NEW ISSUE

RATINGS:
S&P: “A+”
Moody’s: “A2”
Fitch: “A”

BOOK-ENTRY ONLY:
See “APPENDIX II—BOOK-ENTRY-ONLY SYSTEM”

See “RATINGS” herein

In the opinion of Ice Miller LLP, Indianapolis, Indiana. Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the 2011E Bonds tax herein defined is excludable for federal income tax purposes from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. Such opinion is conditioned on continuing compliance with the Tax Covenants (as herein defined). In the opinion of Bond Counsel, under existing laws, regulations, published rulings and judicial decisions, interest on the 2011E Bonds is exempt from income taxation in the State of Indiana. See “TAX MATTERS” and “APPENDIX F – FORM OF OPINION OF BOND COUNSEL.”

$58,790,000
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK BONDS, SERIES 2011E (Waterworks Project)

Dated: Date of Delivery
Due: As Shown on the Inside Cover

The 2011E Bonds are issued by The Indianapolis Local Public Improvement Bond Bank (the “Bond Bank”) as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The 2011E Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), securities depository for the 2011E Bonds. Purchases of the 2011E Bonds are to be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interests in the 2011E Bonds. See “APPENDIX II—BOOK-ENTRY-ONLY SYSTEM.” Interest on the 2011E Bonds will accrue from the date of their delivery, and will be payable on January 1 and July 1 of each year, commencing July 1, 2011, at the rates per annum set forth on the inside cover page. Interest, together with the principal of and premium, if any, on the 2011E Bonds will be paid directly to DTC by U.S. Bank National Association (the “Trustee”), or its successor, as the paying agent for the 2011E Bonds so long as DTC or its nominee is the registered owner of the 2011E Bonds. See “THE 2011E BONDS.”

Proceeds of the 2011E Bonds will be used to: (i) purchase the City of Indianapolis, Indiana Waterworks District Net Revenue Bonds, Series 2011A (the “2011A Waterworks Revenue Bonds”), to be issued by the Department of Waterworks (the “Waterworks Department”) of the City of Indianapolis, Indiana (the “City”), (ii) deposit funds in the Bond Bank Common Reserve Account (as defined herein), and (iii) pay the costs of issuance of the 2011E Bonds and 2011A Waterworks Revenue Bonds and other related expenses. See “FINANCING PLAN—Sources and Uses of Bond Proceeds.”

The 2011E Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in “THE 2011E BONDS—Redemption Provisions of the 2011E Bonds.”


This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision, giving particular attention to the sections entitled “CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS” and “THE WATERWORKS DEPARTMENT – Pending Acquisition and Transfer of Assets of the Waterworks System.”

The Bonds are offered when, as, and if issued by the Bond Bank and accepted by the Underwriters subject to the approval of the legality of the 2011E Bonds by Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, and the satisfaction of certain other conditions. Ice Miller LLP also has acted as Bond Counsel to the Waterworks Department. Certain legal matters will be passed upon for the Bond Bank by its General Counsel. Certain legal matters will be passed upon for the City and the Waterworks Department by the Corporation Counsel to the City. Certain legal matters will be passed upon for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. Crowe Horwath LLP, Certified Public Accountants, Indianapolis, Indiana, has acted as the financial advisor to the Bond Bank, the Waterworks Department and the City. It is expected that the 2011E Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about May 26, 2011.

MORGAN STANLEY
MORGAN KEEGAN
CITY SECURITIES CORPORATION
RAMIREZ & CO., INC.

The date of this Official Statement is May 18, 2011
$58,790,000
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT
BOND BANK BONDS, SERIES 2011E
(Waterworks Project)

MATURITY SCHEDULE

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<tr>
<th>Maturity</th>
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<th>Yield</th>
<th>Price</th>
<th>CUSIP(1)</th>
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<td>01/01/2012</td>
<td>$ 600,000</td>
<td>2.000%</td>
<td>0.680%</td>
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<td>01/01/2013</td>
<td>1,020,000</td>
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<td>1.490%</td>
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<td>01/01/2014</td>
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<td>1.850%</td>
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<td>01/01/2015</td>
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<td>01/01/2019</td>
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<td>5.000%</td>
<td>4.130%*</td>
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</table>

Term Bonds

$ 4,785,000  4.500%  Term Bond due January 1, 2025 Priced to Yield 4.670%  CUSIP 45528UCN9(1)
$11,835,000  5.000%  Term Bond due January 1, 2031 Priced to Yield 5.000%  CUSIP 45528UCL3(1)
$29,480,000  5.125%  Term Bond due January 1, 2041 Priced to Yield 5.280%  CUSIP 45528UCM1(1)

* Yield to the January 1, 2021 par call

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(1) The CUSIP number listed above is being provided solely for the convenience of the holders of the 2011E Bonds only, and the Bond Bank does not make any representations with respect to such number or undertake any responsibility for its accuracy. The CUSIP number is subject to being changed after the issuance of the 2011E Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the 2011E Bonds.
USE OF INFORMATION IN THIS OFFICIAL STATEMENT

No dealer, salesperson, or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2011E Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the Bond Bank, the City, the Waterworks Department or the Underwriters. This Official Statement, which includes the cover page and the appendices, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2011E Bonds by any person, in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation, or sale.

The information set forth in this Official Statement has been obtained from the Bond Bank, the City, the Waterworks Department, and from the sources referenced throughout this Official Statement, which the Bond Bank, the City and the Waterworks Department believe to be reliable. No guarantee is made by the Bond Bank, the City and the Waterworks Department, however, as to the accuracy of information provided from sources other than the Bond Bank, the City and the Waterworks Department. The information, estimates, and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale of the 2011E Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Bond Bank, the City or the Waterworks Department, or in the information, estimates, or opinions set forth herein, since the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information, and it is not to be construed as the promise or guarantee of the Underwriters.

THE PRICES AT WHICH THE 2011E BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN ORDER TO FACILITATE DISTRIBUTION OF THE 2011E BONDS, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICE OF THE 2011E BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.


The statements contained in this Official Statement, including, but not limited to, the sections “PARITY DEBT SERVICE REQUIREMENTS,” “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—Waterworks Historical and Projected Debt Service Coverage” and “APPENDIX A—CONSULTANT’S REPORT” and any other information provided by the Bond Bank, the City or the Waterworks Department, that are not purely historical, are forward-looking statements, including statements of the Waterworks Department’s expectations, hopes and intentions, or strategies regarding the future.

The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Official Statement would prove to be accurate.
Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Bond Bank, the City or the Waterworks Department on the date hereof, and the Bond Bank, the City and the Waterworks Department assume no obligation to update any such forward-looking statements.
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CITY OF INDIANAPOLIS, INDIANA

Gregory A. Ballard, Mayor
Jeffrey L. Spalding, Controller
Ryan Vaughn, City-County Council President
Joanne Sanders, City-County Council Minority Leader

THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

BOARD OF DIRECTORS

Briane M. House, Chairperson
E. Sahara Williams, P.E., Vice Chairperson
Fred Miller
James S. Carr
Milton Thompson

Deron S. Kintner, Executive Director and General Counsel

CITY OF INDIANAPOLIS, INDIANA, WATERWORKS DEPARTMENT

BOARD OF DIRECTORS

Frank T. Short, Chairperson
Larry Gigerich, Vice Chairperson
Dr. Philip C. Borst, D.V.M., Secretary-Treasurer
David Holt
Andrew J. Mallon
Dr. Marvin B. Scott
Kameelah Shaheed-Diallo

Matthew T. Klein, Executive Director

BOND COUNSEL

Ice Miller LLP
Indianapolis, Indiana

UNDERWRITERS’ COUNSEL

Krieg DeVault LLP
Indianapolis, Indiana

FINANCIAL ADVISOR

Crowe Horwath LLP
Indianapolis, Indiana

TRUSTEE

U.S. Bank National Association
INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page, the other preliminary pages and the appendices, is to provide information in connection with the issuance and sale by The Indianapolis Local Public Improvement Bond Bank (the “Bond Bank”) of its Bonds, Series 2011E (Waterworks Project) (the “2011E Bonds”). The 2011E Bonds will be issued pursuant to Indiana Code 5-1.4 (the “Act”) and a Trust Indenture dated as of April 1, 2002 (the “Original Indenture”), as previously supplemented and amended, and as further supplemented by the 2011E Supplemental Trust Indenture dated as of April 1, 2011 (the “2011E Supplemental Indenture”), as the same may be further supplemented and amended from time to time as provided therein (collectively, the “Indenture”), each between the Bond Bank and U.S. Bank National Association, Indianapolis, Indiana, successor-in-interest to National City Bank of Indiana, as trustee (the “Trustee”). The Bond Bank approved a resolution authorizing the 2011E Bonds on April 11, 2011. Unless otherwise defined herein, capitalized terms used in this Official Statement are defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions.”

The Bond Bank is a body corporate and politic, separate from the City of Indianapolis, Indiana (the “City”), and established for the public purposes set forth in the Act. Pursuant to the Act, the purpose of the Bond Bank is to purchase and sell securities of “qualified entities,” which includes the City’s Department of Waterworks (the “Waterworks Department”) created pursuant to the Enabling Legislation (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”). The Bond Bank is governed by a board of five directors, each appointed by the Mayor of the City (the “Bond Bank Board”). The Bond Bank has no taxing power.

The 2011E Bonds will be issued pursuant to the Indenture. U.S. Bank National Association will serve as registrar (“Registrar”) and paying agent (“Paying Agent”) for the 2011E Bonds (the Trustee, the Paying Agent and any authorized depository under the Indenture, collectively, are referred to herein as the “Fiduciaries”).

The offering of the 2011E Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the 2011E Bonds. The following introductory material is only a brief description of and is qualified by the more complete information contained throughout this Official Statement. A full review should be made of the entire Official Statement, including the appendices, and the documents summarized or described herein, particularly the section entitled “CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS.” Detachment or other use of this “INTRODUCTION” without the entire Official Statement, including the cover page, inside cover page, other preliminary pages and appendices, is unauthorized.

Financing Plan

Proceeds of the 2011E Bonds will be used to (i) purchase the City of Indianapolis, Indiana Waterworks District Net Revenue Bonds, Series 2011A (the “2011A Waterworks Revenue Bonds”), to be issued by the Waterworks Department, (ii) deposit funds in the Bond Bank Common Reserve Account (as defined herein), and (iii) pay the costs of issuance of the 2011E Bonds and 2011A Waterworks Revenue Bonds and other related expenses. See “FINANCING PLAN—Sources and Uses of Bond Proceeds.”
The proceeds of the 2011A Waterworks Revenue Bonds will be used to finance capital improvement projects of the public water utility owned and operated by the Waterworks Department and the City (the “Waterworks”). See “FINANCING PLAN—The 2011 Project.”

The 2011A Waterworks Revenue Bonds are secured by the Net Revenues (as defined herein) of the Waterworks and certain pledged funds on a parity with (i) City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2002A (Tax-Exempt) (the “2002A Waterworks Revenue Bonds”) outstanding in the aggregate principal amount of $23,040,000; (ii) City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2005F (the “2005F Waterworks Revenue Bonds”) outstanding in the aggregate principal amount of $69,965,000; (iii) City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2006A (the “2006A Waterworks Revenue Bonds”) outstanding in the aggregate principal amount of $77,830,000; (iv) City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2007B (the “2007B Waterworks Revenue Bonds”), outstanding in the aggregate principal amount of $70,410,000; (v) City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2007L (the “2007L Waterworks Revenue Bonds”) outstanding in the aggregate principal amount of $102,830,000; and (vi) City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2009A (the “2009A Waterworks Revenue Bonds”), outstanding in the aggregate principal amount of $559,890,000. The Bond Bank purchased the 2002A Waterworks Revenue Bonds, the 2005F Waterworks Revenue Bonds, the 2006A Waterworks Revenue Bonds, the 2007B Waterworks Revenue Bonds, the 2007L Waterworks Revenue Bonds and the 2009A Waterworks Revenue Bonds with the proceeds of the 2002A Bonds, the 2005F Bonds, the 2006A Bonds, the 2007B Bonds, the 2007L Bonds and the 2009A Bonds (each as defined herein), respectively, issued pursuant to the Indenture. The 2011E Bonds are secured on a parity with the 2002A Bonds, the 2005F Bonds, the 2006A Bonds, the 2007B Bonds, the 2007L Bonds and the 2009A Bonds (each as defined herein) by revenues and funds of the Bond Bank under the Indenture, including payments received on the Waterworks Revenue Bonds, are issued on a parity with The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A (Waterworks Project), Series 2005F (Waterworks Project), Series 2006A (Waterworks Project), Series 2007B (Waterworks Project), Series 2007L (Waterworks Project) and together with the 2007B Bonds and the 2009A Bonds (collectively, the “Waterworks Revenue Bonds”). For a discussion of the security for the Waterworks Revenue Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE WATERWORKS DEPARTMENT – Pending Acquisition and Transfer of Assets of the Waterworks System.”

The 2011E Bonds

The 2011E Bonds are issued solely as fully registered certificates in denominations of $5,000, or any integral multiple thereof. The 2011E Bonds initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), the securities depository for the 2011E Bonds. Purchases of the 2011E Bonds are to be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interest in the 2011E Bonds. See “APPENDIX H—BOOK-ENTRY-ONLY SYSTEM.” The 2011E Bonds mature and bear interest calculated based on a 360-day year consisting of twelve 30-day months as set forth on the inside cover page hereof. The payment of principal of and interest on the 2011E Bonds is described under the caption “THE 2011E BONDS.” Certain 2011E Bonds are subject to redemption prior to maturity at the option of the Bond Bank and also are subject to mandatory sinking fund redemption as described under the caption “THE 2011E Bonds—Redemption Provisions of the 2011E Bonds.”

Security and Sources of Payment for the Bonds

Bond Bank Bonds. The 2011E Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture, as more fully described herein, including payments received on the Waterworks Revenue Bonds, are issued on a parity with The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A (Waterworks Project), Series 2005F (Waterworks Project), Series 2006A (Waterworks Project), Series 2007B (Waterworks Project), Series 2007L (Waterworks Project) and together with the 2007B Bonds and the 2009A Bonds.”
collectively with the 2002A Bonds, the 2005F Bonds, the 2006A Bonds, the 2007 Bonds and the 2011E Bonds, the “Bonds”). The Waterworks Revenue Bonds are payable solely from the Net Revenues (as defined herein) of the Waterworks and certain pledged funds. The Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the “State”) or any political subdivision thereof, including the City, the Waterworks Department, or any other qualified entity, under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The sources of payment of, and security for, the Bonds are more fully described herein. The Bond Bank has no taxing power. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The Bonds also are secured by a debt service reserve fund established under the Indenture (the “Bond Bank Reserve Fund”). Under the Indenture, the Common Reserve Account of the Bond Bank Reserve Fund (the “Bond Bank Common Reserve Account”) must contain an amount equal to fifty percent (50%) of the Combined Maximum Annual Principal and Interest Requirements (the “Bond Bank Reserve Requirement”). “Combined Maximum Annual Principal and Interest Requirements” means the maximum aggregate amount of principal and interest on all Bonds which have a claim on the Bond Bank Common Reserve Account falling due in any succeeding Fiscal Year (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”). Upon issuance of the 2011E Bonds, the Bond Bank Reserve Requirement will be fully satisfied from guaranteed investment contracts (individually, a “GIC” and collectively, the “GICs”) issued by Morgan Stanley and Co. Incorporated and FSA Capital Management Services LLC, respectively (each a “GIC Provider” and collectively, “GIC Providers”) pursuant to the Debt Service Reserve Fund Agreement dated May 21, 2002 and the Investment Agreement dated April 21, 2006, respectively, and funds currently on deposit in the Bond Bank Common Reserve Account plus a deposit from the proceeds of the 2011E Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Funds and Accounts; Flow of Funds” and “—Bond Bank Reserve Fund.”

**Waterworks Revenue Bonds.** The principal of and interest on the Waterworks Revenue Bonds are payable from Net Revenues of the Waterworks, together with the moneys in the Interest Account, Principal Account and Hedge Payment Account of the Bond Fund (the “Senior Pledged Funds”). The 2011A Waterworks Revenue Bonds also are payable from the Common Reserve Subaccount of the Reserve Account (the “Waterworks Common Reserve Subaccount,” and together with the Senior Pledged Funds and the Construction Fund, the “2011A Pledged Funds”). Net Revenues are defined in the Bond Resolution of the Board of Directors of the Waterworks Department (the “Waterworks Bond Resolution”), as the gross revenues derived from the operation and use of, and otherwise pertaining to, the Waterworks (the “Gross Revenues”), after provision is made for the payment of all necessary and reasonable Operation and Maintenance Expenses of the Waterworks. “Operation and Maintenance Expenses” means, generally, all reasonable and necessary current expenses of the Waterworks Department of operating, maintaining, and repairing the Waterworks. For more detailed definitions of Gross Revenues and Operation and Maintenance Expenses, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Net Revenues.”

The Waterworks Revenue Bonds constitute an irrevocable and prior lien upon the Net Revenues. Subject to express conditions set forth in the Waterworks Bond Resolution, obligations in addition to the Waterworks Revenue Bonds may be issued and made payable from the Net Revenues having a lien thereon on parity with the lien of the Waterworks Revenue Bonds (“Waterworks Parity Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Waterworks Revenue Bonds.” See also “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

In addition to its authority to issue revenue bonds and set rates and charges for the use of the Waterworks, the Waterworks Department has the legal authority to issue special taxing district bonds. Both the City-County Council of Indianapolis and Marion County, Indiana (the “City-County Council”) in creating the Waterworks Department, and the Board of Directors of the Waterworks Department, have made policy decisions not to levy any property taxes within the District (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”), or to operate the Waterworks Department as a special taxing district by borrowing money for the District, and accordingly, no property taxes have been or are expected to be levied on property within the District or are expected to be available to pay debt service on the Waterworks Revenue Bonds.
The Waterworks Revenue Bonds also are secured by the Waterworks Common Reserve Subaccount. The Waterworks Common Reserve Subaccount is required to be funded in an amount equal to fifty percent (50%) of the maximum aggregate amount of principal of and interest on all Waterworks Senior Bonds (as defined herein) which have a claim for payment from the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year (the “Waterworks Common Reserve Requirement”). In lieu of all or a portion of any moneys required to be deposited in the Waterworks Common Reserve Subaccount, the Waterworks Department may deposit a Reserve Account Credit Facility (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”) in the Waterworks Common Reserve Subaccount in full or partial satisfaction of the Waterworks Common Reserve Requirement. The Waterworks Common Reserve Requirement is treated as fully satisfied if the Bond Bank Reserve Requirement is satisfied for the Bond Bank Common Reserve Account. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Reserve Account.”

The Board of Directors of the Waterworks Department approved the 2011A Waterworks Revenue Bonds on March 22, 2011 and City-County Council and Bond Bank approval of the same was obtained on April 11, 2011.

Rate Covenants. The Waterworks Department has covenanted in both the Waterworks Bond Resolution and the Board Policy to maintain a schedule of rates, fees, and other charges for water and other goods and services provided by the Waterworks as may be necessary or proper in order that the Gross Revenues in each Fiscal Year are sufficient to provide for the payment of Operation and Maintenance Expenses, as well as to provide a specified minimum debt service coverage on outstanding Waterworks Senior Bonds and any Hedge Payments with respect to Senior Hedge Agreements (all as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Rate Covenants—Waterworks Bond Resolution Rate Covenant” and “—Board Policy Rate Covenant.”

The Waterworks

The Waterworks Department is a department of the City created pursuant to Indiana Code 8-1.5, Indiana Code 36-3-4-23, City-County Council General Ordinance No. 112, 2001, and other applicable authorizing statutes including Indiana Code 5-1.4, Indiana Code 5-1-14, Indiana Code 36-1-3 and Indiana Code 36-9-2-14 (the “Enabling Legislation”). The Waterworks Department was formed in order to facilitate the Acquisition (as defined herein) of the Waterworks, to undertake the water utility operations of the Waterworks and to develop, manage and maintain supplies of water for the benefit of the customers of the Waterworks Department. The Waterworks Department’s geographic boundaries include the area consisting primarily of the Indianapolis metropolitan statistical area (the “District”). See “THE WATERWORKS—Service Area” for a further description of the District and the area served by the Waterworks Department. A map identifying the area served by the Waterworks may be found on the inside back cover page of this Official Statement. For certain financial information regarding the Waterworks Department, see “APPENDIX A—CONSULTANT’S REPORT.”

Prior to May 1, 2002, water utility service for the greater Indianapolis area was provided by IWC Resources Inc. (together with its subsidiaries, the “IWCR”), a subsidiary of NiSource, Inc. (“NiSource”). In November 2001, the City entered into an asset purchase agreement (“IWCR Asset Purchase Agreement”) with IWCR concerning the terms and conditions of the City’s acquisition of the Waterworks. The asset purchase transaction (the “Acquisition”) was completed on April 30, 2002. Pursuant to the Waterworks Bond Resolution, the Waterworks Department issued a series of its Waterworks Revenue Bonds to finance the Acquisition of the Waterworks.

The Manager and the Management Agreement

The Waterworks Department previously entered into a Management Agreement (the “Management Agreement”) with Veolia Water Indianapolis, LLC (formerly US Filter Operating Services Inc.), a subsidiary of Veolia Environnement (the “Manager”). In connection with the Pending Acquisition (as defined herein), the Management Agreement was terminated in September 2010, but the Manager is obligated to continue to perform the services provided for in the Management Agreement through the closing of the Pending Acquisition. For more information regarding the Management Agreement and the Manager, see “THE MANAGER AND THE MANAGEMENT AGREEMENT” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”
Financial Information

Financial information relating to the Waterworks is incorporated in the City’s financial statements. The Comprehensive Annual Financial Reports of the City, which include the audited financial statements of the City for fiscal years ending prior to December 31, 2008, are filed with and available from the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) which were in existence prior to July 1, 2009, and, for fiscal years ending December 31, 2008, and thereafter, upon release by the City’s auditors, KPMG LLP (“KPMG”), have been or will be filed with and available from the Municipal Securities Rule Making Board’s Electronic Municipal Market Access system found at http://emma.msrb.org/. See “AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION.”

Selected unaudited historical financial information relating to the Waterworks Department is set forth under the caption “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION” and in “APPENDIX A—CONSULTANT’S REPORT.”

Pending Acquisition and System Transfer

In 2009, the City led by the Mayor’s Director of Enterprise Development, undertook an analysis of how it might achieve increased efficiencies in the operations of the utilities serving the City and its residents. To assist in this process, the Mayor created the Infrastructure Advisory Commission (“IAC”). Currently, water and sewer services are provided by the City-owned utilities under the jurisdiction of separate departments of the City, including the Waterworks Department, and are managed by separate managers, including the Manager, under separate operating and management agreements; the gas, chilled water and steam utilities are owned and operated by the City’s Department of Public Utilities under a long-standing public charitable trust operating under the tradename of Citizens Energy Group; and the electric utility services have been provided by Indianapolis Power & Light Company. As a part of this analysis, on May 21, 2009, the Board of Directors of the Waterworks Department adopted a resolution amending the Waterworks Bond Resolution to permit a Substitute Issuer (as defined herein) and the Bond Bank adopted a corresponding resolution on June 15, 2009, approving the First Amendment which amended the Indenture. See “APPENDIX B1—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” Thereafter, on July 21, 2009, the City released a Request for Expression of Interest (“REI”) to solicit potential partners’ feedback on the City’s objectives and ideas, including its proposal to combine the management and operation of the City’s Waterworks and wastewater systems through a combined utility structure. The City received numerous proposals for various types of collaborations with other utilities or operators or for a transfer of assets of the Waterworks Department and the Sanitary District of the City. At the conclusion of this process, the City selected the proposal of Citizens Energy Group and has executed the APAs (as defined herein) to transfer the assets of the Waterworks (as defined herein) and the wastewater system to Citizens Energy Group and CWA Authority, Inc. (the “Authority”), respectively, in exchange for certain consideration, as well as covenants and conditions regarding the long-term operation of the utilities. See “THE WATERWORKS DEPARTMENT—Pending Acquisition and System Transfer of the Waterworks System,” “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT” and “APPENDIX E – SUMMARY OF CITIZENS ENERGY GROUP FINANCING DOCUMENTS AND DEFINITIONS.”

Additional Information

This introduction is only a brief summary of certain materials relating to the 2011E Bonds and a full review of the entire Official Statement, including the appendices hereto, should be made by potential investors. Brief descriptions of the 2011E Bonds, the Indenture, the Waterworks Revenue Bonds, the Waterworks Bond Resolution, the Board Policy, the Management Agreement, the Waterworks, Waterworks Department, Citizens Energy Group and the APAs are included in this Official Statement. All references herein to the 2011E Bonds, the Indenture, the Waterworks Revenue Bonds, the Waterworks Bond Resolution, the Board Policy, the Management Agreement, and other documents are qualified in their entirety by reference to such documents. This Official Statement speaks only as of its date and the information contained herein is subject to change.

Copies of the documents referred to herein are available from The Indianapolis Local Public Improvement Bond Bank, 200 East Washington Street, Room 2342, City-County Building, Indianapolis, Indiana 46204, (317) 327-4220.
FINANCING PLAN

The 2011 Project

Proceeds of the 2011E Bonds will be used to (i) purchase the 2011A Waterworks Revenue Bonds, to be issued by the Waterworks Department, (ii) deposit funds in the Bond Bank Common Reserve Account, and (iii) pay the costs of issuance of the 2011E Bonds and the 2011A Waterworks Revenue Bonds and other related expenses.

The 2011A Waterworks Revenue Bonds are being issued by the Waterworks Department for the purposes of financing capital improvement projects to the public water utility owned and operated by the Waterworks Department. The projects to be funded, in full or in part, from the proceeds of 2011A Waterworks Revenue Bonds are contained in the capital plan prepared by the Manager and submitted to the Board of Directors of the Waterworks Department (See “THE WATERWORKS—Capital Improvement Plan”). Projects in the capital improvement plan include, but are not limited to, the following:

- upgrading of disinfection system at White River North Treatment Plant
- design work for White River intake drains and sumps to the Eagle Station Plant
- installation of new UV installation of new turbidity meters at White River North Treatment Plant
- installation of new carbon system for the White River North Treatment Plant
- construction of new alum storage tank at White River Treatment Plant
- installation of new unloading station at White River Treatment Plant; replacement of certain backwash residuals tanks and settle residual tanks; replacement of turbidity meters at White River Treatment Plant; addition of ultra-violet disinfection system at Fall Creek Treatment Plant; replacement of freight elevator at Fall Creek Treatment Plant; upgrading the carbon system for the Fall Creek Treatment Plant; relocation of well 17 for Fall Creek Treatment Plant; rebuilding of high service treatment pumps #4 and #5 at Fall Creek Treatment Plant; replacement of filter of effluent for the Riverside Pump Station; installation of new switch gear at Riverside Pump Station; roof replacement and refurbishment at various Waterworks Department facilities; installation of backflow devices; installation of emergency pumping source for the Riverside Pump Station; well rehabilitation; revamping of chemical storage and feed lines; replacement of existing Watson Marlow chemical feed pumps; replacement of caustic storage at Fall Creek Treatment Plant; addition of ultra-violet disinfection system at Fall Creek Treatment Plant; replacement of freight elevator at Fall Creek Treatment Plant; upgrading the carbon system for the Fall Creek Treatment Plant; installation of new mains, hydrants and valve relocation of well 17 for Fall Creek Treatment Plant; rebuilding of high service treatment pumps #4 and #5 at Fall Creek Treatment Plant; replacement of filter of effluent flow control valves and actuators; replacement of impellers for high service pumps #1 and #2 at Harding Street Station; Geist Tank Station refurbishment; installation of diesel storage tank at T.W. Moses Treatment Plant; installation of chemical spill containment area at T.W. Moses Treatment Plant; installation of pumps and piping for basin draining at T.W. Moses Treatment Plant; installation of permanent permanganate feed system at T.W. Moses Treatment Plant; replacement of certain backwash residuals tanks and settle residual tanks; replacement of turbidity meters at White River Treatment Plant; installation of new unloading station at White River Treatment Plant; replacement of high service pump switch gear; installation of screen on gravity thickener at White River Treatment Plant; construction of new alum storage tank at White River Treatment Plant; installation of new pump station and pipeline from the White River to the White River Treatment Plant; installation of main control valve on wash waterline for the White River Treatment Plant; new carbon system for the White River North Treatment Plant; installation of new turbidity meters at White River North Treatment Plant; routing of purification, pump station and intake drains and sumps to the sanitary sewer at the White River North Treatment Plant; installation of new UV disinfection system at White River North Treatment Plant; preliminary engineering and design work for White River North Treatment Plant technical upgrade; installation of security systems at various treatment plants; upgrading of overflow screen, airbrake and flapgate for the New Harmony Road Tank; tank upgrades at Harding, Geist and Ford Road Plants; upgrades and repairs to Conservation Hub Tank; new McCordsville Tank; Broad Ripple Dam repair, Keystone Dam repair; automatic metering reading pilot program; and meter replacement program.
Sources and Uses of Bond Proceeds

Set forth below is a summary of the estimated sources and uses of proceeds of the 2011E Bonds:

Sources of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Principal Amount of 2011E Bonds</td>
<td>$58,790,000.00</td>
</tr>
<tr>
<td>Net Original Issue Premium</td>
<td>13,135.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$58,803,135.75</strong></td>
</tr>
</tbody>
</table>

Uses of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Construction Fund for 2011 Project</td>
<td>$55,689,380.00</td>
</tr>
<tr>
<td>Deposit to Bond Bank Common Reserve Account</td>
<td>1,921,884.37</td>
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<tr>
<td>Costs of Issuance&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>1,187,877.22</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,994.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$58,803,135.75</strong></td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Includes legal, printing, underwriters’ discount, financial advisor and other miscellaneous costs of issuance and related expenses.
# PARITY DEBT SERVICE REQUIREMENTS

The following table sets forth (i) the debt service due on the 2002A Bonds, the debt service due on the 2005F Bonds, the debt service due on the 2006A Bonds, the debt service due on the 2007B Bonds, the debt service due on the 2007L Bonds, the debt service due on the 2009A Bonds (collectively, the “Existing Debt Service”); (ii) the debt service due on the 2011E Bonds; and (iii) the total debt service due on all outstanding Bonds, in each year ending on January 1.

<table>
<thead>
<tr>
<th>Bond Year Ending January 1</th>
<th>Existing Debt Service(2)</th>
<th>2011E Bonds Principal(2)</th>
<th>2011E Bonds Interest(2)</th>
<th>2011E Bonds Debt Service(2)</th>
<th>Total Debt Service(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>63,971,438</td>
<td>600,000</td>
<td>1,693,969</td>
<td>2,293,969</td>
<td>66,265,406</td>
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<tr>
<td>2013</td>
<td>63,973,894</td>
<td>1,020,000</td>
<td>2,824,412</td>
<td>3,844,412</td>
<td>67,818,306</td>
</tr>
<tr>
<td>2014</td>
<td>63,974,794</td>
<td>1,050,000</td>
<td>2,793,812</td>
<td>3,843,812</td>
<td>67,818,606</td>
</tr>
<tr>
<td>2015</td>
<td>63,972,506</td>
<td>1,080,000</td>
<td>2,762,312</td>
<td>3,842,312</td>
<td>67,818,819</td>
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<tr>
<td>2016</td>
<td>63,971,919</td>
<td>1,125,000</td>
<td>2,719,112</td>
<td>3,841,112</td>
<td>67,818,031</td>
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<tr>
<td>2017</td>
<td>63,971,519</td>
<td>1,170,000</td>
<td>2,674,112</td>
<td>3,844,112</td>
<td>67,815,631</td>
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<tr>
<td>2018</td>
<td>63,971,950</td>
<td>1,225,000</td>
<td>2,615,612</td>
<td>3,840,612</td>
<td>67,812,562</td>
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<tr>
<td>2019</td>
<td>63,969,463</td>
<td>1,275,000</td>
<td>2,566,612</td>
<td>3,841,612</td>
<td>67,811,075</td>
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<tr>
<td>2020</td>
<td>63,970,975</td>
<td>1,315,000</td>
<td>2,525,175</td>
<td>3,840,175</td>
<td>67,811,150</td>
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<td>2021</td>
<td>63,971,931</td>
<td>1,380,000</td>
<td>2,459,425</td>
<td>3,839,425</td>
<td>67,811,356</td>
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<td>2022</td>
<td>63,971,931</td>
<td>1,450,000</td>
<td>2,390,425</td>
<td>3,840,425</td>
<td>67,812,356</td>
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<td>2023</td>
<td>63,974,838</td>
<td>1,525,000</td>
<td>2,317,925</td>
<td>3,842,925</td>
<td>67,817,763</td>
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<td>2024</td>
<td>63,973,425</td>
<td>1,595,000</td>
<td>2,249,300</td>
<td>3,844,300</td>
<td>67,817,725</td>
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<td>2025</td>
<td>63,971,344</td>
<td>1,665,000</td>
<td>2,177,525</td>
<td>3,842,525</td>
<td>67,813,869</td>
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<tr>
<td>2026</td>
<td>63,971,475</td>
<td>1,740,000</td>
<td>2,102,600</td>
<td>3,842,600</td>
<td>67,814,075</td>
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<td>2027</td>
<td>63,970,875</td>
<td>1,825,000</td>
<td>2,015,600</td>
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<td>67,811,475</td>
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<td>2028</td>
<td>63,969,253</td>
<td>1,920,000</td>
<td>1,924,350</td>
<td>3,844,350</td>
<td>67,813,606</td>
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<td>2029</td>
<td>63,970,481</td>
<td>2,015,000</td>
<td>1,828,350</td>
<td>3,843,350</td>
<td>67,813,831</td>
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<td>2030</td>
<td>63,970,094</td>
<td>2,115,000</td>
<td>1,727,600</td>
<td>3,842,600</td>
<td>67,812,694</td>
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<td>2031</td>
<td>63,971,044</td>
<td>2,220,000</td>
<td>1,621,000</td>
<td>3,841,850</td>
<td>67,812,894</td>
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<td>2032</td>
<td>63,970,644</td>
<td>2,330,000</td>
<td>1,510,850</td>
<td>3,840,850</td>
<td>67,811,494</td>
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<tr>
<td>2033</td>
<td>63,969,994</td>
<td>2,450,000</td>
<td>1,391,437</td>
<td>3,841,437</td>
<td>67,811,431</td>
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<td>2034</td>
<td>63,970,588</td>
<td>2,575,000</td>
<td>1,265,875</td>
<td>3,840,875</td>
<td>67,811,463</td>
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<td>2035</td>
<td>63,970,306</td>
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<td>67,814,213</td>
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<td>2036</td>
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<td>2,845,000</td>
<td>995,019</td>
<td>3,840,019</td>
<td>67,814,838</td>
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<tr>
<td>2037</td>
<td>63,970,747</td>
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<td>849,212</td>
<td>3,839,212</td>
<td>67,809,959</td>
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<td>2038</td>
<td>63,974,331</td>
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<td>695,975</td>
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<td>67,815,306</td>
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<tr>
<td>2039</td>
<td>-</td>
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<td>534,794</td>
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<tr>
<td>2040</td>
<td>-</td>
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<td>365,412</td>
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<tr>
<td>2041</td>
<td>-</td>
<td>3,655,000</td>
<td>187,319</td>
<td>3,842,319</td>
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</tbody>
</table>

**TOTAL(2)**

$1,727,236,575 $58,790,000 $54,919,881 $113,709,881 $1,840,946,456

(1) Includes interest from the date of delivery of the 2011E Bonds to January 1, 2012.

(2) Totals may vary due to rounding.
THE 2011E BONDS

General

The 2011E Bonds are issuable solely as fully registered bonds in the denomination of $5,000 and integral multiples thereof. The 2011E Bonds are initially to be registered in the name of “Cede & Co.,” as nominee for DTC, the securities depository for the Bonds. See “APPENDIX H—BOOK-ENTRY-ONLY SYSTEM.” The 2011E Bonds will be dated the date of delivery thereof. The 2011E Bonds will mature and bear interest as set forth on the inside cover page of this Official Statement. Interest on the 2011E Bonds (calculated based on the basis of a 360-day year consisting of twelve 30-day months) is payable semiannually on January 1 and July 1, commencing on July 1, 2011. Interest on the 2011E Bonds is payable by check mailed by the Trustee, or its successor as trustee, paying agent and registrar, on the interest payment date (or if such day is not a business day, on the next succeeding business day) to the person in whose name each 2011E Bond is registered (i.e., to Cede & Co.), on the fifteenth day of the month immediately preceding the interest payment date (the “Regular Record Date”), at the address shown on the registration records maintained by the Trustee as of the close of business on the Regular Record Date. The Bond Bank may, upon written direction from the registered owner to the Trustee not less than five (5) business days prior to the Regular Record Date immediately preceding such interest payment date, which instruction shall remain in effect until revoked in writing by such registered owner, provide for the payment of interest on 2011E Bonds to any owner in an aggregate principal amount of at least $1,000,000 by wire transfer or by such other method acceptable to the Trustee and the bondholder. Principal due on the 2011E Bonds will be payable at maturity or upon redemption at the corporate trust operations office of the Trustee upon presentation and surrender thereof. All such payments shall be made in lawful money of the United States of America without deduction for any service charges of the Trustee.

So long as Cede & Co. is the registered owner of the 2011E Bonds, principal of, premium, if any, and interest on the 2011E Bonds are payable by wire transfer of funds by the Trustee to Cede & Co., as nominee of DTC. DTC is obligated, in turn, to remit such amounts to its participants as described herein for subsequent disbursement to the Beneficial Owners. See “APPENDIX H—BOOK-ENTRY-ONLY SYSTEM.”

Redemption Provisions of the 2011E Bonds

Optional Redemption. The 2011E Bonds maturing on or after January 1, 2022, are subject to redemption prior to their maturity, in whole or in part, on any date on or after January 1, 2021, at par, plus, in each case, accrued interest to the date fixed for redemption with no premium.

Mandatory Sinking Fund Redemption. The 2011E Bonds set forth below (the “Term Bonds”) are also subject to mandatory sinking fund redemption, prior to maturity at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, on the dates and in the amounts indicated below:

<table>
<thead>
<tr>
<th>January 1, 2025 Term Bond</th>
</tr>
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<tbody>
<tr>
<td><strong>Date</strong></td>
</tr>
<tr>
<td>01/01/2023</td>
</tr>
<tr>
<td>01/01/2024</td>
</tr>
<tr>
<td>01/01/2025(1)</td>
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</tbody>
</table>

(1) Final Maturity
January 1, 2031 Term Bond

<table>
<thead>
<tr>
<th>Date</th>
<th>Mandatory Sinking Fund Redemption Amount</th>
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<tbody>
<tr>
<td>01/01/2026</td>
<td>$1,740,000</td>
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<tr>
<td>01/01/2027</td>
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<tr>
<td>01/01/2028</td>
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<td>$2,015,000</td>
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<tr>
<td>01/01/2030</td>
<td>$2,115,000</td>
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<tr>
<td>01/01/2031(1)</td>
<td>$2,220,000</td>
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</table>

January 1, 2041 Term Bond

<table>
<thead>
<tr>
<th>Date</th>
<th>Mandatory Sinking Fund Redemption Amount</th>
</tr>
</thead>
<tbody>
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<td>01/01/2032</td>
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<td>01/01/2033</td>
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<td>01/01/2035</td>
<td>$2,710,000</td>
</tr>
<tr>
<td>01/01/2036</td>
<td>$2,845,000</td>
</tr>
<tr>
<td>01/01/2037</td>
<td>$2,990,000</td>
</tr>
<tr>
<td>01/01/2038</td>
<td>$3,145,000</td>
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<tr>
<td>01/01/2039</td>
<td>$3,305,000</td>
</tr>
<tr>
<td>01/01/2040</td>
<td>$3,475,000</td>
</tr>
<tr>
<td>01/01/2041(1)</td>
<td>$3,655,000</td>
</tr>
</tbody>
</table>

(1) Final Maturity

The Trustee shall credit against the mandatory sinking fund requirement for the Term Bonds as set forth above any 2011E Bonds of such maturity delivered to the Trustee for cancellation or purchased for cancellation by the Trustee and canceled by the Trustee and not theretofore applied as a credit against any redemption obligation. The Term Bonds so delivered or canceled shall be credited by the Trustee at 100% of the principal amount thereof against the mandatory sinking fund obligation on such mandatory redemption date, and any excess of such amount shall be credited to future redemption obligations, and the principal amount of 2011E Bonds of such maturity to be redeemed by operation of the mandatory sinking fund requirements shall be accordingly reduced; provided, however, the Trustee shall only credit such 2011E Bonds to the extent such are received on or before forty-five (45) days preceding the applicable mandatory redemption date as set forth above.

General Redemption Provisions; Notice of Redemption

Notice of any redemption shall be given by the Trustee in the name of the Bond Bank by sending a copy of such notice by first class mail, at least twenty (20) days but not more than forty-five (45) days prior to the redemption date to the registered owner of any 2011E Bond all or a portion of which is called for redemption at the address as it appears on the registration records kept by the Trustee. Failure to give such notice by mailing to the registered owner of any 2011E Bond, or any defect therein, shall not affect the validity of the proceedings for the redemption of any other 2011E Bonds.

If fewer than all of the 2011E Bonds shall be called for redemption, the principal amount and maturity of the particular 2011E Bonds to be redeemed shall be selected by the Bond Bank, only in whole multiples of $5,000 principal amount. If the 2011E Bonds are held in a book-entry-only system, the 2011E Bonds within a maturity to
be redeemed shall be selected by DTC in such manner as DTC may determine. If any 2011E Bonds are simultaneously subject to both optional and mandatory redemption, the Trustee shall first select by lot the 2011E Bonds to be redeemed under the optional redemption provisions.

Any notice of redemption may contain a statement that the redemption is conditioned upon the receipt by the Trustee of funds on or before the date fixed for redemption sufficient to pay the redemption price of the 2011E Bonds so called for redemption, and that if such funds are not available, such redemption will be canceled by written notice to the owners of the 2011E Bonds called for redemption in the same manner as the original redemption notice was mailed.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Bond Bank payable solely from the revenues and funds of the Bond Bank pledged therefor under the Indenture, as described herein, including payments received on the Waterworks Revenue Bonds. The Waterworks Revenue Bonds are payable from the Net Revenues of the Waterworks and the Senior Pledged Funds. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity, under the constitution and the laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The sources of payment of, and security for, the Bonds are more fully described herein. The Bond Bank has no taxing power.

From the proceeds of the 2011E Bonds, the Bond Bank intends to purchase, and upon purchase, will pledge to the Trustee, the 2011A Waterworks Revenue Bonds and earnings thereon and all proceeds thereof. The Bond Bank will enter into a Qualified Entity Purchase Agreement with the Waterworks Department for the purchase of the 2011A Waterworks Revenue Bonds (the “2011E Purchase Agreement”).

The Waterworks Revenue Bonds

The 2011A Waterworks Revenue Bonds will be issued in a principal amount equal to the aggregate principal amount of the 2011E Bonds, and will be dated the date of delivery thereof. The 2011A Waterworks Revenue Bonds will mature in the same amounts and on the same maturity dates as the 2011E Bonds, and will bear interest payable at the same per annum interest rates as the 2011E Bonds. Principal of, premium, if any, and interest on the 2011A Waterworks Revenue Bonds will be paid directly to the Trustee pursuant to the 2011E Purchase Agreement. The 2011A Waterworks Revenue Bonds are subject to redemption prior to maturity upon terms substantially identical to the terms of redemption of the 2011E Bonds. See “THE 2011E BONDS.”

The Waterworks Revenue Bonds are payable solely from and secured by an irrevocable pledge of and shall constitute a first charge upon the Net Revenues and the Senior Pledged Funds. Additionally, the 2011A Pledged Funds are pledged to the payment of the 2011A Waterworks Revenue Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Net Revenues.”

Payment on the Waterworks Revenue Bonds is dependent upon the generation of sufficient Net Revenues of the Waterworks. If the Waterworks becomes inoperable for any reason, if the Waterworks Department should lack raw water or lack treatable water for any reason, or if the Waterworks Department incurs unanticipated expenses or reduced revenues for any reason, including, without limitation, the inability to increase rates and charges on a timely basis, the Waterworks Department may be unable to generate adequate revenues from the Waterworks to pay debt service on the Waterworks Revenue Bonds. See “CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS.”

In addition to its authority to issue revenue bonds and set rates and charges for the use of the Waterworks, the Waterworks Department has the legal authority to issue special taxing district bonds. Both the City-County Council in creating the Waterworks Department, and the Board of Directors of the Waterworks Department, have made policy decisions not to levy any property taxes within the District, or operate the Waterworks Department as a special taxing district by borrowing money for the District, and accordingly, no property taxes have been or are
expected to be levied on property within the District or are expected to be available to pay debt service on the Waterworks Revenue Bonds.

**Waterworks Net Revenues**

The principal of and interest on the Waterworks Revenue Bonds are payable from Net Revenues, together with the Senior Pledged Funds. Additionally, the 2011A Pledged Funds are pledged to the payment of the 2011A Waterworks Revenue Bonds. “Net Revenues” are defined in the Waterworks Bond Resolution as Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Waterworks, or any other facilities in connection with which the defined term is used. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.” See also “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION” for a discussion of the Waterworks Department’s historical debt service coverage, billing and collection procedures, customer information, and rates and charges.

**Waterworks Funds and Accounts; Flow of Funds**

**Funds and Accounts.** The Waterworks Bond Resolution creates numerous funds and accounts to account for the collection and disbursement of Gross Revenues. Each of the funds and accounts is described in “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION” and discussed in “—Flow of Funds Under the Waterworks Bond Resolution” below. The Waterworks Bond Resolution creates the Water Fund. The Water Fund includes the Bond Fund, the Revenue Fund, the Operation and Maintenance Fund and the Rebate Fund. The Bond Fund consists of the Interest Account, the Principal Account, the Hedge Payments Account and the Reserve Account, including therein the Waterworks Common Reserve Subaccount. The Bond Fund (including the Reserve Account) and the Rebate Fund will be held by the Trustee on behalf of the Bond Bank. The Revenue Fund and the Operation and Maintenance Fund will be under the control of the Waterworks Department and will be held by the Waterworks Department.

The Board of Directors of the Waterworks Department has adopted a board policy, which may be changed from time to time at the discretion of the Board of Directors of the Waterworks Department (the “Board Policy”), that has established separate accounts within the Revenue Fund, including the Senior Bond Accrual Account (as well as Interest Subaccounts, Hedge Payments Subaccounts and Principal Subaccounts therein for the outstanding Waterworks Revenue Bonds), the Subordinate Bonds and Senior Hedge Termination Payment Account, the Operating Reserve Account, the Renewal and Replacement Account, the Rate Stabilization Account, and the Department Purposes Account. Each of these funds and accounts is described in “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION,” and discussed in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Fund and Accounts; Flow of Funds—Flow of Funds Under the Board Policy” herein.

**Flow of Funds Under the Waterworks Bond Resolution.** So long as any of the Waterworks Revenue Bonds, and any Waterworks Parity Bonds (collectively, the “Waterworks Senior Bonds”) are outstanding, all Gross Revenues, upon their receipt from time to time by the Waterworks Department, will be deposited daily, as far as practicable, and set aside and credited immediately to the Revenue Fund. Pursuant to the Waterworks Bond Resolution, in each Fiscal Year, the moneys on deposit in the Revenue Fund must be applied in the following order of priority:

(i) to the payment of Operation and Maintenance Expenses;
(ii) to make deposits in the Bond Fund for the credit of the Interest Account, the Hedge Payment Account and the Principal Account, as applicable;
(iii) to the Reserve Account to restore any deficiency in any subaccounts thereof or to fund the applicable Reserve Requirements, as described herein;
(iv) to the Rebate Fund in the amounts required to be deposited therein in accordance with Section 148(f) of the Code; and
(v) in the amounts remaining after the deposits required by paragraphs (i) through (iv) above, to the Water Fund for use or transfer by the Waterworks Department as provided by the Board Policy or any supplemental resolution.

See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

Upon the issuance of Waterworks Parity Bonds, the Waterworks Department may determine (i) not to fund a reserve; (ii) to fund any required increase to the Waterworks Common Reserve Requirement; or (iii) to fund a Waterworks Series Reserve Requirement (as defined herein), by providing in a supplemental resolution that monthly deposits of Net Revenues will be made into the applicable subaccount of the Reserve Account following the issuance of such Waterworks Parity Bonds by the creation of a Waterworks Series Reserve Subaccount (as defined herein).

If a deficiency exists in the Waterworks Common Reserve Subaccount (created within the Reserve Account), the monthly deposits to the Reserve Account will be equal to the difference between the Waterworks Common Reserve Requirement and the amount of cash and securities (together with the balance available to be drawn on any applicable Reserve Account Credit Facility) on deposit in the Waterworks Common Reserve Subaccount, on such date divided by twenty-four (24).

If on an Interest Payment Date or Principal Payment Date for any Waterworks Senior Bonds which have a claim on a subaccount of the Reserve Account, there is not on deposit in the Interest Account and the Principal Account a sufficient amount to pay the amounts of principal of or interest due on such Waterworks Senior Bonds, then the Trustee shall transfer into the Interest Account or the Principal Account from the applicable subaccount of the Reserve Account an amount not to exceed the deficiency in the Interest Account or Principal Account on such Interest Payment Date or Principal Payment Date.

In the event that a deficiency exists in a Waterworks Series Reserve Subaccount, the monthly deposit will be calculated in accordance with the terms of the supplemental resolution pursuant to which such Waterworks Series Reserve Subaccount was created. The provider of a Reserve Account Credit Facility which has been drawn upon may be reimbursed from amounts deposited in the applicable subaccount of the Reserve Account from the Net Revenues as described above.

In the case of an increase to the Waterworks Common Reserve Requirement, such monthly deposits for a series of Waterworks Parity Bonds will commence on the first day of the month following the date of issuance of such Waterworks Parity Bonds and will continue monthly thereafter for a period of sixty (60) months or such lesser number of months specified in such supplemental resolution. In the case of a Waterworks Series Reserve Requirement, such monthly deposits for a series of Waterworks Parity Bonds will commence on the first day of the month following the date of issuance of such Waterworks Parity Bonds and will continue monthly thereafter for the number of months specified in the supplemental resolution pursuant to which such Waterworks Series Reserve Requirement is established.

If the applicable subaccount of the Reserve Account contains a Reserve Account Credit Facility and cash and securities, the cash and securities in the applicable subaccount of the Reserve Account must be drawn down completely before any demand is made on a Reserve Account Credit Facility. If the applicable subaccount of the Reserve Account contains more than one Reserve Account Credit Facility, each Reserve Account Credit Facility must be drawn down on a pro rata basis.

**Flow of Funds Under the Board Policy.** From time to time the Board of Directors of the Waterworks Department may in its sole discretion adopt or amend the Board Policy which governs the administration and application of the Water Fund and all separate accounts and subaccounts thereof. The Board Policy may not change the priority of application of Gross Revenues described above in a manner which would have a material adverse effect on the Bond Bank or holders of the Waterworks Senior Bonds.

The Board Policy in effect on the date hereof requires deposits from the Revenue Fund of the Water Fund to the following accounts in the following order of priority:
Senior Bond Accrual Account. First, from any moneys remaining in the Revenue Fund, but after the deposits set forth under the heading “—Flow of Funds Under the Waterworks Bond Resolution” above, such moneys will be transferred and credited to the Senior Bond Accrual Account monthly, as follows:

(i) the 2002 Interest Subaccount,
(ii) the 2002 Principal Subaccount,
(iii) the 2005F Interest Subaccount,
(iv) the 2005F Principal Subaccount,
(v) the 2006 Interest Subaccount,
(vi) the 2006 Principal Subaccount,
(vii) the 2007B Interest Subaccount,
(viii) the 2007B Principal Subaccount,
(ix) the 2007L Interest Subaccount,
(x) the 2007L Principal Subaccount,
(xi) the 2009A Interest Subaccount,
(xii) the 2009A Principal Subaccount,
(xiii) the 2011A Interest Subaccount, and
(xiv) the 2011A Principal Subaccount.

Subordinate Bonds and Senior Hedge Termination Payment Accrual Account. Second, and subject to the above provisions, from any moneys remaining in the Revenue Fund, there shall be transferred and credited into the Subordinate Bonds and Senior Hedge Termination Payment Account monthly, commencing on the last business day of the month in which (i) amounts are owed with respect to Subordinate Bonds; (ii) amounts other than Hedge Payments are owed with respect to a Senior Hedge Agreement; or (iii) amounts are owed with respect to Subordinate Reimbursement Obligations in an amount established by the Board of Directors of the Waterworks Department pursuant to a supplement to the Board Policy or with respect to Subordinate Bonds, Senior Hedge Agreements or Credit Facilities, in an amount established by the Board of Directors of the Waterworks Department pursuant to a supplement to the Board Policy.

Operating Reserve Account. Third, and subject to the above provisions, from any moneys remaining in the Revenue Fund, there shall be transferred and credited to the Operating Reserve Account monthly, commencing on the last business day of January, 2010, but in no event earlier than the last day of the month following the month that the Rate Increase (as described and defined in “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—System Rates and Charges—General”) shall be effective, an amount equal to one-twelfth (1/12) of the Operating Reserve Requirement until the aggregate amount on deposit in the Operating Reserve Account equals the Operating Reserve Requirement.

Renewal and Replacement Account. Fourth, and subject to the above provisions, from any moneys remaining in the Revenue Fund, there will be transferred and credited to the Renewal and Replacement Account an amount to be established by a supplement to Board Policy. The Waterworks Department will expend moneys in the Renewal and Replacement Account only to make up deficiencies in the Bond Fund and to pay the cost of, and to create a reserve for the payment of the cost of, capital improvements, extraordinary maintenance, repairs, renewals, and replacements to the Waterworks as are not annually recurring in nature, as determined by the Board of Directors of the Waterworks Department.

Rate Stabilization Account. Fifth, and subject to the above provisions, any moneys remaining in the Revenue Fund will be transferred and credited monthly, commencing on a date to be established by a supplement to the Board Policy to the Rate Stabilization Account, in an amount established by a supplement to the Board Policy. Amounts in the Rate Stabilization Account are to be used for expenditure from time to time for any lawful purpose or purposes of the Waterworks Department pertaining to the Waterworks, at the direction of the Board of Directors of the Waterworks Department, including, but not limited to, the following: (i) to provide for a shortfall of revenues resulting from the seasonality of water usage; (ii) to pay for extraordinary costs related to the Waterworks; (iii) to pay for liabilities of the Waterworks Department, including any indebtedness from a Hedge Agreement or Reimbursement Obligation; and (iv) to fund a shortfall in any other account. Expenditures from the Rate Stabilization Account will be in accordance with a budget established by the Board of Directors of the Waterworks Department.
(f) **Department Purposes Account.** Sixth, and subject to the above provisions, at least annually by the last business day of each Fiscal Year, any moneys remaining in the Revenue Fund will be transferred and credited to the Department Purposes Account. Moneys in such account, as may be determined and directed from time to time by the Secretary-Treasurer of the Board of Directors of the Waterworks Department within the annual budget established by the Board of Directors of the Waterworks Department, but subject to any limitations set forth in the Board Policy or in any other contract pertaining to such account, may be withdrawn, as the Secretary-Treasurer of the Board of Directors of the Waterworks Department may from time to time determine and used for any other lawful purpose of the Waterworks Department (including, but not limited to, payment of City-County PILOT Payments (as defined herein)).

*Although it is the present intention of the Board of Directors of the Waterworks Department to maintain the existing Board Policy, there can be no assurance that the current Board Policy will not change as a result of unforeseen circumstances or for any other reason in the sole discretion of the Board of Directors of the Waterworks Department. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”*

**Waterworks Rate Covenants**

**Waterworks Bond Resolution Rate Covenant.** In the Waterworks Bond Resolution, the Waterworks Department has covenanted to maintain a schedule of rates, fees, and other charges for water and other goods and services provided by the Waterworks Department as may be necessary or proper in order for the amount of the Gross Revenues in each Fiscal Year to equal at least the sum of:

(a) the amount of Gross Revenues required to pay Operation and Maintenance Expenses for such Fiscal Year; plus

(b) the greater of (i) 1.10 times the Debt Service Requirements for such Fiscal Year; or (ii) all amounts payable from the Gross Revenues, including, without limitation, debt service on any Waterworks Senior Bonds or Waterworks Subordinate Bonds, funding of reserves for Operation and Maintenance Expenses, payments due in accordance with any Hedge Agreement, Credit Facility Agreement (all as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—DEFINITIONS”) or Reserve Account Credit Facility, the City-County PILOT Payments, and any payments to be made (including funds to satisfy prior deficiencies) in any fund, account or subaccount of the Water Fund. See also “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

If the rate covenant is not satisfied for any Fiscal Year, the Waterworks Department shall seek to revise the schedule of rates, fees and other charges for water and other goods and services provided by the Waterworks Department in a manner as may be necessary to produce Gross Revenues to satisfy the rate covenant for the succeeding Fiscal Year. However, no Event of Default will be deemed to occur so long as the Debt Service Requirements are being paid by the Waterworks Department when due and payable.

