

BOND ORDER
AUTHORIZING ISSUANCE OF
SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT
\$695,000
WATERWORKS REVENUE BONDS, SERIES 1995,
AND MAKING PROVISIONS FOR THE REPAYMENT THEREOF

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AUTHORIZING ISSUANCE OF
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THE STATE OF TEXAS
COUNTY OF ZAPATA
SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT

WHEREAS, SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT (hereinafter sometimes called the "District") is organized pursuant to Chapter 193, Acts of the 73rd Legislature of the State of Texas, Regular Session, 1993; and

WHEREAS, the District operates pursuant to Chapter 51, Texas Water Code, and

WHEREAS, at an election held on November 2, 1993, a majority of District voters approved a proposition authorizing issuance of the District's waterworks revenue bonds in the maximum amount of \$800,000 for the purpose of purchasing and constructing plants, facilities, and improvements for a District waterworks, as well as all expenses incidental thereto; and

WHEREAS, none of the bonds authorized at the election of November 2, 1993, have been issued or sold, and none of said bonds are outstanding on this date; and

WHEREAS, the Board of Directors ("Board") of the District deems it to be in the best interest of the District to authorize the issuance of the 1995 series of bonds of the District in the amount of \$695,000 with the Board reserving the right and authority

to issue additional bonds of the District in one or more series at a future date or dates when, in the judgment of such Board, such amounts are required for the authorized purposes; and

WHEREAS, these 1995 series bonds are to be payable solely from the revenues from the District's waterworks as described herein,

IT IS, THEREFORE, ORDERED BY THE BOARD OF DIRECTORS OF SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT THAT:

SECTION 1. INITIAL DATE, AMOUNT, AND PURPOSE OF BONDS. The District's negotiable bonds are hereby authorized to be issued in the aggregate principal amount of \$695,000 (the "Bonds"). The initial date of the Bonds shall be July 1, 1995. The Bonds are being issued to acquire and fund improvements to the District's waterworks as authorized by Article XVI, Section 59 of the Constitution of the State of Texas, and the laws of the State of Texas, including particularly (but not by way of limitation) Chapter 51, Texas Water Code.

SECTION 2. FORM OF BONDS AND CERTIFICATES.

A. FORMS GENERALLY. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Registration, and the form of Assignment to be printed on the Bonds, shall be substantially in the forms set forth in this Order with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Order, and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the

Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the District or determined by the officers executing such Bonds as evidenced by their execution thereof. If bond insurance is obtained, the Bonds may bear an appropriate legend as provided by the insurer. Any Portion of the text of any of the Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds shall be printed, lithographed, laser printed, engraved, or produced by any combination of these methods, or photocopied or produced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof, and the initial Bonds submitted to the Attorney General of Texas may be typewritten or photocopied or otherwise reproduced.

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B. MATURITY SCHEDULE AND INTEREST RATES. The Bonds will bear interest at the rate of 4.500% per annum and are payable on May 1 in the years and maturities stated in the maturity schedule set forth below:

<u>Bond Nos.</u>	<u>Year Due</u>	<u>Principal Amount</u>
1	1997	\$ 5,000.00
2	1998	6,000.00
3	1999	6,000.00
4	2000	7,000.00
5	2001	7,000.00
6	2002	8,000.00
7	2003	8,000.00
8	2004	9,000.00
9	2005	9,000.00
10	2006	10,000.00
11	2007	10,000.00
12	2008	11,000.00
13	2009	11,000.00
14	2010	12,000.00
15	2011	12,000.00
16	2012	13,000.00
17	2013	14,000.00
18	2014	15,000.00
19	2015	16,000.00
20	2016	17,000.00
21	2017	18,000.00
22	2018	19,000.00
23	2019	20,000.00
24	2020	21,000.00
25	2021	22,000.00
26	2022	23,000.00
27	2023	23,000.00
28	2024	24,000.00
29	2025	24,000.00
30	2026	25,000.00
31	2027	25,000.00
32	2028	25,000.00
33	2029	25,000.00
34	2030	30,000.00
35	2031	35,000.00
36	2032	35,000.00
37	2033	31,000.00
38	2034	31,000.00
39	2035	33,000.00

\$695,000.00

TOTAL

C. FULLY REGISTERED FORM. The Bonds are issuable in fully registered form only, both principal thereof and interest thereon to be payable to the registered owner thereof. No Bond shall be entitled to right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided by this Order, executed by the Comptroller of Public Accounts of the State of Texas or his duly authorized agent by manual signature, or a certificate of registration substantially in the form provided in this Order, executed by the Paying Agent/Registrar by manual signature, and either such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified or registered and delivered.

