in whole on any date, or in part in any integral multiple of the amount shown in Exhibit A on any Loan Repayment Date, from and to the extent of any proceeds of insurance award or condemnation award with respect to the Enterprise theretofore deposited in the Loan Fund for such purpose under Sections 4.2 or 4.3. The Borrower and the Lender hereby agree that such proceeds, to the extent remaining after payment of any delinquent Loan Repayments, shall be credited towards the Borrower's obligations under this Section 6.3.

Section 6.4. Credit for Amounts on Deposit. In the event of prepayment of the Loan in full under this Article VI, all amounts then on deposit in the funds held by the Treasurer shall, at the election of the Borrower, be credited towards the amounts then required to be so prepaid.

Section 6.5. Refinancing Requirement. The Borrower understands and agrees that the Loan is made under and is subject to the provisions of and the regulations of the Lender promulgated under the Consolidated Farm and Rural Development Act of 1961, as amended. Among such provisions is the requirement of the refinancing of the Loan at market rates and terms under the conditions specified by the Lender under such regulations. The Borrower

understands and agrees that it may be required to pay additional costs and retain the services of private underwriters, consultants and bond counsel at its own expense to accomplish such refinancing.

ARTICLE VII
MISCELLANEOUS

Section 7.1. Notices. All written notices to be given under this Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth in Exhibit A, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective forty-eight (48) hours after deposit in the United States mail, first class postage prepaid or, in the case of personal delivery, upon delivery to the address set forth in Exhibit "A."

Section 7.2. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Lender and the Borrower and their respective successors and assigns.

Section 7.3. Severability. In the event any provision of this Loan Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 7.4. Net-net-net Contract. This Loan Agreement shall be deemed and construed to be a "net-net-net" contract, and the Borrower hereby agrees that the Loan Repayments shall be an absolute net return to the Lender, free and clear of any expenses, charges or set-offs whatsoever.

Section 7.5. Further Assurances and Corrective Instruments. The Lender and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the expressed intention of this Loan Agreement.

Section 7.6. Execution in Counterparts. This Loan 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.

Section 7.7. Applicable Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of California and the United States of America. The provisions of Form RUS BULLETIN 1780-27 are hereby incorporated herein by this reference, whether or not such form has been adopted by the Board of the Borrower, provided, however, that all references in such form to "bonds" shall be deemed to refer to this Loan Agreement.

Section 7.8. Lender and Borrower Representatives. Whenever under the provisions of this Loan Agreement the approval of the Lender or the Borrower is required, or the Lender or the Borrower is required to take some action at the request of the other, Borrower and Lender, respectively, shall designate in writing to the each other an authorized representative, and each party hereto shall be authorized to reply upon any such approval or request provided by such representative.

Section 7.9. Captions. The captions or headings in this Loan Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or Section of this Agreement.

* * * * *

IN WITNESS WHEREOF, the Lender and the Borrower have caused this Loan Agreement to be executed by their duly authorized officers as of the date first above written.

LENDER:

UNITED STATES OF AMERICA, acting
through UNITED STATES DEPARTMENT
OF AGRICULTURE, RURAL UTILITIES
SERVICE

By: _____

Title: _____

BORROWER:

PONDEROSA COMMUNITY SERVICES
DISTRICT

By: _____

Title: _____

EXHIBIT A

**LOAN AGREEMENT
Ponderosa Community Service District
WATER SYSTEM UPGRADE Project**

LOAN PROVISIONS

1. The loan amount is \$ 500,000.00 and the Interest Rate is 2.125% per annum.
2. The Costs of Issuance are \$0.00 (*and the Capitalized Interest is \$0.00*).
3. The principal and interest shall be paid in the following fully amortized installments of principal and interest on or before the following Loan Repayment Dates:

\$18,685.00 on August 1, 2014,
\$ _____ on _____, 20____,
\$ _____ on _____, 20____,
\$ _____ on _____, 20____, and

\$18,685.00 thereafter on the First of August of each Year until the principal and interest are fully paid except that the final installment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable not later than 2053 (40) years from the date of this Agreement.

4. The minimum dollar amount for optional or mandatory prepayment on any Loan Repayment Date is \$0.00.
5. Notices under this Loan Agreement shall be sent to:

District: **PONDEROSA COMMUNITY SERVICE DISTRICT**
56287 ASPEN DRIVE
SPRINGVILLE CA 93265
Attn: PRESIDENT

Lender: **Rural Utilities Service, USDA**
3530 W ORCHARD CT
VISALIA CA 93277
Attn: AREA SPECIALIST

Treasurer: N/A _____

Attn: _____

RECORD OF ADVANCES

| <u>ADVANCE NO.</u> | <u>AMOUNT OF ADVANCE</u> | <u>DATE OF ADVANCE</u> |
|--------------------|--------------------------|------------------------|
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |
| _____ | \$ _____ | _____, 20__ |