For purposes of satisfying the rate covenant, the Waterworks Department may transfer funds from the Rate Stabilization Account of the Water Fund, if any, to the Revenue Fund in any Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds Under the Board Policy” above. The amount so transferred shall be treated as Gross Revenues for such Fiscal Year for purposes of determining compliance with the foregoing rate covenant and the conditions for issuance of Waterworks Parity Bonds described in the Waterworks Bond Resolution; provided, however, the amount of any such transfer from the Rate Stabilization Account treated as Gross Revenues for any Fiscal Year may not exceed ten percent (10%) of the Debt Service Requirements for such Fiscal Year.

Notwithstanding the foregoing, the covenant described above is subject to compliance by the Waterworks Department with any legislation of the United States, the State, or other governmental body, or any regulation or other action taken by the federal government, any State agency, including the IURC, or any political subdivision of the State pursuant to such legislation, in the exercise of the police power thereof for the public welfare, which legislation, regulation, or action limits or otherwise inhibits the amounts of any rates, fees, and other charges due to
the Waterworks Department for the use of or otherwise pertaining to any and all services rendered by or at the Waterworks, including, without limitation, increases in the amounts of such rates, fees, or other charges (or any combination thereof). Specifically, the establishment of new rates, fees and other charges for water and other goods and services provided by the Waterworks Department is subject to the approval of the IURC. See “THE WATERWORKS—Regulatory and Legal Matters” and “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—System Rates and Charges.”

**Board Policy Rate Covenant.** Current Board Policy, which may be changed from time to time, establishes a rate covenant which is similar to that set forth above as established by the Waterworks Bond Resolution, except that the amount of Gross Revenues in each Fiscal Year must equal at least the sum of:

(a) the amount required to pay Operation and Maintenance Expenses for such Fiscal Year; plus

(b) the greater of (i) 1.25 times the Debt Service Requirements for such Fiscal Year; or (ii) all amounts payable from the Gross Revenues, including, without limitation, debt service on any Waterworks Senior Bonds, Waterworks Parity Bonds and Waterworks Subordinate Bonds, funding of reserves for Operation and Maintenance Expenses, payments due in accordance with any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, the City-County PILOT Payments and any payments to be made (including funds to satisfy prior deficiencies) in any fund, account or subaccount of the Water Fund. Commencing with Fiscal Year 2012, the percentage in (b)(i) of the Board Policy rate covenant set forth above shall be increased from 1.25 to 1.40 times.

The Waterworks Department has covenanted that to the extent the foregoing rate covenant is not satisfied for any Fiscal Year it will seek to revise the schedule of rates, fees and other charges for the use of the Waterworks in a manner as may be necessary to produce Gross Revenues to satisfy the requirements of the Board Policy. In addition, the Waterworks Department is required to retain a financial consultant to make recommendations with respect to the action needed to satisfy the rate covenant in the Board Policy. See “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—Waterworks Historical and Projected Debt Service Coverage” and “APPENDIX A—CONSULTANT’S REPORT” for a calculation of historical debt service coverage pursuant to the rate covenant. See also “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Board Policy.”

Although it is the present intention of the Board of Directors of the Waterworks Department to maintain the existing Board Policy, there can be no assurance that the current Board Policy will not change as a result of unforeseen circumstances or for any other reason in the sole discretion of the Board of Directors of the Waterworks Department. For a more detailed description of the terms and conditions of the Waterworks Bond Resolution and Board Policy, See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.” The Board of Directors of the Waterworks Department has determined that the Board Policy will be permitted to lapse upon consummation of the transactions described in the Water APA (as defined herein). See “THE WATERWORKS DEPARTMENT—Pending Acquisition and Transfer of Assets of the Waterworks System.”

**Additional Waterworks Revenue Bonds**

**Superior Obligations Prohibited; Subordinate Obligations Permitted.** The Waterworks Senior Bonds from time-to-time outstanding and Hedge Payments under the Senior Hedge Agreements are equally and ratably secured by a lien on the Net Revenues and the “Senior Pledged Funds” (which consists of the Interest Account, the Principal Account, the Hedge Payment Account and any other funds and accounts pledged by supplemental resolution to the payment of the Waterworks Senior Bonds and any Hedge Payments under Senior Hedge Agreements) and are not entitled to any priority one over the other in the application of the Net Revenues and the Senior Pledged Funds regardless of the time or times of issuance thereof. The Waterworks Department may issue Waterworks Parity Bonds and enter into Senior Hedge Agreements, and the Waterworks Department will issue no other obligations of any kind or nature payable from or enjoying a lien on the Net Revenues and the Senior Pledged Funds having a priority over, or except as permitted in the Waterworks Bond Resolution, on a parity with the Waterworks Senior Bonds (and any Hedge Payments under Senior Hedge Agreements). Notwithstanding the foregoing, the Waterworks Department may issue Waterworks Subordinate Bonds or other obligations payable from Net Revenues pursuant to a supplemental resolution if the Waterworks Subordinate Bonds or such other obligations are junior and subordinate
in lien on and right of payment from Net Revenues and Senior Pledged Funds to all Waterworks Senior Bonds and Senior Hedge Agreements.

**Waterworks Parity Bonds-Waterworks Bond Resolution.** The Waterworks Bond Resolution permits the Waterworks Department to issue additional obligations having a lien on Net Revenues on a parity with the lien of the Waterworks Revenue Bonds upon the satisfaction of certain conditions. Except as described below, Waterworks Parity Bonds may be issued only if the following conditions are met:

1. The Waterworks Department certifies that no Event of Default has occurred and is continuing or any such existing Event of Default would be cured following the issuance of such Waterworks Parity Bonds; and

2. Either: (a) the Net Revenues were at least equal to 1.10 times the Debt Service Requirements for the most recent Fiscal Year for which audited financial statements are available; or (b) the Net Revenues were at least equal to 1.10 times the Debt Service Requirements for such Fiscal Year if the Net Revenues had been adjusted as described below.

In any calculation to determine whether or not Waterworks Parity Bonds may be issued as provided in paragraph 2(b) above, the amount of Net Revenues may be increased by the amount estimated by the financial consultant making the computations, which increase results from any change in any schedule of rates, fees and charges or any annexations or extensions to the Waterworks which have been approved at the time such computations are being made, based on the number of ratepayers during such next preceding Fiscal Year as if such modified schedule of rates, fees and charges and number of ratepayers had been in effect during the entire next preceding Fiscal Year. Such calculation may be adjusted by any transfer from any Rate Stabilization Account to the Revenue Fund.

**Waterworks Parity Bonds-Board Policy.** The Board Policy provides that the Waterworks Department shall, in addition to complying with the provisions of the Waterworks Bond Resolution for issuance of additional obligations having a lien on Net Revenues on parity with the lien of the Waterworks Revenue Bonds, shall also comply with the provisions of the Board Policy. The Board Policy provides that Waterworks Parity Bonds may be issued only if the following conditions are met. Commencing with Fiscal Year 2012:

1. The Waterworks Department shall certify that the Net Revenues for the most recent Fiscal Year for which audited financial statements are available or for any consecutive twelve calendar months during the 18-month period preceding the date of issuance of the proposed Waterworks Parity Bonds (the “Test Period”) are in an amount not less than the greater of (a) 1.15 times the Aggregate Average Annual Debt Service Requirements (as defined herein) on all Waterworks Parity Bonds then outstanding and on the proposed series of additional Waterworks Parity Bonds; or (b) all of the Aggregate Average Annual Debt Service Requirements on any Waterworks Bonds then outstanding and on the proposed series of Waterworks Parity Bonds and all other amounts payable from Net Revenues, including without limitation, the debt service payments on any Waterworks Bonds, payments due in accordance with the terms of any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, the funding of reserves for Operation and Maintenance Expenses (as defined herein), the City-County PILOT Payments and providing for any deficiencies and any Fund, Account or Subaccount of the Water Fund; or

2. The Waterworks Department shall certify that the Adjusted Net Revenues (as defined herein) for the Test Period are in an amount not less than the greater of (a) 1.20 times the Aggregate Average Annual Debt Service Requirements on all Waterworks Parity Bonds then outstanding and on the proposed series of additional Waterworks Parity Bonds then outstanding and on the proposed series of additional Waterworks Parity Bonds; or (b) 100% of the sum of the Aggregate Average Annual Debt Service Requirements on any Waterworks Bonds then outstanding and on the proposed series of Waterworks Parity Bonds and all other amounts payable from Net Revenues, including without limitation, the debt service payments on any Waterworks Bonds, payments due in accordance with the terms of any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, the funding of reserves for Operation and Maintenance Expenses, the City-County PILOT Payments and providing for any deficiencies and any Fund, Account or Subaccount of the Water Fund; or

3. A financial consultant shall provide a report that demonstrates for each of the two full Fiscal Years following the issuance of the proposed series of Waterworks Parity Bonds that the Adjusted Net Revenues are
in an amount not less than the greater of (a) 1.20 times the Aggregate Average Annual Debt Service Requirements on all Waterworks Parity Bonds then outstanding and on the proposed series of additional Waterworks Parity Bonds; or (b) 100% of the sum of the Aggregate Average Annual Debt Service Requirements on any Waterworks Bonds then outstanding and on the proposed series of Waterworks Parity Bonds and all other amounts payable from Net Revenues, including without limitation, the debt service payments on any Waterworks Bonds, payments due in accordance with the terms of any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, the funding of reserves for Operation and Maintenance Expenses, the City-County PILOT Payments and providing for any deficiencies and any Fund, Account or Subaccount of the Water Fund.

Although it is the present intention of the Board of Directors of the Waterworks Department to maintain the existing Board Policy, there can be no assurance that the current Board Policy will not change as a result of unforeseen circumstances or for any other reason in the sole discretion of the Board of Directors of the Waterworks Department. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

Refunding Bonds. The Waterworks Department may issue refunding bonds upon satisfaction of conditions for the issuance of Waterworks Parity Bonds or, if the bonds to be refunded are Waterworks Senior Bonds, the refunding bonds may be issued as Waterworks Parity Bonds if the Waterworks Department certifies that the present value of the total annual Debt Service Requirements relating to the refunding bonds is less than or equal to the present value of the total annual Debt Service Requirements of the Waterworks Senior Bonds being refunded without complying with the conditions for the issuance of Waterworks Parity Bonds. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

Bond Bank Reserve Fund

Pursuant to the Indenture, the Bond Bank has established the Bond Bank Common Reserve Account within the Bond Bank Reserve Fund, which will be held as security for the Bonds and is required to be maintained in an amount at least equal to the Bond Bank Reserve Requirement. Upon the issuance of the 2011E Bonds, the Bond Bank Common Reserve Account will be fully funded in the amount of $33,909,303.13 which includes a deposit of $1,921,884.37 of proceeds of 2011E Bonds. The funds and GICs on deposit in the Bond Account also will satisfy the Common Reserve Requirement for the Waterworks Revenue Bonds.

Waterworks Reserve Account

The Waterworks Revenue Bonds also are secured by the Waterworks Common Reserve Subaccount. The Waterworks Common Reserve Subaccount is required to be maintained as a continuing reserve in an amount equal to the Waterworks Common Reserve Requirement. “Waterworks Common Reserve Requirement” is defined as fifty percent (50%) of the maximum aggregate amount of principal and interest requirements on all Waterworks Senior Bonds which have a claim for payment on the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year. In lieu of all or a portion of any moneys required to be deposited in the Reserve Account, the Waterworks Department may deposit a Reserve Account Credit Facility in the applicable subaccount of the Reserve Account in full or partial satisfaction of the Reserve Requirement. Amounts on deposit in the Waterworks Common Reserve Subaccount may only be used to meet any deficiencies in the Interest Account or Principal Account of the Bond Fund. Upon issuance of the 2011A Waterworks Revenue Bonds, the Waterworks Common Reserve Requirement will be $33,909,303.13. The Waterworks Common Reserve Requirement will be treated as satisfied if the Bond Bank Reserve Requirement is met. No deposit of proceeds of the 2011E Bonds will be made to the Waterworks Common Reserve Subaccount because the amount necessary to satisfy the Bond Bank Reserve Requirement will be on deposit in the Bond Bank Common Reserve Account upon issuance of the 2011E Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Bank Reserve Fund” above. See also “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Establishment of Funds and Accounts—Reserve Account” for additional information and definitions regarding the Waterworks Reserve Account.

Upon the issuance of a series of Waterworks Parity Bonds, the Waterworks Department shall determine, in its discretion, whether or not such series of Waterworks Parity Bonds shall have a claim for payment of principal of and
Enforcement of the Waterworks Revenue Bonds

Pursuant to the Waterworks Bond Resolution, upon the occurrence of an Event of Default, the Trustee may proceed against the Waterworks Department to enforce the rights of holders of the Waterworks Revenue Bonds by mandamus or by other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, either for the appointment of a receiver or for the specific performance of any covenant or agreement contained in the Waterworks Bond Resolution. Any receiver appointed in any such proceeding may take possession of the Waterworks, subject to the rights and privileges of the Manager under the Management Agreement or other contract, may operate and maintain the Waterworks, may prescribe rates, fees and other charges, and may collect, receive and apply all Gross Revenues and any other revenues pertaining to the Waterworks in the manner set forth in the Waterworks Bond Resolution. Notwithstanding the foregoing, nothing in the Waterworks Bond Resolution permits the acceleration of the time or terms for payment of the Waterworks Revenue Bonds prior to their respective maturities, even if the Waterworks Department defaults on the payment of Waterworks Revenue Bonds, except to the extent ordered by a court of competent jurisdiction.

The Waterworks Revenue Bonds are payable from Net Revenues, together with the Senior Pledged Funds, including the Waterworks Common Reserve Subaccount. The 2011A Waterworks Revenue Bonds are also secured by the 2011A Pledged Funds. The Waterworks Revenue Bonds are not secured by a mortgage, lien or security interest on or in any of the funds, properties or other assets of the Waterworks Department or the City other than the funds discussed above. The Bond Bank may not look to any funds, properties or other assets of the Waterworks Department or the City, other than the Net Revenues, the 2011A Pledged Funds and the Senior Pledged Funds, for payment of debt service on the 2011A Waterworks Revenue Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Limited Obligations.”

2009 Amendments to Waterworks Bond Resolution and Indenture to Effectuate REI

In connection with the issuance of the 2009A Bonds, to provide for the ability of a Substitute Issuer to replace the Waterworks Department under the Indenture, the Bond Bank obtained the written consent of a majority of the owners of the outstanding Bonds to the approval by the Bond Bank and the Trustee of the First Amendment (as defined herein) providing for the execution and delivery of a Substitute Qualified Entity Purchase Agreement and purchase by the Bond Bank of Substitute Obligations (each as defined herein) issued by a Substitute Issuer described under “THE WATERWORKS DEPARTMENT—Pending Acquisition and Transfer of Assets of the Waterworks System.” In connection with the issuance of the 2009A Waterworks Revenue Bonds, to provide for the ability of a Substitute Issuer to succeed to the Waterworks Department, the Waterworks Department obtained the written consent of the owners of the outstanding Waterworks Revenue Bonds to the approval by the Board of Directors of the Waterworks Department of a supplemental resolution adopted by the Board of Directors of the Waterworks Department on May 21, 2009, amending the Waterworks Bond Resolution authorizing a Substitute Issuer and providing for the issuance, execution and delivery of Substitute Obligations and Agreements issued by a Substitute Issuer, as described under “THE WATERWORKS DEPARTMENT—Pending Acquisition and Transfer of Assets of the Waterworks System.” The approval of the First Amendment was further obtained by payment for and acceptance of the 2009A Bonds, or any interest therein, at the time of purchase of such 2009A Bonds by the owners thereof. By such purchase, each bondholder was deemed to have consented to and approved the execution by the Bond Bank and the Trustee of the First Amendment. Additionally, Morgan Stanley & Co. Incorporated, the original purchaser of the 2009A Bonds under the Bond Purchase Agreement, consented to the First Amendment in the Bond Purchase Agreement executed in connection with the sale and purchase of the 2009A Bonds by the underwriters. A description of the amendments and supplements to the Original Indenture effected by the First Amendment is contained in “APPENDIX B1—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”
The conditions upon which the Bond Bank may terminate, discharge and release the obligations and duties of the Waterworks Department under the Waterworks Bond Resolution, the Waterworks Revenue Bonds and the Purchase Agreements in exchange for those of a Substitute Qualified Entity are contained in “APPENDIX B1—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Supplemental Indentures—Supplemental Indentures Requiring Bondholder Consent.”

**Agreement with State**

The Act provides that the State will not limit or restrict the rights vested in the Bond Bank to fulfill the terms of any agreement with the owners of the 2011E Bonds or in any way impair the rights or remedies of the owners of the 2011E Bonds for so long as the 2011E Bonds are outstanding.

[Remainder of Page Intentionally Left Blank]
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

Powers and Purposes

The Bond Bank is a body corporate and politic separate from the City. The address of the Bond Bank is Suite 2342, City-County Building, 200 East Washington Street, Indianapolis, Indiana 46204. The Bond Bank was created by the Act for the purpose of buying and selling securities of certain qualified entities, including the City, the County, all Special Taxing districts of the City, all entities whose tax levies are subject to review and modification by the City-County Council and certain authorities or entities that lease land or facilities to other qualified entities. The Bond Bank was created pursuant to the Act to help the qualified entities lower their respective borrowing costs by having the Bond Bank purchase their debt obligations at interest rates favorable to the qualified entities. To accomplish its purpose, the Bond Bank may issue bonds or notes. Pursuant to this power, the Bond Bank approved the purchase of the 2011A Waterworks Revenue Bonds on April 11, 2011. The Bond Bank also has general powers which include the power to enter into, make and perform contracts of every lawful kind to accomplish its purpose. The Bond Bank has no taxing power.

Board of Directors of the Bond Bank

The Bond Bank is governed by a five (5) member board of directors appointed by the Mayor of the City. The directors appoint an executive director who serves as secretary-treasurer of the board. The directors each serve for terms of three (3) years and may be reappointed. No director may be an officer of the City, the County or any other qualified entity. The current members of the board of directors, their positions and their principal occupations are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term Expires</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briane M. House</td>
<td>Chairperson</td>
<td>April 30, 2012</td>
<td>Attorney</td>
</tr>
<tr>
<td>E. Sahara Williams</td>
<td>Vice Chairperson</td>
<td>April 30, 2012</td>
<td>Business Owner</td>
</tr>
<tr>
<td>Fred Miller</td>
<td>Member</td>
<td>April 30, 2012</td>
<td>Attorney</td>
</tr>
<tr>
<td>Milton Thompson</td>
<td>Member</td>
<td>April 30, 2012</td>
<td>Attorney</td>
</tr>
<tr>
<td>James S. Carr</td>
<td>Member</td>
<td>April 30, 2012</td>
<td>Commercial Banker</td>
</tr>
</tbody>
</table>

Bond Bank Management

Deron S. Kintner was appointed the Executive Director and General Counsel of the Bond Bank on March 15, 2010. Mr. Kintner previously served as Deputy Executive Director and General Counsel to the Bond Bank for approximately two (2) years. Mr. Kintner holds a B.S. degree and J.D. from Indiana University – Bloomington. Prior to joining the Bond Bank, Mr. Kintner worked as an attorney at the Indianapolis law firm of Bingham McHale LLP from 2001-2008, where his practice focused primarily in the area of public finance.

Kyle Willis has served as Project Manager of the Bond Bank since November 2005. Mr. Willis worked as a financial analyst for the Indianapolis Airport Authority from 2004 to October 2005 before joining the Bond Bank. He holds a B.S. from Marian College.

Isaiah Kuch joined the Bond Bank as a Project Manager in 2010. He received his Bachelor’s degree in Economics from La Salle University in Philadelphia, Pennsylvania in 2007, shortly after he entered the United States through The Lost Boys of Sudan Program. While at La Salle, he also minored in Business Administration. After his undergraduate studies, Mr. Kuch won a full scholarship to Indiana University, School of Public and Environmental Affairs (SPEA) where he received his Master’s degree in Public Finance Administration, Economic Development, and Policy Analysis. During his tenure at SPEA, as the Eads Fellow and the City of Indianapolis Urban Fellow, he worked at the Mayor’s Office of Enterprise Development.

Kurt Fullbeck serves as a Project Manager of the Bond Bank. Prior to joining the Bond Bank, Mr. Fullbeck served as a Project Assistant for Mayor Greg Ballard in the Department of Enterprise Development. In that capacity, Mr. Fullbeck was involved in several projects aimed at finding efficiencies in government operations as well as opportunities for development throughout city government. Mr. Fullbeck holds a Bachelors Degree from Indiana University.
Other Programs; Outstanding Indebtedness

Under the Act, the Bond Bank is authorized to issue other series of notes or bonds to finance different programs to accomplish its purposes. Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of May 1, 2011, an aggregate long-term principal amount of approximately $4,657,113,482.00 in separate program obligations. All such obligations are and will be secured separately and independently and do not and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financings for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings, if any, will be secured separately from the 2011E Bonds and will not constitute bonds under the Indenture or for purposes of this Official Statement.

THE CITY OF INDIANAPOLIS AND MARION COUNTY

Governance

The City is a municipal corporation located in Marion County, Indiana (the “County”). It is the largest city in the State and the fourteenth largest city by population in the United States. In 1970, the governments of the City and the County were consolidated to form the State’s only consolidated city, which provides services generally throughout the County in which the City is located. By the consolidating act, the boundaries of the City were extended to the County line, although the municipalities of Beech Grove, Lawrence, Speedway and Southport were excluded.

The executive of the City is the Mayor who is elected by all the voters of the County. The Mayor, who may serve an unlimited number of four year terms, has extensive appointive powers and also serves as chief executive officer of the County. The executive authority is administered through six departments: Administration, Metropolitan Development, Parks and Recreation, Public Safety, Public Works and Waterworks.

The legislative body of the City and the County is the City-County Council. The City-County Council approves the annual budget and any tax levies for the City and other special taxing districts of the City and the County. The City-County Council also is empowered to adopt or to review and modify the budgets and tax levies of certain other municipal corporations located within the County. The City-County Council is required to approve the issuance of bonds and additional bonds of the Waterworks Department. The City-County Council approved the 2011A Waterworks Revenue Bonds on April 11, 2011.

The City’s Comprehensive Annual Financial Report (the “CAFR”) for the fiscal year ending December 31, 2009 is filed with and available from the Municipal Securities Rule Making Board’s (the “MSRB”) Electronic Municipal Market Access (“EMMA”) system found at http://emma.msrb.org/. See “AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION.”

Economics and Demographics

Indianapolis is Indiana’s largest city and is also the State’s capital. Since 1980, Indianapolis has experienced consistent population growth, increasing from approximately 712,000 persons in 1980 to 808,000 in 2009, or 13% during that period. Located at roughly the geographic center of the State, Indianapolis is the crossroads for more major interstate highways than any other city in the United States. Indianapolis’ airport is ranked 8th in North America and 21st in the world for cargo shipments. (Source: The Indianapolis Airport Authority)

Indianapolis historically has had a higher level of per capita income than the State. From 2005 to 2008, Indianapolis’ per capita income grew 8.04%, versus 10.44% for Indiana and 13.39% for the United States, based on data from the Bureau of Economic Analysis, 2010. Per capita income in Indianapolis reached $39,318 in 2008, while the State’s average was $34,543 and the United States’ average was $40,166, which are also based on data from the Bureau of Economic Analysis, 2010.
THE WATERWORKS DEPARTMENT

Powers and Purposes

The Waterworks Department is a department of the City organized and existing pursuant to the Enabling Legislation with the authority to own and operate the Waterworks throughout the District. The Waterworks Department is governed by a Board of Directors which exercises executive and legislative powers of the Waterworks Department. The Board of Directors of the Waterworks Department has the power to, among other things, provide water utility services in the District, recommend reasonable and just rates and charges for services of the Waterworks (subject to IURC approval), appropriate, lease, rent, purchase and hold all real and personal property of the Waterworks, award contracts, and adopt rules for the safe, economical and efficient management and protection of the Waterworks.

Board of Directors

The Board of Directors of the Waterworks Department consists of seven (7) members. Six (6) members are appointed by the Mayor consisting of three (3) persons nominated by the President of the City-County Council, and three (3) persons nominated by the minority leader of the City-County Council of the major political party which is different from the major political party of the President of the City-County Council. One (1) member, who serves as Secretary-Treasurer of the Board of Directors of the Waterworks Department and does not have voting powers except in the case of a tie, is nominated by the Mayor and appointed by the unanimous vote of the other six (6) members. Except with respect to initial terms, members are appointed for overlapping terms of six (6) years, with the Secretary-Treasurer serving a term of four (4) years. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Covenants of Waterworks Department.”

The current Board of Directors of the Waterworks Department, their positions and their principal occupations are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank T. Short</td>
<td>Chairperson</td>
<td>December 31, 2014</td>
<td>President, Short Strategy Group, Inc.; former member of the City-County Council 1991-2003</td>
</tr>
<tr>
<td>Larry Gigerich</td>
<td>Vice Chairperson</td>
<td>December 31, 2014</td>
<td>Managing Director, Ginovus</td>
</tr>
<tr>
<td>Dr. Philip C. Borst, D.V.M.</td>
<td>Secretary-Treasurer</td>
<td>December 31, 2012</td>
<td>Veterinarian</td>
</tr>
<tr>
<td>David Holt</td>
<td>Member</td>
<td>December 31, 2016</td>
<td>Consultant</td>
</tr>
<tr>
<td>Andrew J. Mallon</td>
<td>Member</td>
<td>December 31, 2016</td>
<td>Attorney</td>
</tr>
<tr>
<td>Marvin B. Scott, Ph.D.</td>
<td>Member</td>
<td>December 31, 2012</td>
<td>Professor of Sociology, Butler University</td>
</tr>
<tr>
<td>Kameelah Shaheed-Diallo</td>
<td>Member</td>
<td>December 31, 2012</td>
<td>Attorney</td>
</tr>
</tbody>
</table>

Waterworks Department Management

Matthew T. Klein was appointed as the Executive Director by the Board of Directors of the Waterworks Department, effective March 30, 2009. Previously, Mr. Klein worked as an attorney at the law firm of Bose McKinney & Evans LLP since 2006. His primary areas of expertise focus on environmental compliance, and site
remediation and litigation. From 2005-2006, Mr. Klein served as an Assistant Commissioner at the Indiana Department of Environmental Management (IDEM). At IDEM, Mr. Klein was in charge of ensuring regulated entities complied with Indiana’s environmental laws. Prior to his serving with IDEM, Mr. Klein practiced environmental law with the firm Kroger Gardis and Regas LLP. Mr. Klein received a B.S. from Taylor University in Political Science and Environmental Science, an M.S. from Ball State University in Natural Resources and Environmental Management, and a Doctor of Jurisprudence from Indiana University School of Law - Indianapolis. Mr. Klein is a member of the American Water Works Association, the American Bar Association, the Indiana State Bar Association and the Indianapolis Bar Association.

Hal Gurkin was appointed Chief Operations Officer of the Department of Waterworks in October 2008. Mr. Gurkin previously served as Regional Manager, Midwest Region for Utilities Incorporated. In addition, Mr. Gurkin has served in several water and wastewater operation management roles in North Carolina, Georgia, Ohio, Illinois, and Indiana. Mr. Gurkin received a B.A. in Environmental Science from North Carolina Wesleyan College and a M.S. degree in Management from Mercer University.

Robert L. Erney has served as the Financial Manager of the Waterworks Department for the City's Office of Finance and Management from April 2002 to present. Prior to April 2002, he served as a Revenue Analyst from November 1998 to April 2002, and as an Accounting Technician from April 1998 to November 1998, for the Office of the City Controller of the City of Indianapolis. Mr. Erney received a B.S. in Accounting from Ball State University.

Lauren R. Toppen was appointed General Counsel to the Waterworks Department in February 2008. Previously, Ms. Toppen was an Assistant Corporation Counsel with the Office of Corporation Counsel for the City of Indianapolis where she acted as the Mayor’s Public Access Counselor from 2007-2008, and also represented the Department of Public Works since 2004. In 1999, Ms. Toppen graduated summa cum laude from Valparaiso University with a Bachelor of Arts in Economics and Political Science. During college, Ms. Toppen spent a semester as a White House intern. In 2002, Ms. Toppen graduated magna cum laude from the Indiana University School of Law-Indianapolis where she participated as an Associate Editor on the Indiana Law Review. Upon graduation from law school, Ms. Toppen served as a law clerk for the Indiana Court of Appeals.

Advisory Board; Intergovernmental Agreements

As a result of the fact that the Waterworks Department provides service to areas located within the boundaries of governmental entities outside the City of Indianapolis, the Waterworks Department has entered into intergovernmental agreements with substantially all the governmental entities within whose boundaries the Waterworks Department provides water utility service (“intergovernmental agreements”). These intergovernmental agreements generally provide for the establishment of a joint advisory board with one appointee from each of the governmental entities. The advisory board’s powers include (i) the ability to provide recommendations to the Board of Directors of the Waterworks Department; (ii) the authority to overrule a decision by the Board of Directors of the Waterworks Department to withdraw from IURC jurisdiction; and (iii) the ability to recommend that the Waterworks Department dispose of certain utility assets within a governmental entity’s territory, provided that if the Waterworks Department fails to provide adequate water supply or expansion based on certain projections, the Waterworks Department must negotiate in good faith with the governmental entity for the sale of the assets or be subject to binding arbitration. The intergovernmental agreements also provided that the Waterworks Department would commission a feasibility study considering the establishment of a regional water authority to provide public water utility services throughout central Indiana, which study was completed and presented to the advisory board in 2005. After review of the feasibility study, the advisory board recommended further study of the creation of a regional water authority or a consortium of water utilities. The advisory board retained DLZ Indiana to complete the additional study. DLZ Indiana has been under contract with the Waterworks Department on behalf of the advisory board since its establishment. In November 2007, DLZ made a presentation to the advisory board in which it recommended the creation of a regional consortium of water utilities. To date, the advisory board has taken no action with regard to the recommendation. Upon a two-thirds vote of the advisory board, the Waterworks Department must hold a public hearing and consider whether it should encourage the Indiana General Assembly to create a statutory framework to form a regional water authority. See “THE WATERWORKS—Certain Contracts and Agreements—Intergovernmental Agreements.” The advisory board has also intervened in the IURC proceedings to support the Pending Acquisition of the Waterworks and the City’s wastewater system by Citizens Energy Group and CWA Authority, Inc. (the “Authority”), respectively. See “THE WATERWORKS...
DEPARTMENT—Pending Acquisition and Transfer of Assets of the Waterworks System.” Following the closing of the Pending Acquisition, the Citizens Board (as defined herein) has agreed to maintain the advisory board without modification.

Pending Acquisition and Transfer of Assets of the Waterworks System

On May 21, 2009, the Board of Directors of the Waterworks Department adopted a resolution amending the Waterworks Bond Resolution which would allow for a Substitute Issuer. These amendments permit (i) the transfer of the duties, privileges, powers, liabilities, disabilities, immunities and rights of the Waterworks Department under the Waterworks Bond Resolution and the outstanding Waterworks Revenue Bonds to a board, department or instrumentality of the City, or a nonprofit entity acting on behalf of the City, which has succeeded to the rights of the City or the Board of Directors of the Waterworks Department with respect to the Waterworks (any such board, department or instrumentality of the City, or nonprofit entity acting on behalf of the City, herein referred to as a “Substitute Issuer”); and (ii) the issuance of bonds or other obligations of the Substitute Issuer pursuant to a bond resolution or indenture and a qualified entity purchase agreement with the Bond Bank (the “Substitute Qualified Entity Purchase Agreement” and with the bonds, bond resolution or the indenture of the Substitute Issuer, the “Substitute Obligations and Agreements”). Pursuant to the Waterworks Bond Resolution, as amended, a Substitute Issuer may succeed to the duties, privileges, powers, liabilities, disabilities, immunities, and rights of the Waterworks Department under the Waterworks Bond Resolution and the Waterworks Bonds outstanding if either:

(i) (a) the Substitute Issuer is obligated under its Substitute Obligations and Agreements to operate and maintain the Waterworks and fix and collect Net Revenues, in a manner substantially equivalent, as determined by the Board of Directors of the Waterworks Department, to the manner provided for in the Waterworks Bond Resolution and the Waterworks Bonds outstanding so that the security interests and rights of any holder of such Waterworks Bonds are protected by the provisions of the Substitute Obligations and Agreements; and

(b) the Waterworks Department shall provide the Trustee either (x) a report of a financial consultant that demonstrates that in the first full Fiscal Year following such succession by the Substitute Issuer that the rate covenant in the Waterworks Bond Resolution shall be satisfied after giving effect to such succession; or (y) evidence that the ratings on the Waterworks Bonds outstanding, without regard to credit enhancement, by each Rating Agency will not be lowered as a result of the succession by the Substitute Issuer; or

(ii) the holders of a majority in principal amount of the Waterworks Bonds outstanding shall have agreed to accept such Substitute Obligations and Agreements in full replacement and satisfaction of the Waterworks Bond Resolution and the Waterworks Bonds outstanding.

In furtherance of the foregoing actions of the Board of Directors of the Waterworks Department, the Board of Directors of the Bond Bank adopted a resolution at a meeting on June 15, 2009, approving the First Supplemental and Amendatory Trust Indenture (the “First Amendment”), dated as of July 1, 2009, between the Bond Bank and the Trustee. The resolution of the Board of Directors of the Waterworks Department and the First Amendment became effective on August 6, 2009, upon the closing of the issuance and sale of the 2009A Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Amendments to Bond Resolution and Indenture.” These amendments permit the Bond Bank (i) to issue bonds to purchase a Security (as that term is defined in the Act) issued by a Substitute Qualified Entity; (ii) to terminate, discharge and release the obligations and duties of the Waterworks Department under the Bond Resolution, the Waterworks Bonds and the Purchase Agreements related to the Waterworks Bonds upon the occurrence of specified conditions; and (iii) to amend the Indenture to facilitate the substitution of a Substitute Qualified Entity under the Indenture. See “APPENDIX B1—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Following a series of public forums and meetings with businesses, neighborhood associations and other stakeholders, the IAC made a recommendation to the City that it issue the REI. On July 21, 2009, the City released the REI with the intent to solicit a broad array of approaches and ideas to allow the City to produce water, process wastewater and provide related infrastructure services in the most efficient and cost-effective manner and to help the City satisfy regulatory and judicially mandated capital improvements in a manner that mitigates the effect on ratepayers. In response to the REI, the City received twenty-three (23) submissions from local, national and global organizations. The Mayor’s office invited nine (9) of the twenty-three (23) bidders to present their ideas to the IAC.
In reviewing the possible structures, the IAC’s priorities were the following: (i) the selected approach should contribute to the long-term viability of the City; (ii) all assets of the water and wastewater utilities should remain publicly owned; (iii) utility rate increases should be mitigated; (iv) the plan should provide for a thoughtful allocation of the proceeds from the transaction; and (v) the utilities must continue to meet federal mandates and regulatory standards. The REI and the responses may be viewed on the IAC website at: http://www.indy.gov/eGov/Mayor/Pages/Utilities.aspx.

On March 9, 2010, the City entered into a Memorandum of Understanding for Consolidation of Municipal Utilities (the "MOU") with the Board of Directors for Utilities ("Citizens Board") of the Department of Public Utilities of the City d/b/a Citizens Energy Group ("Citizens Energy Group"). The MOU memorialized their mutual understanding concerning the pending acquisition of the Waterworks and the City’s wastewater system (the "Wastewater System") (the Waterworks and the Wastewater System collectively referred to as the “Systems”) by or on behalf of Citizens Energy Group (the “Pending Acquisition”).

Pursuant to the MOU, the City and Citizens Energy Group negotiated the provisions of two substantially identical Asset Purchase Agreements, one pertaining to each System. After a substantial number of public hearings and committee meetings, the City-County Council adopted Special Ordinance No. 4, 2010 on May 17, 2010, and Special Ordinance No. 7, 2010 on July 26, 2010 (the "City-County Council Ordinances"), approving both acquisitions, including the forms of Asset Purchase Agreements and the creation of the Authority under an Interlocal Cooperation Agreement for Provision of Utility Services (Wastewater). Similarly, pursuant to the MOU, the Citizens Board and the board of directors of the Authority (the "Authority Board") adopted two resolutions on August 11, 2010 (the "Citizens Resolutions"), approving the acquisitions, including the same forms of the Asset Purchase Agreements. Pursuant to the City-County Council Ordinances and the Citizens Resolutions, the City, the Waterworks Department, acting through the Board of Directors of the Waterworks Department and Citizens Energy Group have executed an Asset Purchase Agreement for the Waterworks (the "Water APA") and the City, the Sanitary District of the City (the "Sanitary District"), acting through the Board of Public Works (the "Sanitary Board"), Citizens Energy Group and the Authority have executed an Asset Purchase Agreement for the Wastewater System (the "Wastewater APA," and together with the Water APA, collectively, the "APAs"), each dated as of August 11, 2010. See “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT – THE AUTHORITY” and “–SUMMARY OF KEY PROVISIONS OF THE WATER APA AFFECTING THE OPERATION OF THE WATER SYSTEM BY CITIZENS ENERGY GROUP.” Copies of the APAs can be found at www.indy.gov/eGov/Mayor/Pages/Utilities.aspx.

The consummation of the Pending Acquisition is subject to certain closing conditions specified in the APAs, including that each acquisition is contingent upon the completion of the other acquisition, the completion of business, financial, legal and similar due diligence with results satisfactory to Citizens Energy Group and the Authority in their discretion, the approval and consent of the GIC Providers to any amendment of the Indenture which adversely affects the GIC Providers, and the approval of various regulatory bodies, including the IURC and the U.S. Environmental Protection Agency (the “EPA”). Citizens Energy Group, the Authority and the City have petitioned the IURC for approval of the Pending Acquisition and approval of rates and charges for water and wastewater service for use by Citizens Energy Group and the Authority. Since August 2010, the parties to the APAs have conducted due diligence and sought the required regulatory approvals. Citizens Energy Group anticipates completion of the Pending Acquisition by the end of the third quarter of 2011.

At the time of closing under the Water APA, all of the Waterworks Revenue Bonds, including the 2011A Waterworks Revenue Bonds, will be extinguished and replaced by substantially identical revenue bonds (“Citizens Revenue Bonds”) of Citizens Energy Group having the same principal and interest payment provisions and the same redemption provisions as those contained in the Waterworks Revenue Bonds. At that time, the Waterworks Bond Resolution will be extinguished and replaced by a trust indenture of Citizens Energy Group having substantially similar provisions (the "Citizens Indenture"). See “APPENDIX E1—SUMMARY OF CERTAIN PROVISIONS OF THE CITIZENS INDENTURE.” The substitution of the Citizens Revenue Bonds and the Citizens Indenture for the Waterworks Revenue Bonds and the Waterworks Bond Resolution will be implemented under the provisions described above of the Indenture and the Waterworks Bond Resolution authorizing substitute obligors. See “APPENDIX B1 – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Amendments to Waterworks Bond Resolution and Indenture.” The Bonds, including the 2011E Bonds, will remain outstanding and will only be modified by the substitution of Citizens Energy Group as the Substitute Issuer of Substitute Obligations under a Substitute Qualified Entity Purchase Agreement. The substitution of Citizens Energy Group for the Waterworks Department will only occur
upon the conditions for closing of the Pending Acquisitions specified in the APAs. Contemporaneous with the closing, the Board Policies of the Board of Directors of the Waterworks Department described herein will lapse.

As described above, the consideration to be paid by Citizens Energy Group to the City for the Waterworks will be its agreement to replace certain of the Waterworks Revenue Bonds related to the Waterworks with the Citizens Revenue Bonds. The consideration to be paid by the Authority to the City for the Wastewater System is expected to be approximately $260,000,000, plus the Authority will also assume, replace or defease certain of the existing debt related to the Wastewater System and make certain future payments.

The IURC must approve the Pending Acquisition, find that Citizens Energy Group has the technical, managerial and financial ability to operate the Waterworks and to pay the Citizens Revenue Bonds issued to replace the Waterworks Revenue Bonds and approve rates and charges for water service that are acceptable to Citizens Energy Group. Citizens Energy Group has requested that the IURC approve for use by Citizens Energy Group the same rates and charges as the IURC approved for the Waterworks Department in the permanent portion of the Rate Increase. See “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—System Rates and Charges—General.” Under the Water APA, Citizens Energy Group has agreed not to implement increases in water rates for two (2) years following the closing of the Pending Acquisition, except in certain situations. See “APPENDIX D—SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT—SUMMARY OF KEY PROVISIONS OF THE WATER APA AFFECTING THE OPERATION OF THE WATER SYSTEM BY CITIZENS ENERGY GROUP.”

Pursuant to Resolution No. 14, 2011, adopted by the Board of Directors of the Waterworks Department, at a meeting on March 22, 2011, the Board of Directors of the Waterworks Department made the necessary findings to permit Citizens Energy Group to succeed to the Waterworks Department, after public filing of notice of a public hearing regarding such resolution and holding said public hearing, upon the conditions contained in the APAs and upon IURC approval. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—2009 Amendments to Waterworks Bond Resolution and Indenture to Effectuate REI.”

The Board of Directors of the Bond Bank at a meeting on April 11, 2011, made the necessary findings pursuant to the Indenture to permit Citizens Energy Group to act as a Substitute Qualified Entity.

Citizens Energy Group expects that the combined operation of the central Indiana water, wastewater, gas, steam and chilled water systems will result in substantial operating and capital project synergies annually. The combination is expected to result in lower rates for all customers of the Systems than would otherwise result in the absence of the Pending Acquisition. Citizens Energy Group is exempt from federal and state income taxes and has the ability to issue tax-exempt debt. Citizens Energy Group also has significant experience owning, managing and operating utilities in the City and in central Indiana. See “APPENDIX E1—SUMMARY OF CERTAIN PROVISIONS OF THE CITIZENS INDENTURE.”

The Management Agreement was terminated in September 2010, but the Manager is obligated to continue to perform the services provided for in the Management Agreement through the closing of the Pending Acquisition. In connection with the termination of the Management Agreement, the Manager will receive consideration in the form of a cash payment from the City. Going forward, Citizens Energy Group will operate the Waterworks and intends to hire a number of employees of the Waterworks Department and Veolia Water Indianapolis, LLC that currently operate the Waterworks to maintain continuity. See “APPENDIX D—SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT—SUMMARY OF KEY PROVISIONS OF THE WATER APA AFFECTING THE OPERATION OF THE WATER SYSTEM BY CITIZENS ENERGY GROUP—Indemnification Provisions.” See also, “THE MANAGER AND THE MANAGEMENT AGREEMENT—The Management Agreement.”

Budget and Audit Process

**Budget.** Pursuant to current Board Policy, the Secretary-Treasurer will submit to the Board of Directors of the Waterworks Department for each Fiscal Year, an annual operating budget setting forth estimates of Gross Revenues and expenditure requirements of the Waterworks for such Fiscal Year. Such annual budget will be submitted to and approved by the Board of Directors of the Waterworks Department on or before November 30 of the prior Fiscal Year. A copy of the budget will be filed by the Financial Manager or Chief Financial Officer of the Waterworks Department with the City-County Council at least ten (10) days prior to the scheduled approval by the Board of
Directors of the Waterworks Department. The annual budget, as adopted, may be supplemented and amended from time to time.

Annual Audit. Under current Board Policy, the City Controller includes the Waterworks Department and the accounts of the Water Fund in the annual audited financial statements of the City. If the City Controller does not include the Waterworks Department and the Water Fund in such audit, the Board of Directors of the Waterworks Department will engage a firm of independent certified public accountants to prepare such audited financial statements in satisfaction of the requirements of the Waterworks Bond Resolution. A copy of the annual audit will be filed with the City-County Council within thirty (30) days of receipt thereof by the Board of Directors of the Waterworks Department. The audited financial statements of the City for fiscal year ending December 31, 2009, together with the report of KPMG and statistical tables of the 2009 Comprehensive Annual Financial Reports are on file with and available from the Municipal Securities Rule Making Board’s Electronic Municipal Market Access system found at http://emma.msrb.org/. See “AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION.”

Capital Plan. On or before May 31 of each Fiscal Year, the Board of Directors of the Waterworks Department requires the Manager to prepare and provide a proposed rolling five-year capital plan. The Board of Directors of the Waterworks Department will review the capital plan and determine how it will be implemented no later than ninety (90) days after receipt thereof. See “THE WATERWORKS—Capital Improvement Plan.”

THE MANAGER AND THE MANAGEMENT AGREEMENT

The Manager

The Waterworks Department contracts with a third party to manage and operate the Waterworks. The Waterworks Department entered into the Management Agreement with Veolia Water North America Operating Services, Inc. (formerly US Filter Operating Services, Inc.) (“VWNA”) on March 21, 2002. As of August 1, 2002, the Management Agreement was assigned to Veolia Water Indianapolis, LLC (formerly US Filter Indianapolis Water, LLC) (the “Manager”).

The Manager is headquartered in Indianapolis, Indiana, as is VWNA. The Manager is an indirect wholly-owned subsidiary of Veolia Environnement (formerly Vivendi Environnement), a French public limited company. Veolia Environnement is the largest environmental services company in the world and is listed on the New York Stock Exchange. VWNA designs, builds, operates, owns and finances water treatment equipment and systems. VWNA is the largest provider of water and wastewater outsourcing services in North America, operating approximately 400 facilities. Municipal clients in the United States include Atlanta/Fulton County Georgia, the City of Richmond, California and the Tampa Bay Water Interlocal Governmental Agency.

Veolia Environnement is subject to the information reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and, in accordance with the Exchange Act, files certain reports and other information with the SEC, including annual reports, current reports and other information. As a foreign private issuer, Veolia Environnement is exempt from the rules under the Exchange Act prescribing the furnishing of and content of quarterly reports and proxy statements. Information filed by Veolia Environnement can be inspected and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such materials may also be obtained upon payment of a duplicating fee, by writing to the public reference section of the SEC.

The Manager is responsible for addressing any local, state or federal concerns regarding the operation and maintenance of the Waterworks. In 2005, the Manager received subpoenas from the United States Attorney of the Southern District of Indiana requesting information regarding production activities. The Manager has fully cooperated with the Assistant United States Attorney assigned to the matter and has not been asked to provide additional information for over three (3) years. In addition, the Indiana Department of Environmental Management conducted random sampling of finished water at various locations on September 30, 2005. The results indicated that the Manager was compliant with drinking water regulations. The Manager has continually met or exceeded state and federal water quality standards since they began operating the Waterworks system in 2002. See “THE WATERWORKS—Regulatory and Legal Matters” and “LITIGATION AND INVESTIGATIONS—Waterworks Department.”
The information contained under “THE MANAGER AND THE MANAGEMENT AGREEMENT—The Manager” concerning the Manager and Veolia Environnement has been obtained from the Manager, but none of the Bond Bank, the Waterworks Department or the Underwriters take any responsibility for the accuracy thereof.

The Management Agreement

The Management Agreement provides for the Manager to perform the day-to-day operation, maintenance, repair and management of the Waterworks, including, among other functions, raw water supply, treatment and distribution, billing, collection and other customer services, as well as the provision of certain capital planning, engineering, inspection and project management services. The initial term of the Management Agreement is twenty (20) years, beginning April 30, 2002, subject to early termination. The Waterworks Department retains title to all assets of the Waterworks and retains and exercises broad oversight responsibility over the Waterworks through its Board. The Board of Directors of the Waterworks Department exercises control over the performance of the Waterworks through specific standards for performance and incentives to the Manager contained in the Management Agreement.

The Manager is required to provide all operation and maintenance expenses under the Management Agreement, with the Waterworks Department maintaining responsibility for capital improvements. The Waterworks Department will also retain control over approval of a rolling five-year capital plan developed by the Manager, rate setting procedures, including seeking IURC approval of any rate changes, the right to appeal any property tax assessments or to initiate eminent domain proceedings, and the right to negotiate all intergovernmental agreements, developer contracts and wholesale or volume water contracts.

Board Policy currently states that the Management Agreement will require the Manager to provide its audited financial statements to the Board of Directors of the Waterworks Department. Board Policy also authorizes the Board of Directors of the Waterworks Department to engage the services of certified public accountants or other financial consultants to periodically review the system of internal controls over the financial and performance measurement processes put in place by the Manager, to test such systems and processes, and to make reports on their review and results of their tests to the Board of Directors of the Waterworks Department.

KPMG completes an annual audit of the Waterworks Department as a part of the regular city audit and the Waterworks Department's financial statements are included in the CAFR as an enterprise fund. As a part of that audit, KPMG performs testing on the Manager's billing system to test internal control procedures. In addition a random sample of bills are selected and tested to verify the billing system accuracy. Any issues with respect to those processes are reported to the Waterworks Department, the City Controller's Office, and the Manager along with recommendations, as appropriate.

Board Policy also states that the Board of Directors of the Waterworks Department will engage the services of independent engineering and environmental consulting firms to provide contract oversight with respect to the Management Agreement. Such firms must be qualified to review and assess, on behalf of the Board of Directors of the Waterworks Department, the capital improvement plan, the performance of the Manager under the Management Agreement with respect to its performance guarantees, the operation and maintenance of the Waterworks and regulatory and environmental compliance by the Manager.

In furtherance of the Board Policy, the Waterworks Department has retained the services of qualified engineering and environmental consultants to perform the described services. For these services, the Waterworks Department utilizes different engineering firms to perform operational and capital oversight. In terms of operations, the Waterworks Department's engineering consultant performs operational evaluations as well as field evaluations of installed capital assets. Inspection reports are generated by the engineering consultant related to site visits to various Waterworks' Department facilities and project sites. Another engineering consultant for the Waterworks Department assists in the review of the capital improvement plan submitted by the Manager to determine the reasonableness and necessity of the proposed projects. This engineering consultant will also provide assistance with the capital planning process in conjunction with the approved Rate Increase. As appropriate, additional in-depth engineering studies will be performed by this engineering consultant to identify potential cost savings or alternatives to projects.
The environmental consultant retained by the Waterworks Department provides oversight of the Manager through performing activities that include (1) split sampling on a quarterly basis; (2) laboratory report monitoring; (3) laboratory management plan monitoring; and (4) enhanced atrazine program monitoring.

In addition to the foregoing and subject to the availability of funding and any necessary approvals, the Waterworks Department has commenced a formal performance review of the Manager, consistent with the Management Agreement. This performance review looks to include an operational audit of various aspects of the Manager's field operations and activities, including such items as the Manager's valve and hydrant testing practices and procedures, main break response procedures, meter replacement program, and a review of various reporting requirements as identified in the Management Agreement. This performance review looks to also include a maintenance audit of the Manager's existing operations and maintenance procedures for system components of the Waterworks and treatment facilities and a review of various reporting requirements as identified in the Management Agreement.

The Management Agreement may be terminated for an uncured event of default by either party, for labor unrest that prevents the Manager from performing its material obligations under the Management Agreement, for an Uncontrollable Circumstance (as defined in “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT”), for insufficient funding by the Waterworks Department, for adverse tax treatment or for a breach of the assignment provision of the Management Agreement.

The Management Agreement was terminated in September 2010, but the Manager is obligated to continue to perform the services provided for in the Management Agreement through the closing of the Pending Acquisition.

For a detailed description and summary of the Management Agreement, see “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”

Key Personnel

David L. Gadis, President of Veolia Water Indianapolis, previously served as Chief Operating Officer for 4 years, and was responsible for day-to-day operations. As President, his immediate focus is on ensuring excellent customer service and quality operations. David is a second-generation Indianapolis water utility employee and has worked for the utility for more than 10 years.

Antoine Boo, Chief Operating Officer, has Master of Science degrees in Civil Engineering, Environmental Management, and Corporate Management. Antoine is responsible for the day-to-day operations of the business, while working in partnership with the Waterworks Department on various issues. Antoine has been with Veolia in excess of 20 years, transferring to VWI in July 2010.

Ed Malone is Vice President of Water Operations. Ed has more than 30 years of experience in the water industry, with the past 23 years at this utility. Ed earned his BS in Civil Engineering from Rose Hulman and received an MBA from the University of Indianapolis. In his capacity as Vice President, Ed is responsible for Production, Lab Services, Capital Projects and Asset Management.

Employee Relations

The Manager currently employs approximately three hundred seventy-five (375) people. Of these, approximately 197 are members of the Local 131 National Conference of Firemen and Oilers Service Employees International Union, AFL CIO (“AFL CIO Union Members”), and are part of a collective bargaining agreement dated May 12, 2004. The agreement has automatically continued in effect in all respects pursuant to Section 17 of the collective bargaining agreement. In addition, approximately thirty-eight (38) employees are members of the Local 131, National Conference of Firemen and Oilers Service Employees International Union, Office and Clerical Group (“Office and Clerical Group Union Members”), and are part of a collective bargaining agreement ratified March 20, 2008. This agreement was effective March 21, 2008 and expires December 31, 2011.
THE WATERWORKS

Service Area

A map identifying the Service Area of the Waterworks is set forth on the inside back cover page of this Official Statement.

The District consists of the majority of the City of Indianapolis and Marion County, and portions of the surrounding counties of Boone, Hamilton, Hancock, Hendricks, Johnson, Morgan and Shelby. The District includes approximately 327,489 accounts, including approximately 304,330 active customers or approximately 821,691 people. Approximately seventy-eight percent (78%) of the customers are located in Marion County. In addition, the City and the Waterworks Department own two (2) smaller connected utilities previously operated by Harbour Water Corporation, IW Morgan Water Corporation, and IWCR, and the areas served by each of those utilities also are part of the District. The Waterworks Department has entered into intergovernmental agreements with substantially all of the governmental entities within whose boundaries the Waterworks Department provides water utility service. See below “THE WATERWORKS—Certain Contracts and Agreements—Intergovernmental Agreements.” The Waterworks also serves three (3) wholesale customers and three (3) other customers pursuant to volume purchasing contracts, collectively amounting to approximately five percent (5%) of the total capacity of the Waterworks.

A memorandum of understanding with the City of Westfield (in Hamilton County) establishes certain boundaries for the service areas of the Harbour Water Corporation and the Town of Westfield water utility. Also, the IURC approved a service territory map delineating a service area for the Town of Plainfield water utility (in Hendricks County) which allows the Town of Plainfield to serve all customers within such service territory and the Waterworks Department to serve customers outside of that service territory. See the map set forth on the inside back cover of this Official Statement.

Under existing Indiana law, private and municipally-owned water utilities do not have exclusive service territories. Indiana governmental units (counties, cities and towns), however, have the authority to grant franchise rights for the use of roads, streets, and other property for utility facilities and purposes. Pursuant to the intergovernmental agreements, the Waterworks Department has such rights to the use of governmental entity roads, streets and other public property in the areas currently served by the Waterworks Department. Other private or municipally owned utilities also may have or may obtain franchise rights to use roads, streets and other public property for utility purposes, including water utility use in areas in which the Waterworks Department has franchise rights. Based on prior studies, the Waterworks Department believes that expansion by other utilities to serve areas currently served by the Waterworks Department is not expected, due to the significant capital expense of undertaking such expansion and the lack of reasonable expectation of sufficient customer growth in those areas to generate revenues necessary to recover the significant capital costs of such expansion. However, with regard to areas that do not currently have water utility service, there may be other utilities that have or may obtain franchise rights in those areas. In certain instances, the existing infrastructure will make it more cost effective for the Waterworks Department to extend service to particular areas. In other instances, the other utilities may have a substantial economic advantage in serving that new area based upon existing infrastructure. In any event, the ability of the Waterworks Department to experience growth in number of customers and revenues may be dependent on, among other things, the Waterworks Department’s ability to continue to make capital improvements including extensions for purposes of serving new areas, and the Waterworks Department’s access to funds to finance such capital improvements. See “CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS—Impact of Growth Rates on Net Revenues.”