D. DENOMINATIONS. The Bonds shall be in the denominations of \$1,000 or any integral multiple thereof.

E. FORM OF BOND. The initial Bonds will be numbered "R-1" through "R-39." The Bonds shall be in substantially the following form:

REGISTERED NO. _____	United States of America State of Texas SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT WATERWORKS REVENUE BOND SERIES 1995	REGISTERED \$ _____
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Interest Rate: 4.500%	Due:	Initial Date: _____, 1995	CUSIP NO.
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SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT (hereafter, "the District"), a water control and improvement district of the State of Texas, duly organized and existing under and by virtue of the laws of the State of Texas, for value received, hereby promises to pay to THE UNITED STATES OF AMERICA, or registered assigns, on the due date specified above the sum of

_____ DOLLARS

and to pay interest thereon from the later of the date of delivery to the initial purchaser or the most recent interest payment date to which interest has been paid or duly provided for, semiannually on May 1 and November 1 in each year until maturity, commencing May 1, 1996, at the per annum rate of interest specified above. The principal of this Bond is payable at the principal office of the Paying Agent/Registrar, International Bank of Commerce, Zapata, Texas, or its successor, upon presentation and surrender of this Bond. The interest payable on any interest payment date will be paid to the person in whose name this Bond (or one or more predecessor Bonds), is registered at the close of business on the Record Date for such interest, which shall be the 15th day of the month next preceding such interest payment date. All such payments may be made by the Paying Agent/Registrar by check dated as of the interest payment date and mailed to the registered holder.

Notwithstanding any provision of this Bond or the Order to the contrary, as long as the registered owner is the United States of

America, payment shall be made by the District directly to the current servicing office as directed by the owner.

This Bond is one of the series specified in its title issued in the aggregate principal amount of \$695,000 (herein referred to as the "Bonds") pursuant to an Order adopted by the Board of Directors of the District (herein referred to as the "Order"), for the purpose of acquiring and improving the District's waterworks, and the construction of additions thereto, for said District, under and by virtue of the Constitution and laws of the State of Texas, including particularly Section 59 of Article XVI, Constitution of Texas, and Chapters 50 and 51, Texas Water Code, and as authorized at an election held within the District on November 2, 1993, and in accordance with the Order.

The Bonds of this series are payable from and secured by a lien on and pledge of the District's Net Revenues, to wit; all income or increment which may grow out of the ownership and operation of the District's improvements or facilities, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of said service facilities in the manner authorized by law and to the extent provided in the Order. No District ad valorem tax revenues may ever be used to pay this Bond.

On May 1, 2005, or any interest payment date thereafter, the District reserves the option to redeem the Bonds of this Series in whole or in part, in principal amounts of \$1,000 or any multiple thereof, in inverse order of maturity, at a price equal to the

principal amount of the Bonds called for redemption plus accrued interest from the most recent Interest Payment Date on which interest has been paid or duly provided for to the redemption date. Furthermore, Bonds held by the United States of America may be redeemed at the option of the Issuer at any time and in inverse order of their stated Maturities at the redemption price of par together with accrued interest to the date of redemption. The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown on the Register. By the date fixed for any such redemption, due provision shall be made with the Paying Agent for the payment of the principal amount of the Bonds which are to be redeemed and accrued interest thereon to the date fixed for redemption. If such notice of redemption is given and if due provision for payment is made, all as provided above, the Bonds which are to be so redeemed thereby automatically shall be redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as outstanding except for the right of the Registered Owner to receive the redemption price from the Paying Agents out of the funds provided for such payment, and the right of the Registered Owner to collect interest on such Bonds which would otherwise accrue after such date shall terminate on such date.

The Order contains a provision that terminates the pledge of revenues of the System to the payment of the Bonds when and if a city, town, or village of the State of Texas, including a Home Rule City, annexes the District in its entirety, dissolves the District and assumes the obligations of the District. Reference is made to the Order for a more complete description of the funds charged with and pledged to the payment of this Bond and the series of which it is a part, and to the termination of the pledge of the revenues to all the provisions of which the registered owner of this Bond by the acceptance hereof expressly assents.

As provided in the Order and subject to certain limitations therein set forth, this Bond is transferable on the Bond Register of the District, upon surrender of this Bond for transfer at the principal office of the Paying Agent/Registrar, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the registered holder hereof or his attorney duly authorized in writing, and thereupon one or more new fully registered Bonds of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

The District, the Paying Agent/Registrar, and any agent of either of them may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the District, the Paying

Agent/Registrar, nor any such agent shall be affected by notice to the contrary.

The District has reserved the right to issue additional bonds which may be secured by a lien on and pledge of the income and increment from the District's System on a parity with the lien on and pledge of such income and increment to the payment of this Bond and the series of which it is a part, in addition to the right to issue bonds of inferior liens. Such additional bonds may be payable solely from District taxes, or solely from the income or increment of the System, or may be payable from a combination of taxes and such income or increment. Reference is made to the Order for a complete description of the right to issue additional bonds.

It is hereby certified, recited and represented that the issuance of this Bond and the series of Bonds of which it is a part is duly authorized by law; that all acts and conditions required to be done and to exist precedent to and in the issuance of this Bond and said series of bonds to render the same lawful and valid have been properly done and have happened in due time, form, and manner as required by law; that due provision has been made for the payment of the interest on and the principal of this Bond and the series of bonds of which it is a part by irrevocably pledging the Net Revenues of the District's System; and that the issuance of this series of bonds does not exceed any Constitutional or statutory limitation.

IN WITNESS WHEREOF, the District has caused this Bond to be duly executed under its official seal.

SIESTA SHORES WATER CONTROL AND IMPROVEMENT DISTRICT

SECRETARY OF THE BOARD

(District Seal)

PRESIDENT OF THE BOARD

F. FORM OF CERTIFICATE OF PAYING AGENT/REGISTRAR. The Certificate of the Paying Agent/Registrar to appear on all bonds excepting on the Initial Bonds, shall be in substantially the following form:

CERTIFICATE OF PAYING AGENT/REGISTRAR

This is one of the Bonds referred to in the within-mentioned Order, a Predecessor Bond for which has been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated: _____ By: _____

Authorized signatory

G. INITIAL PAYING/AGENT REGISTRAR. The initial Paying Agent/Registrar for the Bonds will be International Bank of Commerce, of Zapata, Texas. The District reserves the right to change the Paying Agent/Registrar at the sole discretion of the District.

H. FORM OF ASSIGNMENT. The Certificate of Assignment shall be in substantially the following form:

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee:) _____

(Social Security or other identifying number: _____)

the within Bond and rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed by: _____

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers.

I. DELIVERY DATE AND COMPTROLLER REGISTRATION CERTIFICATE.

The following Delivery Date and Registration Certificate of Comptroller of Public Accounts shall appear on the Initial Bonds:

This bond was delivered to and paid for by its Purchaser on _____.

REGISTRATION CERTIFICATE OF COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER	X	
OF PUBLIC ACCOUNTS	X	REGISTER NO. _____
THE STATE OF TEXAS	X	

I HEREBY CERTIFY THAT there is on file and of record in my office a certificate to the effect that the Attorney General of the State of Texas has approved this Bond, and further that this Bond has been registered this day by me.

WITNESS my signature and seal of office this ___ day of _____, 19_____.

(SEAL) Comptroller of Public Accounts of the State of Texas

L. EXECUTION. The bonds shall be executed on behalf of the District by the President of the Board of Directors of the District and attested by the Secretary of the Board of Directors of the District. The signature of either or both of said officers on the Bonds may be manual or facsimile. The seal of the District may be printed, photocopied, lithographed or impressed on each Bond. Bonds bearing the manual or facsimile signatures of individuals who at the time were the proper officers of the District shall be deemed to be duly executed on behalf of the District notwithstanding that such individuals, or either of them, shall cease to hold such offices prior to the certification or registration and delivery of such Bonds or shall not have held such offices at the date of such Bonds, all as provided and authorized in the Texas Bond Procedures Act, (Article 717k-6 V.T.C.S.), as amended.

SECTION 3. OUTSTANDING BONDS. The District has no outstanding bonds.

SECTION 4. PLEDGE AND DEFINITION OF NET REVENUES.

A. The term "Net Revenues" as used in this Order shall include and mean all income and increment which may grow out of the ownership and operation of the District's plants, facilities, and improvements (as same are purchased, constructed, or otherwise acquired), being the gross revenue income less that portion thereof as reasonably may be required to provide for the administration, efficient operation, and adequate maintenance of the District's plants, improvements, and facilities, and less that portion thereof derived from the contracts with private corporations, municipalities, or political subdivisions, which under the terms of the authorizing resolutions may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contract.