The Waterworks Department’s net customer increase has been approximately 20,000 accounts in the past five (5) years, inclusive of the asset dispositions, and the Waterworks Department expects similar continued customer growth. There can be no assurance that such future growth rates will be achieved. Moreover, revenues over the past four (4) years have held relatively stable, with revenues slightly higher in 2007 due to dry summer conditions.
The Waterworks System

**Description of Facilities.** The Waterworks generally comprises all reservoirs, wells, diversion, withdrawal, storage, treatment, transmission and distribution facilities and all other facilities currently owned or that may be constructed or acquired by the Waterworks Department. The Waterworks’ resources include three (3) reservoirs (two (2) owned by the Waterworks Department and one (1) by the City) and seventy-five (75) groundwater wells. The Waterworks system also includes nine (9) water treatment plants, approximately 4,344 miles of water transmission and distribution mains, 39,763 fire hydrants of which 3,098 are classified as private hydrants, thirty (30) water storage tanks and eighteen (18) water pumping stations.

**Water Treatment Plants.** The Manager currently operates four (4) surface water treatment plants, the White River Treatment Plant which uses a combination of water from the White River and underground wells for its source of supply; the Fall Creek Treatment Plant which uses Fall Creek as its source of supply; the White River North Surface Water Treatment Plant which uses the White River as its source of supply; and the T.W. Moses Treatment Plant which uses the Eagle Creek Reservoir for its source of supply. In addition to the four (4) surface water treatment plants, the Manager also currently operates five (5) groundwater treatment plants that use ground water protection wells as their only source of supply. The groundwater treatment plants are Geist Station, Harding Station, South Well Field, Ford Road and the White River North Groundwater Treatment Plant.

The White River Treatment Plant is the largest plant in the Waterworks system with a rated capacity of 120 million gallons per day (“MGD”) and a hydraulic capacity of 120 MGD. The White River system is the primary source of water for Indianapolis. As the City grew, natural streamflow in the White River and groundwater in the aquifer near the White River Treatment Plant were no longer sufficient to meet water demands. Because of this, Morse Reservoir was constructed in 1955 on Cicero Creek, a tributary of the White River. When natural flows in the White River decrease, the Manager calls for water releases from Morse Reservoir to supplement stream flows to both the White River and White River North surface water treatment plants. There are also currently twenty-two (22) wells of varying depths in the White River Wellfield that serve as a source of supply to this treatment facility. The wells have design yields of approximately 17,900 gallons per minute (“GPM”) and total pumping capacity of 13,543 GPM. Because of mutual interference of drawdown between wells and the limited ability of the aquifer to replenish itself during dry conditions, all of the wells cannot sustain their maximum pumping capacities for extended periods of time without adversely pumping the groundwater levels below the tops of the well screens.

The Fall Creek Treatment Plant is the second largest plant in the Waterworks system with a rated capacity of 40 MGD and a hydraulic capacity of 40 MGD. In order to maintain enough streamflow in Fall Creek for a reliable source of water, Geist Reservoir was constructed in 1943. Releases are made from the reservoir, and streamflow is diverted at Keystone Dam to the Fall Creek Water Treatment Plant. The Fall Creek Wellfield is located near the Fall Creek Water Treatment Plant. The wellfield consists of five (5) wells drilled to depths in excess of 300 feet, two of which are approaching 400 feet and five (5) shallow wells in the overlying sand and gravel aquifer drilled to depths of up to 100 feet. The wells have a design yield of 8,700 GPM and a total pumping capacity of 7,667 GPM. Because of mutual interference of drawdown between wells and the limited ability of the aquifer to replenish itself during dry conditions, all of the wells can not sustain their maximum pumping capacities for extended periods of time without adversely pumping the groundwater levels below the tops of the well screens.

The White River North Surface Water Treatment Plant has a rated capacity of 34 MGD and a hydraulic capacity of 34 MGD. Like the White River Treatment Plant this facility utilizes the White River for its source of supply.

The T.W. Moses Treatment Plant has a rated capacity of 24 MGD and a hydraulic capacity of 24 MGD. Eagle Creek Reservoir, completed in 1969, is the sole source of water for this treatment facility. The Department of Public Works of the City (“DPW”) controls the operation of the Eagle Creek Reservoir. The Waterworks Department has an agreement with DPW that allows for a daily usage of up to 12.4 MGD and a maximum monthly usage of up to 19.8 MGD.

The Geist Station Water Treatment Plant has a rated capacity of 8 MGD and a hydraulic capacity of 8 MGD. The source of supply for this facility is the Geist Wellfield, which is located along Fall Creek just downstream from the Geist Reservoir dam. The Geist wellfield consists of eight (8) wells drilled to depths of up to 100 feet with a design yield of 12,394 GPM and total pumping capacity of 7,742 GPM. Because of mutual interference of
drawdown between wells and the limited ability of the aquifer to replenish itself during dry conditions, all of the wells cannot sustain their maximum pumping capacities for extended periods of time without adversely pumping the groundwater levels below the tops of the well screens.

The Harding Station Water Treatment Plant has a rated capacity of 6 MGD and a hydraulic capacity of 6 MGD. The South Wellfield Treatment Plant has a rated capacity of 24 MGD and a hydraulic capacity of 24 MGD. The Harding and South Wellfields are located south of the City to the east of the White River. There are nineteen (19) wells drilled to depths of up to 110 feet into an outwash sand and gravel aquifer. The total rated pumping capacity of all the wells is 19,848 GPM. Because of mutual interference of drawdown between wells and the limited ability of the aquifer to replenish itself during dry conditions, all of the wells cannot sustain their maximum pumping capacities for extended periods of time without adversely pumping the groundwater levels below the tops of the well screens.

The Waverly Wellfield provides supply to the South Wellfield plant. This wellfield consists of six (6) wells in a sand and gravel aquifer at depths of up to 100 feet with a total design yield of 8,400 GPM.

The Ford Road Water Treatment Plant has a rated capacity of 2.6 MGD and a hydraulic capacity of 2.6 MGD. The Ford Road Wellfield is located near Ford Road to the north of Eagle Creek Reservoir and consists of four (4) wells. The total design yield of these wells is 1,800 GPM, and the wells are drilled to depths of approximately 90 feet. The total pumping capacity is 1,068 GPM.

The White River North Groundwater Treatment Plant has a rated capacity of 12 MGD and a hydraulic capacity of 12 MGD. The White River North Wellfield is located in Hamilton County along the White River between 146th and 166th Streets. The wellfield consists of five (5) wells with depths to about 130 feet, with one (1) well drilled to a depth of 206 feet. The total design yield of these wells is 4,556 GPM, with pumping capacity of 3,768 GPM.

**Booster Stations.** The Waterworks system currently has nineteen (19) booster stations that move water between pressure districts in the distribution system.

**Water Distribution.** The Waterworks system consists of 4,344 miles of water transmission and distribution mains, 39,763 fire hydrants of which 3,098 are classified as private hydrants, and 45,872 valves.

**System Reliability and Redundancy Features**

The Waterworks system has redundancy designed into its operation at numerous levels. There is redundancy planned into its network piping, in the integration of the pressure zones or districts, in the use of storage within the distribution system, in the availability of multiple pump sets at the plants and booster stations, and with the availability of alternative power options at the treatment plants and booster facilities.

The network piping, based on the footage of piping in the system and the pipe diameter, has a storage volume of approximately 125 million gallons. In addition to the pipe storage, the system also has a total of sixteen (16) distribution finished water storage tanks, ground and elevated, with an approximate storage capacity of 26.3 million gallons. Distribution system storage provides the system with the ability to stabilize the system’s working pressures and absorb any spikes which might otherwise result in main breaks. The tanks also supplement the plants’ production during peak demand periods, help meet the peak hour demands, and provide adequate fire flow. Approximately 13.7 million gallons of the distribution storage is in elevated tanks. Elevated storage tanks assist in maintaining system pressure independent of power availability. During a power loss the energy needed to move the water from the elevated tanks into the distribution system is provided by the height or “head” of the tanks and the tanks’ supply, thereby allowing portions of the system to “float” or be sustained off of the tanks for short durations. The remaining 12.6 million gallons of supply in the distribution system is in ground storage tanks. These tanks require prime movers to get the water onto the grid, and so are associated with pumping or “booster” stations, which have backup systems to get the supply into the grid during the loss of normal power.

In addition to the 26.3 million gallons of supply in distribution tank storage, the Waterworks also has almost 52 million gallons of finished water storage in fourteen (14) storage tanks (ground water storage units and underground reservoirs) located at the treatment plants. The plant storage is important in having additional supply available in emergencies, where plant production may be disrupted or limited. Generators are also available at the treatment
plants and permit them to remain on line at a reduced production rate during a loss of normal power. The White River Treatment Plant and the Fall Creek Treatment Plant, for example, have rated treatment capacities of 120 million gallons and 40 million gallons, respectively. During a power failure they automatically transfer to a generator which permits them to remain on line. While using alternate power, the Waterworks is capable of producing 55 million gallons of supply at the White River Treatment Plant and 15 million gallons of supply at the Fall Creek Treatment Plant. The facilities’ finished water storage is available during an outage to augment the plants’ production. Of the 52 million gallons of finished storage at the plants, the White River plant has 25 million gallons of stored finished water supply and the Fall Creek plant has 10 million gallons of stored finished water supply available. Each of the nine (9) treatment plants has plant storage and also some form of backup power. In addition to redundancy for production, the plants also have backup power at their high service pump stations. As with the distribution booster stations, redundant power at the plant pump stations is delivered via the use of diesel driven pump sets, or generators. Uninterruptable Power Supply (UPS) units are also utilized on many of the critical systems at the plants, particularly, for example, on the emergency lighting systems which are necessary during an outage both for personal safety and to permit personnel to get backup systems on line where not automatically actuated, and to get the normal power restored where the issue is localized and internal to the plant.

The Waterworks has 19 booster stations located throughout the system in the various pressure districts, most of which have some form of backup power available, usually either diesel or gas operated pumps, for use in emergency conditions. In an emergency, if normal power is lost to a booster, the facilities’ emergency pump units are activated. The booster stations and their backup pumps are remotely operated, and can be immediately brought on line. The distribution system is remotely monitored and operated. System operators continuously monitor the system performance through a series of transmitters, which provide real time data and permits them to respond immediately to changes in the system performance, and the operating status of the equipment. For example, should an operator have a pump drop off line either due to a power failure or mechanical failure they can issue on a standby or backup unit. The pump stations have multiple electric pump sets as well. The operator, if experiencing the mechanical failure of a unit that is running, will issue on one of the idle electric units, and if experiencing a power outage, will turn on an alternative mover, a diesel pump or gas fired engine, or transfer to a generator.

Of the 19 booster stations, 11 have a backup power system on site; a diesel driven pump, gas fired engine or a generator. One of the stations has a dual electrical power feed served from different substations on the power grid, such that if one feed is lost the station will continue to operate. At these facilities the transfer from normal power to the backup system is almost immediate. The Waterworks also has available a portable generator which it can deploy to other booster stations where there is no onsite backup system.

Redundancy is also inherent to the layout of the distribution system. The system is divided into 16 pressure districts or zones, but is integrated via a series of Bleeder and Pressure Reducing Valves (“PRVs”) and the booster stations. Supply passes between the districts through these valves and the boosters. The Bleeder valves are remotely controlled by the operators, and can be opened or closed at will to “wheel” the supply to various districts, while the PRV’s actuate automatically when sensing a pressure reduction in a district, allowing the movement of water across the districts to restore adequate pressure. The benefit of the interconnection, which again is achieved through the booster stations as well, is that the demands of districts can be shifted from one treatment plant to another, or shared by the treatment plants. For example, the Castleton district is typically supplied by the White River North Treatment Plant; however, should that plant experience a problem and need to reduce its production, the Allisonville Booster Station, which takes its suction supply from the Fall Creek Treatment Plant, can be activated to discharge its supply into the Castleton district and augment the supply coming from the White River North Treatment Plant. In this way the impact of the plant reduction is diminished and service is not interrupted.

The Waterworks also builds redundancy into the network grid within the various districts through the practice of “looping” water mains. This is the practice of running parallel mains to ensure that there are multiple routes for getting supply moved throughout the districts, such that if there is a main break of a main trunk into an area there is an alternate pathway to get supply into that area.

The Waterworks system is controlled from one central control system (“CCS”) where all of the system assets, storage tanks, reservoirs, plants and boosters, and the system pressures and flows are monitored and the assets are operated. The CCS system is located at the secured White River Treatment Plant but there is also another secure site where the system can be operated as well in an emergency. Additionally, all of the plants’ pump sets have the
ability to be operated manually at the plants. The CCS system is also on a generator, as is the phone system, and the servers that house the customer service and dispatch operations, so that those remain operational in an emergency.

The Waterworks also has redundancy or protections inherent to its use of the raw water resource as well. The Waterworks uses both surface and ground water supply. As surface supply tends to be both more susceptible to contaminants, i.e. chemical spills and “flashy” with regard to the routine water quality, i.e. organics, taste and odor issues, the Waterworks developed wells for use at three of its four surface water treatment facilities. Ground water at these facilities is routinely blended with the surface supply, but also the groundwater is available in the event of the loss of the surface supply.

**Water Pumpage**

In 2010, average daily production of finished water was approximately 137 MGD with a historical peak day demand of 201 MGD. Approximately seventy-seven percent (77%) of average daily production comes from surface water sources and twenty-three percent (23%) from groundwater sources.

The following table provides historical pumpage information for 2003 through 2010:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Pumpage (Millions of Gallons)</th>
<th>Average Day Pumpage (MGD)</th>
<th>Maximum Day Pumpage (MGD)</th>
<th>System’s Rated Hydraulic Capacity (MGD)</th>
<th>Maximum Day Pumpage as % of Rated Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>49,327</td>
<td>135.14</td>
<td>203.40</td>
<td>246.6</td>
<td>82.48%</td>
</tr>
<tr>
<td>2004</td>
<td>51,145</td>
<td>140.12</td>
<td>194.21</td>
<td>246.6</td>
<td>78.76%</td>
</tr>
<tr>
<td>2005</td>
<td>52,755</td>
<td>144.53</td>
<td>223.59</td>
<td>250.6</td>
<td>89.22%</td>
</tr>
<tr>
<td>2006</td>
<td>50,487</td>
<td>138.32</td>
<td>200.18</td>
<td>250.6</td>
<td>79.88%</td>
</tr>
<tr>
<td>2007</td>
<td>55,161</td>
<td>151.12</td>
<td>227.48</td>
<td>262.6</td>
<td>86.63%</td>
</tr>
<tr>
<td>2008</td>
<td>50,347</td>
<td>137.94</td>
<td>203.08</td>
<td>262.6</td>
<td>77.33%</td>
</tr>
<tr>
<td>2009</td>
<td>48,729</td>
<td>133.50</td>
<td>181.39</td>
<td>262.6</td>
<td>69.07%</td>
</tr>
<tr>
<td>2010</td>
<td>50,120</td>
<td>137.32</td>
<td>201.23</td>
<td>262.6</td>
<td>76.63%</td>
</tr>
</tbody>
</table>

The Waterworks current daily rated treatment capacity is 262.6 MGD. The average daily demand is expected not to exceed seventy percent (70.0%) of the Waterworks total daily rate of treatment capacity during the current 5-year capital planning term.

**Water Loss (Unaccounted for Water)**

The Manager estimates the percentage of water loss is approximately thirteen and thirty-seven hundredths percent (13.37%). This percentage includes water used for fire protection, system flushing, system leaks and unregistered water flow through meters. The Manager estimates that true water loss from system leakage is approximately seven and one hundredths percent (7.01%).

**Capital Improvement Plan**

Pursuant to the Management Agreement and the Board Policies, by May 31 of each year, the Manager is required to conduct a review of the Waterworks and provide the Waterworks Department with a reasonably detailed report recommending capital improvements, if any, that the Waterworks Department may wish to undertake. Further, the Manager is required to develop a rolling five-year capital plan for review, comment, modification and approval by the Waterworks Department. The Manager’s report dated May 31, 2010, recommended non-growth capital improvements over the next five (5) years of approximately $121,694,010 per year. The Waterworks Department will monitor its capital needs in connection with the capital plan prepared by the Manager, and the Waterworks Department will determine which capital projects are to be performed and how those capital projects will be implemented. The Board of Directors of the Waterworks Department, except when required in connection...
with a petition for a rate increase to the IURC, does not publish or formally adopt a capital improvement plan beyond that required for the next succeeding budget year. For the period 2011-2012, the capital expenditures made by the Waterworks Department to the Waterworks from Waterworks Revenue Bonds and rates and charges is estimated to be $105,324,910.

The Waterworks Department has refocused capital improvement expenditures from growth to infrastructure needs. Further, the Waterworks Department’s recent and planned capital improvements are focused on capacity (both treatment capacity and raw water supply) and redundancy needs. Pursuant to the Management Agreement, the Manager has agreed to invest approximately $23,000,000 over the term of the Management Agreement, a substantial portion of which will constitute capital improvements, to address specific identified needs for the Waterworks. As of December 31, 2010, the Manager had spent approximately $17,500,223 pursuant to this commitment. See “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”

The following table provides a detailed breakdown of the anticipated capital improvement budget (exclusive of capital improvements required to be made by the Manager pursuant to the Management Agreement) for the Waterworks Department for the current and next year planning period for financial benefit, infrastructure renewal, regulatory, reliability, safety and technology. Information contained in the table is based upon a preliminary capital improvements assessment undertaken by management in conjunction with an outside consultant. The Waterworks Department is working with an outside consultant to review the Manager’s report and identify the Waterworks Department’s capital needs. The table below is subject to change and the Waterworks Department will make copies of any changes available upon request.

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Benefit</td>
<td>$3,278,719</td>
<td>$4,300,000</td>
<td>$7,578,719</td>
<td>7.20%</td>
</tr>
<tr>
<td>Infrastructure Renewal</td>
<td>13,169,556</td>
<td>7,346,525</td>
<td>20,516,081</td>
<td>19.48%</td>
</tr>
<tr>
<td>Regulatory</td>
<td>10,836,537</td>
<td>11,238,521</td>
<td>22,075,058</td>
<td>20.96%</td>
</tr>
<tr>
<td>Reliability</td>
<td>21,464,938</td>
<td>32,926,874</td>
<td>54,391,812</td>
<td>51.64%</td>
</tr>
<tr>
<td>Safety</td>
<td>682,440</td>
<td>0</td>
<td>682,440</td>
<td>0.65%</td>
</tr>
<tr>
<td>Technology</td>
<td>80,800</td>
<td>0</td>
<td>80,800</td>
<td>0.08%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$49,512,990</strong></td>
<td><strong>$55,811,920</strong></td>
<td><strong>$105,324,910</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Historically, the Waterworks Department has funded its capital improvement plan from (i) available cash flow and (ii) issuance of Waterworks Revenue Bonds.

**Certain Contracts and Agreements**

*Intergovernmental Agreements.* The Waterworks Department has entered into intergovernmental agreements with substantially all of the governmental entities within whose boundaries the Waterworks Department provides water service. See “THE WATERWORKS—Regulatory and Legal Matters.” Prior to the Acquisition, IWCR had franchise or other agreements with many of these local governmental units to provide water service. Upon the closing of the Pending Acquisition, Citizens Energy Group will assume the intergovernmental agreements. See “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT.”

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The intergovernmental agreements generally provide (i) that the local governmental units agreed and consented to the assignment by IWCR to the Waterworks Department of its franchise agreement or water supply contract, if any; (ii) that an advisory board consisting of one member from each local governmental unit and a representative of the Waterworks Department will be created; (iii) that the Waterworks Department agrees to remain subject to the jurisdiction of IURC unless appropriate approval is obtained from such advisory board; (iv) that such advisory board will have veto power over the right of the Waterworks Department to remove itself from IURC jurisdiction; (v) that the Waterworks Department will make payments in lieu of property taxes to such local governmental units to the extent such amounts are permitted by the IURC to be included in rates and charges or to the extent permitted by law; and (vi) for the five (5) year period following the acquisition of the IWCR assets by the City (April 30, 2002- April 30, 2007), the Waterworks Department would use its best efforts to not file a rate petition with the IURC seeking a rate increase for customers served within the boundaries of the local governmental entity, except for certain instances where emergency rate relief is warranted. The rights of the local governmental units to establish a municipal water utility are not infringed by the intergovernmental agreements.

**Franchise Agreements.** The Waterworks Department has franchise agreements (the “Franchise Agreements”), assigned by IWCR as part of the Acquisition, with thirteen (13) of the local governmental entities within whose boundaries the Waterworks Department provides water service. The Franchise Agreements provide for the use of the roads, highways and other public property of such governmental entity by the Waterworks Department, and authorize the Waterworks Department to provide water utility service. See “THE WATERWORKS—Certain Contracts and Agreements—Intergovernmental Agreements.” Collectively, the Franchise Agreements give the Waterworks Department franchise rights (i.e., nonexclusive rights to use public property) in the unincorporated areas of Boone, Hamilton, Hancock, Hendricks and Morgan Counties and in the City of Indianapolis, the City of Noblesville, the Towns of Clermont, Cumberland, Fishers, McCordsville, New Palestine and Zionsville. The Waterworks Department does not have franchise rights with respect to all of the incorporated municipalities in the counties where the Waterworks Department provides service. Generally, the Franchise Agreements have terms of 99 or 199 years and are dated 1968 or after. See “THE WATERWORKS—Regulatory and Legal Matters.” Upon the closing of the Pending Acquisition, Citizens Energy Group will assume the Franchise Agreements. See “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT.”

**Volume Contracts.** The Waterworks Department provides volume water service to six (6) customers pursuant to various water service agreements. These volume contracts amount to approximately five percent (5%) of the total capacity of the Waterworks. The Waterworks Department currently has volume water contracts with Brown County Water, the Town of Brownsburg, the Town of Danville, the Town of Pittsboro, Morgan County Rural Water Corporation and the Town of Whitestown, which assumed a water service agreement from Boone County Utilities. Generally, the volume water contracts have terms of ten (10) to twenty-five (25) years and are dated 1994 or after. Boone County Utilities underwent bankruptcy, and the Town of Whitestown acquired its assets in 2004. The Waterworks Department has a right of first refusal to purchase the assets of the Boone County Utilities in 2030. In 2008, revenues from the contract with Whitestown were $204,436, which was less than one-tenth of one percent (0.1%) of the Waterworks Department’s revenues. Upon the closing of the Pending Acquisition, Citizens Energy Group will assume the volume contracts. See “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT.”

**Developer Agreements.** For purposes of providing funds for construction of extensions of the Waterworks requested by developers, property owners and others, the Waterworks Department has approximately 1,700 main extension agreements with developers (“developer agreements”). Typically, these agreements require that the Waterworks Department invest an amount equal to three (3) times the estimated annual revenue from the main extension and for the developer to provide the remaining costs of the extension, if any. If anticipated revenues cannot be estimated, the developer pays the entire cost of the main extension and the Waterworks Department pays the developer an amount equal to three (3) times the estimated annual revenue per customer for new customers who are added to the system. The reimbursements are made to the extent that new connections are made within ten (10) years after the improvements are placed in service. The total amount reimbursed under a developer agreement does not exceed the original cost of the extension. After ten years, no further amounts are reimbursed.

The Waterworks Department estimates that the present liability under the existing developer agreements will amount to approximately $14,271,253. This liability is based on the Waterworks Department’s determination of the maximum reimbursement possible under the developer agreements for residential projects (which represents approximately eighty-four percent (84%) of the value of all developer agreements) and estimated reimbursements
based on historical performance) under the developer agreements for commercial projects. The Waterworks Department’s reimbursement payments to developers were approximately $876,130 for calendar year 2010. Reimbursement payments are offset in part by certain management fees received pursuant to the developer agreements. Reimbursement payments are not paid as operation and maintenance expenses, and are accordingly junior and subordinate to operation and maintenance and debt service obligations of the Waterworks and are payable from the Department Purposes Account of the Water Fund solely to the extent of future connections to the Waterworks. See “THE WATERWORKS—Regulatory and Legal Matters—Developer Agreements.” Upon the closing of the Pending Acquisition, Citizens Energy Group will assume the developer agreements. See “APPENDIX D – SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT.”

Other Liabilities. Pursuant to the IWCR Asset Purchase Agreement, the Waterworks Department assumed the indebtedness of IWCR under a certain agreement to purchase water rights, easements and other restrictions and servitudes currently outstanding in the amount of $1,109,431. The foregoing obligations are payable by the Waterworks Department on a basis subordinate to the Waterworks Revenue Bonds and are unsecured obligations of the Waterworks Department. Assumed liabilities also included, without limitation, obligations and liabilities under the assumed employee benefit plans, all liabilities under assumed contracts and permits, the obligation to defease or repay all assumed indebtedness, and liability for environmental, human health, safety or natural resource related on-site conditions (including certain existing conditions), existing obligations to make advances for construction, and future product liability and toxic tort claims.

Insurance

The Waterworks Department has covenanted in the Waterworks Bond Resolution to maintain, or cause to be maintained by the Manager, such public liability insurance and property insurance as is customarily maintained by entities similar to the Waterworks Department with respect to facilities of like character against loss of or damage to the Waterworks, against loss of Net Revenues and against public liability. The Waterworks Bond Resolution authorizes the Waterworks Department to insure all or a portion of such risk through a program of self-insurance. Pursuant to the Management Agreement, the Manager is required to provide worker’s compensation, motor vehicle liability, comprehensive general liability, excess liability, environmental liability, property damage, employment practices, fiduciary and comprehensive crime insurance coverage, all with companies with a financial rating of no lower than XI and a policyholder service rating no lower than A- as listed by Best’s Key Rating Guide. See “CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS—Insurance” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”

Regulatory and Legal Matters

State and Federal Regulation. The Waterworks is subject to numerous federal and State regulatory requirements. Those regulations are subject to change at any time. Failure to comply with regulatory requirements or changes therein, or the inability to comply with them in a timely manner, could cause portions of the Waterworks to be unavailable for use by the Waterworks Department. Any disruption of service could negatively impact the collection of Net Revenues by the Waterworks Department. The Waterworks currently is in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Service Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent such non-compliance would not have a material adverse effect on the Waterworks. The Waterworks Department anticipates that the capital improvement budget and other available money will provide the Waterworks Department with funds in a reasonable amount to meet expected growth needs and existing and projected federal or state water quality requirements. The EPA Long Term 2 Enhanced Surface Water Treatment Rule will require the Waterworks to change certain of its water treatment processes to comply with the Rule. Under those rules such capital improvements are required to be completed by April, 2012, subject to certain extensions. The Waterworks Department anticipates that funding for these regulatory changes will be from future bond proceeds along with approximately fifty percent (50%) of said projects funded by revenue generated cash flow. See “THE WATERWORKS – Capital Improvement Plan.” Should any additional regulations applicable to the operation and maintenance of the Waterworks become effective in the future the Waterworks Department will be required to take action to comply with them in a timely manner.
**IURC Jurisdiction Over Rates and Charges.** On March 28, 2002, the IURC issued its order approving the Acquisition, as well as the initial rates and charges of the Waterworks Department and all other matters material to the operation of the Waterworks by the Waterworks Department (the “IURC Order”). Pursuant to the Acquisition, the Waterworks Department agreed that the IURC would continue to have jurisdiction over the Waterworks, including rates and charges, standards of service, accounting procedures and related matters; provided, however, that the issuance of debt obligations (including Waterworks Parity Bonds or Waterworks Subordinate Bonds) is not subject to IURC approval. Following the initial establishment of rates and charges of the Waterworks Department by the IURC, on April 4, 2007, the IURC approved the Waterworks Department's petition for an increase in rates and charges. On February 24, 2009, the Waterworks Department filed a new petition with the IURC seeking both an expedited rate increase and a permanent rate increase and on June 30, 2009, the IURC issued an order, which ultimately resulted in a 10.8% rate increase. On February 2, 2011, the IURC approved a permanent rate increase of an additional 25.99% in overall rates. See “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION – System Rates and Charges.” Pursuant to the Management Agreement, the Manager is required to comply with all utility regulatory statutes, regulations and administrative rulings.

**Environmental Matters.** As a part of the Acquisition, Phase I Environmental Site Assessments (“ESA”) were commissioned by the City in connection with the purchase of the Waterworks to identify any recognized environmental conditions at the purification plants, current and future well fields, reservoirs, water storage tanks and other related facilities and properties of IWCR. Recognized environmental conditions were identified at twenty-six (26) of the fifty-three (53) properties where Phase I ESAs were conducted. No Phase II ESAs were conducted. The principal environmental issues identified in the Phase I ESAs were the presence of suspected asbestos containing materials in several buildings, concentrations of certain contaminants at or above regulatory action levels for treated drinking water in some raw surface and ground water samples obtained from several source waters and the presence of possible wetlands that could impact expansion plans at some properties. Pursuant to the Acquisition documents, NiSource and IWCR agreed to indemnify the City (and the Waterworks Department) from and against any and all liabilities, costs and damages arising out of or resulting from NiSource’s or IWCR’s breach of a representation or warranty or certain pre-closing environmental, human health, safety or natural resource related onsite conditions, except such indemnification does not cover the first $750,000 of costs incurred by the City. The total indemnification obligation of NiSource and IWCR for breach of any representation or warranty or any pre-closing onsite conditions or pre-closing product liability or toxic tort damages is limited to $35,000,000. Claims for pre-closing environmental on-site conditions must be made within seven (7) years of closing, which was April 30, 2009. No claims were made by the Waterworks Department.

**Federal Investigation.** In the Fall of 2005, the United States Attorneys Office for the Southern District of Indiana and the Marion County Prosecutor’s Office conducted an investigation into the system’s water quality. Both the Waterworks Department and the Manager have fully cooperated with this investigation, producing documents and making employees available to answer questions. The Waterworks Department and the Manager also have provided investigators a tour of the plants. As part of this investigation, the Waterworks Department received on January 31, 2007, an investigatory subpoena, and again provided its full cooperation and produced documents. Both the lead prosecutor for the United States Department of Justice and the Marion County Prosecutor’s Office have advised the Waterworks Department that it is not a target of the investigation. It is impossible to determine with certainty the actual outcome of any such investigation, however both the Waterworks Department and the Manager believe this matter will be resolved and will have no impact on the Management Agreement or the Manager’s ability to perform its duties.

**Employee Benefit Obligations.** Pursuant to the IWCR Purchase Agreement, the City assumed the majority of the IWCR employee benefit plan obligations and liabilities. Pursuant to the Management Agreement, the Manager assumed all of the employee benefit obligations and liabilities acquired by the City other than benefit plans that were terminated at closing and certain post-retirement health care and life insurance benefit plan liabilities. In particular, the Waterworks Department is responsible for the total accrued liability associated with post-retirement benefits provided to persons vested on or before December 31, 2004. Pursuant to the final decision by the IURC on February 2, 2011 related to the Waterworks Department’s petition requesting a rate increase (“Final Order”), the current rates and charges for the Waterworks include amounts for certain post-retirement benefit costs. Amounts collected from such rates are remitted to a grantor trust, and post-retirement benefits are to be provided by the Manager, who is entitled to monthly reimbursement for the cost of those benefits from the grantor trust. As of December 31, 2010, approximately $11,369,847 was on deposit in the grantor trust, and, as of December 31, 2010 the Waterworks Department’s share of accrued post-retirement benefit cost for such post-retirement benefits was approximately
Approximately $2,787,000 is contributed to the grantor trust each year from collected rates, and since 1999 the amounts paid out of the grantor trust each year for benefits ranged from approximately $250,000 to approximately $2,787,000. Assuming contributions continue at the current level, as of December 31, 2010, a shortfall of approximately $69,769,401 exists over the life of the grantor trust. The amount contributed to the grantor trust may be modified through an adjustment to rates and charges by the approval of the IURC based upon actuarial calculations of the accrued liability. In the event that amounts deposited to the grantor trust are insufficient to make all post-retirement benefit payments, the Waterworks Department will be required to make such payments from available Net Revenues. In the event that the Waterworks Department is required to make post-retirement benefit payments from Net Revenues, debt service coverage could be reduced, and there may be insufficient Net Revenues to pay debt service on the Waterworks Revenue Bonds, which could ultimately negatively impact the ability of the Bond Bank to make debt service payments on the Bonds.

**Litigation.** In April 2008, two lawsuits that sought class certification were filed in Marion Superior Court against the Manager regarding the timeliness and accuracy of meter reading. These two actions have been consolidated under Cause No. 49D07-0804-CC-018081, *Jason Bond, et al. v. Veolia Water North America Operating Service, LLC, et al.* The Marion Superior Court dismissed the First Amended Complaint against the Manager on January 13, 2009. The Waterworks Department was then added as a defendant with the Manager with the filing of a Second Amended Complaint on January 23, 2009. Plaintiffs allege that the Manager failed to read customer meters with the frequency required by the regulations issued by the IURC, overcharged customers on estimated bills issued when a customer’s meter was not read, and used an incorrect estimating methodology when estimating a customer’s consumption. Plaintiffs seek to certify a class consisting of all residential customers of the Waterworks Department, excluding Judges who might preside over the cause and Plaintiffs’ counsel, and seek damages consisting of the alleged overcharges (including alleged excessive late fees), plus statutory enhancements and attorneys’ fees under Indiana’s Deceptive Consumer Sales statute, Ind. Code § 24-5-0.5-1, *et seq.* The City and the Manager intend to defend this claim vigorously. There is an indemnity obligation in the Management Agreement between the Waterworks Department and Manager whereby the Manager is required, as more particularly stated in the Management Agreement, to defend and indemnify the Waterworks Department from liability resulting from the Manager’s negligent performance of its contractual duties to the Waterworks Department. On May 17, 2010, the Marion Superior Court dismissed the Deceptive Consumer Sales claim and the unjust enrichment claim leaving the contract claim pending. A hearing on the class certification has not yet been scheduled.

The IURC initiated an inquiry into the meter reading issue and has asked for data to be submitted on a monthly basis to evaluate the Manager’s compliance with meter reading obligations. The Manager submitted the requested reports. In its Final Order dated February 2, 2011, the IURC approved a proposed revision to the Waterworks Department’s tariff clarifying the estimated protocol being used by the Waterworks Department. The IURC also ordered the Waterworks Department to complete a study that reviews various estimating methods and provide a recommendation regarding the best estimating practice as a part of its next rate case.

The Town of Pittsboro (“Pittsboro”) filed a complaint for declaratory judgment in Hendricks Superior Court against the City and the Waterworks Department, *Pittsboro v. Consolidated City of Indianapolis, et al.*, Hendricks Superior Court, Cause No. 32D01-0608-PL-31, based on several contractual agreements between Pittsboro and the Waterworks Department regarding a main extension installed by the Indianapolis Water Company to provide water service to an industrial facility in Pittsboro. Pittsboro claims to have a statutory and exclusive right to provide water services within its municipal limits and within six (6) miles of its municipal limits, and to own the main extension installed by the Indianapolis Water Company. The parties executed a settlement agreement resolving all claims, and on January 21, 2011, the Hendricks Superior Court approved a Stipulation of Dismissal.

East Carmel, LLC and Personal Investments, LLC filed suit against the Waterworks Department on September 24, 2010, *East Carmel LLC and Personal Investments, LLC v. City of Indianapolis Department of Waterworks*, Hamilton Superior Court, Cause No. 29D02-1009-PL-1271. The suit involves a claim by an owner of real estate at 146th and River Road that two transmission lines owned by the Waterworks Department trespass upon the owner's property. The initial demand from the property owner prior to suit was for a cash payment of $300,000 from the Waterworks Department in exchange for the grant of an easement.

On October 6, 2010, National Trust Insurance Company & FCCI Insurance Company a/s/o Ultra Steak Inc. d/b/a Texas Roadhouse filed suit against the Manager, the Waterworks Department and the City of Indianapolis
seeking damages for increased amounts they were obligated to pay for damages to a Texas Roadhouse restaurant from a fire which occurred January 4, 2010. National Trust Insurance Company & FCCI Insurance Company a/s/o Ultra Steak Inc. d/b/a Texas Roadhouse v. Veolia Water Indianapolis LLC, et al., Marion Superior Court, Cause No. 49D12-1010-PL-044624. The Complaint alleges a temporary lack of water available to extinguish the fire due to frozen fire hydrants, with resulting total damages in excess of $2,700,000. It is not clear from the Complaint the amount Plaintiffs attribute to the temporary lack of water.

On March 4, 2011, Leslie Bridges, a named Plaintiff in the Bond matter described above, filed suit against the Manager and the Waterworks Department alleging that the Manager has failed to follow the Waterworks Department’s tariff in disconnecting customers for non-payment of their water bills. Leslie Bridges, et al. v. Veolia Water Indianapolis LLC, et al., Marion Superior Court, Cause No. 49D12-1103-CC-008409. There is no itemization of damages in the Complaint. Plaintiff seeks to have the matter certified as a class action.

The Waterworks Department is a defendant in other pending lawsuits. However, after consultation with counsel, the Waterworks Department reasonably believes those matters will not have a materially adverse impact on the financial position of the Waterworks Department or its ability to operate.

WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION

Customer Information

The following table sets forth information regarding the number of accounts served by the Waterworks in 2010 (by customer type) and also sets forth the amount of Waterworks’ water sales revenues generated by each customer class during fiscal year ended December 31, 2010:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Accounts</th>
<th>Percentage of Total Accounts</th>
<th>2010 Revenues</th>
<th>Percent of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>294,288</td>
<td>89.86%</td>
<td>$80,213,694</td>
<td>58.99%</td>
</tr>
<tr>
<td>Multi-family</td>
<td>5,185</td>
<td>1.58</td>
<td>10,179,442</td>
<td>7.49</td>
</tr>
<tr>
<td>Commercial</td>
<td>22,422</td>
<td>6.85</td>
<td>36,526,440</td>
<td>26.86</td>
</tr>
<tr>
<td>Industrial</td>
<td>316</td>
<td>.10</td>
<td>5,575,805</td>
<td>4.10</td>
</tr>
<tr>
<td>Private fire protection</td>
<td>4,952</td>
<td>1.51</td>
<td>2,101,183</td>
<td>1.55</td>
</tr>
<tr>
<td>Public metered</td>
<td>326</td>
<td>.10</td>
<td>1,373,219</td>
<td>1.01</td>
</tr>
<tr>
<td>Totals</td>
<td>327,489</td>
<td>100.00%</td>
<td>$135,969,783</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

The following table sets forth information regarding historical volume of water sales:

<table>
<thead>
<tr>
<th>Category</th>
<th>Gallons Sold (1,000,000)</th>
<th>Percentage of Total Accounts</th>
<th>Gallons Sold (1,000,000)</th>
<th>Percentage of Total Accounts</th>
<th>Gallons Sold (1,000,000)</th>
<th>Percentage of Total Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential – metered</td>
<td>17,546</td>
<td>44.95%</td>
<td>17,670</td>
<td>45.42%</td>
<td>18,669</td>
<td>45.13%</td>
</tr>
<tr>
<td>Commercial – metered</td>
<td>13,254</td>
<td>33.96</td>
<td>13,064</td>
<td>33.92</td>
<td>14,409</td>
<td>34.83</td>
</tr>
<tr>
<td>Industrial – metered</td>
<td>3,521</td>
<td>9.02</td>
<td>3,515</td>
<td>9.04</td>
<td>3,649</td>
<td>8.82</td>
</tr>
<tr>
<td>Multi-family</td>
<td>4,092</td>
<td>10.48</td>
<td>3,942</td>
<td>10.13</td>
<td>3,984</td>
<td>9.63</td>
</tr>
<tr>
<td>Public – metered</td>
<td>62</td>
<td>1.59</td>
<td>576</td>
<td>1.48</td>
<td>654</td>
<td>1.58</td>
</tr>
<tr>
<td>Private fire protection</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>39,034</td>
<td>100.00%</td>
<td>38,899</td>
<td>100.00%</td>
<td>41,365</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
### Ten Largest Waterworks’ Customers – 2010

The following table sets forth information regarding the ten (10) largest customers of the Waterworks (by total amount paid) for calendar year 2010:

<table>
<thead>
<tr>
<th>Customer Name</th>
<th>Gallons Billed (1,000)</th>
<th>Revenue Billed</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Starch</td>
<td>1,476,961</td>
<td>$1,423,835</td>
</tr>
<tr>
<td>Eli Lilly</td>
<td>1,029,176</td>
<td>1,021,696</td>
</tr>
<tr>
<td>Covanta</td>
<td>764,727</td>
<td>720,206</td>
</tr>
<tr>
<td>Citizens Thermal Energy</td>
<td>500,712</td>
<td>559,433</td>
</tr>
<tr>
<td>S V C Manufacturing Inc.</td>
<td>521,658</td>
<td>504,103</td>
</tr>
<tr>
<td>Clariian Health Partners</td>
<td>363,703</td>
<td>443,458</td>
</tr>
<tr>
<td>Vertellus Agriculture</td>
<td>358,994</td>
<td>352,234</td>
</tr>
<tr>
<td>Department of Public Works</td>
<td>323,230</td>
<td>346,794</td>
</tr>
<tr>
<td>Town of Brownsburg</td>
<td>246,045</td>
<td>249,623</td>
</tr>
<tr>
<td>St. Vincent Hospital</td>
<td>155,463</td>
<td>192,160</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,740,669</strong></td>
<td><strong>$5,871,005</strong></td>
</tr>
</tbody>
</table>

The ten (10) largest customers of the Waterworks represented approximately 4.3% of total revenues in 2010.

### System Rates and Charges

**General.** On February 19, 2009, the Board of Directors of the Waterworks Department adopted a resolution approving the filing of a petition with the IURC seeking both an expedited rate increase and a permanent rate increase (collectively, the “Rate Increase”). On February 24, 2009, the Waterworks Department filed its petition with the IURC requesting the Rate Increase. The purpose of the expedited portion of the Rate Increase was multifaceted and included the need to provide funding for operating expenditures, debt service obligations and revenue funded capital projects. See “THE WATERWORKS—Capital Improvement Plan.” See also, “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—Waterworks Historical and Projected Debt Service Coverage.”

On June 30, 2009, the IURC issued its preliminary interim order (the “June 30 Order”) on that portion of the Rate Increase seeking expedited rates. The June 30 Order initially provided for a 12.27% increase in the Waterworks Department’s rates across all customer classes. Due to certain conditions of the June 30 Order, the Waterworks Department provided a true-up report to the IURC containing specific information related to the refinancing of the Waterworks Department’s variable-rate debt. Based upon the information contained in the true-up report, the IURC reduced the preliminary rate increase by 1.47% to 10.80%.

The Waterworks Department thereafter requested the IURC’s approval of a schedules of rates and charges for water services on a permanent basis. As a part of this request, the Waterworks Department asked the IURC for a single-phase increase in rates and charges of 33.36% on cost of service basis, citing the need for additional revenue to allow for sufficient debt service coverage and to build an adequate operating reserve in compliance with the Waterworks Department policies.

On February 2, 2011, the IURC issued its Final Order relating to the Waterworks Department’s petition requesting the Rate Increase. The increased rates and charges became effective on February 4, 2011. The Final Order provided for a 25.99% increase in the Waterworks Department’s rates, with the increase apportioned across six rate classes, including an average rate increase of 24.35% for residential customers and an average rate increase of 35.25% for industrial customers. In approving such rate increase, the IURC cited evidence illustrating needs related to extensions and replacements and debt service necessary to fund the Waterworks Department’s Capital Improvement Plan. The Capital Improvement Plan approved by the IURC includes projects essential to maintain or develop existing infrastructure and those projects resulting from environmental mandates by the federal government. See “THE WATERWORKS—Capital Improvement Plan.”
The Final Order requires that within twenty (20) days of the closing date for the 2011A Waterworks Revenue Bonds, the Waterworks Department shall file (a) a “true-up” report with the IURC containing (i) the actual principal amount borrowed, (ii) the interest rates, (iii) the sources and uses of funds, and (iv) an amortization schedule, and (b) an amended tariff with the Water/Sewer Division of the IURC if a material change results from the rates approved in the Final Order. The tariff, when approved by the IURC, shall cancel all previously approved rates and charges and the new rates shall apply from the date of the IURC’s approval of such tariff. If the Waterworks Department fails to issue the 2011A Waterworks Revenue Bonds within one hundred twenty (120) days of the date of the Final Order, the IURC shall automatically reduce the rate increase by 3.70%, resulting in a revised 22.29% rate increase.

The Waterworks Department has thus far and, in the future, intends to fully comply with the Final Order. On February 3, 2011, the Waterworks Department filed with the Water/Sewer Division of the IURC revisions to the Waterworks Department’s Rules and Regulations concerning estimated meter reading logic in compliance with the requirements of the Final Order. On April 4, 2011, the Waterworks Department filed with the IURC (i) adequate cost support for its proposed inspection fee, and (ii) an update to the Waterworks Department’s rules to accurately reflect its required residual pressure for the delivery of fire protection services. The Waterworks Department will also file with the IURC on or before June 22, 2011, the aforementioned true-up report and amended tariff.

Any future changes in water rates and charges or terms of service beyond those sought in the permanent portion of the Rate Increase pursuant to the Final Order will be subject to approval of the Board of Directors of the Waterworks Department and the IURC. See “THE WATERWORKS—Regulatory and Legal Matters.”

**Rate Structure.** The IURC maintains jurisdiction over rates and charges of the Waterworks Department. The IURC generally exercises its jurisdiction by finding that municipal water utilities are required to set rates and charges that are nondiscriminatory, reasonable and just. Reasonable and just rates and charges for services according to customary IURC practice means rates and charges that produce sufficient revenue to (i) pay all legal and other necessary expenses incident to the operation of the utility including maintenance costs, operating charges, upkeep, repairs, depreciation, and interest charges on bonds or other obligations (including leases); (ii) provide a sinking fund for the liquidation of bonds or other obligations (including leases); (iii) provide a debt service reserve for bonds or other obligations (including leases); (iv) provide adequate money for working capital; (v) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in (i) above; and (vi) provide money for the payment of any taxes that may be assessed against the utility according to customary IURC practice. Rates that are too low to produce an income sufficient to maintain the utility property in sound physical and financial condition to render adequate and efficient service are unlawful. Generally, municipal utilities also are permitted to set rates and charges at a level sufficient to include a reasonable return on the utility plant of the municipality if the legislative body of the municipality so elects. It is expected that the Waterworks System will remain under IURC jurisdiction if and when Citizens Energy Group acquires the Waterworks.
The Waterworks Department’s rates generally include charges for metered services, and in certain instances unmetered service for fire protection. Metered residential and general customers pay a monthly charge based upon meter size plus a commodity charge based on water usage. These rates and charges are equally applicable to the departments and agencies of the City which utilize water from the Waterworks. In addition, the schedule of rates and charges includes various additional service charges and other non-recurring charges. The general rates approved by the Final Order for metered residential and general customers are summarized below:

### Base Charges – Effective February 4, 2011

<table>
<thead>
<tr>
<th>Meter Size&lt;br&gt;Inch Meter</th>
<th>Base Charge&lt;br&gt;per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8</td>
<td>$9.66</td>
</tr>
<tr>
<td>¾</td>
<td>10.37</td>
</tr>
<tr>
<td>1</td>
<td>11.82</td>
</tr>
<tr>
<td>1 ½</td>
<td>22.20</td>
</tr>
<tr>
<td>2</td>
<td>24.34</td>
</tr>
<tr>
<td>2 ½</td>
<td>62.63</td>
</tr>
<tr>
<td>3</td>
<td>62.63</td>
</tr>
<tr>
<td>4</td>
<td>62.63</td>
</tr>
<tr>
<td>6</td>
<td>112.50</td>
</tr>
<tr>
<td>8</td>
<td>141.00</td>
</tr>
<tr>
<td>10</td>
<td>163.00</td>
</tr>
</tbody>
</table>

Each water supply service is subject to a base charge for the availability of water service. The charge is based upon the size of the water meter and is a base charge payable in each billing period. The water volume charge is for water used and is based upon a rate per hundred cubic feet of water used.

### Volume Charges – Effective February 4, 2011

<table>
<thead>
<tr>
<th>Water Consumption&lt;br&gt;per Month Cubic Feet</th>
<th>Rate Per 100&lt;br&gt;Cubic Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 1,500</td>
<td>$2.735</td>
</tr>
<tr>
<td>Next 18,500</td>
<td>2.647</td>
</tr>
<tr>
<td>Next 80,000</td>
<td>2.410</td>
</tr>
<tr>
<td>Next 400,000</td>
<td>1.631</td>
</tr>
<tr>
<td>Over 500,000</td>
<td>1.244</td>
</tr>
</tbody>
</table>

### System Development Charges<br>Effective February 4, 2011

<table>
<thead>
<tr>
<th>Meter Size&lt;br&gt;Inch Meter</th>
<th>Charge&lt;br&gt;$</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8</td>
<td>1,200</td>
</tr>
<tr>
<td>¾</td>
<td>1,800</td>
</tr>
<tr>
<td>1</td>
<td>3,000</td>
</tr>
<tr>
<td>1 ½</td>
<td>6,000</td>
</tr>
<tr>
<td>2</td>
<td>9,600</td>
</tr>
<tr>
<td>3</td>
<td>18,000</td>
</tr>
<tr>
<td>4</td>
<td>30,000</td>
</tr>
<tr>
<td>6</td>
<td>60,000</td>
</tr>
<tr>
<td>8</td>
<td>96,000</td>
</tr>
<tr>
<td>10</td>
<td>138,000</td>
</tr>
</tbody>
</table>

Establishing an Account/Installing a Meter<br>Effective February 4, 2011

<table>
<thead>
<tr>
<th>Meter Size&lt;br&gt;Inch Meter</th>
<th>Charge&lt;br&gt;$</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 or ¾</td>
<td>19.00</td>
</tr>
<tr>
<td>1</td>
<td>68.00</td>
</tr>
<tr>
<td>1 ½</td>
<td>81.00</td>
</tr>
<tr>
<td>2</td>
<td>95.00</td>
</tr>
<tr>
<td>3</td>
<td>160.00</td>
</tr>
<tr>
<td>4</td>
<td>200.00</td>
</tr>
<tr>
<td>6</td>
<td>337.00</td>
</tr>
</tbody>
</table>

[Remainder of Page Intentionally Left Blank]
Private Fire Protection Service Charge Rate Schedule

Private Hydrants, each $9.59 per month

<table>
<thead>
<tr>
<th>Inch Meter</th>
<th>Per Month</th>
<th>Inch Connection</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>$65.93</td>
<td>2</td>
<td>$0.53</td>
</tr>
<tr>
<td>6</td>
<td>122.09</td>
<td>2 ½</td>
<td>0.96</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>1.55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>3.30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6</td>
<td>9.59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8</td>
<td>20.43</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10</td>
<td>36.74</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12</td>
<td>59.34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14</td>
<td>89.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16</td>
<td>126.46</td>
</tr>
</tbody>
</table>

Each Fire Protection Service serving a private premise is subject to a service charge based on the size of the service branch at the water main.

Billing and Collection Procedures

Pursuant to the Management Agreement, the Manager provides billing and collection services. Customers are billed monthly, based on either actual or estimated consumption. Estimated bills are subject to a true-up based on actual usage. Bills are considered delinquent seventeen (17) days after billing, subject to late penalty charges. After approximately ninety (90) days, the Waterworks Department may commence efforts to disconnect. Under Indiana law, the Waterworks Department may disconnect service for non-payment only after notifying customers in writing at least seven (7) days prior to disconnection. Disconnections may be postponed in certain circumstances. Since 2002, the collection period for accounts receivable has declined from ninety (90) days to thirty (30) days.

As of December 31, 2010, the Waterworks Department had a total of 327,489 accounts. Of the total, there were 304,330 active accounts, 21,202 finaled accounts, and 1,957 inactive accounts. The receivable amount over 30 days delinquent for all accounts totaled $3,385,726. The table below summarizes the Waterworks Department’s annual net sales and cash collections from current and prior years’ billing. During the seven year period ended December 31, 2009, total cash collected by the Waterworks Department averaged over 98.6% of aggregate net sales.

Historical Net Sales and Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (Millions)</th>
<th>Percentage of Sales Collected*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$100,389</td>
<td>97.410%</td>
</tr>
<tr>
<td>2004</td>
<td>101,074</td>
<td>98.640%</td>
</tr>
<tr>
<td>2005</td>
<td>101,486</td>
<td>99.500%</td>
</tr>
<tr>
<td>2006</td>
<td>97,637</td>
<td>98.340%</td>
</tr>
<tr>
<td>2007</td>
<td>128,107</td>
<td>98.678%</td>
</tr>
<tr>
<td>2008</td>
<td>122,658</td>
<td>98.858%</td>
</tr>
<tr>
<td>2009</td>
<td>125,501</td>
<td>99.261%</td>
</tr>
<tr>
<td>2010</td>
<td>135,970</td>
<td>98.246%</td>
</tr>
</tbody>
</table>
Under Indiana law, the pledge of the customer payments to the Waterworks Department attaches when payment is made. Payments will either be deposited into a lock box, owned by the Waterworks Department, or by physical transfer at the offices of the Waterworks. Funds in the lock box are swept daily into a separate bank account owned by the Waterworks Department. The Manager will have access to the lock box for the purpose of processing only.

History of Revenues and Expenses

The summarized historical audited financial statements of the Waterworks Department for the twelve (12) months ended December 31, 2008 and December 31, 2009, as well as certain other unaudited financial information regarding the Waterworks Department are set forth in “APPENDIX A—CONSULTANT’S REPORT.”

Waterworks Historical and Projected Debt Service Coverage

The following table sets forth a calculation of the historical debt service coverage for Fiscal Years ended December 31 in 2008, 2009 and 2010, estimated pro forma coverage for Fiscal Year 2011, and estimated annualized pro forma coverage for Fiscal Year 2011. The table has been prepared on an accrual basis.

For the Fiscal Year ended December 31, 2008, several events occurred that caused an abnormally low debt service coverage ratio as set forth in the following table and resulted in the Waterworks Department failing to meet the rate covenant in both the Waterworks Bond Resolution and the Board Policy. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Rate Covenants.” Primarily, credit downgrades of the bond insurer insuring the Waterworks Department’s then outstanding bonds and similar market perceptions about the liquidity provider caused increases in the Waterworks Department’s variable rate debt costs (all of which variable rate debt was refunded to fixed rate debt with the issuance of the 2009A Waterworks Revenue Bonds and the 2009A Bonds). Variable rate debt service expenses rose more than $15,000,000 in 2008 from the Fiscal Year 2007 amount. Also, a wet summer and other possible factors negatively impacted sales of water (the Fiscal Year 2008 sales were nearly 10% less than the 2007 sales amount), which led to lower than expected annual revenues in 2008. The Waterworks Department timely made all debt service payments in 2008 and did not default on any outstanding indebtedness primarily as a result of a delay in payment of certain City-County PILOT Payments which, although were accrued for accounting purposes, were not paid. The 2008 City-County PILOT Payment were paid in August of 2009. The Board of Directors of the Waterworks Department has amended the Waterworks Bond Resolution and the Board Policy in 2009 to subordinate the City-County PILOT Payments to the payment of debt service on the Waterworks Revenue Bonds.

In accordance with and as required by the terms of the Waterworks Bond Resolution, the Waterworks Department initiated the Rate Increase, seeking to revise the schedule of rates, fees and other charges for use of the Waterworks in a manner necessary to produce Gross Revenues to satisfy the rate covenant for the succeeding Fiscal Year. The IURC issued an emergency order on that portion of the Rate Increase seeking expedited rates, and on February 2, 2011, issued a final order, effective February 4, 2011, on that portion of Rate Increase seeking a permanent Rate Increase. See “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—System Rates and Charges—General.” See also, “APPENDIX A—CONSULTANT’S REPORT.”

In the first quarter of 2009, the Waterworks Department experienced a decrease of approximately 1.75% in water sales as compared to the same time period in 2008. This resulted in revenue decline of approximately 4% from that budgeted for the first quarter of 2009. As a result of the foregoing, including the increase in variable rate debt costs in 2009, as well as the anticipated payment of both the 2008 City-County PILOT Payment and one-half of the 2009 City-County PILOT Payment all within Fiscal Year 2009, the Waterworks Department experienced a Fiscal Year 2009 operating deficit of approximately $15,700,000 notwithstanding that the expeditious portion of the Rate Increase went into effect on July 1, 2009. In order to fund the cash deficit, the Waterworks Department borrowed funds from the City of Indianapolis.

In 2010, the Waterworks Department saw its coverage increase mostly due to the emergency rate increase implementation. However, the cash flow for the Waterworks Department continued to be negative for the year and resulted in the Waterworks Department borrowing an additional $7,500,000 from the City of Indianapolis.