B. The District covenants and agrees that its Net Revenues are hereby pledged for payment of the Bonds and such Additional Bonds, hereinafter defined, as may hereafter be issued and delivered.

C. Such pledge of Net Revenues will terminate when any city or cities annex the District, takes over the assets of the District, and assumes all of the obligations of the District.

SECTION 5. CREATION AND MANAGEMENT OF FUNDS.

A. CREATION OF FUNDS. The District hereby establishes the following funds to be established and maintained on the books of the District, and accounted for separate and apart from all other funds of the District:

(a) The "Revenue Fund," into which all Gross Revenues shall be credited immediately upon receipt. All current expenses of Operation and Maintenance of the System shall be paid from the Gross Revenues credited to the Revenue Fund, as a first charge against same.

(b) The "Interest and Sinking Fund," which is for the sole purpose of paying the principal of and interest on all Bonds and any Additional Bonds, as the same come due.

(c) The "Reserve Fund," which shall be used solely for the purpose of finally retiring the last of any Bonds or Additional bonds when and to the extent the amounts in the Interest and Sinking fund are insufficient for such purpose.

(d) The "Series 1995 Construction Fund," in which the proceeds of sale of the Bonds, as received, after making provision for the payment of the expenses incident to the issuance of the Bonds, including fiscal, legal and engineering fees and expenses, shall be deposited and shall be used solely for the purpose of the construction or acquisition of improvements, additions and/or extensions to the District's waterworks.

B. SECURITY OF FUNDS. Any cash balance in any fund shall be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

C. DEPOSITS OF NET REVENUES; INVESTMENTS. (a) The Net Revenues shall be deposited into the Interest and Sinking Fund and the Reserve Fund when and as required by this Order.

(b) To the extent permitted under State law, money in any fund established pursuant to this Order may, at the option of the District, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in direct obligations of the United States of America, obligations which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in direct obligations of the United States of America including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made legally in such manner that the money required to be expended from any fund will be available at the proper time or times. Such investments shall be valued by the District in terms of current market value as of the 20th day of June of each year. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the fund from which the deposit or investment was made, and surpluses in any fund

shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

D. DEBT SERVICE REQUIREMENTS. The District shall transfer from its Net Revenues and deposit to the credit of the Interest and Sinking Fund the amount, at the times, as follows:

(1) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Bonds and any Additional Bonds on the next succeeding interest payment date; and

(2) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds and any Additional Bonds on the next succeeding principal payment date.

E. RESERVE REQUIREMENTS. (a) On the 25th day of each month following initial advance of funds, there shall be deposited in the Reserve Fund \$341 until \$37,769 has been accumulated in the Reserve Fund which is equal to one year's average annual principal and interest requirements for the Bonds. If all of the Bonds are not delivered, then the Reserve Fund shall be accumulated to an amount equal to one year's average principal and interest requirements for the Bonds actually delivered.

(b) That at any time the investments and money in the Reserve Fund do not at least equal the average annual principal and interest requirements on all then outstanding bonds (the "Required Amount"), then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the District shall transfer from the Net Revenues and deposit to the credit of the Reserve Fund, on or before the 25th day of each month \$341 or a sum equal to one-one-hundred-and-twentieth (1/120) of the Required Amount until the Reserve Fund is restored to the Required Amount.

Subject to the terms of Section 8, "Additional Bonds," of this Order, and to the extent permitted by law, (1) revenues accumulated over and above that needed to pay operating and maintenance, debt service and reserves may only be retained or used to make prepayments on the Bonds, and (2) revenue cannot be used to pay any expenses which are not directly incurred for the facility financed by the Bonds so long as any of the Bonds are outstanding. No free service or use of the facility will be permitted.

F. DEFICIENCIES, EXCESS NET REVENUES. (a) That if on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Interest and Sinking Fund and the Reserve Fund, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other sources available for such purpose.

(b) That to the extent permitted by law and subject to making the required deposits to the credit of the Interest and Sinking Fund and the Reserve Fund when and as required by this Order, or any orders authorizing the issuance of Additional Bonds, Net

Revenues may only be retained or used by the District to make prepayments on the Bonds.