The forecasted figures for 2011 in this table have been derived from the Consultant’s Report attached to this Official Statement as APPENDIX A. The forecasts set forth in the following table are subject to all of the
assumptions and limitations described in the Consultant’s Report and should be reviewed in conjunction with the Consultant’s Report in its entirety. The accompanying prospective financial information was prepared on a reasonable basis and, to the best of management’s knowledge, reflects on an accrual basis currently available amounts and the expected future debt service coverage on the Waterworks Revenue Bonds. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. See “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION—System Rates and Charges.”

Waterworks Historical and Pro Forma Debt Service Coverage Calculation

INDIANAPOLIS DEPARTMENT OF WATERWORKS

Indianapolis, Indiana

Historical and Pro Forma Debt Service Coverage Calculation

for the Twelve Months Ended December 31, 2008 and 2009 (Audited) (1)
the Twelve Months Ended December 31, 2010 (Unaudited)

(In Thousands)

<table>
<thead>
<tr>
<th></th>
<th>2008 (1)</th>
<th>2009 (1)</th>
<th>2010 (2)</th>
<th>Pro Forma (3)</th>
<th>Annualized Pro Forma (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$122,691</td>
<td>$125,501</td>
<td>$138,468</td>
<td>$171,208</td>
<td>$174,184</td>
</tr>
<tr>
<td>Interest Income</td>
<td>3,234</td>
<td>5,012</td>
<td>3,066</td>
<td>3,066</td>
<td>3,066</td>
</tr>
<tr>
<td>System Development Charges (2)</td>
<td>3,257</td>
<td>3,465</td>
<td>3,089</td>
<td>3,089</td>
<td>3,089</td>
</tr>
<tr>
<td>Carmel Water Utility Purchase of Assets (2)</td>
<td>765</td>
<td>803</td>
<td>842</td>
<td>842</td>
<td>842</td>
</tr>
<tr>
<td>Transfer from Rate Stabilization Fund (2)</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>130,947</td>
<td>134,781</td>
<td>145,465</td>
<td>178,205</td>
<td>181,181</td>
</tr>
</tbody>
</table>

Less: Operating Expenses (Net of Depreciation and Amortization Expense)

(73,938) (75,956) (77,484) (91,188) (91,230)

Add back: Payment in Lieu of Taxes to the City (5)

- 1,735 1,887 1,887 1,887

Net Revenues Available for Debt Service

57,009 60,560 69,868 88,904 91,838

Principal and Interest Payments

54,841 58,293 59,866 66,722 (6) 68,053 (7)

Coverage - $

$2,168 $2,267 $10,002 $22,182 $23,785

Coverage - %

104% 104% 117% 133% 135%

(1) From the Comprehensive Annual Financial Report for the City of Indianapolis ("City") for the Year Ended December 31, 2008 and 2009.
(2) From the Unaudited Trial Balance provided by the Department of Waterworks ("Utility").
(3) The operating revenues and utility receipts tax reflect eleven months of the rate increase that were effective February 4, 2011.
(4) The operating revenues reflect a full year of the rate increase that were effective February 4, 2011.
(5) Per the Utility's management, the City's PILOT will be paid subsequent to debt service.
(6) The Pro Forma 2011 Estimated Principal and Interest Payment assumes that the 2011A Bonds are issued.
(7) The Pro Forma Estimated Principal and Interest Payment is the estimated maximum annual debt service on the currently outstanding and proposed bonds.
CERTAIN MATTERS POTENTIALLY AFFECTING THE WATERWORKS

Pending Acquisition by or on behalf of Citizens Energy Group

See “THE WATERWORKS DEPARTMENT—Pending Acquisition and Transfer of Assets of the Waterworks System.”

Flooding, Other Catastrophic Loss and Terrorist Attacks

The Waterworks is susceptible to certain risks posed by flooding, drought and other catastrophic loss. Certain of these risks may be mitigated by the purchase of insurance; however, it is not possible to predict at this time whether the insurance coverage provided by the Manager pursuant to the Management Agreement would be sufficient to pay all of the costs associated with a flood, drought or other catastrophic event. See “THE WATERWORKS—Insurance.” To the extent insurance coverage is not sufficient to replace facilities damaged by flooding, drought or other catastrophic event (or to the extent damage caused by such events is excluded from policy coverage), the Waterworks Department may be required to expend significant amounts to replace the damaged facilities and operations may be negatively impacted to an extent that cannot be determined at this time. See also the heading “—Insurance” under this caption.

Terrorist attacks, such as the attacks that occurred on September 11, 2001, and future risk of further terrorist attacks, may have an impact on the operation of the Waterworks. The specific impact on the Waterworks cannot be determined. However, the terrorist attacks on the World Trade Center and the Pentagon could mean that public infrastructure facilities, including water storage, treatment, transmission and distribution systems such as the Waterworks could be direct targets, or indirect casualties of, an act of terror. Any future attacks could lead to damage to one or more significant components of the Waterworks or to tainting of the water supply, resulting in the inability of the Waterworks to provide water service to its customers. Consequently, a terrorist attack could adversely affect the ability of the Waterworks to generate sufficient Net Revenues to pay debt service on the Waterworks Revenue Bonds, and accordingly, adversely affect the ability of the Bond Bank to pay debt service on the Bonds. The Management Agreement requires the Manager to obtain insurance without exclusion for terrorism to the extent available in the insured’s marketplace. However, as of this date, the Manager has been unable to obtain insurance without a terrorism exclusion. As a result, if the Waterworks is damaged due to terrorism, the Waterworks Department would need to provide adequate funds to make the necessary repairs to the Waterworks. See “—Insurance” under this caption.

Insurance

Pursuant to the Management Agreement, the Manager is required to obtain insurance coverage as described in “THE WATERWORKS—Insurance.” The Waterworks facilities are insured against certain other catastrophic loss; however, it is not possible to determine whether the level of such coverage will be sufficient to cover actual losses sustained as a result of catastrophic loss. In the event the Waterworks sustains damage rendering it unable to operate for any significant length of time, the collection of Gross Revenues will be adversely impacted. In addition, the Waterworks Department will be required to pay the capital costs necessary to repair the damage from funds other than insurance proceeds. See “THE WATERWORKS—Capital Improvement Plan.”

Limited Operating Capacity

The Waterworks Department currently employs five (5) full-time staff members. In addition, two (2) employees of Citizens Energy Group are currently working with the Waterworks Department part-time in the joint capacity of Chief Financial Officer at no cost to the Waterworks Department. At the time of the Acquisition, the City and the Waterworks Department determined that the Waterworks would be managed by a private operator. Thus, the Waterworks Department currently does not have the systems and personnel required to provide administration and operational functions of the Waterworks. The Manager has significant experience operating governmentally owned water utilities. See “THE MANAGER AND THE MANAGEMENT AGREEMENT.”
Dependence Upon Manager for Operation of Waterworks

The Waterworks Department and the Manager have entered into a Management Agreement pursuant to which the Manager will manage and operate the Waterworks. The Management Agreement has an initial term of twenty (20) years from April 30, 2002, subject to earlier termination. The Manager has responsibility for virtually all of the management and operational functions of the Waterworks, and, accordingly, the failure of the Manager to effectively operate and maintain the Waterworks, including without limitation, the failure to bill, collect or transmit collections to the Waterworks Department in a timely manner, could negatively impact the ability of the Waterworks Department to pay debt service on the Waterworks Revenue Bonds, and ultimately negatively impact the ability of the Bond Bank to pay debt service on the Bonds. See “THE MANAGER AND THE MANAGEMENT AGREEMENT.”

Although the Manager has provided an irrevocable, direct draw letter of credit from Bank of America, N.A. (the current letter of credit bank) in the amount of $40,000,000 and a guarantee from Veolia Environnement, as guarantor, as security for its performance under the Management Agreement, the insolvency or bankruptcy of the Manager could also adversely impact the ability of the Manager to effectively operate and maintain the Waterworks. Although the Waterworks Department will have the right to terminate the Management Agreement and could enter into a new management agreement with a different entity in the event of an insolvency or bankruptcy of the Manager, such termination and transition would likely have a negative impact on the overall operation and management of the Waterworks.

The Manager has provided the information in this Official Statement under the heading “THE MANAGER AND MANAGEMENT AGREEMENT—The Manager.”

Impact of Growth Rates on Net Revenues

Over the five (5) years spanning calendar years 2006 through 2010, Waterworks Department’s customer growth has averaged approximately four-tenths of a percent (.4%) annually. The Waterworks Department believes that it can continue to extend service to additional areas in order to obtain new customers. However, there are no exclusive service territories for water utilities in Indiana, and accordingly, other private or municipal water utilities could provide service to currently unserved areas where the Waterworks Department has an existing right to serve pursuant to a Franchise Agreement. Also, to the extent that certain assets of the Waterworks located in high growth areas are sold, future growth of the Waterworks may be negatively affected. In particular, the sale of certain distribution lines to the City of Carmel resulted in the loss of approximately 8,800 customers with 2005 annual revenue of approximately $3,400,000. The Carmel area and other parts of Hamilton County that could be served by the City of Carmel represent some of the fastest growing areas in the Indianapolis MSA. The inability to serve this fast growing area may limit the overall growth opportunities for the Waterworks. See “THE WATERWORKS—Service Area.” Further, in order to reach new customers, the Waterworks Department may be required to make significant capital expenditures to construct extensions and improvements to the existing Waterworks. The Waterworks Department will be required to have access to funds (either through unrestricted cash flow of the Waterworks or additional borrowing) in order to make such capital improvements. There may be limits on the amount of additional indebtedness that the Waterworks Department may incur in order to continue to satisfy the requirements of the rate covenants set forth in the Waterworks Bond Resolution and the current Board Policy. See “—Capital Improvement Requirements” under this caption, and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Rate Covenants.” Any failure to realize the projected growth in customers could negatively impact the availability of Net Revenues to pay debt service on the Waterworks Revenue Bonds, and could ultimately negatively impact the ability of the Bond Bank to pay debt service on the Bonds.

ENFORCEABILITY OF REMEDIES

The various legal opinions to be delivered concurrently with the delivery of the 2011E Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.
The remedies available to the Trustee or the bondholders of the 2011E Bonds upon a default under the Indenture; to the Trustee or the Bond Bank under the 2011A Waterworks Revenue Bonds, the 2011E Purchase Agreement and the Waterworks Bond Resolution; or to any party seeking to enforce the pledges securing the 2011E Bonds or the 2011A Waterworks Revenue Bonds described therein (collectively the “Pledges”), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture, the 2011E Bonds, the 2011E Purchase Agreement, the 2011A Waterworks Revenue Bonds and the Waterworks Bond Resolution, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Waterworks Department from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the payments on the 2011A Waterworks Revenue Bonds pledged to owners of the 2011E Bonds under the Indenture or over the lien on the Net Revenues, the Senior Pledged Funds and 2011A Pledged Funds pledged to the owners of the 2011A Waterworks Revenue Bonds under the Waterworks Bond Resolution.

The various legal opinions to be delivered concurrently with the delivery of the 2011E Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the Bond Bank, the Waterworks Department, the City, the State and the United States of America and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). These exceptions would encompass any exercise of the federal, State or local police powers (including the police powers of the City) in a manner consistent with the public health and welfare. Enforceability of the 2011E Bonds, the Indenture, the 2011E Purchase Agreement, the 2011A Waterworks Revenue Bonds, the Waterworks Bond Resolution and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

**LITIGATION AND INVESTIGATIONS**

**Bond Bank**

Upon delivery of the 2011E Bonds, an authorized officer of the Bond Bank will certify that no litigation or proceeding is pending or, to the best of the Bond Bank’s knowledge, threatened in any court, agency or other administrative body against the Bond Bank seeking to restrain or contest the issuance, sale, execution or delivery of the 2011E Bonds, affecting the security pledged under the Indenture or in any way affecting the validity of any provision of the 2011E Bonds, the resolution authorizing the 2011E Bonds, the Indenture, the 2011E Purchase Agreement, the Purchase Contract (as defined herein) or the pledges or applications of any money or securities provided for the payment of the 2011E Bonds or contesting the creation, organization or existence of the Bond Bank, or the title of any of the members or other officers of the Bond Bank to their respective offices.

**Waterworks Department**

Upon the issuance of the 2011A Waterworks Revenue Bonds, an authorized officer of the Waterworks Department will certify that no litigation or proceeding is pending or, to the best of the Waterworks Department’s knowledge, threatened in any court, agency or other administrative body against the Waterworks Department seeking to restrain or contest the issuance, sale, execution or delivery of the 2011A Waterworks Revenue Bonds, affecting the security pledged under the Waterworks Bond Resolution, or any proceedings of the Waterworks Department taken with respect to the 2011A Waterworks Revenue Bonds or the pledge or application of any moneys or security provided for the payment of the Waterworks Revenue Bonds, or in any way contesting or affecting the validity of the 2011A Waterworks Revenue Bonds, the Waterworks Bond Resolution, the Management Agreement or the 2011E Purchase Agreement.

**City of Indianapolis**

Upon the delivery of the 2011A Waterworks Revenue Bonds, an authorized officer of the City will certify that there is not pending, or to the best of the City’s knowledge threatened, any litigation restraining or enjoining any proceedings of the City taken with respect to the 2011A Waterworks Revenue Bonds, or in any way contesting or affecting the validity of the 2011A Waterworks Revenue Bonds.
LEGAL MATTERS

The legal opinions of Ice Miller LLP, Bond Counsel, Indianapolis, Indiana, as to the validity and enforceability of the 2011E Bonds will be made available to the Underwriters at the time of original delivery. See “APPENDIX F—FORM OF OPINION OF BOND COUNSEL.” Ice Miller LLP also has acted as bond counsel to the Waterworks Department. Certain legal matters will be passed upon for the Bond Bank by its General Counsel. Certain legal matters will be passed upon for the City and the Waterworks Department by the Corporation Counsel to the City. Certain legal matters will be passed upon for the Underwriters by Krieg DeVault LLP, Indianapolis, Indiana.

TAX MATTERS

In the opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the 2011E Bonds is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Code, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. This opinion is conditioned on continuing compliance by the Bond Bank and the Waterworks Department with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the 2011E Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

In the opinion of Ice Miller LLP, under existing laws, regulations, published rulings and judicial decisions, interest on the 2011E Bonds is exempt from income taxation in the State. This opinion relates only to the exemption from state income tax of interest on the 2011E Bonds. See “APPENDIX F—FORM OF OPINION OF BOND COUNSEL.”

The Code imposes certain requirements that must be met subsequent to the issuance of the 2011E Bonds as a condition to the exclusion from gross income of interest on the 2011E Bonds for federal income tax purposes. The Bond Bank and the Waterworks Department will covenant not to take any action nor fail to take any action, within their respective power and control, with respect to the 2011E Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 2011E Bonds pursuant to Section 103 of the Code (collectively, the “Tax Covenants”). The Indenture, the Waterworks Bond Resolution, the 2011E Purchase Agreement and certain certificates and agreements to be delivered on the date of delivery of the 2011E Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if interest on the 2011E Bonds is not excludable from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the issue date of 2011E Bonds.

Indiana Code Section 6-5.5 imposes a franchise tax (as defined in Indiana Code Section 6-5.5) on certain taxpayers which generally include all corporations that transact the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this statute on their ownership of the 2011E Bonds.

Although Bond Counsel will render an opinion in the form attached as APPENDIX F hereto, the accrual or receipt of interest on the 2011E Bonds may otherwise affect a Bondholder’s federal income tax or state tax liability with respect to the 2011E Bonds. The nature and extent of these other tax consequences will depend upon the Bondholder’s particular tax status and a Bondholder’s other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the 2011E Bonds. Bond Counsel expresses no opinion regarding any other tax consequences. Prospective purchasers of the 2011E Bonds should consult their own tax advisors with regard to other consequences of owning the 2011E Bonds.
Legislation affecting municipal bonds is considered from time to time by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2011E Bonds will not have an adverse effect on the tax-exempt status or market price of the 2011E Bonds.

**ORIGINAL ISSUE DISCOUNT**

The 2011E Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity for the 2011E Bonds. The 2011E Bonds maturing on January 1, 2019, January 1, 2025 and January 1, 2041, have a yield to maturity that exceeds the stated interest rate (collectively, the “Discount Bonds”). The initial public offering price of the Discount Bonds is less than the principal amount payable at maturity, and as a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discount Bonds (or portions thereof) as set forth on the inside cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity, or a portion thereof, is sold) (the “Issue Price” for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as “original issue discount.” A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity, or a portion thereof, and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bonds on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending January 1 and July 1 (with straight-line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner’s tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of the Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors as to the amount of original discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described under “TAX MATTERS,” the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisers which respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisers with regard to the other tax consequences of owning the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisers with respect to the state and local tax consequences of owning Discount Bonds. It is possible under the applicable provisions governing the determination of state and local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

**AMORTIZABLE BOND PREMIUM**

The 2011E Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity (or yield to the par call date) for each maturity of the 2011E Bonds. The 2011E
Bonds maturing on January 1, 2012 to January 1, 2018 and January 1, 2020 to January 1, 2022, have a yield to maturity (or yield to the par call date) that is less than the stated interest rate (collectively, the “Premium Bonds”). The initial offering price of the Premium Bonds is greater than the principal amount payable at maturity, and as a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the “Bond Premium”). An owner who acquires a Premium Bond in the initial public offering of the Bonds will be required to adjust the owner’s basis in the Premium Bond downward as a result of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Premium Bonds, including sale, redemption or payment at maturity. The amount of amortizable Bond Premium will be computed on the basis of the taxpayer’s yield to maturity, with compounding at the end of each accrual period. Rules for determining (1) the amount of amortizable Bond Premium and (2) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning Premium Bonds. Owners of the Premium Bonds should consult their tax advisers with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their tax advisors concerning treatment of Bond Premium.

RATINGS

The 2011E Bonds have been rated by S&P, Moody’s and Fitch respectively, on the basis of having assigned the Waterworks Revenue Bonds underlying, long-term ratings of “A+” (Stable Outlook), “A2” (Stable Outlook) and “A” (Stable Outlook). An explanation of the significance of the ratings given by S&P may be obtained from S&P at 55 Water Street, New York, New York 10041. An explanation of the significance of the ratings given by Moody’s may be obtained from Moody’s at 99 Church Street, New York, New York 10007. An explanation of the significance of the ratings given by Fitch may be obtained from Fitch at One State Street Plaza, New York, New York 10004.

Such ratings reflect only the views of such rating agencies, and there is no assurance that any rating will continue for any given period of time or that any rating will not be revised downward or withdrawn entirely by the applicable rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2011E Bonds. Other than the reporting obligation of the Waterworks Department pursuant to the Continuing Disclosure Undertaking (as defined herein), the Bond Bank and the Waterworks Department have not undertaken any responsibility to bring to the attention of the owners of the 2011E Bonds any proposed change in or withdrawal of such ratings once received or to oppose any such proposed revision.

CONTINUING DISCLOSURE

The Waterworks Department will execute a Continuing Disclosure Undertaking Agreement with U.S. Bank National Association, as counterparty (the “Continuing Disclosure Undertaking”), at the time of the closing for the 2011E Bonds. The Continuing Disclosure Undertaking will be executed for the benefit of the beneficial owners of the 2011E Bonds. The Continuing Disclosure Undertaking will provide that so long as the 2011E Bonds remain outstanding, the Waterworks Department will annually provide certain financial information and operating data to the MSRB in accordance with Rule 15c2-12 of the SEC (the “Rule”) and will provide notice of certain material events to the MSRB in compliance with the Continuing Disclosure Undertaking. Submissions to the MSRB will be made through its EMMA system. The form of the Continuing Disclosure Undertaking is attached hereto as APPENDIX G.

The Waterworks Department has made all filings for 2003, 2004, 2005, 2006, 2007, 2008 and 2009 required pursuant to its Continuing Disclosure Undertaking Agreements for the outstanding Waterworks Revenue Bonds (the “Undertakings”), however, certain operating data and financial information for the fiscal year ended December 31, 2002, was not filed at the time required by the Undertakings. Such information was filed on March 22, 2004.
Further, the City’s audited financial statements for the year ended December 31, 2002 were not filed at the time required by the Undertakings, however, timely notice was provided to the applicable NRMSIRs regarding such delay. The audited financial statements were filed on July 29, 2003. The Waterworks Department did not make a timely filing of the operating data and financial information for the year ended December 31, 2004, however, such information was filed on October 31, 2005. In addition, due to a delay in completing the City's audited financial statements for the year ended December 31, 2006 and December 31, 2007, the Waterworks Department's filing for 2007 and 2008, required pursuant to the Continuing Disclosure Undertaking Agreement, was not made until October 8, 2007 and November 6, 2008, respectively.

In the event that the Pending Acquisition is consummated, Citizens Energy Group will execute a continuing disclosure agreement in compliance with the Rule concurrently with the issuance of its Substitute Obligations and Agreements in substitution for the Waterworks Bond Resolution and the Waterworks Revenue Bonds. Citizens Energy Group currently has outstanding various bonds for which it has covenanted in one or more continuing disclosure agreements to comply with the requirements of the Rule. In the previous five years, Citizens Energy Group has never failed to comply, in all material respects, with any previous undertakings in a written contract or agreement that it entered into pursuant to subsection (b)(5) of the Rule, except that it filed audited financial statements for fiscal years 2006, 2009 and 2010 after the date required and operating data for fiscal years 2009 and 2010 after the date required.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

In accordance with the provisions of the Rule, on July 21, 2010, the City filed with the MSRB through EMMA found at http://emma.msrb.org/, the CAFR for the fiscal year ended December 31, 2009 and certain financial information relating to the Waterworks. There is hereby incorporated in this Official Statement by this reference the information contained in the CAFR, which information should be read in its entirety in conjunction with this Official Statement.

Copies of the CAFR for fiscal years ending prior to December 31, 2008 may be obtained from the NRMSIRs pursuant to their procedures. Copies of the CAFR for fiscal years ending December 31, 2008 and thereafter, upon release by the City’s auditors, have been or will be filed with and available from the MSRB’s EMMA system found at http://emma.msrb.org/ (such repository being the sole repository approved by the SEC pursuant to the Rule as of the date of this Official Statement).

No financial reports related to the City are prepared on an interim basis and there can be no assurance that there have not been material changes to the financial position of the City since the date of the CAFR.

Any statement contained in a document included or deemed to be included by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is also included or deemed to be included by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Official Statement.

Upon request, the Bond Bank will make available the most recent CAFR, any authorizing or governing instruments defining the rights of the owners of the Bonds and available financial and statistical information regarding the Bond Bank and the City. Requests for documents should be directed to the Executive Director, The Indianapolis Local Public Improvement Bond Bank, 200 East Washington Street, Room 2342, City-County Building, Indianapolis, Indiana 46204, (317) 327-4220.

INDEPENDENT CONSULTANT

Crowe Horwath LLP (“Crowe Horwath”) is a national certified public accounting firm which has been retained by the Bond Bank as its independent financial advisor. Crowe Horwath has prepared its Consultant’s Report dated April 5, 2011, which is attached to this Official Statement as APPENDIX A. Crowe Horwath’s fees are not contingent upon the issuance of the 2011E Bonds. The report of Crowe Horwath must be read in its entirety.
UNDERWRITING

The Underwriters have agreed to purchase the 2011E Bonds from the Bond Bank pursuant to a Bond Purchase Agreement (the “Purchase Contract”), at a price of $58,386,163.53 equal to the principal amount of the 2011E Bonds, of $58,790,000, plus a net original issue premium of $13,135.75, less an underwriting discount of $416,972.22. The Underwriters are committed to purchase and pay for all of the 2011E Bonds if any are purchased. The Underwriters intend to offer the 2011E Bonds to the public at the offering prices appearing on the inside cover page of this Official Statement. After the initial public offering, the public offering prices may be varied from time to time by the Underwriters.

The Underwriters have agreed to make a bona fide public offering of all of the Series 2011E Bonds at prices not in excess of the initial public offering prices set forth or reflected on the inside cover page of this Official Statement. The Underwriters may sell the Series 2011E Bonds to certain dealers (including dealers depositing Series 2011E Bonds into investment trust) and others at prices lower than the offering prices set forth on the cover page hereof.

CERTAIN RELATIONSHIPS

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the 2011E Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2011E Bonds. In addition, Morgan Stanley & Co. Incorporated is a GIC Provider pursuant to the Debt Service Reserve Fund Agreement dated May 21, 2002, as amended.

With the consent of the City, Ice Miller LLP has rendered advice to Citizens Energy Group in connection with the Pending Acquisition. Ice Miller LLP has also served as bond counsel to the Waterworks Department in connection with the issuance of the Series 2011A Waterworks Revenue Bonds and to the Bond Bank in connection with issuance of the Series 2011E Bonds. Additionally, Morgan Stanley & Co. Incorporated has provided Citizens Energy Group with a fairness opinion in connection with the Pending Acquisition and serves as underwriter to Citizens Energy Group in connection with certain of its outstanding bonds. Morgan Stanley & Co. Incorporated anticipates serving as underwriter in connection with bonds anticipated to be issued by Citizens Energy Group and the Authority in connection with the Pending Acquisition.

MISCELLANEOUS

The preparation of this Official Statement and its distribution have been authorized by the Bond Bank and the Waterworks Department. This Official Statement is duly approved by the Bond Bank and the Waterworks Department as of the date on the cover page hereof.

THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT
BOND BANK

By: /s/ Briane M. House
Briane M. House, Chairperson
APPENDIX B

SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS
APPENDIX B1

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Trust Indenture between The Indianapolis Local Public Improvement Bond Bank ("Bond Bank") and U.S. Bank National Association (as successor to National City Bank of Indiana), as trustee ("Trustee"), dated as of April 1, 2002 ("the Original Indenture"), as previously supplemented by the 2004 Supplemental Trust Indenture, dated as of March 1, 2004 (the "2004 Supplemental Indenture"), the 2005F Supplemental Trust Indenture, dated as of November 1, 2005 ("2005F Supplemental Indenture"), the 2005G Supplemental Trust Indenture, dated as of November 1, 2005 (the "2005G Supplemental Indenture"), the 2005H Supplemental Trust Indenture, dated as of November 1, 2005 (the "2005H Supplemental Indenture"), the 2006A Supplemental Trust Indenture, dated as of February 1, 2006 (the "2006A Supplemental Indenture"), the 2007B Supplemental Trust Indenture dated as of March 1, 2007 (the "2007B Supplemental Indenture"), the 2007L Supplemental Trust Indenture dated as of December 1, 2007 (the "2007L Supplemental Indenture"), the 2009A Supplemental Trust Indenture dated as of July 1, 2009 (the "2009A Supplemental Indenture") and the 2011E Supplemental Trust Indenture dated as of April 1, 2011 (the "2011E Supplemental Indenture") (the Original Indenture, and as supplemented by the 2004 Supplemental Indenture, the 2005F Supplemental Indenture, the 2005G Supplemental Indenture, the 2005H Supplemental Indenture, the 2006A Supplemental Indenture, the 2007B Supplemental Indenture, the 2007L Supplemental Indenture, the 2009A Supplemental Indenture and the 2011E Supplemental Indenture, and as further supplemented and amended from time to time is referred to as the "Indenture"). This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Indenture. Certain capitalized terms used in this summary are defined in "APPENDIX B3-Definitions."

The Bond Bank will issue its Bonds, Series 2011E (Waterworks Project) (the "2011E Bonds"), pursuant to the Indenture.

Security for Bonds

To secure the payment of the principal of, premium, if any, and interest on the outstanding 2002 Bonds, the 2005F Bonds, the 2006A Bonds, the 2007B Bonds, the 2007L Bonds, the 2009A Bonds, the 2011E Bonds and any Additional Bonds (the 2002 Bonds, the 2005F Bonds, the 2006A Bonds, the 2007B Bonds, the 2007L Bonds, the 2009A Bonds, the 2011E Bonds and any Additional Bonds are hereinafter collectively referred to as the "Bonds"), and the performance of the covenants contained in the Bonds and the Indenture, the Bond Bank, grants to the Trustee a security interest in the following property ("Trust Estate"):  

(i) All cash and securities held for the credit of the Funds and Accounts created or established under the Indenture, the Investment Earnings thereon and all proceeds thereof (except the Rebate Fund under the Indenture); and  

(ii) All Qualified Obligations acquired and held pursuant to the Indenture and the earnings thereon and all proceeds thereof (including all Qualified Obligation Payments); and  

(iii) All Revenues and any moneys pledged as security by the Bond Bank.

The Trust Estate is to be held by the Trustee for the equal and proportionate benefit, security and protection of the owners from time to time of all the outstanding Bonds without privilege, priority or distinction as to the lien or otherwise of any such Bond over any other such Bond, except as otherwise expressly provided in the Indenture.

Funds and Accounts

Creation of Funds and Accounts. Under the Original Indenture, the Bond Bank created and established the following Funds: (1) the General Fund, (2) the Debt Service Reserve Fund and (3) the Rebate Fund. The following Accounts were created and established in the General Fund: a "General Account, a "Bond Issuance Expense Account," a "Hedge Payments Account," a "Capitalized Interest Account" and a "Redemption Account" each of
which will have separate subaccounts for the 2011E Bonds (with the exception of the Capitalized Interest Account and the Hedge Payments Account which will not have separate subaccounts for the 2011E Bonds). The following Accounts may be established in the Debt Service Reserve Fund: a "Common Reserve Account" and one or more "Series Reserve Accounts."

All such Funds and Accounts will be held and maintained by the Trustee. All moneys or securities held by the Trustee pursuant to the Indenture will be held in trust and applied only in accordance with the provisions of the Indenture. Upon written request of the Bond Bank, the Trustee may establish such additional Funds, Accounts or subaccounts as the Bond Bank may specify from time to time.

General Account. There will be deposited in the General Account: (i) the proceeds of the sale of the 2011E Bonds, other than the amounts deposited in the 2011E Subaccount of the Common Reserve Account of the Debt Service Reserve Fund and the Bond Issuance Expense Account as described below; and (ii) any other amounts required to be deposited in the General Account pursuant to the Indenture. The Trustee will apply the moneys in the General Account (i) to purchase the Qualified Obligations; (ii) to pay principal and interest coming due on the Bonds; (iii) to make Hedge Payments; (iv) to fund or replenish, as necessary, the Debt Service Reserve Fund; (v) to pay, as necessary, Program Expenses; (vi) to pay any amount needed to comply with any rebate obligations, to the extent such amounts are not collected as Fees and Charges; (vii) to reimburse the Bond Bank for funds advanced to, or credited to any account for, the Qualified Entity by the Bond Bank; and (viii) to transfer any other fund or account maintained by the Bond Bank of any moneys in excess of the amounts needed to pay principal and interest on the Bonds within the immediately succeeding twelve month period pursuant to the Indenture.

Redemption Account. There will be deposited in the Redemption Account (i) all moneys received upon the sale or redemption prior to maturity of Qualified Obligations and (ii) such other amounts as may be designated by the Indenture. Funds in the Redemption Account will be disbursed as follows by the Trustee: (1) on such dates as are specified in the Indenture, to the appropriate subaccount of the General Account, an amount equal to the principal which would have been payable during the following month for Qualified Obligations sold or redeemed prior to maturity; (2) on such dates as are specified in the Indenture, to the extent moneys in the General Account are not sufficient, for the purpose of paying the principal of and interest on the Bonds as the same become due; (3) after providing for the payments required under (1) and (2) above, moneys may be used (A) on any redemption date, to redeem Bonds; (B) to purchase Qualified Obligations as permitted under the Indenture; (C) to transfer any excess moneys to the General Account (D) to purchase Bonds at the most advantageous price obtainable with reasonable diligence; or (E) to invest such moneys until the maturity or maturities of Bonds in accordance with the Indenture; and (4) if the Trustee is unable to purchase Bonds under (3) above, then, subject to the Indenture, the Trustee shall redeem Bonds to exhaust as nearly as possible the amounts remaining in the Redemption Account under the Indenture. Upon written direction and presentation of a Cash Flow Certificate from the Bond Bank, the Trustee may transfer moneys to the General Account (pursuant to the Indenture).

Bond Issuance Expense Account. There will be deposited in the Bond Issuance Expense Account: (i) a portion of the proceeds of the 2011E Bonds in an amount equal to the estimated costs of issuing the 2011E Bonds and the 2011A Waterworks Revenue Bonds, and (ii) any other amounts required to be deposited therein pursuant to the Indenture. Upon receipt by the Trustee of invoices and requisitions certified by the Bond Bank, funds in the Bond Issuance Expense Account will be disbursed to pay the costs of issuing the 2011E Bonds and the 2011A Waterworks Revenue Bonds. Any funds remaining in the Bond Issuance Expense Account one year after the issuance of Bonds will be transferred to the Subaccount of the General Account and the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

Hedge Payments Account. There will be deposited in the Hedge Payments Account on such dates as are specified in the Indenture an amount which, together with any other moneys already on deposit therein and available to make such payment is not less than such Hedge Payments coming due on such payment date. Moneys in the Hedge Payments Account shall be used solely to pay Hedge Payments under Hedge Agreements when due and payable. In the alternative, the Bond Bank may provide in any supplemental indenture that such Hedge Payments are subordinate to the payments on the Bonds.
**Debt Service Reserve Fund.** The Debt Service Reserve Fund shall be used solely for the payment of interest on and principal of the Bonds and only if moneys in the General Account are insufficient to pay interest on and principal of the Bonds after making all required transfers from the Redemption Account to the General Account. Notwithstanding the foregoing, the Trustee may disburse moneys in the Debt Service Reserve Fund to the trustee for the Qualified Obligations to be used in accordance with the provisions of the Resolution relating to the uses of the Debt Service Reserve Account established thereunder.

The Bond Bank may satisfy all or any part of its obligation to maintain an amount in the Reserve Fund at least equal to the Bond Bank Reserve Requirement by depositing a reserve fund credit instrument in the Debt Service Reserve Fund.

**Rebate Fund.** There shall be made all deposits and disbursements as required by law from the Rebate Fund solely in accordance with the Bond Bank's written direction. Money at any time deposited in the Rebate Fund will be held by the Trustee in trust and applied in accordance with the provisions of the Indenture. The Trustee will remit part or all of the balances in the Rebate Fund to the United States, as directed by the Bond Bank. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any rebate amount, or provision made therefor satisfactory to the Trustee, will be distributed to the Bond Bank.

**Investment of Money**

Subject to the right of the Bond Bank to direct the investment or deposit of funds under the Indenture, moneys in any Fund or Account (except the Redemption Account) shall be continuously invested and reinvested or deposited or redeposited by the Trustee in Investment Securities.

Any moneys in the Redemption Account shall be invested only in Governmental Obligations as directed by the Bond Bank. Any moneys in the Rebate Fund shall be invested as directed by the Bond Bank from time to time. All such investments shall at all times be a part of the Fund or Account in which the moneys used to acquire such investments had been deposited and all Investment Earnings on such investments shall be deposited as received in the General Account, except for income and profits on investment of funds in the Rebate Fund which shall remain in the Rebate Fund and except for Investment Earnings on the Accounts of the Debt Service Reserve Fund, which shall remain in the respective Accounts of the Debt Service Reserve Fund until the balance in such Fund or Account equals the applicable Debt Service Reserve Requirement. Any investment losses shall be charged to the Fund or Account (including the Rebate Fund) in which moneys used to purchase such investment had been deposited.

In computing the amount in any Fund or Account held under the provisions of the Indenture, except the Debt Service Reserve Fund, Investment Securities shall be valued at the amortized cost thereof (including in such cost accrued interest paid). Securities covered by a repurchase agreement shall be valued at the market value of the collateral securing the repurchase agreement. In computing the amount in the Debt Service Reserve Fund and compliance with the Debt Service Reserve Requirement, Investment Securities shall be valued at their amortized costs, including interest accrued to the date of valuation. The Debt Service Reserve Fund shall be valued annually on the last day of each Fiscal Year.

Except for taxable Bonds issued under the Indenture, the Bond Bank shall (a) certify to the owners of the Bonds from time to time outstanding that moneys on deposit in any Fund or Account in connection with the Bonds or in the Rebate Fund, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, are not intended to be used in a manner which will cause the interest on the Bonds to become includable in gross income for federal tax purposes and (b) covenant with the owners of the Bonds from time to time outstanding that, so long as any of the Bonds remain outstanding, moneys on deposit in any Fund or Account established in connection with the Bonds or in the Rebate Fund, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other source, will not be used in any manner which will cause the interest on the Bonds to become includable in gross income for federal tax purposes under the Code.
**Additional Bonds**

Additional Bonds may be issued from time to time only for the purchase of Additional Qualified Obligations, including, but not limited to, refunding Qualified Obligations, issued by a Qualified Entity. Any Additional Bonds shall be authorized by a supplemental indenture.

**Covenants of Bond Bank**

The Bond Bank covenants, among other things, that:

(a) it will faithfully perform all provisions contained in each Bond and the Indenture and will promptly pay or cause to be paid, (solely from the Trust Estate) the principal of, and interest on every Bond, on the dates and at the places and in the manner stated in the Bonds;

(b) it is duly authorized under the constitution and laws of the State of Indiana, including particularly the Act, to issue the Bonds and to pledge the Revenues and all other property as pledged in the Indenture;

(c) it will do all acts and things necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on Qualified Obligation Payments) and to protects its rights with respect to or to maintain any insurance on the Qualified Obligations;

(d) it will promptly do, execute, acknowledge and deliver all indentures supplemental to the Indenture and to take all action deemed advisable and necessary by the Trustee for the better securing of the Bonds;

(e) all books and documents in its possession relating to the Qualified Obligations shall at all times be open to inspection by such accountants or other agencies or persons as the Bond Bank or the Trustee may from time to time designate;

(f) it will maintain proper books of records and accounts and: (i) within 120 days of each Fiscal Year, file with the Trustee a copy of an annual report and audited financial statements; and (ii) provide to the Trustee copies of all reports filed with the Bond Bank pursuant to the Purchase Agreement;

(g) it will not (i) permit any material change in any Qualified Obligation; or (ii) sell or dispose of any Qualified Obligations unless it provides a Cash Flow Certificate to the Trustee. The Bond Bank will (i) enforce remedies available to owners of Qualified Obligations and (ii) pursue applicable remedies set forth in Indiana Code 5-1.4-8-4, to the extent such action would not adversely affect the validity of the Qualified Obligations;

(h) at least sixty (60) days prior to the beginning of the Fiscal Year prepare and file with the Trustee a preliminary budget for the succeeding Fiscal Year; and

(i) it will regularly review investments held by the Trustee in the Funds and Accounts.

(j) Notwithstanding any provision of the Indenture to the contrary, it is permitted to terminate, discharge and release the obligations and duties of the Original Qualified Entity under the Original Bond Resolution, the Original Qualified Obligations and the Original Qualified Entity Purchase Agreements subject to the following:

(i) a Substitute Qualified Entity delivers to it and the Trustee the following:

(1) a Substitute Bond Resolution of the Substitute Qualified Entity containing provisions substantially equivalent to the provisions of the Original Bond Resolution, as determined by the resolutions described in (iii) below, including specifically the pledge of Net Revenues in the Original Bond Resolution, the flow of funds set forth in the Original Bond Resolution, the covenant on rates and charges included in the Original Bond Resolution and the covenant for additional bonds included in the Original Bond Resolution;
(2) a certificate of an authorized officer of the Substitute Qualified Entity certifying that the Substitute Qualified Entity has delivered Substitute Qualified Obligations to the Bond Bank and the Substitute Qualified Entity is obligated to make Qualified Obligation Payments and to pay Fees and Charges, if any, required by the Bond Bank, and that to the best knowledge of such Authorized Officer, the Substitute Qualified Entity is not in default under the payment terms or any other material terms or provisions of any Substitute Qualified Obligations of the Substitute Qualified Entity;

(3) Substitute Qualified Entity Purchase Agreements of the Substitute Qualified Entity in form and substance substantially equivalent to the provisions of the Original Qualified Entity Purchase Agreements, as determined by the resolutions described in (iii) below;

(4) an Opinion of Counsel acceptable to the Bond Bank and Trustee stating, among other things, that such Substitute Qualified Obligations and the Substitute Bond Resolution constitute valid and binding obligations of the Substitute Qualified Entity enforceable against the Substitute Qualified Entity in accordance with their terms, subject to such enforcement limitations as are customarily contained in such opinions;

(5) an Opinion of Bond Counsel acceptable to the Bond Bank and Trustee stating, among other things, that the delivery by the Substitute Qualified Entity of Substitute Qualified Obligations does not affect the continuing exclusion of the interest on the Outstanding Bonds from the gross income of the owners thereof for federal tax purposes under Section 103 of the Code (except for taxable Bonds issued under the Indenture):

(6) a certified transcript of proceedings had by the Substitute Qualified Entity authorizing the issuance, execution and delivery of the Substitute Qualified Obligations, which transcript shall contain the certifications required by IC 5-1.4-8-2 and such other certifications, representations and opinions which are reasonable and appropriate for the Substitute Qualified Entity; and

(7) such Substitute Qualified Obligations, registered as to both principal and interest to the Bond Bank, or to the Bond Bank's designated agent, and delivered in accordance with the Act; and

(ii) the Bond Bank delivers to the Trustee a Cash Flow Certificate, after giving consideration to the Substitute Qualified Obligations, to the effect that, after such substitution, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal the Debt Service on all Outstanding Bonds in each such Fiscal Year;

(iii) the Original Qualified Entity and the Bond Bank deliver to the Trustee the respective resolutions of the Board of Directors of the Original Qualified Entity and the Board of Directors of the Bond Bank finding that the substitution of the Substitute Qualified Entity and its Substitute Qualified Obligations, Substitute Qualified Entity Purchase Agreement and Substitute Bond Resolution will not adversely affect the security for the Outstanding Bonds;

(iv) the Original Qualified Entity delivers to the Bond Bank and the Trustee evidence of compliance with the provisions of the Original Bond Resolution permitting a Substitute Issuer thereunder; and

(v) if the Original Qualified Entity has elected to comply with certain provisions of the Original Bond Resolution, the Bond Bank shall provide to the Trustee evidence that the ratings on the
Bonds Outstanding, without regard to credit enhancement, by each Rating Agency will not be lowered as a result of the substitution of the Substitute Qualified Obligations.

**Tax Covenants**

In order to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes and as an inducement to purchasers of the Bonds, the Bond Bank represents, covenants, and agrees that the Bond Bank will take no action nor fail to take any action with respect to the Bonds that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds under Section 103 of the Code, nor will it act in any other manner which would adversely affect such exclusion and it will not make any investment or do any other act or thing during the period that the Bonds are outstanding which would cause any of the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the Series of Bonds. These tax covenants are based solely on current law in effect and in existence on the date of issuance of the Bonds. It will not be an event of default under the Indenture if interest on any Series of Bonds is not excludable from gross income pursuant to any provision of the Code which is not in existence and in effect on the issue date of such Bonds. The Bond Bank will also rebate any necessary amounts to the United States of America to the extent required by the Code.

Notwithstanding any provision of the Indenture to the contrary, the Bond Bank may elect to issue a Series of Bonds, the interest on which is not excludable from gross income for federal tax purposes, so long as such election does not adversely affect the exclusion from gross income of interest for federal tax purposes on any other Series of Bonds, by making such election on the date of delivery of such Series of Bonds. In such case, the tax covenants in this Indenture shall not apply to such Series of Bonds.

**Default and Remedies**

Events of Default under the Indenture include: (i) failure to punctually pay the principal of or interest on any of the Bonds; (ii) occurrence of certain events of bankruptcy or insolvency of the Bond Bank; (iii) default in the performance or observance of any other of the covenants, agreements of conditions by the Bond Bank under the Indenture and the continuance of such default for ninety (90) days after receipt of written notice pursuant to the Indenture; (iv) failure to remit to the Trustee any moneys required to be remitted under the Indenture; (v) any warranty, representation or other statement is found to be false or misleading, when made, in any material respect and failure to remedy the same for ninety (90) days after receipt of written notice; and (vi) the Bond Bank for any reason shall be rendered incapable of fulfilling its obligations under the Indenture.

Upon the occurrence of one or more events of default, the Trustee may, and shall upon written request of the holders of at least twenty-five percent (25%) in principal amount of the Bonds then outstanding, pursue any available remedy by suit at law or in equity, whether for specific performance of any covenant or agreement contained in the Indenture or in aid of any power granted therein, and to the extent permitted by law, may appoint a receiver.

No holder of any of the Bonds shall have the right to institute any proceeding in law or in equity, or for the appointment of a receiver, or for any other remedy under the Indenture without complying with the provisions of the Indenture.

*Remedies.* In case of an event of default under the Indenture, the Trustee may proceed to protect and enforce its rights and the rights of the owners of the Bonds under the Indenture by a suit, action or proceeding in equity or at law otherwise. Upon the filing of a suit or other commencement of judicial proceeding, the Trustee will be entitled to the appointment of a receiver of the Trust Estate and the Revenues.

*Acceleration.* If the Trustee certifies that there are sufficient moneys on deposit in the Funds and Accounts established under the Indenture to pay the principal and accrued interest on all outstanding Bonds, the Trustee may by notice, in writing, to the Bond Bank and Corporation Counsel of the City, declare the principal of all the outstanding Bonds, and the interest accrued thereon, to be due and payable immediately.
Application of Collection Proceeds. The proceeds of any collection efforts will be deposited in the General Account, and all such moneys in the General Account will be applied by the Trustee as follows:

(i) To the payment of costs and expenses of suit, if any, and of the expenses, liabilities and advances incurred or made under the Indenture by the Trustee and any other moneys owed to the Trustee; then

(ii) Unless the principal of all Bonds shall have become due and payable, in the following order to the payment of (a) interest then due on the Bonds, including interest on overdue principal of the Bonds; (b) principal then due of the Bonds; and (c) principal of and interest on Bonds thereafter due either at maturity or upon call for redemption; then

(iii) If the principal of all of the Bonds shall have become due and payable, all of such moneys shall be applied to the payment of unpaid principal and interest on the Bonds.

Whenever moneys are to be so applied, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall establish a special record date for such payments and shall mail, at least fifteen (15) days prior to such special record date, such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment of principal to the owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all principal of and interest on all Bonds have been paid and all expenses and charges of the Trustee have been paid any balance remaining in the General Fund shall be paid as provided in the Indenture.

Supplemental Indentures

Supplemental Indentures Not Requiring Bondholder Consent. The Bond Bank and the Trustee may, without obtaining the approval of the holders of the Bonds, enter into supplemental indentures (i) to cure any ambiguity or formal defect or omission in the Indenture; (ii) to grant to the Trustee for the benefit of such holders any additional benefits, rights, remedies, powers or authorities that may be lawfully granted; (iii) to subject to the pledge of the Indenture additional security, revenues, properties, or collateral; (iv) to amend the Indenture or any supplemental indenture to permit qualification under the Trust Indenture Act of 1939, as amended; (v) to evidence the appointment of a separate or co-trustee or the succession of a new trustee, registrar, or paying agent; (vi) to provide for the issuance of each additional series of Bonds permitted by the Indenture; (vii) to refund all or a portion of the Bonds; (viii) to permit compliance with any future federal tax law; (ix) for any other purpose which the Trustee, in its sole discretion, determines will not have a material adverse effect on the interests of the owners of the Bonds; provided, however, that the Bond Bank and the Trustee will make no amendment permitting the purchase of obligations other than Additional Qualified Obligations; and (x) to amend the Indenture to facilitate the substitution of a Substitute Qualified Entity under the Indenture.

Supplemental Indentures Requiring Bondholder Consent. With the consent of the owners of not less than a majority of the aggregate principal amount of Bonds outstanding which are affected (exclusive of bonds held by the Bond Bank), the Bond Bank and the Trustee may from time to time enter into a supplemental indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture; provided, however, that no such supplemental indenture shall without the consent of the owners of all of the outstanding Bonds: (i) extend the maturity of any Bond or change the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof; (ii) reduce the aforesaid percentage of owners required to approve any such supplemental indenture; (iii) permit a privilege or priority of any Bond or Bonds over any other Bond or Bonds; (iv) permit a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture; (v) permit the creation of any lien securing any Bonds other than a lien ratably securing all
of the Bonds outstanding under the Indenture; (vi) permit any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee; or (vii) a reduction in the Bond Bank Common Reserve Requirement.

**Defeasance**

The covenants, liens and pledges entered into, created pursuant to the Indenture may be fully discharged and satisfied with respect to the Bonds in any one or more of the following ways:

(i) By paying all of the principal, premium, if any, and interest on the Bonds, when the same become due and payable;

(ii) By depositing with the Trustee in the manner provided by the Indenture and for such purpose, at or before the date or dates of maturity or redemption, moneys in the necessary amount to pay or redeem all of the Bonds and the premium, if any, and interest thereon accrued to the date of payment;

(iii) By depositing with the Trustee and for such purpose, at or before the dates of maturity or redemption, noncallable or nonprepayable Governmental Obligations in an amount sufficient, including any income or increment to accrue thereon, but without the necessity of any reinvestment, to pay or redeem all the Bonds and the interest thereon accrued to the date of payment in accordance with their terms; or

(iv) By depositing with the Trustee for such purpose a combination of such moneys and Governmental Obligations and all fees and expenses of the Trustee.

With respect to the defeasance of Bonds bearing interest at a variable rate, any escrow used to defease such Bonds shall be funded at the maximum interest rate allowable on such Bonds and a mandatory tender, redemption or purchase in whole must occur no later than the first possible mandatory or optional purchase date for such Bonds.

Upon such complete discharge and satisfaction with the consent of the Bond Insurer, the Indenture will cease, terminate and be void.

Upon the deposit with the Trustee of money or Governmental Obligations in the amount as described above, provided that if the Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture, or such provisions satisfactory to the Trustee have been made for the giving of such notice, the Indenture may be discharged in accordance with the provisions of the Indenture, but the limited liability of the Bond Bank with respect to the Bonds to be redeemed shall continue, provided that the owners thereof shall thereafter be entitled only to payment out of the money or Governmental Obligations deposited with the Trustee for their payment.

**Bond Insurance**

As long as the Policy is in effect and the Bond Insurer is not in default of its payment obligation under the Policy, the Bond Insurer shall be deemed the exclusive owner of the Bonds (except the 2009A Bonds and the 2011E Bonds) for the purpose of (i) execution and delivery of any amendment, modification, supplement or change of the Indenture or the Bond Resolution requiring bondholder consent, or (ii) the direction or right to consent to any action or remedy to be undertaken by the Trustee at the request of the owners of the Bonds (except the 2009A Bonds and the 2011E Bonds). The Bond Bank is the owner of all the Waterworks Revenue Bonds and agrees that the Bond Insurer shall, as long as the Policy is in effect, be deemed the exclusive owner of the Waterworks Revenue Bonds (except the 2009A Waterworks Revenue Bonds and the 2011A Waterworks Revenue Bonds) for the purpose of (i) execution and delivery of any amendment, modification, supplement or change of the Indenture or the Bond Resolution requiring bondholder consent, or (ii) the direction or right to consent to any action or remedy to be undertaken by the Trustee at the request of the owners of the Waterworks Revenue Bonds (except the 2009A Waterworks Revenue Bonds and the 2011A Waterworks Revenue Bonds).
As long as the Policy is in effect and the Bond Insurer is not in default of its payment obligation under the Policy, the Bond Insurer, as the deemed owner of the Bonds (except the 2009A Bonds and the 2011E Bonds), shall have the right to direct all remedies if an Event of Default shall have occurred with respect to the Bonds (except the 2009A Bonds and the 2011E Bonds). The Bond Insurer shall have the right to institute any suit, action, or proceeding at law or in equity as holders of the Bonds (except the 2009A Bonds and the 2011E Bonds) in accordance with the Indenture. Any acceleration of principal payments on the Bonds (except the 2009A Bonds and the 2011E Bonds) is subject to the prior consent of the Bond Insurer.

The Bond Bank has entered into the Insurance Agreement which contains additional covenants and obligations of the Bond Bank and the Waterworks Department with respect to the Bonds (except the 2009A Bonds and the 2011E Bonds).
APPENDIX B2

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

Certain capitalized terms used in this summary are defined in "APPENDIX B3-Definitions."

Source of Payment

The Waterworks Revenue Bonds are special revenue obligations of the Waterworks Department payable solely out of Net Revenues and any applicable Pledged Funds.

Application of Bond Proceeds

The proceeds of the 2011A Waterworks Revenue Bonds will be deposited to the Bond Bank funds and accounts pursuant to the Indenture as described in "APPENDIX B1-Summary of Certain Provisions of the Indenture - Funds and Accounts."

Establishment of Funds and Accounts

The Bond Resolution establishes the Funds and Accounts described below. So long as any of the Waterworks Senior Bonds are outstanding, all Gross Revenues, upon their receipt from time to time by the Waterworks Department, will be deposited daily, as far as practicable, and set aside and credited immediately to the Revenue Fund, which is created within the "Water Fund."

Water Fund. The "Water Fund," which consists of a self-balancing group of accounts, including, without limitation, the respective separate accounts and subaccounts, constitutes an independent fiscal and accounting entity. Separate accounts and subaccounts other than those hereinafter described pertaining to the Water Fund may from time to time be created, terminated, and otherwise modified by the Waterworks Department in its discretion pursuant to a supplemental resolution or a Board Policy.

Revenue Fund. The Revenue Fund is created within the "Water Fund" and will be under the control of the Waterworks Department and not held by the Trustee. There shall be deposited daily into the Revenue Fund, upon their receipt from time to time by the Waterworks Department, all Gross Revenues. The moneys therein will be applied, as more fully described below and in the Resolution, in the following order of priority: (i) on or before the last business day of each calendar month to the Operation and Maintenance Fund; (ii) to the Interest Account, Hedge Payments Account and Principal Account on a pro rata basis to pay the principal of, premium, if any, and interest on the Waterworks Senior Bonds and to make Hedge Payments under the Senior Hedge Agreements; (iii) on the first business day of each month on a pro rata basis (a) the amount of any monthly deposit required to restore any deficiency in any subaccount of the Reserve Account and (b) the amount of any monthly deposit required to fund the applicable reserve requirement; (iv) to the Rebate Fund; and (v) to any account or subaccount of the Water Fund, as described in any supplemental resolution or in the Board Policy. Any cash held in a subaccount of the Waterworks Reserve Account in excess of the applicable Waterworks Reserve Requirement will be transferred from time to time by the Trustee to the Revenue Fund at the direction of the Waterworks Department.

Pursuant to the Bond Resolution, in each Fiscal Year, the moneys on deposit in the Revenue Fund must be applied in the order of priority described below.

Operation and Maintenance Fund. The Resolution creates the Operation and Maintenance Fund of the Water Fund which will be under the control of the Waterworks Department and not held by the Trustee. Moneys in the Operation and Maintenance Fund shall be used to pay Operation and Maintenance Expenses for the next calendar month. As a first charge on the Revenue Fund, Gross Revenues are set aside in and credited to the Operation and Maintenance Fund, on or before the last business day of each calendar month, in an amount sufficient to pay the Operation and Maintenance Expenses for the next calendar month. Any surplus remaining at the end of the Fiscal Year that is not needed for Operation and Maintenance Expenses may be transferred for credit to the Revenue Fund.
Bond Fund. The "Bond Fund" is created and established within the "Water Fund" and shall be held by the Trustee. The following Funds and Accounts are designated therein: (i) "Interest Account;" (ii) "Principal Account;" (iii) "Hedge Payments Account;" (iv) "Reserve Account," with a "Common Reserve Subaccount;" and (v) "Rebate Fund." Subsequent to the payments to the Operation and Maintenance Fund, moneys shall be transferred by the Waterworks Department as described below.

Interest Account. At least one business day prior to each Interest Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund into the Interest Account an amount, together with any other available moneys on deposit in such Interest Account, sufficient to pay the interest on the Waterworks Senior Bonds due on such date. Moneys in the Interest Account will be used solely to pay interest on the Waterworks Senior Bonds when due and payable at maturity or upon redemption. The Waterworks Department will also deposit all Hedge Receipts, under Senior Hedge Agreements in the Interest Account from time to time as and when received.

Hedge Payments Account. On or before the business day preceding each payment date for Hedge Payments under Senior Hedge Agreements, the Waterworks Department will transfer from the Revenue Fund into the Hedge Payments Account an amount which, together with any other moneys already on deposit therein and available to make such payment is not less than such Hedge Payments coming due on such payment date. Moneys in the Hedge Payments Account will be used solely to pay Hedge Payments under Senior Hedge Agreements when due and payable. In the alternative, the Waterworks Department may provide in a supplemental resolution that such Hedge Payments are subordinate to the payments on the Waterworks Senior Bonds.