G. PAYMENT OF BONDS AND ADDITIONAL BONDS. On or before May 1, 1996, and semiannually on or before each May 1 and November 1 thereafter, while any of the Bonds or Additional Bonds are outstanding and unpaid, the District shall make available to the "Paying Agent/Registrar" thereafter, out of the Interest and Sinking Fund and the Reserve Fund, if necessary, money sufficient to pay such interest on and such principal of the Bonds and Additional Bonds as will accrue or mature on such dates, respectively. Notwithstanding any provision on this Bond or the Order to the contrary, as long as the registered owner is the United States of America, payment shall be made by the District directly to the current servicing office as directed by the owner.

SECTION 6. PERIOD OF CONSTRUCTION. The Board finds, upon the advice of the District's Engineers, that the time required to complete the acquisition and construction of the facilities for which the Bonds are to be issued and sold may be as much as two years.

SECTION 7. REDEMPTION OF BONDS BEFORE MATURITY

A. OPTIONAL REDEMPTION.

(i) On May 1, 2005, or any interest payment date thereafter, the District reserves the option to redeem the Bonds of this Series in whole or in part, in principal amounts of \$1,000 or any multiple thereof, in inverse order of maturity, at a price equal to the principal amount of the Bonds called for redemption plus accrued

interest from the most recent Interest Payment Date on which interest has been paid or duly provided for to the redemption date. Furthermore, Bonds held by United States of America may be redeemed at the option of the Issuer at any time and in inverse order of their stated Maturities at the redemption price of par together with accrued interest to the date of redemption.

(ii) The District, at least 45 day before the redemption date (unless a shorter period shall be satisfactory to the Paying Agent/Registrar), shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Bonds to be redeemed.

B. PARTIAL REDEMPTION.

(i) If less than all of the Bonds are to be redeemed, the District shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot Bonds, or portions thereof within such maturity or maturities and in such principal amounts, for redemption.

(ii) A portion of a single Bond of a denomination greater than \$1,000 may be redeemed, but only in a principal amount equal to \$1,000 or any integral multiple thereof. The Paying Agent/Registrar shall treat each \$1,000 portion of the Bond as though it were a single Bond for purposes of selection for redemption.

(iii) Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar, in accordance with the applicable provisions of this Order, shall authenticate and deliver an

exchange Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

(iv) The Paying Agent/Registrar shall promptly notify the District in writing of the principal amount to be redeemed of any Bond as to which only a portion thereof is to be redeemed.

C. NOTICE OF REDEMPTION TO BONDHOLDERS.

(i) The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown on the Register.

(ii) The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed.

(iii) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives such notice.

D. PAYMENT UPON REDEMPTION.

(i) Before or on each redemption date, the Paying Agent/Registrar shall make provision for the payment of the Bonds to be redeemed on such date by setting aside and holding in trust an amount from the Interest and Sinking Fund or otherwise received by the Paying Agent/Registrar from the District sufficient to pay

the principal of, premium, if any, and accrued interest on such Bonds.

(ii) Upon presentation and surrender of any Bond called for redemption at the principal corporate office of the Paying Agent/Registrar on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of, premium, if any, and accrued interest on such Bond to the date of redemption for the money set aside for such purpose.

E. EFFECT OF REDEMPTION.

(i) Notice of redemption having been given as provided in this Order, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the District defaults in payment of the principal thereof, premium, if any, or accrued interest thereon, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.

(ii) If any Bond or portion thereof called for redemption is not so paid upon presentation and surrender of such Bond for redemption, such Bond or portion thereof shall continue to bear interest at the rate stated on the Bond until paid or until due provision is made for the payment of same.

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SECTION 8. ADDITIONAL BONDS. (a) In addition to the right to issue bonds of inferior liens, the District shall hereafter have the right to issue Additional Bonds payable from and equally secured by a pledge of Net Revenues all to the same extent as pledged for and in all things on a parity with the lien of the Bonds; or the District may issue bonds payable from District tax revenues, or revenue bonds payable solely from contracts with private corporations, municipalities, or political subdivisions issued particularly to finance facilities needed in performing any such contract and not payable from Net Revenues as defined herein.

(b) However, each order under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Order and the provisions of any other order or orders authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the District shall deposit to the credit of the Interest and Sinking Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due; and that the aggregate amounts to be accumulated and maintained in the Reserve Fund shall be increased (if and to the extent necessary) to an amount not less than the average annual principal and interest requirement of all bonds and Additional Bonds which will be outstanding after the issuance and delivery of the then proposed Additional Bonds; and that the required additional amount shall be so accumulated by the deposit in the Reserve Fund of all or any part of said required additional amount

in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the District, by the deposit of said required additional amount not deposited in cash as permitted above) in monthly installments, made on or before the 25th day of each month following the delivery of the then proposed Additional Bonds, of not less than 1/120th of said required additional amount (or 1/120th of the balance of said required additional amount not deposited in cash as permitted above.)