Principal Account. At least one business day prior to each Principal Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund into the Principal Account, an amount, together with any other moneys from time to time on deposit in such Principal Account, sufficient to pay principal of and premium, if any, on the Waterworks Senior Bonds due on such date. Moneys in the Principal Account will be used solely for the payment of principal of and premium, if any, the Waterworks Senior Bonds as the same shall become due and payable at maturity or upon redemption.

Reserve Account. Subsequent to the payments into the Operation and Maintenance Fund, the Interest Account, the Hedge Payments Account and the Principal Account described above (except as otherwise provided in the Bond Resolution) the Waterworks Department will transfer to the Trustee from any moneys remaining in the Revenue Fund on the first business day of each month on a pro rata basis (based on the outstanding principal amount of the related Waterworks Senior Bonds), (i) the amount of any monthly deposit required to restore any deficiency and (ii) the amount of any monthly deposit required to fund the applicable Waterworks Reserve Requirement.

The moneys and the Reserve Account Credit Facility, if any, in the applicable subaccount of the Waterworks Reserve Account will be accumulated and maintained as a continuing reserve to be used to prevent deficiencies in the payments of principal of and interest on the Waterworks Senior Bonds which have a claim on the applicable subaccount of the Waterworks Reserve Account for payment. Any cash held in a subaccount of the Waterworks Reserve Account in excess of the applicable Waterworks Reserve Requirement will be transferred from time to time by the Trustee to the Revenue Fund at the direction of the Waterworks Department.

Rebate Fund. Subsequent to the payments into the Interest Account, the Hedge Payments Account, the Principal Account and the Reserve Account, the Waterworks Department will transfer such amounts to the Rebate Fund to be used for the purpose of making the payments to the United States of America required by the tax covenant contained in the Bond Resolution, in accordance with Section 148(f) of the Code with respect to the Waterworks Bonds and any other tax-exempt bonds. Any amounts in the Rebate Fund in excess of those required to be on deposit therein may be withdrawn therefrom and used for any lawful purpose.
Investment of Funds and Accounts

The Trustee will invest, upon instructions of the Controller, moneys not needed for immediate use in any account or subaccount created in the Resolution in any Permitted Investments. Such Permitted Investments will mature not later than the date or dates on which the Controller estimates the proceeds thereof will be needed, and, in any event, in accordance with State law. Any Permitted Investment purchased as an investment of moneys in any account or subaccount, will be deemed at all times to be a part of such account or subaccount and held in trust therefor. Except as otherwise provided, any interest accruing thereon and any other gain realized therefrom will be retained and credited to such account or subaccount. Any loss in any account or subaccount resulting from any such investments in Permitted Investments will be retained and credited to such account or subaccount.

No loss or profit in any account or subaccount on any investments or reinvestments in Permitted Investments shall be deemed to take place as a result of fluctuations in the market quotations of the Permitted Investments, prior to the sale or maturity thereof. In the computation of the amount in any account or subaccount for any purpose under the Bond Resolution, except as otherwise expressly provided, Permitted Investments will be valued at the amortized cost thereof (including any amount paid as accrued interest at the time of purchase of the obligation) and other bank deposits shall be valued at the amounts deposited, exclusive of any accrued interest or any other gain to the Waterworks Department until such gain is realized. The Waterworks Common Reserve Subaccount shall be valued annually on such basis on the last day of each Fiscal Year. Series Reserve Subaccounts will be valued as provided in a supplemental resolution.

Covenants of Waterworks Department:

The Waterworks Department covenants, among other things that:

(a) it will faithfully and punctually perform or cause to be performed all duties with respect to the Net Revenues and the Waterworks required by the Constitution and laws of the State and the various resolutions and other instruments of the Waterworks Department, including, without limitation, the proper segregation of the proceeds of the Waterworks Bonds and any securities hereafter authorized and pertaining to the Waterworks and Net Revenues and their application from time to time to the respective accounts provided therefor;

(b) it will, so far as it may be authorized by law, pass, make, do, execute, acknowledge, deliver, and file or record all and every such further instruments, acts, deeds, conveyances, assignments, transfers, other documents, and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, and confirming all and singular the rights, the Net Revenues, and Pledged Funds, or intended so to be, or which the Waterworks Department may hereafter become bound to pledge or to assign, or as may be reasonable and required to carry out the purposes of the Resolution and any instrument supplemental thereto, and to comply with the Enabling Legislation. It will at all times, to the extent permitted by law, defend, preserve, and protect the pledge of the Net Revenues and Pledged Funds and all the rights of every holder of any Waterworks Bonds against all claims and demands of all Persons whomsoever;

(c) it will establish and enforce reasonable rules and regulations governing the operation, care, repair, maintenance, management, control, occupancy, use, and services of the Waterworks. It will observe and perform all of the terms and conditions contained in the Resolution and will comply with all valid acts, rules, regulations, orders, and directives of any legislative, executive, administrative, or judicial body applicable to the Waterworks or the Waterworks Department;

(d) it will at all times endeavor to employ in connection with the operation of the Waterworks in executive and managerial capacities only individuals competent therefor by reason of training and experience. The Waterworks Department will administer the Waterworks in accordance with sound business principles and prudent utility practice;

(e) it will, insofar as it may legally do so, without any violation of other provisions of the Resolution, maintain, preserve, keep, and operate the Waterworks or cause the Waterworks to be maintained, preserved, kept, and operated in good repair, working order, and condition;
(f) it will at all times operate the Waterworks properly and in a sound and economical manner and will maintain, preserve, and keep the Waterworks properly, or cause the same, to be so maintained, preserved, and kept, with the appurtenances and every part and parcel thereof, in good repair, working order, and condition and will from time to time make or cause to be made all necessary and proper repairs and replacements;

(g) it will not construct other facilities or structures to be operated by the Waterworks Department separate from the Waterworks to furnish customers of the District with water if such action will have a material adverse effect on the Waterworks revenues otherwise available for the payment of the Waterworks Bonds;

(h) it will maintain its governing body structure, as set forth in General Ordinance No. 112, 2001, and legal existence so long as any of the Waterworks Bonds remain outstanding, unless a Substitute Issuer succeeds by action of either the Board of Directors of the Waterworks Department or the City to the duties, privileges, powers, liabilities, disabilities, immunities, and rights of the Waterworks Department under the Bond Resolution and the Waterworks Bonds outstanding; and either (i) (1) the Substitute Issuer is obligated under its Substitute Obligations and Agreements to operate and maintain the Waterworks and to fix and collect Net Revenues in a manner substantially equivalent, as determined by the Board of Directors of the Waterworks Department, to the manner provided in the Bond Resolution and the Waterworks Bonds outstanding so that the security interests and rights of any holder of the Waterworks Bonds outstanding are protected by the provisions of the Substitute Obligations and Agreements and (2) the Issuer shall provide the Trustee either (x) a report of a financial consultant that demonstrates that in the first full Fiscal Year following such succession by the Substitute Issuer that the rate covenant in the Bond Resolution shall be satisfied after giving effect to such succession or (y) evidence that the ratings on the Waterworks Bonds outstanding, without regard to credit enhancement, by each Rating Agency will not be lowered as a result of the succession by the Substitute Issuer or (ii) the holders of a majority in principal amount of Waterworks Bonds outstanding shall agree to accept such Substitute Obligations and Agreements in full replacement and satisfaction of the Bond Resolution and the Waterworks Bonds outstanding;

(i) it will not sell, lease, alienate or otherwise dispose of either all or a substantial part of the Waterworks until all the Waterworks Bonds have been paid in full or provision has been made therefor, except as permitted by the Bond Resolution;

(j) it will pay into any account of the Water Fund the amount of any award received if any part of the Waterworks will be taken by the exercise of a power of eminent domain;

(k) it will pay or cause to be paid all taxes, payments in lieu of taxes, assessments, and other municipal or governmental charges, if any, lawfully levied, payable or assessed upon or in respect of the Waterworks or the Gross Revenues, when the same will become due. It will duly observe and comply with all valid requirements of any municipal or governmental authority relative to the Waterworks, except for any period during which the validity of the same is being contested in good faith by proper legal proceedings. It will pay or cause to be discharged or will make adequate provision to satisfy and to discharge all lawful claims and demands for labor, materials, supplies, or other objects which, if unpaid, might by law become a lien upon the Waterworks or the Gross Revenues. Nothing contained in the Bond Resolution requires the Waterworks Department to pay or cause to be discharged or to make provision for any such tax, assessment, lien, charge, or demand before the time when payment thereon will be due, or so long as the validity thereof will be contested in good faith;

(l) it will not create or permit to be created any Lien on the Gross Revenues or the Waterworks, except for permitted encumbrances;

(m) it will keep proper records and accounts, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Waterworks and to all moneys pertaining thereto, including, without limitation, the Gross Revenues;

(n) it shall confer to the Trustee the right at reasonable times to inspect and make copies of all financial statements, other records, accounts, and data concerning the Waterworks or the Gross Revenues; and
(o) it will cause an audit to be made for each Fiscal Year within 210 days following the close of the Fiscal Year of such records, accounts, and subaccounts by an Independent Accountant, and will order an audit report showing the receipts and disbursements for each account and subaccount pertaining to the Waterworks, including, without limitation, the Gross Revenues.

**Insurance.** The Waterworks Department will at all times maintain, or cause to be maintained, such public liability insurance and property insurance as is customarily maintained by entities similar to the Waterworks Department with respect to facilities of like character against loss of or damage to the Waterworks, against loss of Net Revenues and against public and other liability. The Waterworks Department may insure all or a portion of the above risks through a program of self-insurance.

The proceeds of any property insurance relating to the Waterworks will be payable to the Waterworks Department and applied to the repair or replacement of the damaged or destroyed property so as to restore the same to use. After any loss or damage to any useful portion of the Waterworks which is covered by property insurance, the Waterworks Department will apply the proceeds of such property insurance to the extent necessary to the repair, reconstruction, and other replacement of the damaged or destroyed property. If such proceeds are more than sufficient for such purpose, the balance remaining will be applied as determined by the Waterworks Department. If such proceeds will be insufficient to repair, reconstruct, or otherwise replace the damaged or destroyed property pertaining to the Waterworks, the deficiency may be supplied by the Waterworks Department from other available moneys.

**Defeasance**

When principal of and premium, if any, and interest on a Waterworks Bond have been duly paid, the pledge and lien and all obligations under the Resolution will thereby be discharged as to that Waterworks Bond and it will no longer be deemed to be outstanding. There will be deemed to be such due payment if the Waterworks Department has placed in escrow or in trust with a Trust Bank, an amount of moneys and Federal Securities, the maturing principal and interest on which will be sufficient to meet all such payment requirements of the Waterworks Bond, as such requirements become due to the fixed maturity date of the Waterworks Bond or to any Redemption Date or Redemption Dates as of which the Waterworks Department will have exercised or will have obligated itself to exercise its prior redemption option by a call of the Waterworks Bond thereafter maturing for payment on such date.

Notwithstanding anything in the Bond Resolution to the contrary, there shall be deemed to be due payment of all Waterworks Bonds outstanding required under the Bond Resolution in the event that a Substitute Issuer shall succeed to the Waterworks Department in the manner provided in the Bond Resolution and the Indenture by delivering to each holder of Waterworks Bonds outstanding, including the Bond Bank, and the Trustee Substitute Obligations and Agreements as provided in the Bond Resolution and the Indenture, at which time the provisions of the Resolution and the Waterworks Bonds outstanding of the Waterworks Department shall be deemed terminated, defeased and discharged.

**Tax Covenants**

The Waterworks Department covenants that it will not take any action or fail to take any action with respect to any 2011A Waterworks Revenue Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on any 2011A Waterworks Revenue Bonds pursuant to section 103 of the Code, nor will the Waterworks Department act in any other manner which would adversely affect such exclusion. The covenants of the Waterworks Department contained in this section are based solely on current law in effect and in existence on the date of delivery of such 2011A Waterworks Revenue Bonds.

**Events of Default and Remedies**

Events of default and remedies therefor under the Resolution include but are not limited to the following:
Failure to pay principal and interest of any of the Waterworks Senior Bonds, or any redemption premium due in connection therewith, as it becomes due and payable.

Default in the performance or observance of any other of the covenants, contained in the Waterworks Senior Bonds or in the Resolution, and such default continues for 90 days after written notice.

Failure by any provider of a Credit Facility to pay the purchase price of Waterworks Senior Bonds under any Credit Facility then in effect or delivery to the Waterworks Department by a provider of a Credit Facility of written notice stating that an "event of default" has occurred under any Credit Facility Agreement relating to Senior Bonds.

Delivery to the Waterworks Department by a Qualified Provider of written notice stating an "event of default" has occurred under any Senior Hedge Agreement.

Upon the happening and continuance of any event of default, the holder or holders of not less than a majority in principal amount of the Waterworks Senior Bonds then outstanding or the Trustee therefor may proceed against the Waterworks Department either for the appointment of a receiver or for the specific performance of any covenant or agreement contained in the Resolution or by an award of execution of any power therein granted for the enforcement of any proper, legal, or equitable remedy as such holder or holders may deem most effectual to protect and to enforce the rights aforesaid, or thereto enjoin any act or thing which may be unlawful or in violation of any right of any holder of any Senior Bond, or to require the Waterworks Department to act as if it were the trustee an expressed trust, or any combination of such remedies. All such proceedings at law or in equity will be instituted, had, and maintained for the equal benefit of all holders of the Waterworks Senior Bonds then outstanding.

Upon the happening of any event of default, the Waterworks Department will do and perform all proper acts on behalf of and for the holders of the Waterworks Senior Bonds to protect and to preserve the security created for the payment of the Waterworks Senior Bonds and to insure the payment of the Waterworks Senior Bonds promptly as the same become due. During any period of default, so long as any of the Waterworks Senior Bonds are outstanding, all Net Revenues will be paid into the Bond Fund, and, to the extent such revenues, if any, exceed the payment requirements of the outstanding Waterworks Senior Bonds and Hedge Payments under Senior Hedge Agreements, both accrued and to accrue to their respective fixed maturity dates or to any Redemption Date or Redemption Dates pertaining thereto, whichever is earlier, if any, into any like account or like accounts for any outstanding Waterworks Subordinate Bonds. If the Waterworks Department fails or refuses to proceed as provided in the Bond Resolution, the holder or holders of not less than a majority in principal amount of the Waterworks Senior Bonds then outstanding, after demand in writing, may proceed to protect and to enforce the rights of the holders of the Waterworks Senior Bonds as hereinafore provided; and to that end any such holders of outstanding Waterworks Senior Bonds will be subrogated to all rights of the Waterworks Department under any agreement, lease, or other contract involving Net Revenues, or the Waterworks entered into prior to the effective date of this Resolution or thereafter while any such Waterworks Senior Bonds are outstanding.

Nothing in the Bond Resolution or any other instrument of the Waterworks Department will permit the acceleration of the time or times for the payment of the Waterworks Bonds, prior to their respective maturities or other due dates, even if the Waterworks Department defaults in the payment of any such Waterworks Bonds hereunder, except to the extent ordered by a court of competent jurisdiction.

Amendments

Supplemental Resolutions Requiring Consent of Owners.

With the consent of the owners of not less than a majority in aggregate principal amount of outstanding Waterworks Bonds of a class (senior or subordinate), the Waterworks Department may from time to time and at any time adopt a supplemental resolution for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Resolution or of any supplemental resolution; provided, however, that no such supplemental resolution will: (1) extend the maturity date or due date of any mandatory sinking fund redemption with respect to any outstanding Waterworks Bond; (2) reduce or extend the time for payment of
principal of, redemption premium, or interest on any outstanding Waterworks Bond; (3) reduce any premium payable upon the redemption of any bond or advance the date upon which any Waterworks Bond may first be called for redemption prior to its stated maturity date; (4) give to any Waterworks Senior Bond or Waterworks Senior Bonds (or related Senior Hedge Agreements) a preference over any other Waterworks Senior Bond or Waterworks Senior Bonds (or related Senior Hedge Agreements); (5) permit the creation of any Lien on the Net Revenues having a lien equal to or prior to the lien created under the Resolution for the Waterworks Senior Bonds except as permitted in the Bond Resolution; (6) reduce the percentage of owners of either class of Waterworks Bonds required to approve any such supplemental resolution; or (7) deprive the owners of the Waterworks Bonds of the right to payment of the Waterworks Bonds from the Net Revenues, without, in each case, the consent of the owners of all the affected outstanding Waterworks Bonds. No amendment may be made which affects the rights or duties of any provider of a Credit Facility, Reserve Account Credit Facility or any Hedge Agreement without its prior written consent.

If the Waterworks Department intends to enter into or adopt any supplemental resolution, the Waterworks Department will mail, or cause the Registrar to mail, by registered or certified mail, to the holders of the Waterworks Bonds at their addresses as shown on the bond register, a notice of such intention along with a description of such supplemental resolution not less than thirty (30) days prior to the proposed effective date of such supplemental resolution. The consents of the holders of the bonds need not approve the particular form of wording of the proposed supplemental resolution, but it will be sufficient if such consents approve the substance thereof. Failure of the holders of any Waterworks Bond to receive the notice required in the Bond Resolution will not affect the validity of any supplemental resolution if the required number of holders of the Waterworks Bonds will provide their written or deemed consent to such supplemental resolution.

Notwithstanding any provision of the Bond Resolution to the contrary, upon the issuance of a Credit Facility to secure any bonds and for the period in which such Credit Facility is outstanding, the provider of a Credit Facility may have the consent rights of the holders of the bonds which are secured by such Credit Facility pertaining to some or all of the amendments or modifications of the Bond Resolution, to the extent provided in the applicable supplemental resolution. Notwithstanding the foregoing, if a provider of a Credit Facility is granted the consent rights of the holders of any bonds in a supplemental resolution and refuses to exercise such consent rights, either affirmatively or negatively, then the holders of the bonds secured by the related Credit Facility may exercise such consent rights.

Supplemental Resolutions Not Requiring Consent of Owners.

The Waterworks Department, from time to time and at any time, may adopt one or more supplemental resolutions which thereafter will form a part of the Bond Resolution, for any one or more or all of the following purposes:

(a) To add to the covenants and agreements of the Waterworks Department other covenants and agreements thereafter to be observed or to surrender, restrict, or limit any right or power reserved in the Bond Resolution to or conferred upon the Waterworks Department;

(b) To cure any ambiguity, or to cure, correct, or supplement any defective provision;

(c) To subject to the lien and pledge of the Bond Resolution additional revenues, receipts, properties, or other collateral;

(d) To evidence the appointment of successors to any Trustee, Paying Agent(s), or Bond Registrar(s);

(e) To permit the qualification of the Resolution under the Trust Indenture Act of 1939 or any federal statute hereinafter in effect, and similarly to add such other terms, conditions, and provisions as may be permitted or required by such Trust Indenture Act of 1939 or any similar federal statute;
To make any modification or amendment required in order to make any Waterworks Bonds eligible for acceptance by DTC or any similar holding institution or to permit the issuance of any Waterworks Bonds or interests therein in book-entry form;

(g) To modify any of the provisions of the Bond Resolution in any respect if such modification will not become effective until after the Waterworks Bonds outstanding immediately prior to the effective date of such supplemental resolution will cease to be outstanding and if any Waterworks Bonds issued contemporaneously with or after the effective date of such supplemental resolution will contain a specific reference to the modifications contained in such subsequent proceedings;

(h) To permit the qualification of any Waterworks Bonds for offer or sale under the securities laws of any state in the United States of America;

(i) To provide for the issuance of Waterworks Parity Bonds or Waterworks Subordinate Bonds or the entry into a Hedge Agreement or Credit Facility;

(j) To provide for the issuance of Waterworks Parity Bonds or Waterworks Subordinate Bonds, and such modification may deal with any subjects and make any provisions which the Waterworks Department deems necessary or desirable for that purpose; and

(k) To modify any of the provisions of the Bond Resolution in any other respect that the Board of Directors of the Waterworks Department in good faith determines will not have a material adverse affect on the security for the Waterworks Bonds.

Any supplemental resolution authorized by the provisions of this section may be adopted by the Waterworks Department without the consent of or notice to the owners of any of the Waterworks Bonds at the time outstanding.

Board Policy

From time to time, the Board may in its sole discretion adopt policies and procedures which govern the administration and application of the Water Fund and all separate accounts and subaccounts thereof. Such policies and procedures are referred to as "Board Policy" and may be amended or supplemented from time to time in the sole discretion of the Board; however, no moneys may be transferred to any fund of the City except as provided in the Resolution or in the Purchase Agreement as to repayments of City appropriations made pursuant to Indiana Code 5-1.4. Further, such Board Policy shall not change the order of priority of application of Gross Revenues described in "Establishment of Funds and Accounts" herein in a manner which would have a material adverse effect on the rights of the Bond Bank, the Bond Insurer or the holders of the Waterworks Senior Bonds.

The Board Policy in effect on the date hereof requires deposits from the Revenue Fund of the Water Fund to the following accounts in the following order of priority subsequent to the deposits to the Accounts described in "Establishment of Funds and Accounts" in this Appendix B2:

(a) Senior Bond Accrual Account. First, from any moneys remaining in the Revenue Fund, but after the deposits set forth above, there will be transferred and credited to the Senior Bond Accrual Account monthly, the following:

(i) Into the 2002 Interest Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source (including capitalized interest), to pay the next maturing installment of interest on the 2002 Waterworks Revenue Bonds prior to the due date thereof.

(ii) Into the 2002 Principal Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of principal (including...
any mandatory sinking fund or prior redemption payments then due) of the 2002 Waterworks Revenue Bonds, prior to the due date thereof.

(iii) Into the 2005F Interest Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of interest on the 2005F Waterworks Revenue Bonds prior to the due date thereof.

(iv) Into the 2005F Principal Subaccount on the twenty-fifth day of the January or July preceding the first maturing installment of principal (including any mandatory sinking fund payment) of the 2005F Waterworks Revenue Bonds, and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of principal (including mandatory sinking fund or prior redemption payments then due), of the 2005F Waterworks Revenue Bonds prior to the due date thereof.

(v) Into the 2006 Interest Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of interest on the 2006A Waterworks Revenue Bonds prior to the due date thereof.

(vi) Into the 2006 Principal Subaccount on the twenty-fifth day of the January or July preceding the first maturing installment of principal (including any mandatory sinking fund payment) of the 2006A Waterworks Revenue Bonds, and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of principal (including mandatory sinking fund or prior redemption payments then due), of the 2006A Waterworks Revenue Bonds prior to the due date thereof.

(vii) Into the 2007B Interest Subaccount on the twenty-fifth day of the month immediately following the date of issuance and on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of interest on the 2007B Waterworks Revenue Bonds prior to the due date thereof.

(viii) Into the 2007B Principal Subaccount on the twenty-fifth day of the January or July preceding the first maturing installment of principal (including any mandatory sinking fund payment) of the 2007B Waterworks Revenue Bonds, and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of principal (including mandatory sinking fund or prior redemption payments then due), of the 2007B Waterworks Revenue Bonds prior to the due date thereof.

(ix) Into the 2007L Interest Subaccount on the twenty-fifth day of the month immediately following the date of issuance and on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of interest on the 2007L Waterworks Revenue Bonds prior to the due date thereof.

(x) Into the 2007L Principal Subaccount on the twenty-fifth day of the January or July preceding the first maturing installment of principal (including any mandatory sinking fund payment) of the 2007L Waterworks Revenue Bonds, and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source, to pay the next maturing installment of principal (including mandatory sinking fund or prior redemption payments then due), of the 2007L Waterworks Revenue Bonds prior to the due date thereof.
(xi) Into the 2009A Interest Subaccount on the twenty-fifth day of the month immediately following the date of issuance and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other monies from time to time available therefore from whatever source, to pay the next maturing installment of interest on the 2009A Waterworks Revenue Bonds, prior to the due date thereof.

(xii) Into the 2009A Principal Subaccount on the twenty-fifth day of January or July prior to the first maturing installment of principal (including any mandatory sinking fund payment) on the 2009A Waterworks Revenue Bonds and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other monies from time to time available therefore from whatever source, to pay the next maturing installment of principal (including any mandatory sinking fund or prior redemption payments then due) of the 2009A Waterworks Revenue Bonds, prior to the due date thereof.

(xiii) Following the issuance of the 2011A Bonds, into the 2011A Interest Subaccount, commencing on the twenty-fifth day of the month immediately following the date of issuance and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other monies from time to time available therefore from whatever source, to pay the next maturing installment of interest on the 2011A Bonds, prior to the due date thereof.

(xiv) Following the issuance of the 2011A Bonds, into the 2011A Principal Subaccount, commencing no later than the twenty-fifth day of the January or July prior to the first maturing installment of principal (including any mandatory sinking fund payment) on the 2011A Bonds and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other monies from time to time available therefore from whatever source, to pay the next maturing installment of principal (including any mandatory sinking fund or prior redemption payments then due) of the 2011A Bonds, prior to the due date thereof.

The moneys credited to the 2002 Interest Subaccount and the 2002 Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2002 Waterworks Revenue Bonds at least three (3) days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2005F Interest Subaccount and the 2005F Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2005F Waterworks Revenue Bonds at least two (2) Business Days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2006 Interest Subaccount and the 2006 Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and the Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2006A Waterworks Revenue Bonds at least two (2) Business Days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2007B Interest Subaccount and the 2007B Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and the Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2007B Waterworks Revenue Bonds at least two (2) Business Days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2007L Interest Subaccount and the 2007L Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and the Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2007B Waterworks Revenue Bonds at least two (2) Business Days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2009A Interest Subaccount and the 2009A Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and the Principal Account (each within the
Bond Fund) in accordance with the Resolution to pay Debt Service Requirements on the 2009A Waterworks Revenue Bonds at least two (2) business days before the applicable Interest Payment Date or the Principal Payment Date.

Following the issuance of the 2011A Bonds, the moneys credited to the 2011A Interest Subaccount and the 2011A Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and the Principal Account (each within the Bond Fund) in accordance with the Resolution to pay Debt Service Requirements on the 2011A Bonds at least two business days before the applicable Interest Payment Date or the Principal Payment Date.

(b) *Subordinate Bonds and Senior Hedge Termination Payment Accrual Account*. Second, and subject to the above provisions, from any monies remaining in the Revenue Fund, there shall be transferred and credited into the Subordinate Bonds and Senior Hedge Termination Payment Accrual Account monthly commencing on the last business day of the month in which (i) amounts are owed with respect to Subordinate Bonds, (ii) amounts other than Hedge Payments are owed with respect to a Senior Hedge Agreement, or (iii) amounts are owed with respect to Subordinate Reimbursement Obligations in an amount established by the Board pursuant to a supplement to the Board Policy.

(c) *Operating Reserve Account*. Third, and subject to the above provisions, from any moneys remaining in the Revenue Fund, there shall be transferred and credited to the Operating Reserve Account monthly commencing on the last business day of January, 2010, an amount at least equal to 1/12 of the Operating Reserve Requirement (the "ORA Deposit Amount") and each month thereafter until the aggregate amount on deposit in the Operating Reserve Account shall be equal to the Operating Reserve Requirement; provided that the first deposit shall be due no earlier than the last day of the month following the month that the Rate Increase shall be effective. Following the month that the amount held in the Operating Reserve Account first equals the Operating Reserve Requirement, the Issuer shall determine on the last business day of each month thereafter whether the amount on deposit in the Operating Reserve Account is at least equal to the Operating Reserve Requirement. If the amount on deposit is less than the Operating Reserve Requirement, then the difference (the "ORA Deficit Amount") shall be funded by monthly deposits equal to 1/12 of the ORA Deficit Amount ("ORA Deficit Deposit Amount") commencing no later than six months after the date such ORA Deficit Amount is determined. Such monthly deposits shall be subject to the provisions of the Board Policy and made on the last business day of such months from any moneys remaining in the Revenue Fund. Amounts in excess of the Operating Reserve Requirement on the last business day of any month may be transferred to any other Account. Amounts on deposit in the Operating Reserve Account may at any time (i) be transferred to the Operation and Maintenance Fund, (ii) be applied directly to any of the purposes for which amounts credited to the Operation and Maintenance Fund could be applied, (iii) be used to fund a shortfall in any other Account.

(d) *Renewal and Replacement Account*. Fourth, and subject to the above provisions, from any moneys remaining in the Revenue Fund, there will be transferred and credited to the Renewal and Replacement Account monthly, an amount to be established by a supplement to the Board Policy. The Waterworks Department will expend moneys in the Renewal and Replacement Account only to make up deficiencies in the Bond Fund and to pay the cost of, and to create a reserve for the payment of the cost of, capital improvements, extraordinary maintenance, repairs, renewals, and replacements to the Waterworks as are not annually recurring in nature, as determined by the Board of Directors of the Waterworks Department.

(e) *Rate Stabilization Account*. Fifth, and subject to the above provisions, any moneys remaining in the Revenue Fund will be credited monthly commencing on a date to be established by a supplement to the Board Policy to the Rate Stabilization Account, in an amount established by a supplement to the Board Policy. Amounts in the Rate Stabilization Account are to be used for expenditure from time to time for any lawful purpose or purposes of the Waterworks Department pertaining to the Waterworks, at the direction of the Board, including but not limited to the following: (i) to provide for a shortfall of revenues resulting from the seasonality of water usage; (ii) to pay for extraordinary costs related to the Waterworks; (iii) to pay for liabilities of the Waterworks, including any indebtedness from a Hedge Agreement or Reimbursement Obligation; and (iv) to fund a shortfall in any other account. Expenditures from the Rate Stabilization Account will be in accordance with a budget established by the Board. Amounts in the Rate Stabilization Account at the beginning of a Fiscal Year which are deposited into the
Revenue Fund in that Fiscal Year are deemed to be Gross Revenues for the Fiscal Year in which they are deposited into the Revenue Fund, subject to the limitations set forth in the Bond Resolution.

(f) **Department Purposes Account.** Sixth, and subject to the above provisions, any moneys remaining in the Revenue Fund, at least annually by the last business day of each Fiscal Year, there will be transferred and credited to the Department Purposes Account. Moneys in such account, as may be determined and directed from time to time by the Secretary-Treasurer of the Board within the annual budget established by the Board, but subject to any limitations set forth in the Board Policy or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any other combination of the following, as the Secretary-Treasurer of the Board may from time to time determine:

(i) To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the Waterworks, or any part thereof, and any equipment therefor, authorized by law;

(ii) To pay the costs of extraordinary and major repairs, renewals, replacements, or maintenance items pertaining to any properties of the Waterworks of a type not recurring annually or at shorter intervals and not otherwise paid as Operation and Maintenance Expenses;

(iii) To fund any shortfall in any other Account;

(iv) To pay any liabilities of the Waterworks Department, including City-County PILOT Payments and indebtedness not consisting of Waterworks Bonds; and

(v) For any other lawful purpose of the Waterworks Department.
APPENDIX B3

DEFINITIONS

Certain capitalized terms used in the Official Statement and the appendices are defined as follows:

"Acquire" or "Acquisition" includes the acquisition, purchase and assumption, or any combination thereof, of the assets and liabilities by the Waterworks Department under the Asset Purchase Agreement.

"Act" means the provisions of Indiana Code 5-1.4 and Indiana Code 5-1.5.

"Additional Bonds" means bonds issued pursuant to the Indenture and any supplemental indenture.

"Additional Qualified Obligations" means any Qualified Obligation which is payable from Net Revenues on a parity with the 2002 Waterworks Revenue Bonds by the Original Qualified Entity or any Substitute Qualified Obligation which is payable from net revenues of the Substitute Qualified Entity on a parity with the Substitute Qualified Obligations delivered in accordance with the Indenture.

"Adjusted Debt Service Requirements" means the Debt Service Requirements; provided that the following assumptions shall be used to calculate the Debt Service Requirements for certain types of Waterworks Bonds as follows:

(a) With respect to Tender Bonds, the Debt Service Requirements due on the option or obligations of the holders of such Waterworks Bonds to tender the same for purchase or payment prior to the stated maturity shall be treated as a principal maturity occurring on the first date on which the owners of the Tender Bonds may or are required to tender such Tender Bonds, except that any such option or obligation to pay upon a tender of Tender Bonds shall be ignored and not treated as a principal maturity if the Tender Bonds are rated in the two highest short term rating categories (without regard to any rating refinement or gradation by numerical modifier or otherwise) by a rating agency;

(b) With respect to Reimbursement Obligations as provided in the Bond Resolution, no Debt Service Requirements will be deemed to arise under the related Credit Facility Agreement as such Reimbursement Obligations are deemed to be a part of the Waterworks Bonds to which such Credit Facility relates unless at the time of the calculation the Waterworks Department is required to pay the provider an accelerated principal amortization with respect to related Waterworks Bonds, in such case, the Debt Service Requirements with respect to the related Bonds shall be calculated based on the accelerated principal amortization schedule;

(c) With respect to Variable Rate Bonds, the interest rate on such Variable Rate Bonds shall be assumed to be 100% of the greater of (i) the average daily interest rate on such Variable Rate Bonds during the twelve months ending with the month preceding the date of calculation, or such shorter period that the Variable Rate Bond shall have been outstanding or (ii) the rate of interest on such Variable Rate Bonds on the date of calculation; provided that with respect to any Variable Rate Bonds which is being issued on the date of the computation, the initial rate of such Variable Rate Bonds upon issuance shall be used;

(d) With respect to Balloon Bonds, for purposes of determining the Debt Service Requirements payable on account of the Bonds, such Balloon Bonds shall be deemed to be amortized on a level debt service basis over the lesser of the term of 30 years or the actual term of the Balloon Bonds, assuming the interest rate shall be the 30 year revenue bond index, or the revenue bond index related to the actual term of the Balloon Bonds published by The Bond Buyer ("RBI") no more than two weeks prior to the date of calculation, or any similar index selected by the Waterworks Department; and

(e) With respect to Bond Anticipation Notes, for purposes of determining the Debt Service Requirements payable on account of the Bond Anticipation Notes, such Bond Anticipation Notes shall be deemed amortized on a level debt service basis over a term of 30 years, assuming the interest rate shall be the RBI published
no more than 2 weeks prior to the date of calculation or if that index is no longer published, a similar index selected by the Issuer.

(f) If there is a Hedge Agreement in effect with respect to Hedged Bonds which are Variable Rate Bonds, for purposes of determining the Debt Service Requirements payable on account of the Hedged Bonds the interest rate on the Hedged Bonds shall be deemed to be the rate set forth in the Hedge Agreement for the applicable period and the variable rate.

"Adjusted Net Revenues" means for any period Net Revenues adjusted to reflect increases or decreases resulting from the following:

(a) rates in effect at the time of the issuance of the proposed series of additional Waterworks Parity Bonds;

(b) revenues anticipated to be generated based upon rates established (and to be placed in effect within two years from the date of issuance of the proposed series of additional Waterworks Parity Bonds) and a rate resolution adopted by the Waterworks Department prior to the issuance of the proposed series of additional Waterworks Parity Bonds;

(c) additional Net Revenues anticipated to result from any addition, extension or improvement to the Waterworks that the Waterworks Department has constructed and that is in operation on the date of issuance of the proposed series of additional Waterworks Parity Bonds but which was not in operation during the Test Period;

(d) additional Net Revenues anticipated to result from the operation of existing facilities or existing collection systems that the Waterworks Department will acquire or commence operating and with the proceeds of the proposed series of additional Waterworks Parity Bonds; and

(e) changes in Operation and Maintenance Expenses and City-County PILOT Payments anticipated to result from any additions, extensions and improvements to the System to be financed with the proposed series of additional Waterworks Parity Bonds.

"Aggregate Average Annual Debt Service Requirement" means the arithmetical average of the Adjusted Debt Service Requirements for the remaining Fiscal Years during which Waterworks Bonds are outstanding.

"Balloon Bonds" mean bonds having a term of longer than 60 months and 25% or more of the principal which matures on the same date and which portion of the principal of such indebtedness is not required to be amortized by payment or redemption prior to such date.

"Bond Anticipation Notes" shall mean any notes in the anticipation of the issuance of Waterworks Bonds.

"Bond Bank" means The Indianapolis Local Public Improvement Bond Bank, an entity created pursuant to the Act by, but separate from, the City in its corporate capacity or any successor to its functions.

"Bond Bank Common Reserve Requirement" shall mean at any time 50% of the Combined Maximum Annual Principal and Interest Requirements.

"Bond Bank Series Reserve Requirement" means the amount, if any, established by a Supplemental Indenture as the reserve requirement for a Series of Additional Bonds.

"Bond Counsel" means counsel that is nationally recognized in the area of municipal law and matters relating to the exclusion of interest on municipal bonds from gross income under federal tax law.

"Bond Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.
"Bond Year" means the twelve-month period beginning January 2 and ending January 1.

"Bonds" means, collectively, the 2002 Bonds, the 2005F Bonds, the 2006A Bonds, the 2007B Bonds, the 2007L Bonds, the 2009A Bonds, the 2011E Bonds and any Additional Bonds.

"Business Day" means, with respect to the 2011E Bonds, a day other than a Saturday, a Sunday, a legal holiday or a day on which banking institutions in Indianapolis, Indiana or New York, New York are authorized by law or executive order to close or a day on which the Federal Reserve Bank is closed.

"Cash Flow Certificate" means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture.

"Certified Rate" means the interest rate set forth in a certificate of the Bond Bank or the Waterworks Department, as the case may be, executed on or prior to the date of initial issuance of a series of Bonds or Waterworks Senior Bonds bearing interest at a variable rate, which interest rate shall be an assumed rate per annum equivalent to the Municipal Market Data AAA Bond Scale (the "MMD") for bonds with a maturity of 30 years; provided if the average maturity of the Bonds or Waterworks Senior Bonds being issued is less than 30 years, the assumed rate shall be the MMD for such average maturity. If at the time of the issuance of such Bonds or Waterworks Senior Bonds the MMD is no longer published, the Bond Bank or the Waterworks Department shall select a comparable index.

"City" means the City of Indianapolis, Indiana.

"City-County PILOT Payments" means the payments in lieu of taxes imposed on the Waterworks Department by the City and by Marion County, Indiana.

"Code" means the Internal Revenue Code of 1986, as in effect on the date of issuance of the 2011E Bonds, and the applicable judicial decisions or published rulings, or any applicable regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954 as in effect immediately prior to the enactment of the Tax Reform Act of 1986.

"Combined Maximum Annual Principal and Interest Requirements" means the maximum aggregate amount of principal of and interest on all Bonds or Waterworks Senior Bonds, as the case may be, which have a claim for payment on the Bond Bank Common Reserve Account or the Waterworks Common Reserve Subaccount, as the case may be, falling due in any succeeding Fiscal Year. With respect to Bonds or Waterworks Senior Bonds bearing interest at a variable interest rate, the Bond Bank or the Waterworks Department may elect that the rate of interest used for this purpose with respect to such Bonds shall be a rate equal to either (i) the Certified Rate, or (ii) the "25 Bond Revenue Index" as most recently published in The Bond Buyer prior to the date a firm offer to purchase the then proposed Bonds or Waterworks Senior Bonds is accepted by the Bond Bank or the Waterworks Department, or if such index is no longer published, such other reasonably comparable index selected by the Bond Bank or the Waterworks Department. Notwithstanding the foregoing, if the Bond Bank or the Waterworks Department enters into a Hedge Agreement or Senior Hedge Agreement with respect to all or a portion of a series of Bonds or Waterworks Senior Bonds bearing interest at a variable interest rate, the Bond Bank or the Waterworks Department may elect that the rate of interest for this purpose with respect to such Bonds or Waterworks Senior Bonds (or portion thereof) with respect to which there is a Hedge Agreement or Senior Hedge Agreement in effect shall be the interest rate paid by the Bond Bank or the Waterworks Department under the Hedge Agreement or Senior Hedge Agreement.

"Corporate Trust Office" means with respect to the Trustee its corporate trust office situated in Indianapolis, Indiana. The Trustee may hereafter designate alternate Corporate Trust Offices and any successor Trustee shall designate its Corporate Trust Office by written notice delivered to the Notice Parties.

"County" means Marion County, Indiana.
"Credit Facility" shall mean a letter of credit, line of credit, insurance policy, standby purchase agreement or other similar credit facility issued by a municipal bond insurer, financial institution, trust company, insurance company or association which provides for the payment of principal or purchase price of, or interest on any Series of Bonds or Waterworks Bonds or a portion thereof.

"Credit Facility Agreement" shall mean any agreement between the Waterworks Department or the Bond Bank and the provider of any Credit Facility.

"Credit Facility Provider" means any provider of a Credit Facility, and its successors and permitted assigns.

"Debt Service Requirements" means with respect to a period of time for which calculated, the aggregate of the payments required to be made by the Waterworks Department in respect of principal whether at maturity or as a result of a mandatory prepayment, and the interest on outstanding Waterworks Senior Bonds and any Hedge Payments or Hedge Receipts with respect to Senior Hedge Agreements; however excluding such principal or interest payments on Waterworks Senior Bonds to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied and are sufficient to pay such principal of, premium, if any, or interest on the scheduled payment dates at maturity or redemption; provided, further that in calculating the Debt Service Requirements for such period, the principal amount of any Waterworks Senior Bonds included in such calculation which is paid during such period shall be excluded to the extent such amount is paid from a source other than the Net Revenues, including but not limited to the proceeds of Waterworks Bonds.

"District" means the waterworks district of the Waterworks Department and includes all the territory served by the Waterworks as set forth in the Enabling Legislation.

"Enabling Legislation" means, collectively, Indiana Code 8-1.5, Indiana Code 36-3-4-23, City-County General Ordinance No. 112, 2001, and other authorizing statutes applicable to the Waterworks Department or the City, including Indiana Code 5-1-14, Indiana Code 5-1.4, Indiana Code 36-1-3 and Indiana Code 36-9-2-14.

"Event of Default" means an event of default described in the Indenture or the Resolution.

"Federal Securities" or "Governmental Obligations" shall mean and include, to the extent permitted by law, any of the following securities, if and to the extent the same are at the time legal for investment of funds of the Bond Bank or the Waterworks Department:

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a) held by a banking institution or trust company as custodian, under which the owner of the investment is a real party, in interest and has the right to proceed directly and individually against the obligor on the obligations described in this clause (a), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; or

(b) any bonds or other obligations of any state or governmental unit thereof, the interest on which is exempt from federal income taxation and which are rated at such time in the then highest rating category of two or more Rating Agencies; or

(c) any bonds or other obligations of any federal agency or corporation which has or may hereafter be created pursuant to Congress as an agency or instrumentality of the United States; or

(d) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor
prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on
the date specified in the notice, (ii) which are fully secured as to principal and interest and redemption premium, if
any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) above
which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on
such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates
pursuant to such irrevocable instructions, as appropriate, and (iii) as to which the principal of and interest on the
bonds and obligations of the character described in clause (a) above which have been deposited in such fund along
with any cash on deposit in such fund is sufficient to pay principal of and interest and redemption premium, if any,
on the bonds or obligations described in this clause (d) on the maturity date or dates thereof or on the redemption
date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (d), as appropriate; or

(e) any agreements or contracts with insurance companies or other financial institutions, or
subsidiaries or affiliates thereof (hereinafter in this clause (e) referred to as "Providers"), (i) whose outstanding
unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a
"financial programs rating" or other equivalent rating, in the highest whole rating category by at least two Rating
Agencies or (ii) whose obligations under such agreements or contracts shall be unconditionally guaranteed by
another insurance company or other financial institution, or subsidiary or affiliate thereof, whose outstanding
unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a
"financial programs rating" or other equivalent rating, in the highest whole rating category by at least two Rating
Agencies, pursuant to which agreements or contracts the Provider shall be absolutely, unconditionally and
irrevocably obligated to repay the monies invested by the Bond Bank or the Waterworks Department and interest
thereon at a guaranteed rate, without any right of recoupment, counterclaim or set off. The Provider may have the
right to assign its obligations under any investment agreement to any other insurance company or other financial
institution, or subsidiary or affiliate thereof; provided, however, that such assignee also shall be an insurance
company or other financial institution, or subsidiary or affiliate thereof, satisfying the requirements set forth in either
clause (i) or clause (ii) of the preceding sentence; or

(f) any other bonds or obligations approved by the applicable provider of a Credit Facility.

With respect to the Bonds and Waterworks Revenue Bonds, "Government Obligations" means:

(a) United States Treasury Certificates, Notes and Bonds (including State and Local Government
Series - "SLGs").

(b) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS
and similar securities.

(c) Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which
have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(d) Pre-refunded municipal bonds rates "Aaa" by Moody's and "AAA" by S&P. If however, the issue
is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded
with cash, direct United States or United States guaranteed obligations, or AAA rated pre-refunded municipals to
satisfy this condition.

(e) Obligations issued by the following agencies which are backed by the full faith and credit of the
United States:

(i) United States Export-Import Bank (Eximbank)
    Direct obligations or fully guaranteed certificates of beneficial ownership

(ii) Farmers Home Administration (FmHA)
    Certificates of beneficial ownership

(iii) Federal Financing Bank
(iv) General Services Administration
Participation certificates

(v) United States Maritime Administration
Guaranteed Title XI financing

(vi) United States Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
United States Public Housing Notes and Bonds - United States government
  guaranteed public housing notes and bonds.

"Fees and Charges" means fees and charges established by the Bond Bank from time to time pursuant to the
Act which are payable by the Qualified Entity.

"Fiscal Year" means, with respect to the Waterworks Department, the calendar year or any other twelve
month period selected by the Waterworks Department from time to time as its fiscal year and, with respect to the
Bond Bank, the twelve month period from January 1 through the following December 31.

"Gross Revenues" means all income and revenues received or accrued under generally accepted accounting
principles derived directly or indirectly by the Waterworks Department from the water and any other goods and
services provided by, or from the operation and use of and otherwise pertaining to, the Waterworks, including,
without limitation, all rates, fees, and other charges for the use of the Waterworks, or for any service rendered by the
Waterworks Department in the operation thereof, or any part thereof, directly or indirectly, the availability of any
such service or the sale or other disposal of any commodity derived therefrom, but excluding any moneys borrowed
and used for the acquisition, construction, installation, improvement or equipping of capital improvements and any
moneys received as grants, appropriations or gifts from the United States, the State, or other sources, the use of
which is limited by the grantor or donor to the acquisition, construction, installation, improvement, or equipping of
capital improvements for the Waterworks, except to the extent any such moneys shall be received as payments for
the use of the Waterworks, services rendered thereby, the availability of any such service or the disposal of any such
commodities. "Gross Revenues" shall also include: (a) all income or other gain from the investment of such income
and revenues and of the proceeds of the Waterworks Bonds; (b) all amounts withdrawn from the Rate Stabilization
Account, if any, and deposited in the Revenue Fund in accordance with the Bond Resolution.

"Hedge Agreement" means, to the extent from time to time permitted by law, any financial arrangement
entered into by the Bond Bank or the Waterworks Department with respect to the Bonds (or bonds issued by the
Waterworks Department) for the purpose of moderating interest rate fluctuations or any other purpose, (i) which is
entered into with an entity that is a Qualified Provider at the time the arrangement is entered into; (ii) which is any
of the following, or any combination thereof, or any option with respect thereto: a cap, floor or collar; forward rate;
future rate; swap, or such other exchange or rate protection transaction agreement; or other similar transaction
(however designated); and (iii) which has been designated in writing to the Trustee by the Bond Bank or the
Waterworks Department as a Hedge Agreement with respect to all or a portion of the notional principal amount of
such Bonds.

"Hedge Payments" means amounts payable by the Waterworks Department or the Bond Bank, as the case
may be, pursuant to any Hedge Agreement, excluding any termination payments, fees, expenses, and indemnity
payments.

"Hedge Receipts" means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge
Agreement, excluding termination payments, fees, expenses, and indemnity payments.

"Hedged Bonds" means any Bonds or Waterworks Bonds with respect to which the Bond Bank or the
Waterworks Department as the case may be, shall have entered into a Hedge Agreement.
"Indenture" means the Original Indenture, and as previously supplemented by the 2004 Supplemental Indenture, the 2005F Supplemental Indenture, the 2005G Supplemental Indenture, the 2005H Supplemental Indenture, the 2006A Supplemental Indenture, the 2007B Supplemental Indenture, the 2007L Supplemental Indenture, the 2009A Supplemental Indenture, the 2011E Supplemental Indenture and as further supplemented and amended from time to time.

"Independent Accountant" means any certified public accountant, or any firm of certified public accountants, duly licensed to practice and practicing as such under the laws of the State, as from time to time appointed and compensated by the Board of Directors of the Waterworks Department on the behalf and in the name of the Waterworks Department who is not a director or employee of the Waterworks Department, but who may be regularly retained to make annual or similar audits of any books or records of the Waterworks Department.

"Insurance Agreement" means, the Municipal Bond Insurance Agreement among the Qualified Entity, the Bond Bank and MBIA Insurance Corporation, as amended and supplemented from time to time.

"Interest Payment Date" means each date on which interest is to become due on any Bonds or Waterworks Bonds as the case may be.

"Investment Earnings" means earnings and profits (after consideration of any accrued interest paid and amortization of premium or discount on the investment) on the moneys in the funds and accounts established under the Indenture, except the Rebate Fund.

"Investment Securities" means, with respect to the 2011E Bonds, any of the following:

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

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

(i) U.S. Export-Import Bank (Eximbank)
    Direct obligations or fully guaranteed certificates of beneficial ownership

(ii) Farmers Home Administration (FmHA)
    Certificates of beneficial ownership

(iii) Federal Financing Bank

(iv) Federal Housing Administration Debentures (FHA)

(v) General Services Administration
    Participation certificates

(vi) Government National Mortgage Association (GNMA or "Ginnie Mae")
    GNMA - guaranteed mortgage-backed bonds
    GNMA - guaranteed pass-through obligations
    (not acceptable for certain cash-flow sensitive issues.)

(vii) U.S. Maritime Administration
    Guaranteed Title XI financing

(viii) U.S. Department of Housing and Urban Development (HUD)
    Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

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

(i) Federal Home Loan Bank System
   Senior debt obligations

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

(iii) Federal National Mortgage Association (FNMA or "Fannie Mae")
     Senior debt obligations

(iv) Student Loan Marketing Association (SMLA or "Sallie Mae")
     Senior debt obligations

(v) Resolution Funding Corp. (REFCORP) obligations

(vi) Farm Credit System
    Consolidated system wide bonds and notes

(d) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating of S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aal or Aa2.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

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

(g) Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

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

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

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

(k) Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer. Repurchase agreements (repos) provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Bond Bank (buyer/lender),
and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Bond Bank in exchange for the securities at a specified date.

(i) Repos must be between the Bond Bank and a dealer bank or securities firm

   (A) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's, or

   (B) Banks rated "A" or above by S&P and Moody's Investor Services.

(ii) The written repo contract must include the following:

   (A) Securities which are acceptable for transfer are:

       (1) Direct obligations of the United States of America, or

       (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

   (B) The term of the repo may be up to 30 days

   (C) The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agency for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

   (D) Valuation of Collateral

       (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

           (a) The value of collateral must be equal to 104% of the amount of cash transferred by the Bond Bank to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Bond Bank, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

"Lien" means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on the Waterworks or the Gross Revenues in favor of, or which secures any obligation to, any other entity or Person including any lien created by a capital lease.

"Net Revenues" means the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses. No determination of the Gross Revenues, Operation and Maintenance Expenses, or Net Revenues for purposes of the Resolution shall be adjusted to reflect the following items, unless the Board of Directors of the Waterworks Department determines, in its discretion, to make such adjustment: (i) any gain or loss resulting from the extinguishment of indebtedness or the sale, exchange or other disposition of assets not in the ordinary course of business, (ii) any unrealized gain or loss on investments, (iii) any unrealized changes in value of a Hedge Agreement or other derivative instrument, (iv) any extraordinary items under generally accepted accounting principles from time to time, or (v) any changes in generally accepted accounting principles becoming effective after the issuance of the 2011E Bonds.

"Operation and Maintenance Expenses," or any phrase of similar import, means all reasonable and necessary current expenses of the Waterworks Department, determined under generally accepted accounting
principles, of operating, maintaining, and repairing the Waterworks, but excluding interest expense and any allowance for depreciation or amortization; further, the term includes, without limitation: (a) the Service Fee (as defined in the initial Management Agreement) to be paid to the initial Manager pursuant to the Management Agreement and any similar or comparable management fees to be paid to any future Manager of all or a portion of the Waterworks; (b) engineering, auditing, reporting, legal, planning, regulatory, and other overhead expenses relating to the administration, operation, and maintenance of the Waterworks; (c) fidelity bond and property and liability insurance premiums pertaining to the Waterworks, or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the Waterworks; (d) payments to pension, retirement, health, and hospitalization funds, and other insurance, and to any self-insurance fund as insurance premiums not in excess of such premiums which would otherwise be required for such insurance; (e) any general taxes, payments in lieu of taxes (except City-County PILOT Payments), assessments, excise taxes, or other charges which may be lawfully imposed on, or paid by, the Waterworks Department, the Waterworks, revenues therefrom, or the Waterworks Department's income from or operations of any properties under its control and pertaining to the Waterworks, or any privilege in connection with the Waterworks or its operation; (f) the reasonable charges of the Trustee, paying agent, registrar and any other depositary bank, fiduciary or receiver under the Resolution pertaining to the Waterworks Bonds; (g) contractual services, professional services, salaries, other administrative expenses, and costs of materials, supplies, repairs, and labor, pertaining to the Waterworks; (h) any costs of utility services furnished to the Waterworks; (i) any lawful refunds of any Net Revenues; (j) the cost of funding any amount due the United States as rebate payments under section 148(f) of the Code, and the cost of calculating and verifying the amount of such rebate payments; (k) fees and charges payable to the Bond Bank pursuant to the Purchase Agreement; and (l) all other administrative, general, and commercial expenses incurred by the Waterworks Department in connection with the Waterworks.

"Operating Reserve Requirement" means the amount established by the Board in its annual budget which is equal to one twelfth of the annual Operation and Maintenance Expenses (after deducting the expected amount of all payments in lieu of taxes for such period) for the Fiscal Year with respect to which such budget relates.

"Opinion of Counsel" means a written opinion of an attorney or firm of attorneys duly admitted to practice law before the highest court of any state and approved by the Bond Bank addressed to the Trustee for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be counsel to the Bond Bank or counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Original Bond Resolution" means the bond resolution No. 12, 2002 adopted by the Board of Directors of the Original Qualified Entity on March 5, 2002, as amended as of April 22, 2002 authorizing the issuance of the 2002 Waterworks Revenue Bonds, as supplemented and amended from time to time.

"Original Indenture" means the Trust Indenture dated as of April 1, 2002, between the Bond Bank and the Trustee.

"Original Qualified Entity" means the Department of Waterworks of the City of Indianapolis, a qualified entity under IC 5-1.4-1-10.

"Original Qualified Entity Purchase Agreement" means the Qualified Entity Purchase Agreement between the Bond Bank and the Original Qualified Entity authorizing the Bond Bank's purchase of the 2002 Waterworks Revenue Bonds, the form of which was approved at the meeting of the Board of Directors of the Bond Bank on March 18, 2002, and any additional qualified entity purchase agreement entered into by the Bond Bank with respect to a series of Waterworks Revenue Bonds with the Original Qualified Entity.

"Original Qualified Obligation" means a Security (as that term is defined in the Act) issued by the Original Qualified Entity, including the 2002 Waterworks Revenue Bonds, which has been acquired by the Bond Bank pursuant to the Indenture.

"Permitted Investments" means the investments permitted by Indiana Code 5-13, as amended from time to time.
"Person" means a corporation, firm, other body corporate (including, without limitation, the federal government, the State, or any other body corporate and politic other than the Waterworks Department), partnership, association, or individual, and also includes an executor, administrator, trustee, receiver, or other representative appointed according to law.

"Pledged Bond" means any Bond or Waterworks Bond purchased and held by an issuer of a Credit Facility pursuant to a Credit Facility Agreement. A Bond or Waterworks Bond shall be deemed a Pledged Bond only for the actual period during which such Bond or Waterworks Bond is owned by the provider of a Credit Facility pursuant to a Credit Facility Agreement.

"Pledged Bond Rate" means the rate of interest payable on the Pledged Bonds, as may be provided in a Credit Facility or Credit Facility Agreement.

"Pledged Funds" means the Senior Pledged Funds, the Series Pledged Funds and any funds, accounts or subaccounts created by the Waterworks Department which are pledged to secure the payment of one or more series of Waterworks Subordinate Bonds.

"Policy" means the financial guaranty policy guaranteeing the payment of scheduled principal of and interest on the Bonds, except for the 2009A Bonds and the 2011E Bonds, issued by the Bond Insurer.