(c) That all calculations of average annual principal and interest requirements made pursuant to this Section shall be made as of and from the date of the Additional Bonds then proposed to be issued.

(d) That the principal of all Additional Bonds must be scheduled to be paid or mature on May 1 of the year in which such principal is scheduled to be paid or mature; and all interest thereon must be payable on May 1 and November 1.

(e) that while any of the Bonds or Additional Bonds are held by the United States of America, Additional Bonds may not be issued until prior written consent has been received from the United States of America.

(f) The Additional Bonds shall be issued only in accordance with this Order. No installment, series or issue of Additional Bonds shall be issued or delivered unless:

1. The President and the Secretary of the Board of Directors of the District sign a written certificate to the effect that the District is not in default as to any covenant, condition, or obligation in connection with all outstanding Bonds and Additional Bonds, and the orders authorizing same, and that the Interest and Sinking Fund

and the Reserve Fund each contain the amount then required to be therein.

2. An independent certified public accountant, or independent firm of certified public accountants, signs a written certificate to the effect that, during the next preceding fiscal year, prior to the passage of the resolution authorizing this issuance of the then proposed Additional bonds, the Net Revenues were, in his or its opinion, at least equal to 1.20 times the average annual principal and interest requirements of all outstanding Bonds and Additional bonds, if any, and the proposed Additional Bonds.
3. The Resolution authorizing the issuance of the installment or series of Additional Bonds provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased by an additional amount not less than the average annual principal and interest requirement for said Additional Bonds, and that such additional amount shall be so accumulated within 120 months from the date of the Additional Bonds, by the deposit in the Reserve Fund of the necessary sums in equal monthly installments; provided, however, that the aggregate amount to be accumulated in the Reserve Fund shall never be required to exceed the average annual principal and interest requirements for all bonds and Additional Bonds; and
4. That all calculations of average annual principal and interest requirements made pursuant to this Section are made as of and from the date of the Additional Bonds then proposed to be issued.

(g) Parity Bonds may be issued to complete the Waterworks Project. Otherwise, parity bonds may not be issued unless the net revenues (that is, unless otherwise defined by the State statute, gross revenues less essential operation and maintenance expense) for the fiscal year preceding the year in which such parity bonds are to be issued, were 120 percent of the average annual debt service requirements on all bonds then outstanding and those to be issued; provided, that this limitation may be waived or modified by the written consent of bondholders representing 75 percent of the then outstanding principal indebtedness.

(h) Additional bonds issued to refund any series of the outstanding Bonds may be issued without complying with subsection (f) (2), above.

(i) The District reserves the right to issue Additional Bonds, being additional parity revenue bonds, in such amounts as are necessary for the purpose of completing the acquisition and construction of the Waterworks Project without the necessity of complying with subsection (f) (2) above if the District's consulting engineer executes a certificate to the effect that such series of bonds are necessary to complete the acquisition and construction of the Waterworks Project and provided that the District has received the prior written consent on the United States of America.

(j) The District reserves the right to issue Special Project Bonds to acquire or construct a separate project which is expected to be self-liquidating. Special Project Bonds shall be payable from revenues received pursuant to contractual agreements. All revenues received for the Special Project in excess of revenues required to pay principal and interest on the Special Project bonds and to establish reserves and to secure, maintain and operate the Special Project shall be considered as part of the Gross Revenues.

SECTION 9. USE OF REVENUES. The District shall deposit as collected all revenues derived from the operation of the System into an account called the "Revenue Fund" (which is the District's "Maintenance Fund") which shall be kept separate and apart from all other funds of the District. From the money in the Revenue Fund, the District shall first pay all reasonably administration,

efficient operation, and adequate maintenance expenses of the District. After the payment of all such expenses, the District shall periodically transfer Net Revenues in the Revenue Fund pursuant to Section 5, "CREATION AND MANAGEMENT OF FUNDS," of this Order for so long as any part of the principal of or interest on the Bonds is outstanding.