"Principal Payment Date" means each date on which principal is to become due on any Bonds or Waterworks Bonds, by maturity or mandatory sinking fund redemption.

"Program" means the program for the purchase of Qualified Obligations by the Bond Bank pursuant to the Act and the Indenture.

"Program Expenses" means all of the Bond Bank's expenses in carrying out and administering the Program pursuant to the Indenture and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, credit enhancement fees, liquidity facility, fees, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Trustee, the registrar and the paying agent (as defined in the Indenture), costs of verifications required under the Indenture, costs of issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization, life and disability insurance benefits, any other costs permitted under the Act, and rebates, if any, which in the opinion of nationally recognized bond counsel are required to be made under the Code in order to preserve or protect the exclusion from gross income for federal tax purposes of interest on the 2011E Bonds, all to the extent properly allocable to the Program.

"Purchase Agreement" means a Qualified Entity Purchase Agreement between the Waterworks Department and the Bond Bank or a Substitute Qualified Entity Purchase Agreement.

"Purchase Contract" means the Bond Purchase Agreement with respect to the 2011E Bonds between the Bond Bank and the Underwriters.

"Qualified Entity" means the Waterworks Department, a qualified entity under Indiana Code 5-1.4-1-10(a) or any Substitute Qualified Entity, as the context requires.

"Qualified Obligation" means a Security (as that term is defined in the Act) issued by the Qualified Entity, including the Waterworks Revenue Bonds, which has been acquired by the Bond Bank pursuant to the Indenture or any Substitute Qualified Obligation.

"Qualified Obligation Payment" means the amounts paid or required to be paid, from time to time, for principal and interest by the Qualified Entity to the Bond Bank on the Qualified Entity's Qualified Obligation and any Fees and Charges paid or required to be paid by any Qualified Entity to the Bond Bank under the provisions of any agreement for the purchase and sale of Securities (as defined in the Act).
"Qualified Provider" means a counterparty whose senior long term debt obligations, or whose obligations under a Hedge Agreement or Reserve Account Credit Facility are guaranteed by an entity whose senior long term debt obligations, are rated in one of the three highest Rating Categories by a Rating Agency which then has a rating in effect for the applicable series of Bonds at the time the subject Hedge Agreement or Reserve Account Credit Facility is entered into.

"Rate Stabilization Account" means any special and separate account created by the Waterworks Department in the Water Fund in its discretion as described in the Resolution.

"Rating Agencies" or "Rating Agency" means Fitch, Moody's or S&P.

"Redemption Date" means the date fixed for the redemption prior to their respective fixed maturity dates of any Bonds or Waterworks Bonds in any notice of redemption.

"Reimbursement Obligation" shall mean any obligation of the Bond Bank or the Qualified Entity to reimburse the provider of any Credit Facility for any payment made by the provider under such Credit Facility pursuant to, or any other obligation of the Bond Bank to repay any amounts, including, but not limited to, fees or Additional Interest (as defined in the Indenture) to such provider pursuant to any Credit Facility Agreement.

"Reserve Account Credit Facility" means any surety bond, any insurance policy, letter of credit, or line of credit, deposited in the Waterworks Reserve Account in lieu of or in partial substitution for moneys on deposit therein, the issuer of which at the time of deposit of such Reserve Account Credit Facility is a Qualified Provider.

"Resolution" or "Bond Resolution" means the Bond Resolution adopted by the Waterworks Department, as supplemented and amended from time to time or any Substitute Bond Resolution, as the context requires.

"Revenues" means the income, revenues and profits of the Funds and Accounts (both as defined in the Indenture) referred to in the granting clauses of the Indenture including, without limitation, all Qualified Obligation Payments and Investment Earnings, but excluding amounts required to be deposited and maintained in the Rebate Fund.

"Senior Hedge Agreement" means any Hedge Agreement relating to Hedged Bonds which are Waterworks Senior Bonds.

"Senior Pledged Funds" means initially, the Interest Account, the Principal Account and the Hedge Payments Account and any other funds, accounts or subaccounts created by the Waterworks Department which are pledged to secure the payment of all the Waterworks Senior Bonds and any Hedge Payments related to the Waterworks Senior Bonds whether described pursuant to the Resolution or any supplemental resolution.

"Series of Bonds" or "Bonds of a Series" or "Series" or words of similar meaning means any Series of Bonds authorized by the Indenture or by a supplemental indenture.

"Series Reserve Account" shall mean the special and separate Series Reserve Accounts within the Debt Service Reserve Fund as may be established by a Supplemental Indenture.

"Series Reserve Requirement" means the amount, if any, established by a Supplemental Indenture as the reserve requirement for a Series of Additional Bonds.

"State" means the State of Indiana.

"Substitute Bond Resolution" means any bond resolution adopted by a Substitute Qualified Entity in accordance with the Indenture.
"Substitute Issuer" means the board, department or instrumentality of the City, or a nonprofit entity acting on behalf of the City, which has succeeded to the rights of the City or the Board of Directors of the Waterworks Department with respect to the Waterworks in the manner provided in the Resolution.

"Substitute Obligations and Agreements" means the bonds or other obligations of the Substitute Issuer and the bond resolution or indenture and qualified entity purchase agreement with the Bond Bank entered into by the Substitute Issuer in the manner described in the Bond Resolution.

"Substitute Qualified Entity" means any substitute qualified entity under IC 5-1.4-1-10 that substitutes for the Original Qualified Entity as the Qualified Entity hereunder pursuant to the Indenture.

"Substitute Qualified Entity Purchase Agreement" means any qualified entity purchase agreement between the Bond Bank and a Substitute Qualified Entity, entered into in connection with a series of Bonds.

"Substitute Qualified Obligation" means a Security (as that term is defined in the Act) issued by a Substitute Qualified Entity, which has been acquired by the Bond Bank pursuant to the Indenture.

"Tender Bonds" mean bonds which are subject to tender by the holders thereof on an optional or a mandatory basis for purchase or payment prior to the state of maturity thereof.

"Trust Bank" means the Trustee and any banking institution which is also authorized to exercise and is exercising trust powers, and also means any branch of the Federal Reserve Bank.

"Trustee" means U.S. Bank National Association (as successor to National City Bank of Indiana), and including any successor Trust Bank which may at any time be substituted in its place as such a trustee.


"2002 Waterworks Revenue Bonds" means the City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2002A (Tax-Exempt).

"2004 Supplemental Indenture" means the 2004 Supplemental Trust Indenture dated as of March 1, 2004, between the Bond Bank and the Trustee.

"2005F Bonds" means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2005F (Waterworks Project).

"2005F Supplemental Indenture" means the 2005F Supplemental Trust Indenture, dated as of November 1, 2005, between the Bond Bank and the Trustee.

"2005F Waterworks Revenue Bonds" means the City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2005F.

"2005G Supplemental Indenture" means the 2005G Supplemental Trust Indenture, dated as of November 1, 2005, between the Bond Bank and the Trustee, which supplements the Original Indenture.

"2005H Supplemental Indenture" means the 2005H Supplemental Trust Indenture dated as of November 1, 2005, between the Bond Bank and the Trustee.

"2006A Bonds" means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2006A (Waterworks Project).

"2006A Supplemental Indenture" means the 2006A Supplemental Trust Indenture, dated as of February 1, 2006, between the Bond Bank and the Trustee, which supplements and amends the Original Indenture.
"2006A Waterworks Revenue Bonds" means the City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2006A.


"2007B Supplemental Indenture" means the 2007B Supplemental Trust Indenture, dated as of March 1, 2007, between the Bond Bank and the Trustee, which supplements and amends the Original Indenture.

"2007B Waterworks Revenue Bonds" means the City of Indianapolis, Indiana, Waterworks District Net Revenue Refunding Bonds, Series 2007B.

"2007L Bonds" means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2007L (Waterworks Project).

"2007L Supplemental Indenture" means the 2007L Supplemental Trust Indenture, dated as of December 1, 2007, between the Bond Bank and the Trustee, which supplements and amends the Original Indenture.

"2007L Waterworks Revenue Bonds" means the City of Indianapolis, Indiana Waterworks District Net Revenue Bonds, Series 2007L.

"2009A Bonds" means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009A (Waterworks Project).

"2009A Bond Insurer" means Assured Guaranty Corp.

"2009A Supplemental Indenture" means the 2009A Supplemental Trust Indenture, dated as of July 1, 2009, between the Bond Bank and the Trustee, which supplements and amends the Original Indenture.

"2009A Waterworks Revenue Bonds" means the City of Indianapolis, Indiana Waterworks District Net Revenue Bonds, Series 2009A.

"2011E Bonds" means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2011E (Waterworks Project).

"2011A Waterworks Revenue Bonds" means the City of Indianapolis, Indiana Waterworks District Net Revenue Bonds, Series 2011A.

"Underwriters" means Morgan Stanley & Co. Inc., as representative of the purchasers named in the Purchase Contract.

"Variable Rate Bonds" means bonds which bear interest at a variable interest rate.

"Waterworks" means the right, title and interest in, under and to all of the assets, properties and rights used and useful in the business of storing, supplying, distributing, and selling water to the public, and in providing ancillary services thereto, as described in the Asset Purchase Agreement, the acquisition of which was approved by the Waterworks Department by resolution on February 22, 2002 (after a public hearing following public notice, as required by the Enabling Legislation) and consisting of all properties, real, personal, mixed, tangible, intangible or otherwise, now owned by the City or the Waterworks Department or hereafter acquired by the Waterworks Department through purchase, construction or otherwise, and used in connection with such Waterworks of the Waterworks Department, and in any way pertaining thereto, all as located in or as necessary for or appropriate for or supporting the operation of the District, including, without limitation, machinery, apparatus, structures, buildings and related or appurtenant furniture, fixtures and other equipment, as such Waterworks is from time to time extended, bettered or otherwise improved, or any combination thereof.
"Waterworks Bonds" means any revenue bonds or notes of the Waterworks Department payable from Net Revenues including the Waterworks Revenue Bonds, any Waterworks Parity Bonds, and any Waterworks Subordinate Bonds.

"Waterworks Common Reserve Requirement" means at any time fifty percent (50%) of the combined maximum annual principal and interest requirements of the Waterworks Senior Bonds which have a claim for, payment from the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year.

"Waterworks Department" means the Department of Waterworks of the City.

"Waterworks Parity Bonds" means any additional Waterworks Bonds issued by the Waterworks Department, the principal of, premium if any, and interest on which are payable from Net Revenues on a parity with the Waterworks Bonds and which are issued in accordance with the requirements of the Resolution.

"Waterworks Reserve Requirement" means the Waterworks Common Reserve Requirement and any Waterworks Series Reserve Requirement.


"Waterworks Senior Bonds" means the Waterworks Revenue Bonds and any Waterworks Parity Bonds.

"Waterworks Series Reserve Requirement" means the amount, if any, established by a supplemental resolution as the reserve requirement for one or more particular series of Waterworks Parity Bonds.

"Waterworks Series Reserve Subaccount" means any special and separate subaccount within the Reserve Account of the Bond Fund as may be established by a supplemental resolution.

"Waterworks Subordinate Bonds" means Waterworks Bonds issued with a right to payment from the Net Revenues and secured by a lien on the Net Revenues or any portion thereof expressly junior and subordinate to the Waterworks Senior Bonds and includes any obligation to repay the Bond Bank any moneys with interest thereon as mutually agreed upon for advances or credits provided to the Waterworks Department.

"Waterworks Subordinate Hedge Agreement" means any Hedge Agreement relating to Hedged Bonds which are Waterworks Subordinate Bonds.

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APPENDIX C
SUMMARY OF MANAGEMENT AGREEMENT

The Department of Waterworks of the Consolidated City of Indianapolis, Indiana (the “Waterworks Department”) has entered into a Management Agreement with Veolia Water Indianapolis, LLC (previously US Filter Operating Services Inc.) (the “Manager”). Pursuant to the Management Agreement, the Manager will run the day to day operation and maintenance of the Waterworks, including, among other functions, raw water supply, treatment and distribution, billing, collection and other customer services, certain capital planning, engineering, inspection, construction administration and project management services. Certain capitalized terms used in this summary are defined at the end of this APPENDIX C.

Term of the Management Agreement

The Management Agreement was executed as of March 21, 2002. The initial term of the Management Agreement is 20 years from the Commencement Date, subject to early termination. The Commencement Date was April 30, 2002. The Management Agreement was terminated in September 2010, but the Manager is obligated to continue to perform the services provided for in the Management Agreement through the closing of the Pending Acquisition.

Department Ownership of and Authority Over the Waterworks Assets

The Waterworks Department shall retain ownership and control of all of the assets of the Waterworks. In addition, the Waterworks Department will retain authority to:

(a) maintain oversight and policy making;
(b) review, approve and fund Capital Plans developed by the Manager;
(c) seek rate relief before IURC;
(d) pay property tax or provide for payments in lieu of taxes;
(e) conduct negotiations and provide legal support for and approve all intergovernmental, wholesale water and water services agreements;
(f) obtain debt financing; and
(g) monitor contract compliance of the Management Agreement.

Manager Operation, Maintenance and Management of the Waterworks

The Manager has agreed to provide uninterrupted, safe, timely, professional and reliable management of the Waterworks in a cost effective and businesslike manner and in accordance with Prudent Utility Practice. The services the Manager will provide include: (a) maintenance, repair and operation of all of the structures, facilities, equipment, materials and grounds of the Waterworks; (b) compliance with applicable standards, requirements and guidance documents, including, but not limited to, the Public Health Service Act, Indiana’s Public Water Supply Act, any IURC service quality standards (and assumption of responsibility for fines and penalties imposed by the IURC, IDEM, IDNR or any other governmental body or agency due generally to the Manager’s negligence); (c) implementation of a state of the art and fully functional computerized maintenance management and reporting program and system for the Waterworks; (d) assessment of and appropriate adjustment to routine operating procedures to improve efficiency and quality of the Waterworks; (e) conduct of Field Operations and disposal of residual sludges; (f) maximization of the Waterworks’ ability to reduce effluent pollution discharges; (g) providing support to the Waterworks Department related to the planning and implementation of Capital Projects; (h)
maintaining, generating, filing and providing to the appropriate entity in a timely manner, all reports, information, notices and records; (i) obtaining, maintaining and meeting all applicable federal, state and local certifications, regulatory, licenses and permit requirements, including, but not limited to, Water Withdrawal Permits, permits required by the Clean Water Act and Clean Air Act and construction permits issued under IDEM’s Drinking Water Permit Program or the Federal Safe Drinking Water Act; (j) providing all services relating to billing, collections and customer service; (k) maintaining and supporting relationships with other City departments, agencies, neighboring jurisdictions and advisory committees as approved by the Waterworks Department; (l) providing quarterly unaudited financial statements and annual audited financial statements of the Manager and the Guarantor to the Waterworks Department and (m) assumption of IWC contracts relating to the Waterworks.

Service Fee

The Service Fee (the “Service Fee”) comprises the Fixed Fee and the Incentive Fee (each as defined herein). The structure of the Fixed Fee and Incentive Fee complies with strict requirements of Revenue Procedure 97-13.

Fixed Fee. The Fixed Fee (the “Fixed Fee”) is a fixed annual amount the Waterworks Department shall pay the Manager for the Services. The Fixed Fee will be billed the first day of each Billing Month and paid by the thirtieth (30th) day of the same month.

Beginning with the second Billing Year and during the first five full Billing Years, the Fixed Fee was adjusted annually on each January 1, by the lesser of (i) two and one half percent (2.5%) or (ii) 88.6% of the Annual Increase in the CPI. Effective May 1, 2007, the Fixed Fee is to be adjusted by the increase from the prior Billing Year based on the New Composite Price Index (described below). This adjustment will also apply to the Additional Services the Waterworks Department may pay the Manager for any architectural, engineering and construction services provided by the Manager during the term of the Management Agreement. See “Capital Projects.”

The New Composite Price Index is a multiplier consisting of a basket of published indices, including labor, utilities, and chemical indices as well as the Consumer Price Index. As of the fifth and tenth anniversary of the effective date of the First Amendment (as defined herein), which effective date is June 26, 2007, the Manager will re-calculate the New Composite Price Index by adjusting the weighting factor applied to each of the published indices. Pursuant to the First Amendment, the Manager will re-calculate the weighting factors based on the approximate actual costs of the Manager for the twelve (12) months preceding the dates of the recalculation.

Incentive Fee. The Waterworks Department will pay all or a part of the Incentive Fee (the “Incentive Fee”) to the Manager each year based on the Manager’s satisfaction of six general categories of performance measures:

(a) customer service (35%);

(b) water quality (30%);

(c) capital asset replacement cycle (10%);

(d) capital investment adjustment (reward for reducing capital investment by the Waterworks Department) (5%);

(e) technical operations and maintenance requirements (10%); and

(f) discretionary measures (e.g., creative ideas, WBE/MBE, bringing new resources to Waterworks) (10%).

Each of the categories contains sub categories with detailed performance measures. To the extent the Manager fully satisfies a performance measure, it will be paid the percentage related to the applicable subcategory.

For each Billing Quarter during a Billing Year, the Waterworks Department will pay the Manager 60% (the “Interim Percentage”) of the Maximum Incentive Fee for such Billing Year divided by four. This percentage of the
Incentive Fee shall be paid by the 45th day after the end of each Billing Quarter (“Periodic Payments”). Some or all of the performance measures used to calculate the Maximum Incentive Fee may be assessed as of the last day of each Billing Quarter and the Waterworks Department may adjust such Periodic Payments before the end of the Billing Quarter to reflect the Waterworks Department’s assessment of the Manager’s attainment of the required performance measures. However, a final assessment and report of such measures for each Billing Year shall be made within forty five (45) days of the last day of the fourth Billing Quarter of each Billing Year. Any difference between the Periodic Payment paid to the Manager and the Incentive Fee earned by the Manager determined pursuant to the final assessment will be paid to the appropriate party within fifteen (15) days of receiving such report.

Capital Projects

The Manager is required to examine the Waterworks each year, develop a rolling five year Capital Plan for the Waterworks and present that Capital Plan to the Waterworks Department for review, comment, modification and approval. The initial Capital Plan must be submitted to the Waterworks Department within ninety (90) days after the Commencement Date. The Capital Plan must set forth, in specific detail, the projects to be contemplated, all schedules information, all costs, including but not limited to items such as, construction, installation, design, planning, scoping, construction administration, construction inspection, project management, and administration. The Capital Plan shall also include the schedule for each of these activities, priority (high medium, low), and reason for each project listed on the Capital Plan.

After the initial submittal, the Manager will be required to submit to the Waterworks Department a revised Capital Plan by May 31 of each year during the term of the Management Agreement.

Re-negotiations of the Management Agreement

Pursuant to the requirements of Revenue Procedure 97-13, should a change in the Fixed Fee become necessary or appropriate, the Waterworks Department and the Manager must renegotiate such change in accordance with Revenue Procedure 97-13, and subject to the approval of the Board of the Waterworks Department. The Management Agreement may be re-negotiated in the event of an Uncontrollable Circumstance.

In addition, the Incentive Fee may be renegotiated only after the first five years of the Management Agreement, in the event that:

(a) the 12 month moving annual average of daily finished water demand increases or decreases by 5 million gallons per day, or

(b) the customer base increases or decreases by 10,000 customers, or

(c) a new water treatment plant, major water treatment plant upgrade, a decommissioning of a water treatment plant, or a major system configuration change due to a Capital Project that has a significant impact on operation and maintenance costs.

Finally, should the Waterworks Department acquire or dispose of Waterworks assets resulting in an increase or decrease of more than 2,000 residential customers of the Waterworks or a gain or loss of commercial customers for the Waterworks with average daily consumption of at least 100,000 gallons, the parties shall, in compliance with Revenue Procedure 97-13 and the Agreement, renegotiate the Agreement and the Fixed Fee.

First Amendment to the Management Agreement

Pursuant to the preceding section, the Board of Directors of the Department of Waterworks (the “Board”) and the Manager executed the First Amendment to the Management Agreement (“First Amendment”) on June 26, 2007, because the Board’s disposal of certain assets in Clay Township, Hamilton County, to the City of Carmel, Indiana, resulted in a decrease of approximately 8,800 residential customers.
In addition to the changes to the Management Agreement described above, the First Amendment:

(1) Replaced the Consumer Price Index inflationary device in Section 5.02(b) with the New Composite Price Index, which consists of a multiplier based on a basket of published indices, including labor, utilities and chemical indices as well as the Consumer Price Index, in order to approximate the actual costs of the Manager;

(2) Added, due to individual unit costs equal to or greater than Five Thousand Dollars ($5,000), meters, hydrants, valves, and service taps to the definition of Capital Project;

(3) Requires the Waterworks Department to pay the Manager a total of $5,000,000 (in installments of approximately $1.7 Million per year during the billing years 2007, 2008 and 2009) to compensate the Manager for a portion of the Manager's unexpected expenses incurred in the years 2002 through 2006 related to meters, hydrants, valves and service taps;

(4) Increases the Fixed Fee by $316,690 beginning in 2008 (limited to $211,307 in 2007) in order to compensate the Manager for the Manager's increased operation and maintenance expenses due to the White River North and Geist Capital Projects;

(5) Provides that the Fixed Fee may increase or decrease by the amount that the Manager's operation and maintenance expenses increase or decrease as a result of any new capital projects or new decommissioning projects and provides a sample of how the Waterworks Department and the Manager may calculate such future adjustments to the Fixed Fee;

(6) Makes an additional increase to the Fixed Fee of $1,156,511 beginning in 2008 (limited to $772,507 in 2007) to compensate the Manager for additional operation and maintenance expenses due to the growth of the Waterworks;

(7) Makes an additional increase in the Fixed Fee of $366,132 beginning in 2007 to compensate the Manager for performing additional services related to various activities including, among others, investigating and reporting on water quality and water system security strategies;

(8) Requires the Waterworks Department to reimburse the Manager for the Manager’s additional operation and maintenance expenses incurred under the Enhanced Atrazine Monitoring Program required of the Manager by the Indiana Department of Environmental Management; and

(9) Clarified the Waterworks Department’s and the Manager’s Retiree Medical Benefit Obligations such that the Manager will pay all such benefits claims for eligible union employees who vested in their right on or after January 1, 2005, to the extent those claims are incurred from January 1, 2005, through April 30, 2022, the date the term of the Management Agreement expires. In addition, any additional retiree medical benefits granted to any of the Manager’s employees hired after May 12, 2004, are the sole responsibility of the Manager. Finally, the Waterworks Department and the Manager have agreed to work together to address the post April 30, 2022, retiree medical benefits actuarial liabilities and actual claims and expenses.

Personnel

_IWC Transferred Employees’ Employment Terms._ The Manager will recognize the IWC union, assume any current IWC collective bargaining agreement, as amended (“CBA”) and offer employment to all union and non union IWC employees, contingent upon their passing a drug test (to the extent permitted by the CBA). IWC Transferred Employees will be offered positions and wages or salary that are substantially comparable to the employee’s position and wages or salary at the time such employee’s employment with IWC ended. Employees will not be employed by the Waterworks Department or the City. Generally, IWC Transferred Employees will receive the same retirement and welfare benefits the Manager offers to its similarly situated employees, except as otherwise required by the CBA or specifically provided in the Management Agreement.
The Manager expects to continue Retiree Medical Benefits for all current IWC retirees and active IWC Transferred Employees who vest in the Retiree Medical Benefit on or before December 31, 2004 and as required by the CBA. The Waterworks Department will retain the Grantor Trust and intends to contribute to the Grantor Trust the amount required in the IURC Order establishing the Grantor Trust, as amended. The Manager will administer the Retiree Medical Benefits, which includes providing insurance for the retirees, paying premiums and claims, monitoring retiree eligibility and reporting on the Grantor Trust to the appropriate governmental agencies. To the extent the Manager provides Retiree Medical Benefits to retirees who first vest after December 31, 2004, the Manager shall contribute to the Grantor Trust the amount required to fund such retiree’s benefits. In no event will the Utility Data Corporation retirees be paid out of the Grantor Trust.

**Key Personnel.** The Manager has appointed Hal Gurkin as the “Operations Manager.” The Operations Manager shall be responsible for the direct supervision of the daily activities of Manager personnel employed to operate, support and monitor all activities associated with the Services and will be the primary Manager liaison with the Waterworks Department. The Waterworks Department selected the Manager to perform the Services contemplated under the Agreement based, in part, on the past successful experience and expertise of the designated Operations Manager and the Manager’s key personnel, including the Operations Manager (the “Key Personnel”). The Manager shall designate no fewer than three of its top managers as Key Personnel within sixty (60) days of the Commencement Date. Absent Waterworks Department approval, the Manager shall not replace any Key Personnel. In the event the Manager desires to replace any Key Personnel for any reason, the Manager shall provide the Waterworks Department with ninety (90) day’s advance written notice or as much notice as is reasonably practicable under the circumstances. The Waterworks Department may require the Manager to remove or replace any Key Personnel, with or without cause at any time. The Waterworks Department, in its discretion, reserves the right to reject any candidate the Manager proposes as a replacement or substitute Key Personnel.

**Indemnification and Limitation of Liability**

**Indemnification.** The Manager has agreed that it will defend, indemnify and hold harmless the Waterworks Department Parties from and against all liabilities, obligations, claims, losses, expenses (including attorneys’ fees) of every kind and nature whatsoever (including, but not limited to, actual or alleged violation of any law, ordinance, regulation, order, other judicial or administrative decree or any common law duty), claim incurred by third parties, (each, a “Liability” and collectively, “Liabilities”), arising for or by reason of the Manager’s negligent duties, obligations or performances under the Management Agreement, that actually or allegedly is caused by or results from, in whole or in part, any negligent act or omission of a Manager Party or that is proximately caused by the Manager’s conduct in terminating Retiree Benefits.

The Manager has agreed to use reasonable best efforts to incorporate this indemnification obligation in all subcontracts entered into with suppliers of materials or services, and all labor organizations who furnish skilled and unskilled labor, or who may perform any such labor or services in connection with a contract entered into hereunder.

The Manager’s indemnity obligation includes indemnification for all reasonable expenses, court costs and attorney fees, including those incident to appeals incurred by or imposed upon the Department Parties in connection with enforcement or defense of the Department Parties’ right to indemnity hereinabove provided. In addition, the Manager has agreed that the Department Parties may employ any attorney (or attorneys) of their choice and/or may use its in house counsel in a matter or to enforce or defend the Department Parties’ right to the indemnity hereinabove provided. However, if the Department Parties engage their own legal counsel, and the Manager has engaged or offered to engage legal counsel to defend the Department Parties in the matter, the Department Parties will bear their own costs and expenses of their legal counsel, unless the Manager’s and Department Parties’ positions in the matter are in conflict, in which case all reasonable costs and expenses of the Department Parties’ legal counsel will be borne by the Manager.

The Manager will not indemnify and defend the Department Parties for Liability arising from the underground contamination of Department property, including environmental remediation or clean up, except to the extent such contamination was caused or aggravated by the Manager’s management, operation or maintenance of the Waterworks in violation of duties imposed under the Management Agreement. If property or groundwater contamination is discovered and was caused or aggravated by the Manager Parties’ operation or maintenance of the Waterworks in violation of duties imposed under the Management Agreement, then the costs associated with such
Liability shall be apportioned between the Manager and the person responsible for such costs (or the Waterworks Department, if no responsible other person can be identified), if and to the extent it is possible to divide such costs, according to the degree of responsibility the law assigns to each. If the costs associated with such Liability cannot be apportioned in accordance with the immediately preceding sentence of this section, the Manager and the Waterworks Department will equally share the costs. The Management Agreement does not alter any Liability the Waterworks Department may have prior to the Commencement Date for environmental remediation, environmental restoration, environmental repair or natural resources damages, under the Indiana Solid Waste Management Board’s Hazardous Waste Management regulations, the Comprehensive Environmental Response, Compensation and Liability Act, the Solid Waste Disposal Act, and the Federal Water Pollution Control Act.

**Limitation of Liability.** The Manager and the Waterworks Department acknowledge and agree that because of the unique nature of the undertakings contemplated by the Management Agreement, it is difficult or impossible to determine with precision the amount of damages that would or might be incurred by the Waterworks Department or the Manager as a result of a breach of the Management Agreement. In no event, however, shall the Department Parties or the Manager Parties be liable for or obligated in any manner, except to the extent of indemnification of claims of third parties pursuant to the Management Agreement, to pay incidental, special, punitive, consequential or indirect damages of any nature to the other party because of a breach of the Management Agreement (including acts of negligence, omissions or strict liability), warranty, delay or otherwise, arising out of the performance or nonperformance by the Department Parties or the Manager Parties of their obligations under the Management Agreement, including, without limitation, suits by third persons, incurred by it whether occurring during or subsequent to the performance of the Management Agreement.

Notwithstanding the above, the Manager will not be liable for matters that are Pre Closing On Site Conditions or Pre Closing Product Liabilities or that were caused by material misrepresentations of fact. However, if appropriate under the circumstances, the Manager will first seek indemnification from a third party prior to seeking indemnification from the Waterworks Department. If there exists a mutual mistake, unless one party has greater ability to determine or discover the mistake in advance, neither party will seek indemnification from the other.

**Insurance, Letter of Credit and Guaranty**

*Insurance Procurement; Duty to Maintain; Obligation to Provide Continuous Coverage.* The Management Agreement provides that the Manager, on its own behalf and on behalf of anyone directly or indirectly employed by it for whose acts or omissions it may be liable, shall secure, or cause to be secured, and maintain, at its cost and expense, including premium payments, certain insurance coverage and policies in such form and substance as are satisfactory to the Waterworks Department, which coverage and policies must also comply, at a minimum, with the general requirements, including the policy limits, set out in the Management Agreement. All insurance coverage required to be obtained by the Manager under the Management Agreement must be secured prior to the Commencement Date and the policies must be continuously maintained through the term of the Management Agreement. The Manager must assure continuous coverage if any policy is canceled, not renewed or materially changed. The Manager will, at its own expense, pay such extra premium as required to assure no lapse of coverage for any time period.

*Letter of Credit.* As security for the performance of the Manager under the Management Agreement, the Manager has agreed during the term of the Management Agreement and continuing thereafter until all monetary obligations of the Manager have been discharged, to provide the Waterworks Department with an irrevocable, direct draw letter of credit in a form satisfactory to the Waterworks Department, and in the amount of forty million dollars ($40,000,000). Upon the occurrence of a Manager Default, the Waterworks Department may draw on such letter of credit in amounts which the Waterworks Department determines, in its reasonable discretion, to be appropriate. Each bank at which such letter of credit is established and/or maintained will be subject to the approval of the Waterworks Department. Each such bank will be instructed that it is to honor any draft the Waterworks Department may present, without prior notice to the Bank. Also, such bank shall be instructed that it shall have no objection rights to payment to the Waterworks Department and that the Manager or the Guarantor shall not have first claim rights to such letter of credit.

*Guaranty.* As additional security for the Manager’s performance under the Management Agreement, the Guarantor has unconditionally and irrevocably guaranteed the Manager’s performance of all of the Manager’s
obligations under the Management Agreement, and the payment of all sums owed pursuant to the Management Agreement. In addition, Guarantor shall also be liable for the payment of any damages sustained by the Waterworks Department as a result of any fraud or material misrepresentation of the Manager or any losses or damages sustained by the Waterworks Department from or in connection with hazardous materials or wastes (as those terms are defined in the Management Agreement) and/or any other environmental pollution in connection with the Premises, provided any such losses or damages are attributable to the Manager’s use and operation of the Waterworks in breach of its obligations as specified in the Management Agreement. The aggregate maximum liability of the Guarantor under the Guaranty shall not exceed one hundred fifty million dollars ($150,000,000) in the aggregate; provided, however, this maximum amount excludes: (i) any claims or amounts paid through insurance coverages; (ii) claims of personal injury, death or property damage by third parties; or (iii) claims or damages arising due to the willful acts or gross negligence of the Manager.

Events of Default

**Events of Default by the Manager.** The occurrence of any of the following, subject to the notice and opportunity to cure period, if any applicable thereto, shall constitute Events of Default by the Manager (each, a “Manager Default”):

(a) persistent and repeated failure or refusal of the Manager to perform timely any obligation under the Management Agreement;

(b) failure of the Manager to pay amounts owed to the Waterworks Department under the Management Agreement within thirty (30) days following the date they become due and owing;

(c) failure of the Manager to meet any NPDES permit conditions or requirements on a regular basis;

(d) failure to comply with the Waterworks Department’s inspection rights as provided for in the Management Agreement;

(e) failure to secure and maintain the insurance required under the Management Agreement;

(f) failure to maintain solvency, as determined under the applicable definition of “insolvent” contained in 11 U.S.C. §101(32), as amended;

(g) the default of the Guarantor under the Guarantee; or

(h) failure to secure and maintain the Letter of Credit as required by, and in accordance with, the terms set forth in the Management Agreement.

**Events of Default by the Department.** The following shall constitute Events of Default on the part of the Waterworks Department (each, a “Department Default”):

(a) persistent and repeated failure or refusal of the Waterworks Department to perform timely any material obligation under the Management Agreement; or

(b) failure of the Waterworks Department to pay amounts owed to the Manager under the Management Agreement within thirty (30) days following the time they become due and payable.

**Default Notices and Opportunity to Cure.** With the exception of a termination of the Management Agreement by the Manager for an Department Default, the Management Agreement shall not be terminated for an Event of Default unless and until (i) the party contemplating termination gives the offending party written notice in reasonable detail of each Event of Default the offending party is alleged to have committed or permitted (a “Default
Termination of the Management Agreement

**Termination of the Management Agreement for a Manager Default.** If the Waterworks Department gives the Manager notice of the occurrence of a Manager Default under sections (a), (b) or (d) of the section described as “Events of Default by the Manager” above, and the Manager Default is not cured within thirty (30) days (or such longer period as may reasonably be required to diligently effect such cure) following delivery of the Default Notice to the offending party. Notwithstanding the foregoing, if there are repeated Manager Defaults under sections (a) through (d) of the section described as “Events of Default by the Manager” above, regardless of attempts by the Manager to cure the same, the Waterworks Department, in its sole discretion, may terminate the Management Agreement without giving a Default Notice or affording the Manager a period to cure.

**Termination of the Management Agreement for an Department Default.** If the Manager gives the Waterworks Department a Default Notice of the occurrence of an Department Default, and such Department Default is not cured within the period set forth therein, the Manager may terminate the Management Agreement.

**Termination for Labor Unrest.** If, on or after the Commencement Date, personnel employed by the Manager and performing services pursuant to the Manager’s obligations under the Management Agreement shall go on a labor strike or slowdown, or if a work stoppage, walkout or secondary boycott shall occur, for any reason or cause whatsoever, and such act or event effectively prevents the Manager from performing its material obligations under this the Management Agreement, the Waterworks Department, during the pendency of the period in which performance is prevented, may, in its sole discretion, by notice to the Manager, terminate the Management Agreement immediately.

**Termination for Uncontrollable Circumstances.** If an Uncontrollable Circumstance shall occur after the Commencement Date relative to a material obligation of the Manager or the Waterworks Department under the Management Agreement and such Uncontrollable Circumstance or the effect thereof prevents performance of such material obligation for a period of thirty (30) days, the Waterworks Department and the Manager shall, during or after such thirty (30) day period, meet to review the situation. If, despite the good faith efforts of the parties to reach an agreement, no agreement is reached within a reasonable time considering the nature and extent of the Uncontrollable Circumstance, either party may terminate the Management Agreement upon notice to the other party.

**Termination for Insufficient Funding.** In the event sufficient funds to pay for the Service Fee are unavailable, through the failure of any entity to appropriate funds or otherwise, the Waterworks Department shall have the right to terminate the Management Agreement upon thirty (30) days prior notice.

**Termination for Adverse Tax Treatment.** If the IRS or any other federal or state taxing authority issues or fails to issue any ruling, or imposes any requirement or obligation, in connection with the Waterworks Department, the Manager or the Management Agreement, which would adversely affect the tax exempt status of any bonds issued by the Waterworks Department (in the sole judgment of the Waterworks Department), the Waterworks Department may terminate the Management Agreement upon thirty (30) days notice to the Manager.

**Termination for Breach of Assignment Provision.** The Manager will not (i) assign or transfer the Management Agreement or its right, title or interests or obligations therein, in whole or in part, or (ii) voluntarily or involuntarily undergo a Change in Control without, in each instance, the Waterworks Department’s advance written approval, which the Waterworks Department has the sole discretion to withhold. Violation of this section will constitute a breach of the Management Agreement and the Waterworks Department may, in its sole discretion, terminate the Management Agreement.
**Remedies of the Department.** If the Waterworks Department terminates the Management Agreement as described under “Termination of the Management Agreement for a Manager Default” or “Termination for Labor Unrest” above, the Waterworks Department shall have the right to seek legal and equitable remedies provided by law. If the Waterworks Department terminates the Management Agreement as described under “Termination for Labor Unrest” above, the Waterworks Department shall pay the Manager in addition to those payments and reconciliation amounts for the Service Fee, the Manager’s out of pocket costs as of the date of the termination, which shall in no event be greater than the amount of one Billing Month’s Fixed Fee determined using the Billing Month of the termination.

If (i) the Waterworks Department terminates the Management Agreement as described under “Termination for Uncontrollable Circumstances,” “Termination for Insufficient Funding,” or “Termination for Adverse Tax Treatment” above, or for failure of the parties to agree on a renegotiation of the Management Agreement, or (ii) the Manager terminates the Management Agreement as described under “Termination of the Management Agreement for *Manager* Default” or “Termination for Uncontrollable Circumstances” above, the Waterworks Department shall pay the Manager, in addition to those payments and reconciliation amounts for the Service Fee, its unamortized costs incurred in (i) developing, starting up and performing its obligations under the Management Agreement, including excess personnel costs during the first two (2) years following the Commencement Date as well as its work in process at the time of termination and (ii) the aggregate amount of expenses expended by the Manager under the plans listed below and their successor plans:

(a) IWC Resources Corporation Employees’ Pension Plan;

(b) IWC Resources Corporation Executive Supplemental Benefit Plan;

(c) IWC Resources Corporation Deferred Compensation Plan;

(d) Medicare Supplemental Health Insurance; and

(e) IWC Resources Corporation Group Insurance Plan, as it relates to medical benefits for retirees,

after substantiating such costs to the reasonable satisfaction of the Waterworks Department, not to exceed one Billing Year’s Fixed Fee determined using the Billing Year of the termination.

**Services after Termination of Management Agreement.** If the Waterworks Department or the Manager terminates the Management Agreement, the Manager shall, from the date of the notice of termination, make fully available its managers and employees performing services at the Waterworks for at least six months after the termination date to continue to perform all the operation, maintenance, repair and management services contemplated in the Management Agreement. The Waterworks Department may determine that it requires a lesser amount of services, managers, employees and intellectual property in order to provide a smooth and orderly transition of the operations and maintenance of the Waterworks to Waterworks Department administrators, managers and personnel or, as applicable, the Waterworks Department’s contracted private Manager; provided, however, in no event shall such provision of Services by the Manager exceed the twentieth (20th) anniversary date of the Management Agreement as measured from the Commencement Date.

**Manner of Termination Payment.** All performance and payment obligations under the Management Agreement, including payment of the Service Fee that is due and owing, shall continue pursuant to the terms of the Management Agreement until the Management Agreement terminates and any amount accrued but unpaid prior to termination shall, if due and owing, be payable in accordance with the Management Agreement. Except as otherwise specifically provided in the Management Agreement with respect to the time of payment following termination, within ninety (90) days following termination of the Management Agreement, the Waterworks Department and the Manager shall reconcile all amounts then due and payable to each other under the terms of the Management Agreement. Upon reaching, as a result of such reconciliation, the total amount of the outstanding unpaid balance which the Waterworks Department and the Manager owe the other, the Waterworks Department and the Manager shall, within thirty (30) days thereafter, make the final payments in complete discharge of their obligations under the Management Agreement, except those obligations which survive the termination or expiration
of the Management Agreement. The Management Agreement has been terminated in September 2010, but the Manager is obligated to continue to perform the services provided for the Management Agreement through the closing of the Pending Acquisition. See “THE WATERWORKS DEPARTMENT – Pending Acquisition and Transfer of Assets of the Waterworks System.”

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**Definitions**

“Acceptable Raw Water” means all raw water, the use of which is not prohibited by Applicable Law and which does not include substances that: (a) create a fire or explosive hazard at the Waterworks; or (b) are present in concentrations that exceed concentrations detected in the five year historical data of the Waterworks.

“Affiliate” means the Guarantor, the Manager, and any corporation, partnership, joint venture or other entity controlled by, controlling or under common control with, directly or indirectly, the Guarantor, the Manager or any one of such entities. Solely for purposes of determining a Change in Control, “Affiliate” shall have the meaning ascribed to it in that Section.

“Applicable Law(s)” means any federal, State, Department or local statute, law, municipal charter provision, regulation, ordinance, rule, mandate, judgment, order, decree, permit, code or license requirement or other governmental requirement or restriction, or any interpretation or administration of any of the foregoing by any governmental authority, which applies to the services or obligations of either party under the Management Agreement, whether now or hereafter in effect.

“Asset Purchase Agreement” means the Asset Purchase Agreement by and among the City, NiSource Inc. and IWC Resources Corporation dated November 26, 2001, pursuant to which the Asset Purchase Transaction shall have been consummated.

“Asset Purchase Transaction” means the asset purchase transaction by and among the City, NiSource Inc. and IWC Resources Corporation contemplated by the Asset Purchase Agreement, whereby the City has acquired the Waterworks from IWC Resources Corporation.

“Billing Month” means each accounting month of the Manager, which is a 4/4/5 week cycle in each Billing Quarter. The first Billing Month shall begin on the Commencement Date, and the first Billing Month of each Billing Year shall begin on January 1 and the last Billing Month of each Billing Year shall end on December 31, and the last Billing Month shall end concurrently with the end of the term or date of termination of the Management Agreement.

“Billing Quarter” means a calendar quarter comprising three (3) Billing Months, except that (a) the first Billing Quarter shall commence on the Commencement Date and end on last accounting day of March, June, September or December, depending on which quarter the Commencement Date occurs and (b) the last Billing Quarter shall end concurrently with the end of the term or, as applicable, the date of termination, of the Management Agreement.

“Billing Year” means a calendar year comprising twelve (12) Billing Months, except that (a) the first Billing Year shall commence on the Commencement Date and end on December 31 immediately following the Commencement Date and (b) the last Billing Year shall end concurrently with the end of the term or, as applicable, the date of termination, of the Management Agreement.

“Bond Bank” means The Indianapolis Local Public Improvement Bond Bank.

“Bond Documents” include the terms of the Bond Resolution approving the Waterworks Department’s municipal bonds, the tax representation certificate related thereto, the bond purchase agreement with the Bond Bank and the trust indenture securing the Bond Bank’s bonds issued to purchase the Waterworks Department’s bonds.

“Capital Project” means (i) an item that will be of a long term nature having a useful life in excess of three years, as defined by manufacturers’ specifications and (ii) those items that require a modification, alteration, addition to, and or improvement to an existing facility with a construction, installation (including materials) or purchase value in excess of $5,000 and (iii) replacement of equipment that has met or exceeded its useful life and (iv) items for construction, placement of new facilities (e.g. piping, equipment, wells, etc., including material costs) and capital purchases that significantly improve operations and or maintenance, aesthetics, long term capital conditions or other aspects not generally associated with ongoing operations and maintenance.
“CBA” means the current collective bargaining agreement of IWC employees and any collective bargaining agreement that may be negotiated with respect to IWC Transferred Employees.

“Change in Control” means:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d 3 promulgated under the 1934 Act) of 20% or more of either (i) the then outstanding shares of common stock of the Manager (the “Outstanding Manager Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Manager entitled to vote generally in the election of directors (the “Outstanding Manager Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change in Control: (x) any acquisition by the Manager, (y) any acquisition by an employee benefit plan (or related trust) sponsored or maintained either by the Manager or any corporation controlled by the Manager (for purposes of this section, only, “Affiliate”), or (z) any acquisition by a corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i), (ii) and (iii) of subsection (b) of this Section are satisfied; or

(b) Approval by the shareholders of the Manager of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than 55% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities, as the case may be, (ii) no Person (excluding the Manager, any employee benefit plan (or related trust) sponsored or maintained by the Manager, by an Affiliate, or by such corporation resulting from such reorganization resulting from such reorganization merger or consolidation and any Person beneficially owning immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Manager Common Stock or Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the incumbent board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(c) Approval by the shareholders of the Manager of (i) a complete liquidation or dissolution of the Manager or (ii) the sale or other disposition of all or substantially all of the assets of the Manager, other than to a corporation, with respect to which following such sale or other disposition, (x) more than 55% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership immediately prior to such sale or other disposition, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities, as the case may be, (y) no Person (excluding the Manager and any employee benefit plan (or related trust) sponsored or maintained by the Manager, by an Affiliate or by the corporation purchasing the assets and any Person beneficially owning, immediately prior to such sale or other disposition directly or indirectly, 20% or more of the Outstanding Manager Common Stock or Outstanding Manager Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then
outstanding voting securities of such corporation entitled to vote generally in the election of directors and (z) at least a majority of the members of the board of directors of such corporation were members of the incumbent board at the time of the execution of the initial agreement or action of the board providing for such sale or other disposition of assets of the Manager.

“Change in Law” means the enactment, adoption, promulgation, modification, repeal or change after the Contract Date of any Applicable Law which (a) necessitates or makes advisable a Capital Project, (b) modifies the Manager’s guarantees under this Agreement, (c) increases the Service Fee by establishing requirements with respect to the operation or maintenance of the Waterworks, (d) otherwise impacts the Manager’s ability to perform its obligations under this Agreement, or (e) increases or decreases the rate of State gross retail tax or the rate of the use tax or any other tax and results in increased or decreased operation expenses to the Manager, which, in the case of (a), (b), (c), or (d), are more burdensome than the most stringent requirements:

(1) in effect on the Contract Date;

(2) agreed to by the Waterworks Department as of the Contract Date in any applications for official permits, licenses or approvals to or for the Waterworks, other than any requirements set forth in said applications to comply with Applicable Laws;

(3) in the Performance Guarantees in Exhibit 1 to the Management Agreement; or

(4) in the Operations and Maintenance Standards in Exhibit 2 to the Management Agreement,

and which, in the case of (e), any changes on the operation expenses of the Manager as a result of such increase or decrease in taxes must be: (i) approved by the Board; (ii) minimized by the Manager using its best efforts; and (iii) considered by the parties to be a renegotiation of this Agreement, which shall comply with the provisions of the Revenue Procedure.

For purposes of this definition, no enactment, adoption, promulgation or modification of Applicable Laws shall be considered a Change in Law if, as of the Contract Date, such Applicable Law would have directly affected the continued operation, maintenance, repair or management of the Waterworks by the Waterworks Department after the Commencement Date in the absence of this Agreement and either (i) such Applicable Law was officially proposed by the responsible agency and thereafter had become effective without further action, or (ii) the adoption, enactment or promulgation process by the appropriate federal, State or local body commenced before the Contract Date, and with respect to which, (A) the comment period expired on or before the Contract Date, (B) any required hearings concluded on or before the Contract Date in accordance with applicable administrative procedures, and (C) it thereafter became effective without further action.

The definition of “Change in Law” shall include changes in applicable tax rules and regulations (including taxes due on Manager’s income), provided, however, that the Manager shall use reasonable efforts to minimize the effects of any such changes, including, without limitation, utilizing Waterworks Department resources and assistance, as necessary. Any material increase in the Manager’s cost to perform the Services resulting from a Change in Law in taxes shall be subject to Board approval and shall qualify for a renegotiation of the Agreement in accordance with the requirements of the Revenue Procedure.

“City” means the Consolidated City of Indianapolis, Marion County, Indiana.

“City-County Council” means the City-County Council of Indianapolis and Marion County, Indiana.

“Contract Date” means the date the Management Agreement is executed, which is March 21, 2002.

“CP” means the Capital Plan of the Waterworks Department as provided by the Manager as described in Section 4.09 and Exhibit 8 of the Management Agreement.
“Department Parties” means the City and all departments (including the Waterworks Department) and divisions thereof, the Bond Bank, and all officials, employees, agents, consultants and representatives of each of the foregoing, and the members of the Board of Directors of the Waterworks Department.

“Grantor Trust” means the Indianapolis Water Company Grantor Trust Agreement dated May 1, 1995 between the Indianapolis Water Company and Joseph R. Broyles, J.A. Rosenfeld and James P. Lathrop, or their respective successors, as Trustees.

“Guarantee” means the guarantee agreement between the Guarantor and the Waterworks Department.

“Guarantor” means Veolia Environnement, a corporation organized and existing under the laws of France.

“IWC” means Indianapolis Water Company.

“IWC Transferred Employees” means employees transferred from IWC and hired by the Manager pursuant to the Management Agreement and as defined in the Asset Purchase Agreement.

“Key Personnel” means the individuals designated as such by the Waterworks Department as described in the Management Agreement.

“Manager Parties” means the Manager, the Guarantor, its agents, representatives and contractors, including, but not limited to, any tier of subcontractor to the Manager and any subcontractor to a subcontractor of the Manager, and any person (i) directly or indirectly employed by any of them or (ii) for whose acts any of them may be liable.

“Maximum Incentive Fee” means an amount not to exceed twenty five percent (25%) of the Fixed Fee for any Billing Year.

“NPDES permit” means those National Pollutant Discharge Elimination System permits issued from time to time by the State of Indiana in respect of the operation and maintenance of the Waterworks.

“Pending Acquisition” means the pending acquisition of the Waterworks and City’s wastewater system by or on behalf of Citizens Energy Group.

“Pre Closing On Site Conditions” shall have the meaning ascribed to it in Section 2.3(a)(iv) of the Asset Purchase Agreement.

“Pre Closing Product Liabilities” shall have the meaning ascribed to it in Section 2.3(a)(vi) of the Asset Purchase Agreement.

“Prudent Utility Practice” means any of the practices, methods, and acts engaged in or approved by a significant portion of the water utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a range of acceptable practices, methods or acts generally accepted in the region.

“Retiree Medical Benefits” means retiree health insurance, life insurance, and Medicare Part B premium reimbursement.

“Services” means the operation, maintenance, repair and management services provided by Manager Parties pursuant to the Management Agreement, including, without limitation, raw water supply, treatment and distribution, billing collection and other customer services, as well as the provision of certain capital planning, designing, project management or contribution in aid of construction assistance.
“UDC” means Utility Data Corporation.

“Uncontrollable Circumstance(s)” means any act, event or condition that (a) prevents the Manager or the Waterworks Department from meeting or (b) materially increases the cost of performing, its obligations under the Management Agreement, if such act, event or condition is beyond the reasonable control of the Party asserting an Uncontrollable Circumstance as justification for not meeting or performing such obligations; provided, however, with respect to the Manager’s obligations, such act, event or condition is not the result of the Manager’s failure to operate and maintain the Waterworks in accordance with the terms and conditions of the Management Agreement.

(a) Uncontrollable Circumstances include:

(1) flood, drought, hurricane, tornado, epidemic, severe earthquake, catastrophic fire or explosion, act of a public enemy, war, blockade, insurrection, riot, general unrest, restraint of government and people, civil disturbance, sabotage or similar occurrence;

(2) the order, injunction or judgment of any federal, State or local court, administrative agency or governmental body or officer with jurisdiction over the Waterworks Department or of the Waterworks Department acting in its governmental capacity, including any exercise of the power of eminent domain, police power, condemnation or other taking by or on behalf of any public, quasi public or private entity; provided, however, that such order, injunction or judgment did not arise in connection with or is not related to the negligent or wrongful action or inaction of the Party relying thereon and that neither the contesting in good faith of any such order, injunction, or judgment nor the reasonable failure to so contest shall constitute or be construed as a wrongful or negligent action or inaction of such Party;

(3) the suspension, termination, interruption, denial, failure to issue, modification or failure of renewal of any permit, license, consent, authorization or approval necessary to the operation, maintenance, repair and management of the Waterworks, if such act or event did not arise in connection with, or is not related to, the negligent or willful action or inaction of the Party asserting an Uncontrollable Circumstance; provided, however, that neither the contesting in good faith of any such order nor the reasonable failure to so contest shall be construed as a negligent or willful action or inaction of such Party;

(4) a Change in Law;

(5) the loss or inability to obtain any and all utility services, including sludge disposal and electric power, necessary for the operation, maintenance, repair and management of the Waterworks directly resulting in a partial or total curtailment of operations at the Waterworks for reasons other than the negligent, willful or wrongful action or inaction of the Manager;

(6) the failure of any subcontractor or supplier, other than an Affiliate, to furnish services, materials, chemicals or Equipment on the dates agreed to; provided (A) such failure is the result of a Force Majeure, (B) such failure materially and adversely affects the Manager’s ability to perform its obligations and (C) the Manager is not reasonably able to obtain substitute services, material, chemicals or Equipment on the agreed upon dates; and

(7) unavailability of Acceptable Raw Water.
(b) An Uncontrollable Circumstance shall not include:

1. any act, event or condition which is caused by the negligence or intentional action of the Party asserting the Uncontrollable Circumstance, its subcontractors, agents and employees;

2. any event, reasonably foreseeable on the Contract Date;

3. any labor strike, work stoppage or slowdown on the part of the Manager’s or an Affiliate’s employees;

4. subject to the definition of a Change in Law regarding sales taxes, any order, injunction or judgment of any federal, State or local court, administrative agency or governmental body interpreting federal, State, or local tax laws; and

5. weather conditions in the geographic area of the Waterworks Department, other than those listed in (a)(1) of this definition.

“Waterworks” means the water collection, purification and distribution system set forth on Exhibit 3 of the Management Agreement.
SUMMARY OF KEY PROVISIONS OF THE ASSET PURCHASE AGREEMENT

SUMMARY OF KEY PROVISIONS OF THE WATER APA AFFECTING THE OPERATION OF THE WATER SYSTEM BY CITIZENS ENERGY GROUP

The following is a summary of certain provisions of the Water APA. This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the complete text of such document. Copies of the Water APA are available at www.indy.gov/eGov/Mayor/Pages/Utilities.aspx.

Assets to be Acquired

Pursuant to the Water APA, Citizens Energy Group will purchase all of the assets of the Waterworks Department and the City comprising the Waterworks, except for certain excluded assets described in the Water APA. All accounts receivable, rights to refunds, unbilled revenue and deposits of any kind of the Waterworks Department and/or the City (the "Sellers") accrued by or on behalf of the Sellers in operation of the Waterworks on the closing of the Pending Acquisition are excluded assets. However, Citizens Energy Group will be responsible for collection of the Accounts Receivable (except those secured by liens on real property) and for remitting such Accounts Receivable to the Sellers, as detailed in the Water APA. Pursuant to the Water APA, Citizens Energy Group will grant to the City upon the closing of the Pending Acquisition, an option to purchase the buildings that constitute the headquarters of the Waterworks Department. In addition, the Eagle Creek Reservoir, including the Eagle Creek Dam, are assets excluded from the Pending Acquisition pursuant to the Water APA.

Liabilities to be Assumed

Pursuant to the Water APA, Citizens Energy Group will assume all of the liabilities of the Waterworks Department and the City related to the Waterworks, except for certain excluded liabilities described in the Water APA. Except for certain claims or obligations of the Sellers for retiree health insurance and life insurance, Citizens Energy Group will not assume the obligations of the Sellers with respect to employee benefit plans and any other retirement or deferred compensation plan (collectively, the "Employee Benefit Plans") related to personnel of the Sellers operating the Waterworks ("Personnel"). The Sellers have represented that all the Employee Benefit Plans are in full force and effect and in compliance in all respects with the applicable provisions of the Code, and any other applicable laws, and with any applicable collective bargaining agreement.

Citizens Energy Group has agreed in the Water APA to address the transition of Personnel to ensure that such Personnel have an opportunity to be employed by Citizens Energy Group or remain employed by the Sellers and has agreed to offer employment to four of the full-time equivalent Personnel. The Sellers have represented that they are not parties to any collective bargaining agreements with respect to the Waterworks and under the provisions of the Water APA, Citizens Energy Group shall not assume, be responsible for, liable or bound by any collective bargaining agreement of the Sellers or any contractor of the Sellers, including the Manager.

Environmental Insurance Policy

If Citizens Energy Group obtains insurance to insure against environmental expenses related to the Waterworks incurred by Citizens Energy Group, the purchase price for the Wastewater System will be reduced by an amount up to $500,000 to cover the premiums of such insurance. The proceeds of such insurance policy will be the sole remedy of Citizens Energy Group as against the Sellers for any environmental expenses covered by such policy. Citizens Energy Group has reserved all rights to contribution and damages as to all persons other than the Sellers and each Seller has assigned and transferred to Citizens Energy Group any rights to contribution or damages either may have against third parties with respect to any environmental expenses.
Public Charitable Trust Status; Restrictions of Sale or Lease of System

The parties to the Water APA have agreed that Citizens Energy Group will hold and operate the Waterworks for the exclusive and perpetual benefit of the inhabitants of the City in furtherance of the public charitable trust providing water the purposes of which are: (1) to provide reasonable water services at reasonable cost, with such reasonableness, in each case to be determined by the IURC, to the inhabitants of the City, as beneficiaries of the trust, in substantially the same manner as the public charitable trust providing gas, steam and chilled water services currently held and operated by Citizens Energy Group and (2) to protect the City and its inhabitants against further sale or disposition of the Waterworks and the assets acquired by Citizens Energy Group pursuant to the Water APA, and forever from private ownership, control or partisan political governance.

Citizens Energy Group has agreed that the Waterworks will never be transferred to, or owned by, a for-profit entity or for the benefit and profit of private investors and shareholders and that the public charitable trust restricts ownership and operation of the Waterworks such that none of the assets acquired by Citizens Energy Group pursuant to the Water APA, except certain surplus property no longer necessary for the operation of the Waterworks can be sold, leased or disposed.

Future Rates

The parties to the Water APA have agreed that the rates described in the Final Order will remain in effect for at least two years after the closing of the Pending Acquisition, subject to necessary and appropriate applications to the IURC for rate increases due to the need for emergency rate relief under IC 8-1-2-113 or necessary to avoid a default under the coverage or other covenants of Citizens Energy Group under its indenture.

MBE/WBE/VBE Provisions

To the extent consistent with applicable law, under the Water APA, Citizens Energy Group has agreed that it will establish policies and procedures designed to provide minority business enterprises ("MBEs"), women-owned business enterprises ("WBEs"), veteran-owned business enterprises ("VBEs") and local firms the maximum practicable opportunity to compete for work related to the Waterworks and to establish annual goals for MBE, WBE and VBE utilization of the purchases/contracts available for placement on an annual basis with respect to the Waterworks.

Indemnification Provisions

To the maximum extent permitted by applicable law, the Sellers have jointly and severally agreed under the Water APA to indemnify, defend and hold harmless and cause to be paid pursuant to a Cash Escrow Agreement among the Authority, Citizens Energy Group, the Sanitary District, the City and the Waterworks Department (the "Cash Escrow Agreement") to protect Citizens Energy Group from any and all claims arising from or relating to: (1) any misrepresentation or breach by the Sellers under the Water APA; (2) subject to the Water APA, any liabilities not assumed by Citizens Energy Group; (3) any investigation or action with respect the Sellers' Employee Benefit Plans; (4) any COBRA obligations of the Sellers arising before the closing of the Pending Acquisition; (5) any environmental expenses for any environmental claim or environmental condition arising or existing prior to the closing of the Pending Acquisition, to the extent not covered by the environmental insurance policy described above; (6) title insurance claims; and (7) any and all actions, suits, investigations, proceedings, demands, assessments, audits and judgments arising out of any of the foregoing.

The Cash Escrow Agreement will be entered into concurrently with the closing of the Pending Acquisition and provides for the availability of $40,000,000 (the "Cash Escrow Amount") from the Sanitary District's Sanitation General Fund to be used for the purposes as provided therein for two years following the closing of the Pending Acquisition. The Sellers' indemnity obligation is limited to the Cash Escrow Amount. Citizens Energy Group and the Sellers have entered into a Settlement Agreement (the "Settlement Agreement") with the Manager effective on October 20, 2010, pursuant to which the Management Agreement was deemed terminated as of September 30, 2010. The Manager will continue to manage the Waterworks and perform its obligations under the Management Agreement during a transition period through the later of (a) March 31, 2011, (b) the date of the closing of the Pending Acquisition, or (c) in the event the Pending Acquisition does not close, such date as is necessary for the
Waterworks Department to engage an operator to manage the Waterworks but in no event later than September 30, 2011 (which date may be extended on a month to month basis but not beyond March 2012). Pursuant to the Settlement Agreement, the Manager will be paid $29,000,000 upon the closing of the Pending Acquisition from the Cash Escrow Amount. The Settlement Agreement is pending approval before the IURC. See “THE MANAGER AND THE MANAGEMENT AGREEMENT – The Manager.”

To the maximum extent permitted by applicable law, Citizens Energy Group has agreed under the Water APA to indemnify, defend and hold harmless the Sellers from any and all claims arising from or relating to: (1) any misrepresentation or breach by the Sellers under the Water APA; (2) any of the liabilities of the Sellers assumed by Citizens Energy Group pursuant to the Water APA (except to the extent the Sellers are otherwise indemnified by a person other than Citizens Energy Group for damages from such claim); (3) any obligation or liability resulting pursuant to the assignment, amendment or termination of the Management Agreement in excess of the Cash Escrow Amount; (4) subject to the provisions of the Water APA, any liability of the Sellers related to any claim for damages to the extent Sellers have the right to be indemnified by a person other than Citizens Energy Group and for which Sellers incur damages which are not indemnified by a third party; or (5) any and all actions, suits, investigations, proceedings, demands, assessments, audits and judgments arising out of any of the foregoing.

CITIZENS ENERGY GROUP

Organization. The Department of Public Utilities of the City of Indianapolis d/b/a Citizens Energy Group is an executive department of the City of Indianapolis. Citizens Energy Group is governed by a five-member, self-perpetuating board of trustees (the “Citizens Board of Trustees”). The Citizens Board of Trustees annually appoints the seven-member Citizens Board (as defined in APPENDIX E2 - Definitions in the Citizens Indenture). The Citizens Board has the exclusive power and authority to govern, manage, regulate and control any waterworks, gas works, electric light works, heating and power plants and all property relating thereto and the power to own and operate other utility properties pursuant to Indiana Code 8-1-11.1-1(a) and -3. As described below, the Citizens Board manages its Gas Utility System, the Thermal Energy System and other utility properties separately from the City.

Under Indiana Code Title 8, Article 1, Chapter 11.1 (the “Citizens Act”), the Citizens Board is given “the exclusive government, management, regulation, and control of all public utilities” acquired by the City for the service of the public, and has the duty and the power to furnish and sell service and products of and “make all necessary construction, reconstruction, repairs, renewals, enlargements, extensions, or additions” to the plant or property of any such utility. The Citizens Board has the power to set rates, subject to IURC approval. In addition, the Citizens Board has the power to condemn property necessary to provide service, to contract for and construct extensions or additions, to sell products or by-products and enter into contracts for such sale, to operate any such plant or plants, to receive moneys, and to employ necessary personnel. The Citizens Board has the power to issue revenue obligations, including long-term revenue bonds and short-term certificates of indebtedness. The Citizens Board is also authorized by the Citizens Act to do all things necessary to cause Citizens Resources, a wholly-owned subsidiary of the Citizens Board (“Citizens Resources”) to carry on its operations efficiently and to conduct its business in the same manner as if Citizens Resources’ stock were owned by private individuals.

History. In 1906, the Citizens Gas Company of Indianapolis ("Citizens Gas Company") began construction of a foundry coke oven battery because foundry coke was more profitable to manufacture than other types of coke. Profits from Citizens Gas Company’s foundry coke sales were used to reduce the cost of gas service, giving Citizens Gas Company an advantage in the Indianapolis gas market. In 1913, the Indianapolis Gas Company leased its distribution system to Citizens Gas Company for 99 years. As a result, Citizens Gas Company became the sole gas distributor in the City. In 1929, the Indiana General Assembly enacted the Citizens Act, creating the Citizens Board. In 1935, all the assets of Citizens Gas Company, including the 99-year lease of the competing gas company and the stock of the former Milburn By-Products Coal Company — now Citizens Resources — were conveyed to the City, as successor trustee. In 1942, the Citizens Board “bought out” the 99-year lease. The assets that were conveyed to the Citizens Board in 1935 are subject to a public charitable trust, whose purposes are:

- to establish and operate a gas utility that is not controlled by partisan politics or private ownership and
- to provide light, heat and power to the City and its inhabitants.
The City, as successor trustee, has two express duties:

- to engage in the gas business and
- to supply the City and its inhabitants with light, heat and power.

Among the primary purposes of the public charitable trust were to protect the City and its inhabitants against (i) sale or disposition of the utility’s assets; (ii) private ownership or control of the utility and (iii) partisan political governance. The primary beneficiaries of the public charitable trust were, and remain, the inhabitants of the City. Today, Citizens Energy Group operates the gas, steam and chilled water assets as a single public charitable trust for the benefit of the inhabitants of the City.

The Gas Utility System has been operated by the Citizens Board since 1935 under the Citizens Gas & Coke Utility trade name until 2008, when the Citizens Board renamed its operations Citizens Energy Group. In 2000, the Citizens Board acquired the Thermal Energy System to control and operate the steam assets and chilled water assets and commenced operation of the Thermal Energy System as a separate system from the Gas Utility System. This division is called Citizens Thermal. In 2007, the Citizens Board discontinued operations of the Manufacturing Division consisting of the coke oven batteries and related facilities. In 2008, the Citizens Board renamed the operating divisions under its new trade name Citizens Energy Group as follows: Citizens Gas, Citizens Thermal and Citizens Resources. The Citizens Board will also own and operate the Waterworks upon the closing.

THE AUTHORITY

Citizens Energy Group created the Authority pursuant to an Interlocal Cooperation Agreement (the “Interlocal Agreement”) among Citizens Energy Group, the City and the Sanitary District acting by and through the Sanitary Board to acquire the assets of the Sanitary District. A copy of the Interlocal Agreement may be obtained from Citizens Energy Group. The Authority is a separate, Indiana not-for-profit public benefit corporation created specifically to acquire and hold the assets of the Wastewater System. Pursuant to the Interlocal Agreement, upon closing of the Pending Acquisition, the Sanitary District, the City and the Citizens Board will vest in the Authority all of the power and authority each has to acquire, hold and operate the Wastewater System (excluding the City's taxing power and taxing authority). Citizens Energy Group will operate the Wastewater System on behalf of the Authority.

The members of the Citizens Board will constitute the members of the Authority Board. The Citizens Board will provide all of the employees, staffing and financial operations of the Authority pursuant to the provisions of the Interlocal Agreement, as part of its integrated utility system, to provide wastewater services to the inhabitants of the City in furtherance of the public charitable trust, the purposes of which are to provide wastewater services to the inhabitants of the City in substantially the same manner the Citizens Board has provided utility services for the Gas Utility System, the Thermal Energy System and its other utility properties.

IURC REGULATION

The Waterworks Department is subject to the jurisdiction of the IURC over rates and charges, standards of service, accounting procedures and related matters. Citizens Energy Group is also subject to substantially the same jurisdiction of the IURC with respect to its existing gas and steam utility operations. The Waterworks is now and will continue to be subject to IURC jurisdiction after the Pending Acquisition closes. The Sanitary District is not subject to the jurisdiction of the IURC, and upon consummation of the Pending Acquisition, the Authority will be subject to IURC jurisdiction over rates and charges, standards of service, accounting procedures and related matters. The Authority and Citizens Energy Group will provide services pursuant to rates and charges that are nondiscriminatory, reasonable and just.

Reasonable and just rates and charges for services means rates and charges that produce sufficient revenue to (i) pay all legal and other necessary expenses incident to the operation of the utility including maintenance costs, operating charges, upkeep, repairs, depreciation, and interest charges on bonds or other obligations (including leases); (ii) provide a sinking fund for the liquidation of bonds or other obligations (including leases); (iii) provide a debt service reserve for bonds or other obligations (including leases); (iv) provide adequate money for working
capital; (v) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in (i) above; and (vi) provide money for the payment of any taxes that may be assessed against the utility. Rates that are too low to produce an income sufficient to maintain the utility property in sound physical and financial condition to render adequate and efficient service are unlawful.

In establishing “reasonable and just rates and charges,” the IURC is not required to provide for rates and charges necessary to satisfy either the rate covenants set forth under the Waterworks Bond Resolution or the Citizens Indenture. For additional information on the Waterworks Department’s rates and charges, see “WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION – System Rates and Charges – General.”
APPENDIX E

SUMMARY OF CITIZENS ENERGY GROUP FINANCING DOCUMENTS AND DEFINITIONS
APPENDIX E1

SUMMARY OF CERTAIN PROVISIONS OF THE CITIZENS INDENTURE

Certain capitalized terms used in this summary are defined in "APPENDIX E2 – DEFINITIONS IN THE CITIZENS INDENTURE."

Summary

The following is a summary of certain provisions of the Citizens Energy Group Indenture ("Citizens Indenture") preliminarily approved by Citizens Energy Group in April, 2011. This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the complete text of such document. Copies of the Citizens Indenture are available at the offices of Citizens Energy Group, 2020 N. Meridian Street, Indianapolis, Indiana 46202. Further, the provisions of the Citizens Indenture are substantially final but may be modified, as necessary, in order to effectuate the Pending Acquisition.

Special Obligations; Pledge Securing Senior Bonds

All of the payments on the Senior Bonds and the amounts payable by the Issuer pursuant to the provisions of a Hedge Agreement, a Credit Facility or a Reserve Account Credit Facility will be payable solely out of the Net Revenues and any applicable Pledged Funds.

Pursuant to a Supplemental Indenture, from time to time, the Issuer may create and pledge additional funds, accounts or subaccounts to add to the security provided by the Pledged Funds, or to secure the payment of one or more series of Subordinate Bonds.

The payment of the Senior Bonds and any amounts payable by the Issuer pursuant to the provisions of a Hedge Agreement, a Credit Facility or a Reserve Account Credit Facility is not secured by any encumbrance, mortgage or other pledge of property of the Issuer or the City, except the Net Revenues and any applicable Pledged Funds. No other property of the Issuer or the City, including, subject to the Master Indenture, any portion or all of the Waterworks, will be liable to be forfeited or taken for payment of the Senior Bonds or amounts payable by the Issuer pursuant to the provisions of a Hedge Agreement, a Credit Facility or Reserve Account Credit Facility.

General Conditions of Issuance of Senior Bonds

Purpose of Issuance. The Issuer may authorize, execute and issue Senior Bonds of one or more series pursuant to the terms, conditions and limitations of the Master Indenture, from time to time, for the purposes of providing funds for any purposes or assets of the Waterworks permitted to be financed with proceeds of Senior Bonds or certificates of indebtedness under the Act (which will include working capital purposes), costs of issuance, interest during construction and reserves, refunding Senior Bonds or Subordinate Bonds or other obligations of the Issuer attributable to the Waterworks. Such Senior Bonds will be authenticated and delivered by the Registrar, but only upon the terms and conditions provided in the Master Indenture.

General Conditions of Issuance. The Registrar will not authenticate or deliver any Senior Bonds, unless for such Senior Bonds there will be delivered to the Registrar the following:

(a) A written application or request for authentication signed by or on behalf of the Issuer.

(b) A Supplemental Indenture executed by the Issuer and the Trustee setting forth the provisions and form of such Senior Bonds.
(c) A certified copy of a resolution or resolutions of the Board authorizing the issuance and sale of such Senior Bonds and authorizing the execution and delivery of such Supplemental Indenture.

(d) A certificate of the Chief Financial Officer that there does not exist an Event of Default under the Master Indenture.

(e) An opinion of counsel to the Board.

(f) An opinion of Bond Counsel.

(g) Evidence of compliance with the conditions of the Master Indenture relating to the issuance of additional Senior Bonds prior to the issuance thereof, except that the 2011 Bonds need not meet such conditions.

Additional Senior Bonds Covenant. Senior Bonds may be issued pursuant to a Supplemental Indenture only if the Issuer demonstrates satisfaction of the conditions listed in paragraphs A. and B. below:

A. At the time of the adoption of the Supplemental Indenture authorizing the issuance of the Senior Bonds, the Issuer will certify that no Event of Default has occurred and is continuing or any such existing Event of Default would be cured following the issuance of the proposed Senior Bonds.

B. A Financial Consultant will provide a report showing that either (1) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available or for any twelve (12) out of the most recent eighteen (18) months were at least equal to 1.1 times the maximum annual Senior Debt Service Requirements (after adjusting for the inclusion of the Senior Debt Service Requirements for the series of Senior Bonds to be issued at that time) in any subsequent Fiscal Year, or (2) the adjusted Net Revenues as described below for the most recent Fiscal Year for which audited financial statements are available or for any twelve (12) out of the most recent eighteen (18) months would have been at least equal to 1.2 times the maximum annual Senior Debt Service Requirements (after adjusting for the inclusion of the Senior Debt Service Requirements for the series of Senior Bonds to be issued).

The 2011 Bonds need not comply with paragraphs A. and B. above.

In any calculation of the debt service coverage as provided in paragraph B(2) above, the amount of Net Revenues may be increased by the amount estimated by the Financial Consultant that will result from any change in any schedule of rates, fees and charges or any annexations or extensions to the Waterworks, including additional areas and new systems of the Waterworks placed into use subsequent to the commencement of the periods described in paragraph B(2) above and prior to the date of issuance of the proposed Senior Bonds, which have been approved by the IURC at the time such computations are being made, based on the number of ratepayers during such next preceding Fiscal Year or 12 month period as if such modified schedule of rates, fees and charges and number of ratepayers will have been in effect during the entire next preceding Fiscal Year or 12 month period. Further, such calculation may be adjusted by any transfer from or to the Rate Stabilization Fund to the extent such transfers would be permitted under the Master Indenture.

In addition, if the Issuer finds it desirable to refund any Outstanding Senior Bonds or Subordinate Bonds, such bonds may be refunded in whole or in part, and such Refunding Bonds may be issued as Parity Bonds upon compliance with paragraphs A. and B. above. Further, if the Bonds to be refunded are Senior Bonds, the Refunding Bonds may be issued as Parity Bonds if the Issuer certifies that the present value of the annual Senior Debt Service Requirements of the Refunding Bonds is less than or equal to the present value (using the arbitrage yield on Refunding Bonds as the discount rate) of the annual Senior Debt Service Requirements of the Senior Bonds being refunded, without complying with paragraphs A. and B. above.

Separate Systems

The Issuer may issue or become liable on bonds, notes, certificates, warrants or other evidence of indebtedness or any guaranties, direct or indirect, thereof to acquire and construct facilities or interests in the
capacity or output thereof, which the Issuer has elected to acquire, construct and operate as a utility or system separate from the Waterworks; provided that such bonds, notes, certificates, warrants or other evidence of indebtedness are secured solely from sources other than Net Revenues or the Pledged Funds. The Gas Utility Distribution System, the Thermal Energy System and the Wastewater System are Separate Systems and no pledge from such systems nor from any Affiliate or Subsidiary is made to the payment of the Senior Bonds.

Nothing in the Master Indenture will limit or prohibit a Subsidiary or an Affiliate from incurring debt or issuing bonds, notes, certificates, warrants or other evidences of indebtedness.

Establishment of Funds and Accounts

The Master Indenture establishes the Funds and Accounts described below. So long as any of the Senior Bonds are outstanding, all Gross Revenues, upon their receipt from time to time by the Issuer, will be deposited daily, as far as practicable, and set aside and credited immediately to the Revenue Fund, which is created within the "Water Fund."

**Water Fund.** The "Water Fund" which consists of a self-balancing group of accounts, including, without limitation, the respective separate accounts and subaccounts designated in the Master Indenture, constitutes an independent fiscal and accounting entity. Separate accounts and subaccounts (other than those herein designated) pertaining to the Water Fund may from time to time be created, terminated, and otherwise modified by the Issuer in its discretion pursuant to a Supplemental Indenture.

**Revenue Fund.** The Revenue Fund is created within the "Water Fund" and will be under the control of the Issuer and not held by the Trustee. There will be deposited daily into the Revenue Fund, upon their receipt from time to time by the Issuer, all Gross Revenues. The moneys therein will be applied, as more fully described below and in the Master Indenture, in the following order of priority: (i) for application from time to time to Operation and Maintenance Expenses (and provided that the Issuer will be permitted, before applying Net Revenues in the manner provided in the Master Indenture upon the occurrence of an Event of Default, to maintain sufficient Gross Revenues in the Revenue Fund in the amount determined to be necessary by the Chief Financial Officer to provide for the payment of Operation and Maintenance Expenses for a period not exceeding two months); (ii) (a) on or before the last business day of each month to the Interest Account and Principal Account and (b) on or before the business day preceding each payment date for Hedge Payments under Senior Hedge Agreements to the Hedge Payments Account, on a pro rata basis for the purpose of paying the principal of, premium if any, and interest on the Senior Bonds as it becomes due and payable and for the purpose of making Hedge Payments; (iii) on or before the first business day of each month on a pro rata basis (based on the outstanding principal amount of the related Senior Bonds), (a) the amount of any monthly deposit required to restore any deficiency in any subaccount of the Reserve Account and (b) the amount of any monthly deposit required to fund the applicable Reserve Requirement; and (iv) after the deposits described in (i) – (iii) above the Issuer may apply any remaining Net Revenues to any lawful purpose that is reasonably expected by the Issuer to contribute to or benefit the Waterworks or the public charitable trust to which the Waterworks are subject, including but not limited to the payment of debt service on Subordinate Bonds, to pay capital improvements, to pay costs of replacing any property or equipment of the Waterworks, to pay costs of any major extraordinary repairs, replacements or renewals of the Waterworks, payments to be made by the Issuer on a Senior Hedge Agreement and Reimbursement Obligations not previously provided for in (i) – (iii) above, to acquire land or any interest therein, to make any payments in lieu of taxes, to pay any lease or contractual obligations, to fund the Rate Stabilization Fund, to pay the remaining amounts owed on a Reimbursement Obligation and to make any transfers required to cure any deficiencies in any Funds or Accounts.

**Bond Fund.** The "Bond Fund" is created and established within the "Water Fund" and will be held by the Trustee. The following Accounts are designated therein: (i) "Interest Account," (ii) "Principal Account," and (iii) "Hedge Payments Account." The Issuer may direct the Trustee to establish a series subaccount of Interest and Principal Accounts for such series. Amounts held in the foregoing Accounts will not be used to pay Additional Interest unless otherwise provided by the Issuer in a Supplemental Indenture.

**Interest Account.** On or before the last business day of each month, the Issuer will transfer from the Revenue Fund into the Interest Account, an amount equal to 1/6 of the amount of the interest due on Outstanding Senior Bonds on the next Interest Payment Date or the amount necessary for payment of
interest on a Redemption Date or such other amount as will be specified in a Supplemental Indenture, together with any other available moneys on deposit in such Interest Account. Moneys in the Interest Account will be used solely to pay interest on the Senior Bonds when due and payable at maturity or upon redemption. The Issuer will also deposit all Hedge Receipts under Senior Hedge Agreements in the Interest Account from time to time as and when received.

**Hedge Payments Account.** On or before the business day preceding each payment date for Hedge Payments under Senior Hedge Agreements, the Issuer will transfer from the Revenue Fund into the Hedge Payments Account an amount which, together with any other moneys already on deposit therein and available to make such payment is not less than such Hedge Payments coming due on such payment date. Moneys in the Hedge Payments Account will be used solely to pay Hedge Payments under Senior Hedge Agreements when due and payable. In the alternative, the Issuer may provide in a Supplemental Indenture that such Hedge Payments are subordinate to the payments on the Senior Bonds.

**Principal Account.** On or before the last business day of each month, the Issuer will transfer from the Revenue Fund into the Principal Account, an amount, together with any other moneys from time to time on deposit in such Principal Account, equal to 1/12 of the amount of the principal due on Outstanding Senior Bonds on the next Principal Payment Date or the amount necessary for payment of principal on a Redemption Date or such other amount as will be specified in a Supplemental Indenture. Moneys in the Principal Account will be used solely for the payment of principal of and premium, if any, on the Senior Bonds as the same will become due and payable at maturity or upon redemption.

**Reserve Account.** No transfer will be made into any subaccount of the Reserve Account so long as the sum of the cash and securities therein plus the available balance of any applicable Reserve Account Credit Facility, if any, will equal no less than the applicable Reserve Requirement. The monies and the Reserve Account Credit Facility in the applicable subaccount of the Reserve Account will be accumulated and maintained as a continuing reserve to be used to prevent deficiencies in the payments of principal of and interest on the Senior Bonds which have a claim on the applicable subaccount of the Reserve Account for payment.

If on any Interest or Principal Payment Date on any Senior Bonds which have a claim on a subaccount of the Reserve Account, there is not on deposit in the Interest Account and the Principal Account or applicable subaccount thereof a sufficient amount to pay the amounts of principal or interest due on said Senior Bonds, then the Trustee will transfer into the Interest Account or the Principal Account from the applicable subaccount of the Reserve Account an amount not to exceed the deficiency in the Interest Account or Principal Account from the applicable subaccount of the Reserve Account on such Interest or Principal Payment Date. If the applicable subaccount of the Reserve Account contains more than one Reserve Account Credit Facility, each Reserve Account Credit Facility must be drawn down on a pro rata basis. In the event that any subaccount of the Reserve Account is less than the applicable Reserve Requirement because of a withdrawal under the Master Indenture or as a result of an annual valuation under the Master Indenture, the Trustee will calculate the amount of such deficiency and then determine the monthly deposit necessary to restore the subaccount of the Reserve Account to the applicable Reserve Requirement as follows. If a deficiency exists in the Future Bonds Common Reserve Subaccount or the Prior Bonds Common Reserve Subaccount, the monthly deposit will be equal to the difference between the Future Bonds Common Reserve Requirement or the Prior Bonds Common Reserve Requirement, as applicable and the amount of cash and securities and the balance available to be drawn on the applicable Reserve Account Credit Facility on such date divided by twenty-four (24). In the event that a deficiency exists in a Series Reserve Subaccount, the monthly deposit will be calculated in accordance with the terms of the Supplemental Indenture pursuant to which such Series Reserve Subaccount was created. The provider of a Reserve Account Credit Facility which has been drawn upon may be reimbursed from amounts deposited in the applicable subaccount of the Reserve Account from the Net Revenues in accordance with the Master Indenture.

Upon the issuance of Senior Bonds, the Issuer will determine, in its discretion, whether or not such Senior Bonds will have a claim for payment of principal and interest on the Reserve Account or a subaccount thereof. Subordinate Bonds will not have a claim for payment on the Reserve Account. If the Issuer determines that the Senior Bonds will have a claim for payment on the Future Bonds Common Reserve Subaccount or the Prior Bonds Common Reserve Subaccount, as applicable, for payment of principal of and interest on such Senior Bonds, then the Issuer will calculate the amount of the Future Bonds Common Reserve Requirement or the Prior Bonds Common Reserve Requirement, as applicable to reflect the issuance of such Senior Bonds. Any resulting increase
in the amount of the Future Bonds Common Reserve Requirement or the Prior Bonds Common Reserve Requirement, as applicable, may be funded in whole or in part by the deposit of cash, a Reserve Account Credit Facility or through monthly deposits as described below. If the Issuer determines that the Senior Bonds will not have a claim for payment on the Future Bonds Common Reserve Subaccount or the Prior Bonds Common Reserve Subaccount, as applicable, the Issuer may determine to create a Series Reserve Subaccount for such Senior Bonds and establish a related Series Reserve Requirement. Such Series Reserve Subaccount will be funded in an amount and manner to be set forth in the Supplemental Indenture authorizing the issuance of such Senior Bonds. In such event, such Senior Bonds will have a claim for payment on such Series Reserve Subaccount as set forth therein. Such Series Reserve Subaccount may be established for the benefit of one or more series of Senior Bonds. In addition, the Issuer may determine that a series of Senior Bonds will have no claim on any subaccount of the Reserve Account for the payment of principal of and interest thereon. All or any portion of any increase in the Future Bonds Common Reserve Requirement or the Prior Bonds Common Reserve Requirement, as applicable or any Series Reserve Requirement following the issuance of Senior Bonds, may be satisfied by providing in a Supplemental Indenture that monthly deposits of Net Revenues will be made into the applicable subaccount of the Reserve Account following the issuance of said Senior Bonds. In funding an increase in the Future Bonds Common Reserve Requirement or the Prior Bonds Common Reserve Requirement, as applicable, such monthly deposits for a series of Senior Bonds will commence on the first day of the month following the date on which such series of Senior Bonds is issued and will continue monthly thereafter for a period of sixty (60) months or such lesser number of months specified in the Supplemental Indenture. In funding a Series Reserve Subaccount, such monthly deposits related to a series of Senior Bonds will commence on the first day of the month following the date on which that series of Senior Bonds is issued and will continue monthly thereafter for the number of months specified in the Supplemental Indenture pursuant to which such Series Reserve Subaccount is established. In either case, such monthly deposits will equal, after taking into account any Reserve Account Credit Facility and other cash deposited in the applicable subaccount of the Reserve Account on the date of delivery and payment for such series of Senior Bonds, an amount equal to the applicable unfunded Reserve Requirement divided by the total number of monthly deposits to be made.

For purposes of establishing the amount held in the applicable subaccount of any Reserve Account, the Trustee will include an amount equal to the available principal amount which could be drawn by the Trustee on any applicable Reserve Account Credit Facility. Any cash held in a subaccount of the Reserve Account in excess of the applicable Reserve Requirement will be transferred from time to time by the Trustee to the Revenue Fund at the direction of the Issuer.

Rate Stabilization Fund. The Issuer is authorized to specify by direction to the Trustee any amount to be transferred to the Rate Stabilization Fund from the Revenue Fund. Amounts held in the Rate Stabilization Fund will be used from time to time for any lawful purpose or purposes of the Issuer pertaining to the Waterworks, at the direction of the Board, including but not limited to the following: (a) to provide for shortfall of revenues resulting from usage of the Waterworks, (b) to pay for any extraordinary costs related to the Waterworks (c) to make transfers to the Revenue Fund, and (d) to fund any shortfall in any other Fund.

Investment of Moneys

Any moneys in any account or subaccount created pursuant to the Master Indenture, and not needed for immediate use, may be invested in any Permitted Investments as provided by State law by or at the direction of an Authorized Issuer Representative from time to time. Such Permitted Investments will mature not later than the date or dates on which an Authorized Issuer Representative estimates the proceeds thereof will be needed, and, in any event, in accordance with State law. In making each such investment or reinvestment of funds held by the Trustee, the Trustee may rely upon written or verbal instructions of an Authorized Issuer Representative, which are promptly followed in writing, and will be under no duty as to the propriety of the investment made in accordance with such instructions. Any Permitted Investment purchased as an investment of moneys in any account or subaccount, will be deemed at all times to be a part of such account or subaccount and held in trust therefor. Except as herein otherwise provided, any interest accruing thereon and any other gain realized therefrom will be retained and credited to such account or subaccount. Any loss in any account or subaccount resulting from any such investments in Permitted Investments will be retained and credited to such account or subaccount.
Notwithstanding the foregoing, the Issuer may provide a Supplemental Indenture for a different allocation of interest earnings and gains or losses on Permitted Investments in such accounts or subaccounts.

No loss or profit in any account or subaccount on any investments or reinvestments in Permitted Investments will be deemed to take place as a result of fluctuations in the market quotations of the Permitted Investments, prior to the sale or maturity thereof. In the computation of the amount in any account or subaccount for any purpose hereunder, except as otherwise expressly provided in the Master Indenture, Permitted Investments will be valued at the amortized cost thereof (including any amount paid as accrued interest at the time of purchase of the obligation) and other bank deposits will be valued at the amounts deposited, exclusive of any accrued interest or any other gain to the Issuer until such gain is realized. The Common Reserve Subaccount will be valued annually on such basis on the last day of each Fiscal Year. Series Reserve Subaccounts will be valued as provided in a Supplemental Indenture.

Credit Facilities and Hedge Agreements

In connection with the issuance of any Senior Bonds or at any time thereafter, the Issuer may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the principal of, premium, if any, or interest due or to become due on such Senior Bonds, providing for the purchase of such Senior Bonds by the provider of a Credit Facility, or providing funds for the purchase of such Senior Bonds by the Issuer. In connection therewith, the Issuer may enter into a Credit Facility Agreement with the provider of a Credit Facility providing for, among other things, (i) the payment of fees and expenses for the issuance of such Credit Facility; (ii) the terms and conditions of such Credit Facility and the Senior Bonds affected thereby; and (iii) the security, if any, to be provided for the issuance of such Credit Facility. The Issuer may secure any Credit Facility by an agreement providing for the purchase of the Senior Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as are specified by the Issuer in the applicable Supplemental Indenture. The Issuer may in a Credit Facility Agreement agree to directly reimburse the provider of such Credit Facility for amounts paid under the terms of such Credit Facility, together with interest thereon; provided, however, that no Reimbursement Obligation will be created for purposes of the Master Indenture until amounts are paid under such Credit Facility. Any such Reimbursement Obligation will be deemed to be a part of the Senior Bonds to which the Credit Facility relates and which gave rise to such Reimbursement Obligation, and references to principal and interest payments with respect to such Senior Bonds will include principal and interest (except for Additional Interest and principal amortization requirements with respect to the Reimbursement Obligation that are more accelerated than the amortization requirements for the related Senior Bonds, without acceleration) due on the Reimbursement Obligation incurred as a result of payment of such Senior Bonds with the Credit Facility. All other amounts payable under the Credit Facility Agreement (including any Additional Interest and principal amortization requirements with respect to the Reimbursement Obligation that are more accelerated than the scheduled amortization requirements for the related Senior Bonds) will be fully subordinate to the payment of debt service on the related class of Senior Bonds unless otherwise provided in a Supplemental Indenture. Any such Credit Facility will be for the benefit of and secure such Senior Bonds or portion thereof as specified in the applicable Supplemental Indenture.

In connection with the issuance of any Senior Bonds or at any time thereafter, the Issuer may enter into Hedge Agreements with Qualified Providers with respect to any Senior Bonds. The Issuer will authorize the execution, delivery, and performance of each Hedge Agreement in a Supplemental Indenture, in which it will designate the related Hedged Bonds. The Issuer's obligation to make Hedge Payments may be secured by a pledge of, and lien on, the Net Revenues on a parity with the lien securing the related Hedged Bonds, or may be subordinated in lien and right of payment to the payment of the Hedged Bonds, as specified by the Issuer in a Supplemental Indenture. Amounts other than Hedge Payments due from the Issuer under the Hedge Agreement will be subordinated to such lien and right of payment.
Rates, Fees and Other Charges; Budgetary Procedures

Rate Covenant. The Issuer will, to the extent permitted by law, adopt, from time to time revise, and continue in effect, a schedule of rates, fees, and other charges for water and other goods and services provided by, and for the use of, the Waterworks as may be necessary or proper in order that the amount of the Gross Revenues in each Fiscal Year, commencing with the Fiscal Year ending September 30, 2012, will at least equal the sum of:

A. Gross Revenues required to pay all Operation and Maintenance Expenses for such Fiscal Year; and

B. The greater of (i) 1.2 times the Actual Debt Service Requirements for such Fiscal Year, or (ii) all amounts paid from the Gross Revenues in such Fiscal Year for (a) Actual Debt Service Requirements on any Senior Bonds, (b) payments due in accordance with the terms of any Credit Facility Agreement, (c) any payments to be made in any fund, account or subaccount of the Water Fund (including funds to satisfy any deficiencies in the Reserve Account or payments due on a Reserve Account Credit Facility) and (d) payments due with respect to principal and interest of Subordinate Bonds.

The foregoing rate covenant is subject to compliance by the Issuer with any legislation of the United States, the State, or other governmental body; or any regulation of, or other action taken by the Federal Government, any State agency, including the IURC, or any political subdivision of the State pursuant to such legislation; of the exercise of the police power thereof for the public welfare, which legislation, regulation, or action limits or otherwise inhibits the amounts of any rates, fees, and other charges due to the Issuer for the use of or otherwise pertaining to any and all services rendered by or at the Waterworks, including, without limitation, increases or decreases in the amounts of such rates, fees, or other charges (or any combination thereof).

If the foregoing rate covenant is not satisfied for any Fiscal Year, the Issuer will seek to revise the schedule of rates, fees and other charges for the use of the Waterworks in a manner as may be necessary to produce Gross Revenues to satisfy the rate covenant for the succeeding Fiscal Year. However, no Event of Default will be deemed to occur so long as the Debt Service Requirements are being paid by the Issuer when due and payable.

For purposes of satisfying the rate covenant, the Issuer may transfer funds from the Rate Stabilization Fund, if any, created by the Issuer from time to time, to the Revenue Fund in any Fiscal Year. Such amount will not include any funds transferred to the Rate Stabilization Fund from the Revenue Fund in such Fiscal Year. The amount so transferred will be treated as Gross Revenues for such Fiscal Year for purposes of calculating the foregoing rate covenant and the conditions for the issuance of Parity Bonds under the Master Indenture; provided, the amount of any such transfer treated as Gross Revenues for any Fiscal Year will not exceed 20% of the Debt Service Requirements for such Fiscal Year for purposes of satisfying paragraph B(i) of this section.

Collection of Charges. The Issuer will cause all rates, fees, and other charges pertaining to the Waterworks to be collected as soon as reasonable, will prescribe and enforce rules and regulations or impose contractual obligations for the payment thereof, including, without limitation, the imposition of penalties for any defaults, to the end that the Gross Revenues of the Waterworks will be adequate to meet the requirements of the Master Indenture and any other instruments supplemental thereto. The rates, fees, and other charges due will be collected in any lawful manner.

Budgetary Procedures. The Board will annually and at such other times, if any, as may be provided by law prepare and adopt a budget pertaining to the Waterworks pursuant to the Enabling Legislation, all laws supplemental thereto, and the provisions hereof.

The Chief Financial Officer will submit for each Fiscal Year, commencing with the first full Fiscal Year commencing after the Closing, to the Citizens Board an annual budget setting forth estimates of Gross Revenues and expenditure requirements for the Waterworks for such Fiscal Year, including, without limitation, as a part of such expenditure requirements the Operation and Maintenance Expenses for the Fiscal Year and the Debt Service Requirements for the Fiscal Year. Such annual budget may be supplemented and amended from time to time as determined by the Board.
Covenants of the Issuer

The Issuer covenants among other things that:

(a) it will faithfully and punctually perform or cause to be performed all duties with respect to the Net Revenues and the Waterworks required by the Constitution and laws of the State and the various resolutions, indentures and other instruments of the Issuer, including, without limitation, the proper segregation of the proceeds of the Senior Bonds and any securities hereafter authorized and pertaining to the Waterworks and Net Revenues and their application from time to time to the respective accounts provided therefor;

(b) it will, so far as it may be authorized by law, pass, make, do, execute, acknowledge, deliver, and file or record all and every such further instruments, acts, deeds, conveyances, assignments, transfers, other documents, and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, and confirming all and singular the rights, the Net Revenues, and the Pledged Funds, or intended so to be, or which it may become bound to pledge or to assign, or as may be reasonable and required to carry out the purposes of the Master Indenture and any instrument supplemental thereto, and to comply with the Enabling Legislation. It will at all times, to the extent permitted by law, defend, preserve, and protect the pledge of the Net Revenues and the Pledged Funds and all the rights of every holder of any Senior Bonds against all claims and demands of all Persons whomsoever;

(c) it will establish and enforce reasonable rules and regulations governing the operation, care, repair, maintenance, management, control, occupancy, use, and services of the Waterworks. It will observe and perform all of the terms and conditions contained in the Master Indenture and will comply with all valid acts, rules, regulations, orders, and directives of any legislative, executive, administrative, or judicial body applicable to it or the Waterworks;

(d) it will at all times endeavor to employ in connection with the operation of the Waterworks in executive and managerial capacities only individuals competent therefor by reason of training and experience. It will administer the Waterworks in accordance with sound business principles and prudent utility practice;

(e) it will, insofar as it may legally do so, without any violation of other provisions of the Master Indenture, maintain, preserve, keep, and operate the Waterworks or cause the Waterworks to be maintained, preserved, kept, and operated in good repair, working order, and condition;

(f) it will at all times operate the Waterworks properly and in a sound and economical manner and will maintain, preserve, and keep the Waterworks properly, or cause the same, so to be maintained, preserved, and kept, with the appurtenances and every part and parcel thereof, in good repair, working order, and condition;

(g) it will not construct other facilities or structures to be operated by it separate from the Waterworks to furnish customers of the Waterworks with water if such action will have a material adverse effect on the Waterworks revenues otherwise available for the payment of the Senior Bonds, as determined in the discretion of the Board;

(h) it will maintain its governing body structure, as set forth in the Enabling Legislation, and its legal existence, so long as any of the Senior Bonds or Subordinate Bonds remain Outstanding, unless a body created by the General Assembly of the State for the express purpose of succeeding it, succeeds by action of the Board or by operation of law, to the duties, privileges, powers, liabilities, disabilities, immunities, and rights of it and is obligated by law to operate and maintain the Waterworks and to fix and collect Net Revenues as provided in the Master Indenture without adversely and materially affecting at any time the privileges and rights of any holder of the Outstanding Bonds. All of the covenants, stipulations, obligations, and agreements by or on behalf of and other provisions for the benefit of it or the Citizens Board contained in the Master Indenture will bind and inure to the benefit of any body described in this section or any officer or board thereof to whom or to which there will be transferred by or in accordance with law any right, power, or duty of it or the Citizens Board or of their respective successors, if any, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements, or other provisions hereof;
(i) it will pay into any account of the Water Fund, as the Board may determine, the amount of any award received if any part of the Waterworks will be taken by the exercise of a power of eminent domain;

(j) it will pay or cause to be paid all taxes, payments in lieu of taxes, assessments, and other municipal or governmental charges, if any, lawfully levied, payable or assessed upon or in respect of the Waterworks or the Gross Revenues, when the same will become due. It will duly observe and comply with all valid requirements of any municipal or governmental authority relative to the Waterworks, except for any period during which the validity of the same is being contested in good faith by proper legal proceedings. It will pay or cause to be discharged or will make adequate provision to satisfy and to discharge all lawful claims and demands for labor, materials, supplies, or other objects which, if unpaid, might by law become a lien upon the Waterworks or the Gross Revenues. Nothing in the Master Indenture requires it to pay or cause to be discharged or to make provision for any such tax, assessment, lien, charge, claim or demand before the time when payment thereon will be due, or so long as the validity thereof will be contested in good faith;

(k) it will not create or permit to be created any Lien on the Gross Revenues or the Waterworks, except for Permitted Encumbrances and as otherwise permitted in the Master Indenture;

(l) it will keep proper records and accounts, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Waterworks and to all moneys pertaining thereto, including, without limitation, the Gross Revenues;

(m) it will confer to the Trustee the right at all reasonable times to inspect all financial statements, other records, accounts, and data relating thereto, concerning the Waterworks, or the Gross Revenues, or any other moneys pertaining to the Waterworks, or any combination thereof, and to make copies of such financial statements, other records, accounts, and data; and

(n) it will cause an audit to be made for each Fiscal Year following the close of the Fiscal Year of such records, accounts, and subaccounts by an Independent Accountant, and will order an audit report showing the receipts and disbursements for each account and subaccount pertaining to the Waterworks, including, without limitation, the Gross Revenues and file such report with the Trustee within 120 days of the close of such Fiscal Year.

Accounting Principles. Records and accounts, and audits thereof, with respect to the Waterworks and the Gross Revenues, will be currently kept and made, as nearly as practicable, in accordance with Accounting Principles, methods and terminology followed and construed for waterworks comparable to the Waterworks, except as may be otherwise provided in the Master Indenture or required by applicable law or regulation or by contractual obligation existing on the effective date of the Master Indenture.

Insurance. The Issuer, will at all times maintain, or cause to be maintained, such public liability insurance and property insurance as is customarily maintained by entities similar to the Issuer with respect to facilities of like character against loss of or damage to the Waterworks, against loss of Net Revenues and against public and other liability. If at any time the Issuer is unable to obtain insurance to the extent provided herein, the Issuer will maintain such insurance to the extent it is reasonably obtainable. The Issuer may insure all or a portion of the above risks through a program of self-insurance. The proceeds of any property insurance relating to the Waterworks will be payable to the Issuer and applied as provided below.

If any useful part of the Waterworks will be damaged or destroyed, the Issuer will, as expeditiously as possible, commence and diligently prosecute the repair or replacement of the damaged or destroyed property so as to restore the same to use. After any loss or damage to any useful portion of the Waterworks which is covered by property insurance, the Issuer will apply the proceeds of such property insurance to the extent necessary to the repair, reconstruction, and other replacement of the damaged or destroyed property. If such proceeds are more than sufficient for such purpose, the balance remaining will be applied as determined by the Issuer. If such proceeds will be insufficient to repair, reconstruct, or otherwise replace the damaged or destroyed property pertaining to the Waterworks, the deficiency may be supplied by the Issuer from other available moneys.
All such insurance policies will be subject to the inspection at all reasonable times of any holder of any Outstanding Senior Bonds or any authorized representative of any such holder.

Disposal of Waterworks. Except as permitted in the Master Indenture, neither all nor a substantial part of the Waterworks will be sold, leased, alienated, or otherwise disposed of, until all the Senior Bonds and Subordinate Bonds have been paid in full or provision has been made therefor, in accordance with the Master Indenture.

The Issuer will have and hereby reserves the right to sell, lease, or otherwise dispose of the Waterworks or a portion thereof, if any one of the following conditions exists, as determined by the Citizens Board in its sole discretion: (i) such property is not necessary for the operation of the remaining Waterworks; (ii) such property is not useful in the operation of the remaining Waterworks; (iii) such property is not profitable or cost effective with respect to the operations of the remaining Waterworks, (iv) the disposition of such property will not have a material adverse effect on the security for the Senior Bonds or Subordinate Bonds, or (v) such disposition is in the best interest of the Issuer and the holders of the Senior Bonds and Subordinate Bonds. The Issuer may use the moneys received from any such disposal as directed by the Board in accordance with the Master Indenture. The provisions of this section are in addition to any limitations imposed upon the sale, lease or disposition of the Waterworks imposed by the Asset Purchase Agreement.

Tax Covenants

The Issuer will not use or permit the use of any proceeds of Tax-Exempt Bonds or any other funds of the Issuer, directly or indirectly, to acquire any securities or obligations, and will not use or permit the use of any Net Revenues in any manner, and will not take or permit to be taken any other action or actions, which would cause any Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or which would otherwise affect the exclusion of interest on the Tax-Exempt Bonds from gross income of the recipients thereof for federal income tax purposes.

The Issuer will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Issuer on the Tax-Exempt Bonds will, for federal income tax purposes, be excluded from the gross income of the recipients thereof. In furtherance of this covenant, the Issuer will comply with the covenants regarding Tax-Exempt Bonds contained in any Supplemental Indenture.

Defeasance

Except as otherwise set forth in the Master Indenture, when principal of and premium, if any, and interest on a Senior Bond have been duly paid, the pledge and lien and all obligations under the Master Indenture will thereby be discharged as to that Senior Bond and it will no longer be deemed to be Outstanding within the meaning of the Master Indenture. There will be deemed to be such due payment in the manner required under the Master Indenture if the Issuer has placed in escrow or in trust with a Trust Bank, an amount of moneys and Defeasance Securities, the maturing principal and interest on which will be sufficient to meet all such payment requirements of the Senior Bond, as such requirements become due to the fixed maturity date of the Senior Bond or to any Redemption Date or Redemption Dates as of which the Issuer will have exercised or will have obligated itself to exercise its prior redemption option by a call of the Senior Bond thereafter maturing for payment on such date, at which time the provisions of such Senior Bond will be deemed terminated, defeased and discharged. The Defeasance Securities will become due prior to the respective times on which the proceeds thereof will be needed, in accordance with a schedule established and agreed upon between the Issuer and such Trust Bank at the time of the creation of the escrow or trust, or the Defeasance Securities will be subject to redemption at the option of the holders thereof to assure such availability as so needed to meet such schedule. If at any time the Issuer has so placed in escrow or trust an amount sufficient to pay designated principal of and premium, if any, and interest on Senior Bonds constituting less than all of such payment requirements of the Senior Bonds becoming due on and before their respective due dates, be they the fixed maturity dates of the Senior Bonds or any such Redemption Date pertaining to the Senior Bonds, such designated payment requirements will be deemed paid and discharged under the Master Indenture. For the purposes of this section, "Defeasance Securities" will not include any Defeasance Securities which are callable by any party other than the holder thereof.
Notwithstanding anything in this section to the contrary, in the event that the principal of or interest on the Senior Bonds will be paid by the provider of a Credit Facility or Reserve Account Credit Facility pursuant to the terms thereof, the Senior Bonds will not be deemed to have been duly paid within the meaning of the Master Indenture, remain Outstanding and will not be defeased or otherwise satisfied until the amounts owed by the Issuer pursuant to the terms of the agreement between the Issuer and the provider of such Credit Facility or Reserve Account Credit Facility are paid to the provider of such facility.

Events of Default and Remedies

Except as otherwise provided in the Master Indenture, each of the following events is an Event of Default:

(a) Failure to pay principal and interest of any of the Senior Bonds, or any redemption premium due in connection therewith, as it becomes due and payable;

(b) the Issuer makes any default in the due and punctual performance of any other of the representations, covenants, conditions, agreements, and other provisions contained in the Senior Bonds, in the Master Indenture or a Supplemental Indenture relating thereto on its part to be performed, and such default continues for ninety (90) days after written notice specifying such default and requiring the same to be remedied is given to the Issuer directly by the holders of a majority in principal amount of the Senior Bonds then Outstanding or such notice from such holders is received by the Trustee and delivered to the Issuer by the Trustee provided, however, if the failure stated in such notice can be corrected, but not within such ninety (90) day period, the Issuer will have 180 days after such written notice to cure such default if corrective action is instituted by the Issuer within such ninety (90) day period and diligently pursued until the failure is corrected;

(c) if an order, judgment or decree is entered by any court of competent jurisdiction (i) appointing a receiver, trustee, or liquidator for the whole or any substantial part of the Waterworks, (ii) granting relief in involuntary proceedings with respect to the Waterworks under the federal Bankruptcy Code, or (iii) assuming custody or control of the whole or any substantial part of the Waterworks under the provision of any law for the relief or aid of debtors, and such order, judgment or decree will not be vacated or set aside or stayed (or, if custody or control is assumed by such order, such custody or control will not be otherwise terminated), within sixty (60) days from the date of the entry of such order, judgment or decree;

(d) failure by any provider of a Credit Facility to pay the purchase price of Senior Bonds under any Credit Facility then in effect or delivery to the Issuer by a provider of a Credit Facility of written notice stating that an "event of default" has occurred under any Credit Facility Agreement relating to Senior Bonds;

(e) delivery to the Issuer by a Qualified Provider of written notice stating an "event of default" has occurred under any Senior Hedge Agreement; and

(f) the Board (i) admits in writing its inability to pay its debts generally as they become due, (ii) commences voluntary proceedings in bankruptcy or seeking a composition of indebtedness in either case relating to the Waterworks, (iii) makes an assignment for the benefit of its Waterworks creditors, (iv) consents to the appointment of a receiver of the whole or any substantial part of the Waterworks, or (v) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the whole or any substantial part of the Waterworks.

Upon the happening and continuance of any of the Events of Default, then and in every case the holder or holders of not less than a majority in principal amount of the Senior Bonds then Outstanding or the Trustee therefor may proceed against the Issuer and its agents, officers, and employees to protect and to enforce the rights of any holder of Senior Bonds under the Master Indenture by mandamus or by other suit, action, or special proceedings in equity or at law, in any court of competent jurisdiction, either for the appointment of a receiver or for the specific performance of any covenant or agreement contained herein or by an award of execution of any power granted in the Master Indenture for the enforcement of any proper, legal, or equitable remedy as such holder or holders may deem most effectual to protect and to enforce the rights aforesaid, or thereto enjoin any act or thing which may be unlawful or in violation of any right of any holder of any Senior Bond, or to require the Issuer to act as if it were the
Upon the happening of any of the Events of Default, the Issuer, in addition, will do and perform all proper acts on behalf of and for the holders of the Senior Bonds to protect and to preserve the security created for the payment of the Senior Bonds and to insure the payment of the Senior Bonds promptly as the same become due. During any period of default, so long as any of the Senior Bonds are Outstanding, all Net Revenues will, after the establishment, at the determination of the Chief Financial Officer, of an operating reserve in an amount of up to two months of Operating and Maintenance Expenses in order to permit the continued efficient operation of the Waterworks, be paid into the Bond Fund and, to the extent such revenues, if any, exceed the payment requirements of the Outstanding Senior Bonds and Hedge Payments under Senior Hedge Agreements, both accrued and to accrue to their respective fixed maturity dates or to any Redemption Date or Redemption Dates pertaining thereto, whichever is earlier, if any, into any like account or like accounts for any Outstanding Subordinate Bonds. If the Issuer fails or refuses to proceed as in this section provided, the holder or holders of not less than a majority in principal amount of the Outstanding Senior Bonds or the Trustee, after demand in writing, may proceed to protect as hereinabove provided; and to that end any such holders of Outstanding Senior Bonds or the Trustee will be subrogated to all rights of the Issuer under any agreement, lease, or other contract involving Net Revenues, or that the Waterworks entered into prior to the effective date of the Master Indenture or thereafter while any such Senior Bonds are Outstanding.

Nothing in the Master Indenture or any other instrument of the Issuer will permit the acceleration of the time or extent ordered by a court of competent jurisdiction.

Amendments

Supplemental Indentures Requiring Consent of Owners.

With the consent of the owners of not less than a majority in aggregate principal amount of the Outstanding Senior Bonds affected by the terms of the proposed Supplemental Indenture, the Issuer and the Trustee may from time to time and at any time enter into a Supplemental Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any Supplemental Indenture. If any such modification or amendment will not take effect so long as a Senior Bond of any specified series remains Outstanding, consent of the holder of such Senior Bond of such series shall not be required and such series of Senior Bonds will not be Outstanding for purposes of any calculation of Outstanding Senior Bonds under this Section; provided, however, that no such Supplemental Indenture will: (1) extend the maturity date or due date of any mandatory sinking fund redemption with respect to any Senior Bond Outstanding under the Master Indenture; (2) reduce or extend the time for payment of principal of, redemption premium, or interest on any Senior Bond Outstanding under the Master Indenture; (3) reduce any premium payable upon the redemption of any Senior Bond under the Master Indenture or advance the date upon which any Senior Bond may first be called for redemption prior to its stated maturity date; (4) give to any Senior Bond or Senior Bonds (or related Senior Hedge Agreements) a preference over any other Senior Bond or Senior Bonds (or related Senior Hedge Agreements); (5) permit the creation of any Lien on the Net Revenues having a lien equal to or prior to the lien created under the Master Indenture for the Senior Bonds except as permitted in the Master Indenture; (6) reduce the percentage of owners of either class of Senior Bonds required to approve any such Supplemental Indenture; or (7) deprive the owners of the Senior Bonds of the right to payment of the Senior Bonds from the Net Revenues, without, in each case, the consent of the owners of all the affected Senior Bonds then Outstanding. No amendment may be made which affects the rights or duties of any provider of a Credit Facility, Reserve Account Credit Facility or any Hedge Agreement without its prior written consent.

If the Issuer intends to enter into or adopt any Supplemental Indenture described in this section, the Issuer shall mail, or cause the Registrar to mail, by registered or certified mail, to the holders of the Senior Bonds at their addresses as shown on the bond register, a notice of such intention along with a description of such Supplemental Indenture not less than thirty (30) days prior to the proposed execution date of such Supplemental Indenture. The
consents of the holders of the Senior Bonds need not approve the particular form of wording of the proposed Supplemental Indenture, but it shall be sufficient if such consents approve the substance thereof. Failure of the holders of any Senior Bond to receive the notice required in the Master Indenture shall not affect the validity of any Supplemental Indenture if the required number of holders of the Senior Bonds shall provide their written or deemed consent to such Supplemental Indenture.

Notwithstanding any provision of the Master Indenture to the contrary, upon the issuance of a Credit Facility to secure any Senior Bonds and for the period in which such Credit Facility is outstanding, the provider of a Credit Facility may have the consent rights of the holders of the Senior Bonds which are secured by such Credit Facility pertaining to some or all of the amendments or modifications of the Master Indenture, to the extent provided in the applicable Supplemental Indenture. Notwithstanding the foregoing, if a provider of a Credit Facility is granted the consent rights of the holders of any Senior Bonds in a Supplemental Indenture and refuses to exercise such consent rights, either affirmatively or negatively, then the holders of the Senior Bonds secured by the related Credit Facility may exercise such consent rights.