SECTION 10. SPECIFIC OBLIGATIONS OF DISTRICT'S BOARD. The Board on behalf of the District expressly stipulates and covenants that for the benefit of the original purchasers and any and all subsequent holders of the Bonds, or any part thereof (and enforceable by any one or all of said holders) and in addition to all other provisions and covenants that it will:

A. SERVICE RATES. Fix, maintain, and collect charges for the facilities and services rendered by the District which will provide revenues sufficient at all times to pay for all reasonable administration, efficient operation, and adequate maintenance expenses of the System; to establish and maintain the Bond Funds (which are the interest and sinking fund for the Bonds, the Outstanding Bonds, and any Additional Bonds hereafter issued in accordance with the terms of this Order); and to pay all other outstanding indebtedness against the System as and when the same becomes due. The Board has enacted and will maintain in effect an Order fixing rates and charges for said facilities and service which contains, among other provisions, a requirement for periodic billing of all customers of the District and a prohibition against

furnishing of water service without charge to any person, firm, organization, or corporation;

B. NO ENCUMBRANCES. Not mortgage or otherwise encumber the physical properties of the System, or any part thereof, or sell, lease, or otherwise dispose of any substantial portion of the physical properties of the System;

C. MAINTENANCE. Maintain the System in good condition and operate it in an efficient manner and at a reasonable cost;

D. INSURANCE. Maintain insurance on the System of a kind and in an amount which usually would be carried by other water districts engaged in a similar type of operation;

E. RECORDS AND AUDITS. Keep records and accounts and employ an independent certified public accountant of recognized integrity and ability to direct the installation of the required accounting procedure and to audit its affairs at the close of each fiscal year. The fiscal year of the District is from January 1 to December 31 of the same year. Said audits shall include a statement in detail of the income and expenditures of the System for each year; a balance sheet as of the end of the year; the auditor's comments regarding the manner in which the District has carried out the requirements of all Bond Orders; his recommendations, if any, for changes or improvements in the operation of the District's plants, facilities, and improvements; a list of insurance policies in force as of the date of the audit including the amount, expiration date, risk covered, and name of the insurer for each such policy; the number of properties

connected to the System as of the end of the fiscal year; total gallons of water purchased and/or produced; total gallons of water sold; and percent of water lost. One written report of the audit shall be delivered to each member of the Board not later than 90 days after the close of each fiscal year, and so long as the United States of America owns any of the Bonds, a copy of said audit shall also be sent to the Farmers Home Administration; upon request a copy of the audit shall be delivered to the holders of at least 25% of the then-outstanding bonds of the District; and a copy of the audit shall be retained and filed in the office of the auditor. At least 5 copies of said audit shall be delivered to the office of the District, one of which shall be kept on file, and said copies shall constitute a public record open to inspection by any interested person or persons during normal office hours.

SECTION 11. REMEDIES OF HOLDERS. In addition to all rights and remedies of any holder of the Bonds provided by the laws of the State of Texas, the District covenants and agrees that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make the payments required by this Order to be made into the Bond Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in this Order, the holder of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Board and other officers of the District to observe and perform any covenant, obligation, or condition prescribed in this Order. No

delay or omission by any holder to exercise any right or power accruing to him upon default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The specific remedies mentioned in this Order shall be available to any holder of any of the Bonds and shall be cumulative of all other existing remedies.

SECTION 12. GENERAL COVENANTS. The District covenants and represents that:

A. It has lawful power to pledge the Net Revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas;

B. The Bonds shall be ratably secured in such manner that no one bond shall have preference over other bonds of the Series of which it is a part; and

C. The Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the District or of the System and the System is free and clear of all encumbrances whatsoever, except as hereinabove stated.

SECTION 13. DISTRICT OFFICERS' DUTIES.

A. The President and Secretary of the Board are hereby instructed and directed to do any and all things necessary in reference to the installation, completion, and maintenance of the District's plants, facilities, and improvements and to make monies

available for the payment of the Bonds in the manner provided by law.

B. The President and the Board shall submit the bonds, the record of the proceedings authorizing the issuance of the Bonds, and any and all other necessary orders, certificates, and records to the Attorney General of the State of Texas for his investigation. After obtaining the approval of the Attorney General, the President shall cause the Bonds to be registered by the Comptroller of Public Accounts of the State of Texas.

C. The President is authorized to execute and the Secretary is authorized to attest this Order on behalf of the Board and to do any and all things proper and necessary to carry out the intent hereof.