Supplemental Indentures Not Requiring Consent of Owners

The Issuer and the Trustee, from time to time and at any time, subject to the conditions and restrictions in the Master Indenture, may enter into one or more Supplemental Indentures which thereafter shall form a part of the Master Indenture, for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Issuer in the Master Indenture other covenants and agreements thereafter to be observed or to surrender, restrict, or limit any right or power reserved in the Master Indenture to or conferred upon the Issuer;

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting, or supplementing any defective provision, mistakes or manifest error contained in the Master Indenture, or in regard to matters or questions arising under the Master Indenture, as the Issuer may deem necessary or desirable and not inconsistent with the Master Indenture;

(c) To subject to the lien and pledge of the Master Indenture additional revenues, receipts, properties, or other collateral;

(d) To evidence the appointment of successors to any Trustee, Paying Agent(s), or Bond Registrar(s);

(e) To modify, amend, or supplement the Master Indenture in such manner as to permit the qualification of the Master Indenture under the Trust Indenture Act of 1939 or any federal statute hereinafter in effect, and similarly to add such other terms, conditions, and provisions as may be permitted or required by such Trust Indenture Act of 1939 or any similar federal statute;

(f) To make any modification or amendment of the Master Indenture required in order to make any Senior Bonds eligible for acceptance by DTC or any similar holding institution or to permit the issuance of any Senior Bonds or interests therein in book-entry form;

(g) To modify any of the provisions of the Master Indenture in any respect if such modification will not become effective until after the Senior Bonds Outstanding immediately prior to the effective date of such Supplemental Indenture will cease to be Outstanding and if any Senior Bonds issued contemporaneously with or after the effective date of such Supplemental Indenture will contain a specific reference to the modifications contained in such subsequent proceedings;

(h) To modify the Master Indenture to permit the qualification of any Senior Bonds for offer or sale under the securities laws of any state in the United States of America;

(i) To provide for the issuance of Parity Bonds or the entry into a Hedge Agreement or Credit Facility in accordance with the terms of the Master Indenture;
(j) To modify the Master Indenture to provide for the issuance of Parity Bonds, and such modification may deal with any subjects and make any provisions which the Issuer deems necessary or desirable for that purpose; and

(k) To modify any of the provisions of the Master Indenture in any other respect (other than a modification of the type requiring the unanimous written consent of the holders of the affected Bonds) that the Citizens Board in good faith determines will not have a material adverse affect on the security for the Senior Bonds.

(l) To authorize any change or amendment in the Master Indenture which, as evidenced by a certificate of the Chief Financial Officer of the Issuer, would not result in a reduction or withdrawal in the ratings assigned to the Senior Bonds.

Any Supplemental Indenture authorized by the provisions of this section may be adopted by the Issuer without the consent of or notice to the owners of any of the Senior Bonds at the time Outstanding.

Any Supplemental Indenture of the Issuer may modify the provisions of the Master Indenture in such a manner, and to such extent and containing such provisions, as the Issuer may deem necessary or desirable to effect any of the purposes stated above.

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APPENDIX E2
DEFINITIONS IN THE CITIZENS INDENTURE

The Citizens Indenture is preliminary, subject to change prior to closing of the Pending Acquisition of the Waterworks.

"Accounting Principles" means accounting principles prescribed by the IURC and customarily used by the Issuer; provided that, if the IURC no longer prescribes accounting principles or if such accounting principles are not applicable to the Waterworks, "Accounting Principles" means accounting principles prescribed by the Issuer.

"Accreted Value" means, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Senior Bond plus the interest accrued on such Senior Bond from the date of original issuance of such Senior Bond to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the Supplemental Indenture authorizing such Senior Bonds, compounded periodically on each Periodic Compounding Date. Plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, shall be calculated based upon an assumption that, unless otherwise provided in the Supplemental Indenture authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

"Act" means IC 8-1-11.1 and other applicable law, as the same from time to time may be amended or supplemented.

"Actual Debt Service Requirements" means with respect to a period of time for which calculated, the aggregate of the payments required to be made by the Issuer in respect of principal whether at maturity or as a result of a mandatory prepayment, and the interest on outstanding Senior Bonds and any Hedge Payments or Hedge Receipts with respect to Hedge Agreements; however excluding such principal or interest payments on Senior Bonds to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied and are sufficient to pay such principal of, premium, if any, or interest on the scheduled payment dates at maturity or redemption; provided, further that in calculating the Actual Debt Service Requirements for such period, the principal amount of any Senior Bonds included in such calculation which is paid during such period shall be excluded to the extent such amount is paid from a source other than the Net Revenues, including but not limited to the proceeds of Senior Bonds.

"Additional Interest" means, for any period during which any Pledged Bonds are owned by a provider of a Credit Facility pursuant to a Credit Facility or Credit Facility Agreement, the amount of interest accrued on such Pledged Bonds at the Pledged Bond Rate less the amount of interest which would have accrued during such period on any equal principal amount of Senior Bonds at the Bond Rate.

"Affiliate" means any entity, excluding a Subsidiary, owned in part by the Issuer, a Subsidiary or another Affiliate.

"Appreciated Value" shall mean, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date, an amount equal to the principal amount of such Senior Bond plus the interest accrued on such Senior Bond from its date of original issuance to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Supplemental Indenture authorizing such Senior Bonds, compounded periodically on each Periodic Compounding Date as in such Supplemental Indenture provided, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, shall be calculated based upon an assumption that, unless otherwise
provided in the Supplemental Indenture authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

"Asset Purchase Agreement" means the Asset Purchase Agreement by and among the City, the Department of Waterworks of the City of Indianapolis, acting by and through the Board of Waterworks and the Issuer dated as of August 11, 2010.

"Authorized Issuer Representative" means the President (Chair), the Vice President (Vice Chair) or the Secretary of the Board or the President, a Senior Vice President or a Vice President of Citizens Energy Group.

"Banking Institution" means a state or national bank or trust company, which is a member of the Federal Deposit Insurance Corporation, which is located within the United States.

"Board" means the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis or any successor board, body, commission or agency succeeding to the principal functions thereof.

"Bond Counsel" means any firm of nationally recognized bond counsel selected by the Issuer and experienced in matters relating to tax-exempt financing.

"Bond Fund" means the special and separate fund of that name created in the Master Indenture.

"Bond Rate" means the rate of interest per annum payable on specified Senior Bonds other than Pledged Bonds.

"Capital Appreciation Bonds" means any Senior Bonds issued under the Master Indenture as to which all or a portion of the interest is (i) compounded on the Periodic Compounding Dates that are specified in the Supplemental Indenture authorizing such Capital Appreciation Bonds and (ii) payable only at maturity, earlier redemption or other payment thereof pursuant to the Master Indenture or such Supplemental Indenture.

"Capital Lease" means any lease of property to the Issuer, as lessee, which is required to be capitalized under generally accepted accounting principles.

"Certified Interest Rate" means

(i) with respect to Senior Bonds that were or will be, at the date of the original issuance thereof, the subject of a bond counsel's opinion to the effect that the interest thereon is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, a rate of interest equal to the average of the SIFMA Municipal Swap Index or the Alternate Variable Rate Tax-Exempt Index for the five (5) years preceding such date of determination; and

(ii) with respect to Senior Bonds that were not and will not be, at the date of the original issuance thereof, the subject of a bond counsel's opinion to the effect that the interest thereon is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, a rate of interest equal to the average of the One-Month LIBOR Rate or the Alternate Variable Rate Taxable Index for the five (5) years preceding such date of determination.

"Chief Financial Officer" means the person designated by the Issuer as having primary responsibility for the financial operations of the Waterworks.

“Citizens Board” means the Board of Directors for Utilities of the Department of Public Utilities of the City.

"Citizens Energy Group" means the trade name under which the Board operates.
"City" means the consolidated City of Indianapolis, Indiana.

"Closing" means the date of issuance of and payment of the initial purchase price for the 2011 Bonds.

"Code" means, for each series of Senior Bonds, the Internal Revenue Code of 1986, as in effect on the date of issuance of those Senior Bonds, and the applicable judicial decisions or published rulings, or any applicable regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954 as in effect immediately prior to the enactment of the Tax Reform Act of 1986.

"Combined Maximum Annual Principal and Interest Requirements" means the maximum aggregate amount of Senior Debt Service Requirements of Senior Bonds which have a claim for payment on the Future Bonds Common Reserve Subaccount or Prior Bonds Common Reserve Subaccount, as applicable, falling due in any succeeding Fiscal Year.

"Credit Facility" shall mean a letter of credit, line of credit, insurance policy, standby purchase agreement or other similar credit facility issued by a municipal bond insurer, financial institution, trust company, insurance company or association which provides for the payment of principal or purchase price of, or interest on any series of Senior Bonds or a portion thereof.

"Credit Facility Agreement" shall mean any agreement between the Issuer and the provider of any Credit Facility.

"Current Interest Commencement Date" shall mean, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Indenture authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates specified in such Supplemental Indenture with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

"Defeasance Securities" shall mean and include, to the extent permitted by law, any of the following securities, if and to the extent the same are at the time legal for investment of funds of the Issuer:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States, including obligations of any Federal agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States to the extent unconditionally guaranteed by the United States or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (i) held by a Banking Institution or Trust Bank as custodian, under which the owner of the investment is a real party in interest and has the right to proceed directly and individually against the obligor on the obligations described in this clause (i), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; or

(ii) any bonds or other obligations of any state or governmental unit thereof, the interest on which is exempt from federal income taxation and which are rated at such time in the then highest rating category of two or more Rating Agencies; or

(iii) any bonds or other obligations of any federal agency or corporation which has or may hereafter be created pursuant to Congress as an agency or instrumentality of the United States; or

(iv) any bonds or other obligations of any state of the United States or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (c) as to which the principal of and interest on the bonds and obligations
of the character described in clause (i) above which have been deposited in such fund along with any cash on
deposit in such fund is sufficient to pay principal of and interest and redemption premium, if any, on the bonds or
obligations described in this clause (iv) on the maturity date or dates thereof or on the redemption date or dates
specified in the irrevocable instructions referred to in subclause (a) of this clause (iv), as appropriate; or

(v) any agreements or contracts with insurance companies or other financial institutions, or
subsidiaries or affiliates thereof (hereinafter in this clause (v) referred to as "Providers"), (a) whose outstanding
unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a
"financial programs rating" or other equivalent rating, in the highest whole rating category by at least two Rating
Agencies or (b) whose obligations under such agreements or contracts shall be unconditionally guaranteed by
another insurance company or other financial institution, or subsidiary or affiliate thereof, whose outstanding
unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a
"financial programs rating" or other equivalent rating, in the highest whole rating category by at least two Rating
Agencies, pursuant to which agreements or contracts the Provider shall be absolutely, unconditionally and
irrevocably obligated to repay the moneys invested by the Issuer and interest thereon at a guaranteed rate, without
any right of recoupment, counterclaim or set off. The Provider may have the right to assign its obligations under
any investment agreement to any other insurance company or other financial institution, or subsidiary or affiliate
thereof; provided, however, that such assignee also shall be an insurance company or other financial institution, or
subsidiary or affiliate thereof, satisfying the requirements set forth in either clause (a) or clause (b) of the preceding
sentence; or

(vi) any other bonds or obligations approved by the applicable provider of a Credit Facility.

The term "Defeasance Securities" with respect to Senior Bonds issued subsequent to the Closing may
include the following:

(i) Direct obligations of any of the following federal agencies which obligations are not fully
guaranteed by the full faith and credit of the United States of America:

(a) Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by
the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage
Corporation (FHLMC);

(b) Obligations of the Resolution Funding Corporation (REFCORP); and

(c) Senior debt obligations of the Federal Home Loan Bank System.

(ii) any bonds or other obligations of any state or governmental unit thereof, the interest on which is
exempt from federal income taxation and which are rated at such time in one of the two then highest rating
categories of two or more Rating Agencies (without reference to qualifiers).

Notwithstanding the foregoing, the term "Defeasance Securities" with respect to a particular series of
Senior Bonds may be further restricted or expanded as shall be set forth in the Supplemental Indenture relating to
such series of Senior Bonds. In such event, the modified definition of "Defeasance Securities" shall apply only to
such series of Senior Bonds unless provided otherwise by a Supplemental Indenture.

"Deferred Income Bonds" means any Senior Bonds as to which interest accruing prior to the Current
Interest Commencement Date is (i) compounded periodically on the dates specified in the Supplemental Indenture
authorizing such Deferred Income Bonds and (ii) payable only at redemption or other payment thereof pursuant to
such Supplemental Indenture.

"disposal" or "dispose" means the sale, destruction, razing, loan, lease, grant, transfer, assignment, option
to sell, other contract, other disposition, or any combination thereof, of the Waterworks.
"Enabling Legislation" means IC 8-1-11.1 and other authorizing statutes applicable to the Issuer, including IC 5-1-14.

"Events of Default" mean the events described under the heading "Events of Default and Remedies" in Appendix E1.

"Federal Government" means the United States, or any agency, instrumentality, or corporation thereof.

"Financial Consultant" means any Person, including, but not limited to an Independent Accountant, who is not a member of the Board, or an employee or Authorized Issuer Representative of the Issuer retained by the Issuer to render fiscal or rate setting advice or to perform financial services in connection with the Bonds and/or the Waterworks.

"Fiscal Year" means the fiscal year selected by the Issuer from time to time for accounting purposes for the Waterworks.

"Future Bonds" means those Senior Bonds issued subsequent to the Closing the Issuer elects to be secured by the Future Bonds Common Reserve Subaccount.

"Future Bonds Common Reserve Requirement" means the least of (i) 10% of the stated principal amount, (ii) the Combined Maximum Annual Principal and Interest Requirements for the Future Bonds and (iii) 125% of the average annual Senior Debt Service Requirements for the Future Bonds.

"Future Bonds Common Reserve Subaccount" means the special and separate subaccount created in the Master Indenture within the Reserve Account for the Future Bonds.

"Gas Utility Distribution System" means all assets and properties, including any and all interests therein, whether real or personal or tangible or intangible, held or operated by the Issuer in trust or otherwise and used directly to provide gas utility service the rates and charges for which are subject to regulation by the IURC or, in the absence of IURC regulation, under rates and charges established by the Citizens Board pursuant to Indiana Code 8-1.5-3-8 or any successor provision of law. The Gas Utility Distribution System is a Separate System for purposes of the Master Indenture.

"Gross Revenues" means all income and revenues received or accrued under generally accepted accounting principles derived directly or indirectly by the Issuer from the water and any other goods and services provided by, or from the operation and use of and otherwise pertaining to, the Waterworks, including, without limitation, all rates, fees, and other charges for the use of the Waterworks, or for any service rendered by the Issuer in the operation thereof, or any part thereof, directly or indirectly, the availability of any such service or the sale or other disposal of any commodity derived therefrom, but excluding any insurance proceeds, any moneys borrowed and used for the acquisition, construction, installation, improvement or equipping of capital improvements and any moneys received as grants, appropriations or gifts from the United States, the State or other sources, the use of which is limited by the grantor or donor to the acquisition, construction, installation, improvement or equipping of capital improvements for the Waterworks, except to the extent any such moneys shall be received as payments for the use of the Waterworks, services rendered thereby, the availability of any such service or the disposal of any such commodities. "Gross Revenues" shall for purposes of the additional bonds test and rate covenant test described in Appendix E-1 also include:

(i) all income or other gain from the investment of Pledged Funds;

(ii) all amounts withdrawn from the Rate Stabilization Fund, if any, and deposited in the Revenue Fund in accordance with and subject to the limitations set forth in the Master Indenture less all amounts withdrawn from the Revenue Fund and deposited into the Rate Stabilization Fund.

"Hedge Agreement" means, to the extent permitted by law, any financial arrangement entered into by the Issuer with respect to the Senior Bonds for the purpose of moderating interest rate fluctuations or any other purpose, (i) which is entered into with an entity that is a Qualified Provider at the time the arrangement is entered into;
(ii) which is any of the following, or any combination thereof, or any option with respect thereto: a cap, floor or collar; forward rate; future rate; swap or such other exchange or rate protection transaction agreement; or other similar transaction (however designated); and (iii) which has been designated in writing to the Trustee by the Issuer as a Hedge Agreement with respect to all or a portion of the notional principal amount of such Senior Bonds.

"Hedged Bonds" means any Senior Bonds with respect to which the Issuer shall have entered into a Hedge Agreement.

"Hedge Payments" means amounts payable by the Issuer pursuant to any Hedge Agreement, excluding any termination payments, fees, expenses, and indemnity payments, if any.

"Hedge Payments Account" means the special and separate account of that name within the Bond Fund created in the Master Indenture.

"Hedge Receipts" means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, excluding termination payments, fees, expenses, and indemnity payments.

"holder" or "owner" or any similar term, when used in conjunction with any Senior Bond, means the registered owner of any Senior Bond which is registered for payment.

"IC" means the Indiana Code.

"Independent Accountant" means any certified public accountant, or any firm of certified public accountants, duly licensed to practice and practicing as such under the laws of the State, as from time to time appointed and compensated by the Issuer who is not an Authorized Issuer Representative, a member of the Board or employee of the Issuer, but who may be regularly retained to make annual or similar audits of any books or records of the Issuer.

"Interest Account" means the special and separate account of that name created in the Master Indenture within the Bond Fund.

"Interest Payment Date" means each date on which interest is to become due on any Senior Bonds, as established in the Master Indenture or in the Supplemental Indenture for such Senior Bonds.

"Issuer" means the City of Indianapolis, a municipal corporation acting by and through the Board of Directors for Utilities of its Department of Public Utilities in furtherance of the public charitable trust for the Waterworks.

"IURC" means the Indiana Utility Regulatory Commission or if the IURC shall be abolished, or some part of its functions assumed by some other governmental agency, the agency, authority, board, body, commission or department succeeding to or sharing the functions thereof.

"Lien" means any mortgage, pledge or lease of, security interest in or lien, charge restriction or encumbrance on the Waterworks or the Gross Revenues in favor of, or which secures any obligation to, any other entity or Person including any lien created by a Capital Lease.

"Master Indenture" means the Master Indenture between the Issuer and the Trustee, as it may be amended or supplemented from time to time.

"Net Revenues" means the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses. No determination of the Gross Revenues, Operation and Maintenance Expenses, or Net Revenues for purposes of the additional bonds test or rate covenant shall be adjusted to reflect the following items, unless the Board determines, in its discretion, to make such adjustment: (i) any gain or loss resulting from the extinguishment of indebtedness or the sale, exchange or other disposition of assets not in the ordinary course of business, (ii) any unrealized gain or loss on investments, (iii) any unrealized changes in value of a Hedge Agreement or other derivative instrument, (iv) any extraordinary items under generally accepted accounting
principles from time to time, or (v) any changes in generally accepted accounting principles becoming effective after the Closing.

"One-Month LIBOR Rate" shall mean, as of any date of determination, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Operation and Maintenance Expenses," or any phrase of similar import, means all reasonable and necessary current expenses of the Issuer, determined under generally accepted accounting principles, of operating, maintaining, and repairing the Waterworks, but excluding interest expense and any allowance for depreciation or amortization; further, the term includes, without limitation:

(i) Engineering, auditing, reporting, legal, planning, regulatory, and other overhead expenses relating to the administration, operation, and maintenance of the Waterworks, including any fees owed to any manager engaged or employed by the Issuer;

(ii) Fidelity bond and property and liability insurance premiums pertaining to the Waterworks, or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the Waterworks;

(iii) Payments to pension, retirement, health, and hospitalization funds, and other insurance, and to any self-insurance fund as insurance premiums not in excess of such premiums which would otherwise be required for such insurance;

(iv) Any general taxes, payments in lieu of taxes, assessments, excise taxes, or other charges which may be lawfully imposed on, or paid by, the Issuer, the Waterworks, revenues therefrom, or the Issuer's income from or operations of any properties under its control and pertaining to the Waterworks, or any privilege in connection with the Waterworks or its operation;

(v) The reasonable charges of the Trustee, Paying Agent, Registrar and any other depositary bank, fiduciary or receiver under the Master Indenture pertaining to the Senior Bonds;

(vi) Contractual services, professional services, salaries, other administrative expenses, and costs of materials, supplies, repairs, and labor, pertaining to the Waterworks;

(vii) Any costs of utility services furnished to the Waterworks;

(viii) Any lawful refunds of any Net Revenues;

(ix) The cost of funding any amount due the United States as rebate payments under section 148(f) of the Code, and the cost of calculating and verifying the amount of such rebate payments;

(x) Fees and charges payable to the Purchaser of Senior Bonds pursuant to a bond purchase agreement for such bonds; and

(xi) All other administrative, general, and commercial expenses incurred by the Issuer in connection with the Waterworks.

"Operation and Maintenance Fund" means the special and separate fund of that name created in the Master Indenture;

"Outstanding" when used with reference to the Senior Bonds and as of any particular date means all the Senior Bonds, including Senior Bonds held by the Issuer, in any manner theretofore and thereupon being executed and delivered:
(i) **Except** any Senior Bond canceled by the Issuer, by the Trustee, Registrar, Paying Agent or otherwise on the Issuer's behalf, at or before such date;

(ii) **Except** any Senior Bond for the payment or the redemption of which shall have theretofore been made or provided for pursuant to the Master Indenture; and

(iii) **Except** any Senior Bond in lieu of or in substitution for which another Senior Bond shall have been executed and delivered pursuant to the Master Indenture.

"**Parity Bonds**" means any additional Senior Bonds issued by the Issuer, the principal of, premium if any, and interest on which are payable from Net Revenues on a parity with the 2011 Bonds which are issued in accordance with the requirements of the Master Indenture.

"**Paying Agent**" means The Bank of New York Mellon Trust Company, N.A., a Banking Institution and a Trust Bank, and designated by the Issuer as the paying agent for the 2011 Bonds, which Banking Institution is also the Registrar under the Master Indenture and is an agent of the Issuer for the payment of the 2011 Bonds and for other administration of moneys pertaining to the Issuer; and the term Paying Agent includes any successor Banking Institution as such a paying agent.

"**Periodic Compounding Date**" means the periodic date specified in a Supplemental Indenture authorizing Capital Appreciation Bonds or Deferred Income Bonds on which interest on such Senior Bonds is to be compounded.

"**Permitted Encumbrances**" means, from time to time:

(i) Any Liens arising by reason of good faith deposits with the Issuer in connection with tenders, leases of real estate, bids or contract (other than contracts for the payment of money), deposits by the Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Issuer to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(ii) Any Lien on any additional Waterworks property acquired by the Issuer after Closing, which Lien (a) secures indebtedness issued, incurred or assumed by the Issuer in connection with and to effect such acquisition or (b) existing indebtedness which will remain outstanding after such acquisition but will not be assumed by the Issuer, if in each such case the aggregate principal amount of such indebtedness does not exceed the fair market value of the property subject to such Lien as determined in good faith by the Board;

(iii) Any lease which relates to the Waterworks which is of a type that is customarily the subject of such leases such as equipment; any lease, license or similar right to use the Waterworks to which the Issuer (or any predecessor in interest of such party) is a party existing as of the date of Closing and any renewals and extensions thereof; and any lease, license or similar right to use property where under the lease the Issuer is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would be obtained in a comparable arm's-length transaction;

(iv) Any Lien for taxes and special assessments which is not then delinquent, or if then delinquent are being contested in accordance with the Master Indenture;

(v) Any utility, access and other easement and right-of-way, restriction, encumbrance and exception which does not materially interfere with or materially impair the operation of the Waterworks (or, if such property is not being then operated, the operation for which it was designed or last modified);
Any such Lien, defect, irregularity of title and encroachment on adjoining property as normally exist with respect to property similar in character to the property involved and which does not materially adversely affect the value of, or materially impair, the property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation a statutory lien granted to a bank or other financial institution, which lien has not been specifically granted to secure indebtedness and which does not apply to property which has been deposited as part of a plan to secure indebtedness;

Zoning laws and similar restrictions which are not violated by the property affected thereby;

All right, title and interest of the State, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

Any Lien on or in property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that (i) such Lien consists solely of restrictions on the use thereof or the income therefrom, or (ii) such Lien secures indebtedness which is not assumed by the Issuer and such Lien attaches solely to the property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

Any Lien of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which the Issuer shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

Any Lien on any Senior Bond acquired by or on behalf of the Issuer in favor of the provider of a Credit Facility for such Senior Bond;

Any such Lien, covenant, condition and restriction, if any, which does not secure indebtedness and which is other than those of the type referred to above, and which does not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such property was acquired or is held by the Issuer, as determined by the Board in its discretion;

Any Lien on the Waterworks existing as of the date of Closing which is identified as a Permitted Lien in the Asset Purchase Agreement;

Any Lien on moneys deposited with the Issuer by customers of the Waterworks or developers of property within the waterworks district of the Issuer.

"Permitted Investments" means the investments permitted by IC 5-13, as amended from time to time.

"Person" means a corporation, firm, other body corporate (including, without limitation, the Federal Government, the State, or any other body corporate and politic), partnership, association, or individual, and also includes an executor, administrator, trustee, receiver, or other representative appointed according to law.

"Pledged Bond" means any Senior Bond purchased and held by an issuer of a Credit Facility pursuant to a Credit Facility Agreement. A Senior Bond shall be deemed a Pledged Bond only for the actual period during which such Senior Bond is owned by the provider of a Credit Facility pursuant to a Credit Facility Agreement.

"Pledged Bond Rate" means the rate of interest payable on Pledged Bonds, as may be provided in a Credit Facility or Credit Facility Agreement.

"Pledged Funds" means initially, the Reserve Fund (as further specified in a Supplemental Indenture), the Revenue Fund, the Interest Account, the Principal Account and the Hedge Payments Account and any other funds,
accounts or subaccounts created by the Issuer which are pledged to secure the payment of all the Senior Bonds and any Hedge Payments related to the Senior Bonds whether described in the Master Indenture or in any Supplemental Indenture and any funds, accounts or subaccounts created by the Issuer which are pledged pursuant to the Master Indenture or any Supplemental Indenture to secure the payment of only one or more series of Senior Bonds from time to time.

"Principal Account" means the special and separate account of that name created in the Master Indenture within the Bond Fund.

"Principal Payment Date" means each date on which principal is to become due on any Senior Bonds, by maturity or mandatory sinking fund redemption, as established herein or in the Supplemental Indenture for such Senior Bonds.

"Prior Bonds" means the 2011 Bonds and any Senior Bonds the Issuer elects to be secured by the Prior Bonds Common Reserve Subaccount.

"Prior Bonds Common Reserve Requirement" means at any time fifty percent (50%) of the Combined Maximum Annual Principal and Interest Requirements for the Prior Bonds.

"Prior Bonds Common Reserve Subaccount" means the special and separate subaccount of that name created in the Master Indenture within the Reserve Account of the Bond Fund for the Prior Bonds.

"Qualified Provider" means, a counterparty whose senior long term debt obligations, or whose obligations under a Hedge Agreement or Reserve Account Credit Facility are guaranteed by an entity whose senior long term debt obligations, are rated in one of the three highest Rating Categories by a Rating Agency which then has a rating in effect for the Senior Bonds at the time the subject Hedge Agreement or Reserve Account Credit Facility is entered into.

"Rating Agencies" or "Rating Agency" means Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services or any successors thereto and any other nationally recognized credit rating agency then maintaining a rating on any Senior Bonds at the request of the Issuer or any bonds of the Bond Bank issued to fund the purchase of any Bonds.

"Rating Category" means the long term rating categories of a Rating Agency, disregarding pluses, minuses, and any numerical gradations.

"Rate Stabilization Fund" means the special and separate fund of that name created by the Issuer in the Water Fund.

"Redemption Date" means the date fixed for the redemption prior to their respective fixed maturity dates of any Senior Bonds in any notice of redemption.

"Redemption Price" means, when used with respect to a Senior Bond, the principal amount thereof plus the applicable premium, if any, payable upon the redemption thereof prior to the stated fixed maturity date of such Senior Bond on a Redemption Date.

"Refunding Bonds" means Senior Bonds refunding all or a portion of any Senior Bond outstanding.

"Registrar" means the Paying Agent, The Bank of New York Mellon Trust Company, N.A., which Banking Institution is required to keep records for the registration, transfer, and exchange of the Senior Bonds, or any successor thereof.

"Reimbursement Obligation" shall mean any obligation of the Issuer to reimburse the provider of any Credit Facility for any payment made by the provider under such Credit Facility pursuant to, or any other obligation of the Issuer to repay any amounts, including, but not limited to, fees or Additional Interest to such provider pursuant to any Credit Facility Agreement.
"Reserve Account" means the special and separate account of that name created in the Master Indenture.

"Reserve Account Credit Facility" means any surety bond, any insurance policy, letter of credit, or line of credit, deposited in the Reserve Account in lieu of or in partial substitution for monies on deposit therein, the issuer of which at the time of deposit of such Reserve Account Credit Facility is a Qualified Provider.

"Reserve Requirement" means the Future Bonds Common Reserve Requirement, the Prior Bonds Common Reserve Requirement and any Series Reserve Requirement.

"Revenue Fund" means the special and separate fund of that name created in the Master Indenture.

"Senior Bonds" means any revenue bonds or notes of the Issuer issued under this Master Indenture payable from Net Revenues including the 2011 Bonds and any Parity Bonds.

"Senior Debt Service Requirements" means with respect to a period of time for which calculated, the aggregate of the payments required to be made by the Issuer in respect of principal whether at maturity or as a result of a mandatory prepayment, and the interest on outstanding Senior Bonds (including any Reimbursement Obligations related thereto) and any Hedge Payments or Hedge Receipts with respect to Senior Hedge Agreements; however excluding such principal or interest payments on Senior Bonds to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied and are sufficient to pay such principal of, premium, if any, or interest on the scheduled payment dates at maturity or redemption; provided, further that in calculating the Senior Debt Service Requirements for such period, the principal amount of any Senior Bonds included in such calculation which is paid during such period shall be excluded to the extent such amount is paid from a source other than the Net Revenues, including but not limited to the proceeds of Senior Bonds. Unless the Issuer specifies otherwise in a Supplemental Indenture Senior Debt Service Requirements shall be interpreted in the following manner:

(i) For any series of Senior Bonds issued pursuant to a commercial paper, variable rate demand note or similar program for which the principal amortization is not known, except as provided in subparagraphs (ii), (iv) or (ix) below, Senior Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding, until the first Fiscal Year for which interest on such Senior Bonds has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Senior Bonds which shall be assumed to be amortized over a period not to exceed 30 years with relatively level principal and interest payments, and shall be assumed to bear interest at a fixed interest rate estimated by the Issuer's financial advisor or underwriter to be the interest rate such series of Senior Bonds would bear if issued on such terms on the date of such estimate.

(ii) For any series of Senior Bonds bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation but for which the principal amortization is known, except as provided in subparagraph (iv) hereof, it shall be assumed that such Senior Bonds will bear interest as follows: (a) for any series of Senior Bonds then Outstanding, at the rate of interest which is the weighted average rate of interest for such Senior Bonds during the preceding 12 month period or such shorter period from the date of issue of such Senior Bonds, and (b) for any series of Senior Bonds then proposed to be issued at the Certified Interest Rate.

(iii) Senior Debt Service Requirements shall be calculated on the assumption that no Senior Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Senior Bonds; except as provided in subparagraphs (i) or (ix).

(iv) If the Issuer shall have Outstanding any variable or adjustable rate Senior Bonds with respect to which the Issuer has executed any Senior Hedge Agreement, the effect of which created or will create, in whole or in part, the economic equivalent of a fixed rate Senior Bond, the Senior Debt Service Requirements with respect thereto shall be calculated by reference to the effective fixed rate created by such transaction. If the effect of such Senior Hedge Agreement is to create a fixed rate transaction for only a portion of the term or principal amount of
the variable or adjustable rate Senior Bonds, the Senior Debt Service Requirements for the remaining term or principal amount of such variable or adjustable rate Senior Bonds shall be determined by reference to subparagraphs (i) or (ii).

(v) If the Issuer shall enter into a Hedge Agreement in connection with a series of fixed rate Senior Bonds the effect of which created or will create, in whole or in part, the economic equivalent of a Senior Bond bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time, the Senior Debt Service Requirement for such bonds shall be calculated by reference to the greater of (a) the principal and interest due on such Senior Bonds, without adjustment for the effect of such Hedge Agreement or (b) by reference to the effective variable rate (taking into account such Hedge Agreement) determined in accordance with subparagraph (ii) above.

(vi) If the Issuer shall have deposited in escrow certain Defeasance Securities the principal and interest on which will be sufficient to pay any principal or interest due on Outstanding Senior Bonds, Senior Debt Service Requirements shall be calculated by excluding such principal or interest due on such Senior Bonds, notwithstanding the fact that the Issuer has not fulfilled the requirements in the Master Indenture for the discharge of such Senior Bonds.

(vii) For any series of Senior Bonds issued as Taxable Credit Bonds, including "build America bonds" pursuant to Section 54AA(d) of the Code and which are also "qualified bonds" under Section 54AA (g) or any other section of the Code, the interest amounts due on such Senior Bonds shall be assumed to be net of the subsidy amount expected to be received.

(viii) For Capital Appreciation Bonds or Deferred Income Bonds, the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of a sinking fund installment shall be included in the calculations of accrued and unpaid and accruing interest or principal installments made hereunder only from and after the date (the “Calculation Date”) which is one year prior to the date on which such Accreted Value or Appreciated Value, as the case may be, becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

(ix) For Tender Indebtedness, the options or obligations of the holders of such Senior Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as principal on the first date on which such holders may or are required to tender such Senior Bonds, except that any such option or obligation shall not be treated as principal and shall instead be governed by subparagraph (i) if such Senior Bonds are rated in at least one of the three highest long-term rating categories or in the two highest short-term rating categories (without regard to any gradations in such categories) by a Rating Agency.

(x) With respect to Senior Bonds having a term of longer than 60 months and 25% or more of the principal of which matures on the same date and which portion of the principal of such indebtedness is not required to be amortized by payment or redemption prior to such date, such Senior Bonds shall be deemed to be amortized on a level debt service basis over the lesser of the term of 30 years or the actual term of such Senior Bonds, assuming the interest rate shall be the 30 year revenue bond index, or the revenue bond index related to the actual term of such Senior Bonds published by The Bond Buyer ("RBI") no more than two weeks prior to the date of calculation, or any similar index selected by the Issuer.

"Separate Systems" means any and all systems other than the Waterworks, now or hereafter owned or operated by the Issuer or CWA Authority, Inc., including, without limitation, the Gas Utility Distribution System, Thermal Energy System and the Wastewater System.

"Series Reserve Requirement" means the amount, if any, established by a Supplemental Indenture as the reserve requirement for only one or more particular series of Parity Bonds.

"Series Reserve Subaccount" means any special and separate subaccount within the Reserve Account of the Bond Fund as may be established by a Supplemental Indenture for one or more Series of Senior Bonds.
"SIFMA Municipal Swap Index" shall mean the rate determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data or any successor indexing agent which meets specific criteria established by The Securities Industry and Financial Markets Association.

"State" means the State of Indiana.

"Subordinated Bonds" means bonds, certificates of indebtedness and other evidences of indebtedness issued with a right to payment from the Net Revenues and Pledged Funds and secured by a lien on the Net Revenues and Pledged Funds expressly junior and subordinate to the Senior Bonds.

"Subsidiary" means any corporation all or substantially all of whose outstanding voting stock shall at the time be owned by the Board. For the purposes only of this definition, the term "voting stock," as applied to the stock of any corporation, shall mean stock of any class or classes having voting power for the election of a majority of the directors of such corporation (other than such voting power created by events of default or upon the happening of any other contingency). CWA Authority, Inc. is not a subsidiary of the Issuer.

"Supplemental Indenture" means each indenture adopted by the Issuer for the issuance of Senior Bonds permitted hereunder or to otherwise amend or supplement this Master Indenture.

"Taxable Credit Bonds" means qualified Senior Bonds the Issuer has elected to issue as taxable and receive a subsidy to reduce the effective interest rate.

"Tax-Exempt Bonds" means any Senior Bonds the interest on which has been determined, in the opinion of Bond Counsel, to be excludable from the gross income of the holders thereof for federal income tax purposes.

"Tender Indebtedness" shall mean any Senior Bond a feature of which is an option or obligation on the part of the holders of such Senior Bond to tender all or a portion of such bond or bonds to a fiduciary for purchase or redemption prior to the stated maturity date of such bond or bonds, which may include variable rate or adjustable rate indebtedness with such a feature.

"Term Bond" or "Term Bonds" means any Senior Bonds which are subject to scheduled mandatory sinking fund redemption prior to maturity as set forth in the Supplemental Indenture authorizing such Senior Bonds.

"Thermal Energy System" means the Issuer's Thermal Energy System, including the Steam Division and the Chilled Water Division, which system is a Separate System for purposes of this Master Indenture and all indentures entered into by the Issuer.

"Trust Bank" means the Trustee and any Banking Institution which is also authorized to exercise and is exercising trust powers, and also means any branch of the Federal Reserve Bank.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., which Banking Institution is the fiduciary appointed under the Master Indenture, including any successor Trust Bank, which may at any time be substituted in its place as such a trustee.

"2011 Bonds" means the "City of Indianapolis, Indiana Waterworks Senior Revenue Bonds, Series 2011," issued in subseries authorized to be issued by the Master Indenture and the Supplemental Indenture related thereto.

"United States" means the United States of America; and where the context so indicates, such term means the geographical area comprising the United States of America.

"Wastewater System" means the sewage works system and all real estate and equipment owned by CWA Authority, Inc. used in connection therewith and appurtenances thereto, and all extensions, additions and improvements thereto, and replacements thereof now or at any time hereafter constructed or acquired; and all services provided or to be provided by CWA Authority, Inc. therewith. The Wastewater System is a Separate System for purposes of this Master Indenture.

E2-13
"Water Fund" means the special and separate fund of that name created by the Issuer in the Master Indenture.

"Waterworks" means the right, title and interest in, under and to all of the assets, properties and rights used and useful in the business of storing, supplying, distributing, and selling water to the public, and in providing ancillary services thereto, as described in the Asset Purchase Agreement, the acquisition of which was approved by the Issuer by resolution on August 11, 2010, and consisting of all properties, real, personal, mixed, tangible, intangible or otherwise, now owned by the Issuer or hereafter acquired by the Issuer through purchase, construction or otherwise, and used in connection with such Waterworks of the Issuer, and in any way pertaining thereto, all as located in or as necessary for or appropriate for or supporting the operation of the Waterworks, including, without limitation, machinery, apparatus, structures, buildings and related or appurtenant furniture, fixtures and other equipment, as such Waterworks is from time to time extended, bettered or otherwise improved, or any combination thereof.
APPENDIX F

FORM OF OPINION OF BOND COUNSEL

_______, 2011

The Indianapolis Local Public Improvement Bond Bank
Indianapolis, Indiana

Re: The Indianapolis Local Public Improvement Bond Bank
Bonds, Series 2011E (Waterworks Project)
Total Issue: $58,790,000

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Indianapolis Local Public Improvement Bond Bank ("Issuer") of $58,790,000 of its Bonds, Series 2011E (Waterworks Project) ("Bonds") pursuant to a Trust Indenture, dated as of April 1, 2002, as previously supplemented and amended and as further supplemented by a 2011E Supplemental Trust Indenture, dated as of April 1, 2011 (collectively, "Indenture") between the Issuer and U.S. Bank National Association, as successor Trustee ("Trustee"). We have examined the law and the certified transcript of proceedings of the Issuer had relative to the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion. We have relied upon the certified transcript of proceedings and certificates of public officials furnished to us, including the Issuer's tax covenants and representations and the Board of Directors of the Department of Waterworks of the City of Indianapolis, Indiana's tax covenants and representations (collectively, the "Tax Representations") and have not undertaken to verify any facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds are the valid and binding limited obligations of the Issuer enforceable in accordance with the terms and provisions thereof, and together with any additional bonds on a parity therewith hereafter issued, will be secured by a pledge of and payable solely from the Trust Estate (as defined in the Indenture), which includes payments received on the City of Indianapolis, Indiana ("City"), Waterworks District Net Revenue Bonds, Series 2011E ("Qualified Obligations"), and which rank on a parity with: (i) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A (Waterworks Project); (ii) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2005F (Waterworks Project); (iii) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2006A (Waterworks Project); (iv) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2007B (Waterworks Project); (v) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2007L (Waterworks Project); and (vi) The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2009A (Waterworks Project).

2. Under statutes, regulations, published rulings and judicial decisions existing on this date, interest on the Bonds is exempt from income taxation in the State of Indiana ("State"). This opinion relates only to the exemption of interest on the Bonds from State income taxes.

3. Under federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excludable from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986 ("Code"), is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. This opinion is conditioned on continuing compliance with the Tax Representations. Failure to comply with the Tax...
Representations could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issuance.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds and the enforceability thereof and of the Indenture may be subject to the valid exercise of the constitutional powers of the Issuer, the City, the State and the United States of America.

Very truly yours,
APPENDIX G
FORM OF CONTINUING DISCLOSURE UNDERTAKING AGREEMENT

This CONTINUING DISCLOSURE UNDERTAKING AGREEMENT (the “Agreement”) is made as of April 1, 2011, between the Department of Waterworks of the City of Indianapolis, a special taxing district and a department of the City of Indianapolis, Indiana (the “Obligor”), and U.S. Bank National Association, as counterparty (the “Counterparty”), for the purpose of permitting Morgan Stanley & Co. Incorporated, acting on behalf of itself and the other underwriters listed in the Bond Purchase Agreement (the “Underwriters”) to purchase The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2011E (Waterworks Project), in the aggregate principal amount of $58,790,000 (the “Bonds”), issued pursuant to a Trust Indenture, dated as of April 1, 2002, as previously supplemented and amended, and as further supplemented and amended by the 2011E Supplemental Trust Indenture dated as of April 1, 2011 (collectively, the “Indenture”), between the Bond Bank and U.S. Bank National Association (successor in interest to National City Bank of Indiana), as trustee (the “Trustee”), in compliance with the Securities and Exchange Commission (“SEC”) Rule 15c2-12 (“SEC Rule”).

WHEREAS, the Bond Bank has issued its Bonds pursuant to the Indenture; and

WHEREAS, pursuant to a Qualified Entity Purchase Agreement between the Bond Bank and the Obligor (the “Purchase Agreement”), the Obligor has sold its Waterworks District Net Revenue Bonds, Series 2011A (the “Qualified Obligations”), to the Bond Bank, and the Qualified Obligations shall secure payment of the Bonds; and

WHEREAS, the Obligor is an Obligated Person (as defined in the SEC Rule) because the payments due under the Qualified Obligations are the only source of funds (other than funds held under the Indenture) pledged to pay the principal and interest due on the Bonds; and

WHEREAS, the Obligor is the only Obligated Person with respect to the Bonds;

NOW, THEREFORE, it is agreed by the parties hereto as follows:

1. Definitions. The words and terms defined in this Agreement shall have the meanings herein specified. Those words and terms not expressly defined herein shall have the meanings assigned to them in the SEC Rule.

   (a) “Bondholder” or “holder” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any outstanding Bond, or the holders of beneficial interests in the Bonds.

   (b) “Final Official Statement” means the Official Statement, dated May 18, 2011, relating to the Bonds, including any document included by specific reference to such document previously provided to the MSRB.

   (c) “MSRB” means the Municipal Securities Rulemaking Board. See http://emma.msrb.org/.

2. Term. The term of this Agreement is from the date hereof to the earlier of (i) the date of the last payment of principal of and interest on the Bonds, or (ii) the date the Bonds are defeased under the Indenture, or (iii) the date on which the Obligor ceases to be an Obligated Person.
3. **Provision of Financial Information.**

(a) The Obligor hereby undertakes to provide the following financial information:

(i) To the Bond Bank, the Counterparty and the MSRB, when and if available, the audited comprehensive annual financial report of the Obligor and the City of Indianapolis, Indiana (the “City”), for each twelve (12) month period ending December 31, beginning with December 31, 2010, together with the opinion of its accountants and all notes thereto, within sixty (60) days of receipt from its certified public accountants; and

(ii) To the Bond Bank, the Counterparty and the MSRB, within 210 days of each December 31, unaudited annual financial information for the Obligor and the City for such calendar year including (A) beginning with December 31, 2010, unaudited financial statements of the Obligor and the City (if the audited financial information in (a)(i) has not been delivered), and (B) beginning with December 31, 2010, operating data of the type included under the following headings in the Final Official Statement (collectively, “Annual Information”):

“WATERWORKS FINANCIAL AND DEMOGRAPHIC INFORMATION”

“APPENDIX A: Consultant's Report—Exhibit E – Adjusted Statement of Income” and “SCHEDULE E-1—Detail of Adjustments.”

(b) If any Annual Information or audited financial statements relating to the Obligor referred to in paragraph (a) of this Section 3 no longer can be generated because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Obligor to the Bond Bank, the MSRB, along with any other Annual Information or audited financial statements required to be provided under this Agreement, shall satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Obligor shall cause to be filed along with the other Annual Information or audited financial statements operating data similar to that which can no longer be provided.

(c) The Obligor agrees to make a good faith effort to obtain Annual Information. However, failure to provide audited financial statements or portions of Annual Information because it is unavailable through circumstances beyond the control of the Obligor shall not be deemed to be a breach of this Agreement. The Obligor further agrees to supplement the Annual Information filing when such data is available.

(d) Annual Information or audited financial statements required to be provided pursuant to this Section 3 may be provided by a specific reference to such Annual Information or audited financial statements already prepared and previously provided to the Repository, or filed with the SEC; however, if such document is a final official statement, it must also be available from the MSRB.

(e) Any filing under this Agreement with MSRB shall be made by transmitting such filing to the MSRB through the Electronic Municipal Market Access (“EMMA”) System which is accessible at [http://emma.msrb.org](http://emma.msrb.org). All documents provided to the MSRB under this Agreement shall be accompanied by identifying information as prescribed by the MSRB.

4. **Accounting Principles.** The financial information will be prepared on a cash basis as prescribed by the State Board of Accounts, as in effect from time to time, as described in the auditors' report and notes accompanying the audited financial statements of the Obligor or those mandated by Indiana law from time to time. The audited financial statements of the Obligor, as described in Section 3(a)(i) hereof, will be prepared in accordance with generally accepted accounting principles and Government Auditing Standards issued by the Comptroller General of the United States.
5. **Material Events.** The Obligor undertakes to disclose to the Bond Bank and the MSRB in a timely manner not in excess of ten (10) Business Days (as defined in the Indenture) after the occurrence of any of the following events with respect to the Bonds:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults, if material;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events effecting the tax status of the Bonds;
(g) modifications to the rights of bondholders, if material;
(h) bond calls, if material, and tender offers;
(i) defeasances;
(j) release, substitution, or sale of property securing repayment of the Bonds, if material;
(k) rating changes;
(l) bankruptcy, insolvency, receivership or other similar event of the Obligated Person;
(m) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(n) appointment of successor or additional trustee or the change of name of a trustee, if material.

6. **Notice to Counterparty.** The Obligor hereby agrees to provide to the Bond Bank and the Counterparty a copy of any Annual Information, audited financial statements, material event notice, or notice of failure to disclose Annual Information which it files or causes to be filed under Sections 3, 5 and 8 hereof, respectively, concurrently with or prior to such filing.

7. **Use of Agent.** The Obligor may, at its sole discretion, use an agent (the “Dissemination Agent”) in connection with the dissemination of any information required to be provided by the Obligor pursuant to the terms of this Agreement. If a Dissemination Agent is selected for these purposes, the Obligor shall provide prior written notice thereof (as well as notice of replacement or dismissal of such agent) to the Counterparty, the Bond Bank and the MSRB.

Further, the Obligor may, at its sole discretion, retain counsel or others with expertise in securities matters for the purpose of assisting the Obligor in making judgments with respect to the scope of its obligations hereunder and compliance therewith, all in order to further the purposes of this Agreement.
8. Failure to Disclose. If, for any reason, the Obligor fails to provide the audited financial statements or Annual Information as required by this Agreement, the Obligor shall provide notice of such failure in a timely manner to the Bond Bank, the Counterparty and the MSRB.

9. Remedies.

(a) The purpose of this Agreement is to enable the Underwriters to purchase the Bonds by providing for an undertaking by the Obligor in satisfaction of the SEC Rule. This Agreement is solely for the benefit of the holders of the Bonds and creates no new contractual or other rights for, nor can it be relied upon by, the SEC, underwriters, brokers, dealers, municipal securities dealers, potential customers, other Obligated Persons, if any, or any other third party. The sole remedy against the Obligor for any failure to carry out any provision of this Agreement shall be for specific performance of the Obligor's disclosure obligations hereunder and not for money damages of any kind or in any amount or for any other remedy.

(b) Subject to paragraph (e) of this Section 9, if the Obligor fails to provide any information required of it by the terms of this Agreement, any holder of Bonds may pursue the remedy set forth in the preceding paragraph in any court of competent jurisdiction in the county in which the Obligor is located. An affidavit to the effect that such person is a holder of Bonds supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue this remedy.

(c) Subject to paragraph (e) of this Section 9, any challenge to the adequacy of the information provided by the Obligor by the terms of this Agreement may be pursued only by holders of not less than 25% in principal amount of Bonds then outstanding in any court of competent jurisdiction in the county in which the Obligor is located. An affidavit to the effect that such persons are holders of Bonds supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue the remedy set forth in the preceding paragraph.

(d) The Counterparty, upon indemnification satisfactory to it and demand by those persons it reasonably believes to be holders of Bonds, may also pursue the remedy set forth in paragraph (b) above in any court of competent jurisdiction in the county in which the Obligor is located. The Counterparty shall have no obligation to pursue any remedial action in the absence of a valid demand from holders of Bonds and indemnification satisfactory to it.

(e) Prior to pursuing any remedy under this Section 9, a holder of Bonds or the Counterparty shall give notice to the Obligor, the Bond Bank and the Counterparty, via registered or certified mail, of such breach and its intent to pursue such remedy. Fifteen (15) days after mailing of such notice, and not before, a holder of Bonds or the Counterparty may pursue such remedy under this Section 9. The Obligor's failure to honor its covenants hereunder shall not constitute a breach or default of the Bonds, the Indenture, the Purchase Agreement, the Resolution under which the Qualified Obligations were issued, the Qualified Obligations or any other agreement to which the Obligor or Bond Bank is a party.

10. Counterparty's Obligations. The Counterparty hereto shall have no obligation to take any action whatsoever with respect to information provided by the Obligor under this Agreement, except (i) as set forth in this Section 10 and (ii) any obligations arising from the Counterparty serving as a Dissemination Agent, and no implied covenants or obligations shall be read into this Agreement against the Counterparty. Further, except as set forth in this Section 10, the Counterparty hereto shall have no responsibility to ascertain the truth, completeness, accuracy, or timeliness of the information provided as required hereunder by the Obligor, nor as to its sufficiency for purposes of compliance with the SEC Rule or the requirements of this Agreement.

The Counterparty may, at its sole discretion, retain counsel or others with expertise in continuing disclosure matters for the purpose of assisting the Counterparty in making judgments with respect to the scope of its obligations hereunder and compliance therewith.
If the Counterparty has not received the Annual Information by the date which is ten (10) days before the date set forth in Section 3(a)(ii) of this Agreement, the Counterparty shall notify the Obligor, via registered or certified mail, that it has not received such Annual Information. However, a failure by the Counterparty to provide (or any delay in providing) any notice required by this paragraph shall not: (i) operate to relieve the Obligor of its obligation to provide the Annual Information in the manner and within the time specified in this Agreement; or (ii) constitute a defense for the Obligor, or the basis for any claim, counterclaim, cross-claim or third-party claim by the Obligor, in any action brought pursuant to Section 9 of this Agreement or otherwise. Nothing contained in this paragraph shall operate to grant any additional rights or remedies to any holder of Bonds.

The Counterparty hereto shall be obligated to, and hereby agrees that it will, on the fifth business day after the date required by Section 3(a)(ii) of this Agreement, forward to those persons or entities scheduled to receive the Annual Information or audited financial statements notice of failure by the Obligor to provide the Annual Information or audited financial statements, in the event that the Counterparty has not received a copy of such Annual Information or audited financial statements; provided, however, that the Counterparty shall not give such notice as described in this paragraph and the immediately preceding paragraph if the Obligor has provided the Counterparty with notice that the Obligor has issued notice pursuant to Section 8 hereof.

11. Resignation and Removal of Counterparty. The Counterparty may resign in its capacity under this Agreement at any time by giving written notice thereof to the Obligor. So long as the Obligor has not failed to honor its obligations as set forth in Sections 3, 5 and 8 hereof, the Obligor may remove the Counterparty in its capacity under this Agreement at any time by giving written notice thereof to the Counterparty and the Bond Bank. Upon such resignation or removal, the Obligor shall promptly appoint a successor Counterparty.

12. Modification of Agreement. The Obligor and the Counterparty may, from time to time, amend or modify this Agreement without the consent of or notice to the holders of the Bonds but with notice to the Bond Bank if either (a)(i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Obligor, or type of business conducted, (ii) this Agreement, as so amended or modified, would have complied with the requirements of the SEC Rule on the date hereof, after taking into account any amendments or interpretations of the SEC Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders of the Bonds, as determined either by (A) nationally recognized bond counsel, (B) the Counterparty, (C) the Trustee, or (D) an approving vote of the holders of the Bonds pursuant to the terms of Article 12 of the Indenture at the time of such amendment or modification; or (b) such amendment or modification (including an amendment or modification which rescinds this Agreement) is permitted by the SEC Rule, as then in effect.

13. Interpretation Under Indiana Law. It is the intention of the parties hereto that this Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with, the law of the State of Indiana.

14. Severability Clause. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

15. Successors and Assigns. All covenants and agreements in this Agreement made by the Obligor and the Counterparty shall bind their successors, whether so expressed or not.
16. **Notices.** All notices required to be given under this Agreement shall be made at the following addresses:

If to the Obligor: Department of Waterworks of the City of Indianapolis
1220 Waterway Boulevard
Indianapolis, IN 46202
Attention: Executive Director

If to the Counterparty: U.S. Bank National Association
10 West Market Street, Suite 1150
Indianapolis, Indiana 46204
Attention: Corporate Trust Services

If to the Bond Bank: The Indianapolis Local Public Improvement Bond Bank
2342 City-County Building
200 East Washington Street
Indianapolis, IN 46204
Attention: Executive Director
IN WITNESS WHEREOF, the Obligor and the Counterparty have caused this Agreement to be executed as of the date first indicated above.

Department of Waterworks of the City of Indianapolis, Indiana

_______________________________________
Chairperson

U.S. Bank National Association, as Counterparty

By: _____________________________________

Printed: _________________________________

Title: _________________________________

Signature Page to Continuing Disclosure Undertaking Agreement
APPENDIX H

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the 2011E Bonds. The 2011E Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2011E Bond will be issued for each maturity of the 2011E Bonds and will be deposited with DTC.

SO LONG AS CEDE & CO, AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE 2011E Bonds, REFERENCES IN THIS OFFICIAL STATEMENT TO THE REGISTERED OWNERS (OR THE OWNERS) WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS.

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

To facilitate subsequent transfers, all 2011E Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2011E Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2011E Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2011E Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of the 2011E Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of 2011E Bonds may wish to take certain steps to augment transmissions to them of notices of significant events with respect to the 2011E Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of 2011E Bonds may wish to ascertain that the nominee holding the 2011E Bonds for their benefit has agreed to obtain and transmit notices to Beneficial
Owners or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2011E Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2011E Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the 2011E Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Bond Bank or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, any other Fiduciary or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Paying Agent, or any other Fiduciary, disbursements of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2011E Bonds at any time by giving reasonable notice to the Bond Bank or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2011E Bond certificates are required to be printed and delivered to DTC.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2011E Bond certificates will be printed and delivered.

The information contained in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but none of the Bond Bank, the Waterworks Department or the Underwriters take any responsibility for the accuracy thereof, including any information on DTC’s website referenced herein.

Notwithstanding any provision of the Indenture, so long as any 2011E Bond is registered in Cede & Co., as a nominee of DTC, all payments with respect to principal, interests and other notices with respect to the 2011E Bonds shall be made or given in accordance with DTC’s rules and procedures.

In the event that the book-entry system for the 2011E Bonds is discontinued, the Paying Agent will provide for the registration of the 2011E Bonds in the name of the Beneficial Owners thereof. The Bond Bank, the Trustee, the Paying Agent and any other Fiduciary would treat the person in whose name any 2011E Bond is registered as the absolute owner of such 2011E Bond for the purposes of making and receiving payment of the principal thereof and interest thereon, and for all other purposes, and none of these parties would be bound by any notice or knowledge to the contrary.