SECTION 14. SALE AND DELIVERY OF BONDS. The Bonds are hereby sold and shall be delivered to the UNITED STATES OF AMERICA, for par value at an interest rate of 4.500% per annum with one year deferred principal. Upon the registration of the Bonds, the Comptroller of Public Accounts of the State of Texas is authorized and instructed to deliver all of the Bonds to the Paying Agent/Registrar. Delivery of the Bonds to the aforementioned Purchaser shall be made incrementally as funds are needed for the project. The date of delivery of each bond shall be affixed on the Bonds, and the interest pertaining thereto will commence as of said delivery date. The Bonds will be delivered in the order of their numbers. The Paying Agent/Registrar shall (i) hold the Bonds pending delivery to the Purchaser, (ii) deliver the Bonds at the

direction of the District, and (iii) affix the date of delivery on the Bonds.

SECTION 15. COVENANTS REGARDING TAX EXEMPTION. The District covenants to refrain from taking any action which would adversely affect, and to take any required action to ensure, the treatment of the Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the District covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in Section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the District, with respect to private business use, do not, under the terms of this Order, or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of Section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in Subsection (a) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business

use" which is "related" and not "disproportionate," within the meaning of Section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of Section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of Section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of Section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in Section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property with--

(1) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less, or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of Section 1.103-13(b)(12) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(g) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of Section 148 of the Code (relating to arbitrage) and, to the extent applicable, Section 149(d) of the Code (relating to advance refundings);

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the bonds) an amount that is at least equal to 90 percent of the "Excess Earnings" within the meaning of Section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of "Excess Earnings" under Section 148(f) of the Code,; and

(i) to maintain such records as will enable the District to fulfill its responsibilities under this Section and Section 148 of the Code and to retain such records for at least six years following the final payment of principal and interest on the Bonds.

In order to facilitate compliance with the above covenants (g), (h), and (i), a "Rebate Fund" is hereby established by the

District for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation, the bondholders. The Rebate Fund is established for the additional purpose of compliance with Section 148 of the Code.

It is the understanding of the District that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify, or expand provisions of the Code, as applicable to the Bonds, the District will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of a nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the District agrees to comply with additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption for federal income taxation of interest on the Bonds under Section 103 of the Code. In furtherance of such intention, the District hereby authorizes and directs the President of its Board to make such elections, on behalf of the District, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

SECTION 16. DESIGNATION AS QUALIFIED TAX-EXEMPT BONDS. The District hereby designates the Bonds as "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. In furtherance of such designation, the District represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the District (including any subordinate entities) has not designated nor will designate obligations, which when aggregated with the Bonds, will result in more than \$10,000,000 of "qualified tax-exempt obligations" being issued; and (b) that the District reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Bonds are issued by the District (or any subordinate entities) will not exceed \$10,000,000.

SECTION 17. FINAL ACCOUNTING AND AS-BUILT PLANS. The District shall maintain in the District's office a final accounting of the total cost incurred by the District for the improvements to the District's utility system funded with the proceeds of the sale of the Bonds, together with a copy of "as-built" plans of the project upon completion.

SECTION 18. CUSIP NUMBERS. The District authorizes the imprinting of CUSIP (the American Bankers Association's Committee on Uniform Securities Identification Procedures) numbers of the Bonds; provided, however, that the failure of such CUSIP numbers to appear on the Bonds, or the imprinting of incorrect CUSIP numbers, shall in no way affect the validity or enforceability of the Bonds

or relieve the purchaser of any obligation to accept delivery of and make payment for the Bonds.

SECTION 19. TITLES NOT RESTRICTIVE. The titles assigned to the various sections of this Order are for convenience only and are intended to be descriptive of the matters following said titles. The titles shall not be considered restrictive of the subject matter of any section or of any part of this Order.

SECTION 20. SEVERABILITY. If any word, phrase, clause, paragraph, sentence, part, portion, or provision of this Order or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Order shall nevertheless be valid and the Board hereby declares that this Order would have been enacted without such invalid word, phrase, clause, paragraph, sentence, part, portion, or provision.

SECTION 21. COMPLIANCE WITH TEXAS OPEN MEETINGS ACT. The Board officially finds, determines, and declares that this order was adopted at a duly called regular meeting of the Board and that sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place readily accessible and convenient to the public within the District and on a bulletin board located at a place convenient to the public in the Zapata County Courthouse for the time required by law preceding this meeting, as required by the Open Meetings Law, Article 6252-17, Vernon's Texas Civil Statutes, as amended, and that this meeting has been open to the public as required by law at all times during which this order and the subject matter hereof has been discussed,

considered, and acted upon. The Board further ratifies, approves, and confirms such written notice and the contents and posting thereof.

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