
TRUST INDENTURE

between

ALABASTER WATER AND GAS BOARD

and

**SOUTHTRUST BANK OF ALABAMA,
NATIONAL ASSOCIATION**

Dated as of September 1, 1994

Relating to

\$6,140,000

ALABASTER WATER AND GAS BOARD

**Water Revenue Bonds
Series 1994**

Inst # 1994-28356

**09/16/1994-28356
11:10 AM CERTIFIED
SHELBY COUNTY JUDGE OF PROBATE
069 SNA 179.50**

**This instrument prepared by
MARK EZELL
1200 AmSouth / Harbert Plaza
1901 Sixth Avenue North
Birmingham, Alabama 35203**

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TRUST INDENTURE between **ALABASTER WATER AND GAS BOARD**, a public corporation under the laws of the State of Alabama, party of the first part, and **SOUTHTRUST BANK OF ALABAMA, NATIONAL ASSOCIATION**, a national banking association, party of the second part,

RECITALS

The party of the first part makes the following recitals of facts as the basis for the undertaking following: it is a public corporation organized under the provisions of Article 9, Chapter 50, Title 11, Code of Alabama 1975, by Certificate of Incorporation filed in the office of the Judge of Probate of Shelby County, Alabama; its Certificate of Incorporation has not been revoked and is in full force and effect; it is not in default under any of the provisions contained in its Certificate of Incorporation or in the laws of the State of Alabama; by proper corporate action it has duly authorized the issuance of the Series 1994 Bonds hereinafter referred to; and to secure payment of the principal of and the interest and premium (if any) on all bonds that may be issued hereunder, it has by proper corporate action duly authorized the execution and delivery of this Indenture.

NOW, THEREFORE, THIS INDENTURE

WITNESSETH:

For the aforesaid purpose and in consideration of the respective agreements herein contained, it is hereby agreed between the parties signatory hereto and the holders of all bonds issued hereunder (the holders of said bonds evidencing their consent hereto by their acceptance of the said bonds and the parties signatory hereto evidencing their consent hereto by their execution hereof), each with each of the others, as follows (provided, that in the performance of any of the agreements of the party of the first part herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt on its part but shall be payable solely out of the revenues from the Water System hereinafter referred to):

ARTICLE I

DEFINITIONS, FINDINGS AND USE OF PHRASES

Section 1.1 Definitions. Unless the context clearly indicates a different meaning, the following words and phrases, as used herein, shall have the following respective meanings:

"Additional Bonds" means those of the Bonds issued subsequent to the issuance of the Series 1994 Bonds and identified as having been issued pursuant to the provisions of Article IV hereof.

"AMBAC Indemnity" means AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company.

"Annual Net Income" means the total revenues derived from the operation of the Water System during a Fiscal Year less all Operating Expenses incurred during such Fiscal Year. The phrase "total revenues derived from the operation of the Water System" shall not be deemed to include any earnings on investments except earnings on investments held in the Reserve Fund received at a time when the amount on deposit in the Reserve Fund is not less than the then applicable Maximum Annual Debt Service on all then outstanding Bonds and all other investment income received by the Board from the investment of any moneys held by the Board and not by the Trustee.

"Authorized Board Representative" means the person or persons at the time designated as such by written certificate furnished to the Trustee, containing the specimen signature or signatures of such person or persons and signed on behalf of the Board by the Chairman of the Directors.

"Available Construction Moneys" means moneys derived from any source (other than from the sale of the Bonds) that are (or, in the reasonable judgment of the Construction Engineer, will be) available to the Board for use in paying the costs of acquiring, constructing and installing the Improvements.

"Board" means the party of the first part hereto and, subject to the provisions of Section 10.6 hereof, includes its successors in title and assigns and any public corporation or other legal entity resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"Bond Counsel" means Independent Counsel whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

"Bond Fund" means the Alabaster Water and Gas Board Bond Fund created in Section 9.2 hereof.

"Bondholder" means the Holder of any Bond.

"Bonds" means the Series 1994 Bonds and any Additional Bonds at the time outstanding.

"Bond Year" means the period commencing on September 2 in one calendar year and ending on September 1 of the then next succeeding calendar year.

"Capital Improvements" means improvements, extensions and additions to the Water System that are properly chargeable to fixed capital account by generally accepted accounting principles and includes real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located.

"City" means the City of Alabaster, Alabama, and includes any municipal or public corporation succeeding to the powers thereof.

"Code" means the Internal Revenue Code of 1986, as amended, or successor federal tax law at the time in force and effect.

"Construction Engineer" means the engineer or engineering firm designated as such in or pursuant to the provisions of Section 8.8 hereof.

"Construction Fund" means the Alabaster Water and Gas Board Construction Fund created in Section 8.2 hereof.

"Counsel" means an attorney who is duly licensed to practice before the Supreme Court of Alabama.

"Directors" means the Board of Directors of the Board.

"Eligible Certificates" means interest bearing certificates of deposit that are issued (1) by the Trustee, or (2) by any bank or trust company organized under the laws of the United States of America or any state thereof that are collaterally secured by a pledge of Federal Securities (a) having at any date of calculation a market value (taking account of any accrued interest thereon) not less than the principal of and the accrued interest on the certificates of deposit secured thereby, (b) deposited and pledged with any Federal Reserve Bank or with any bank or trust company organized under the laws of the United States of America or any state thereof, and having combined capital, surplus and undivided profits of not less than \$10,000,000, and (c) for which a receipt signed by the bank or trust company having custody of such collateral securities and containing a sufficient description thereof has been furnished to the Trustee.

"Eligible Investments" means Eligible Certificates and Federal Securities.

"Event of Default" means an "Event of Default" as specified in Section 12.1 hereof.

"Escrow Trust Agreement" means that certain Escrow Trust Agreement dated as of September 1, 1994, between the Board and SouthTrust Bank of Alabama, National Association, as escrow trustee, respecting the Series 1989 Bonds and the Series 1992 Bonds.

"Escrow Trustee" means SouthTrust Bank of Alabama, National Association, as escrow trustee under the Escrow Trust Agreement.

"Existing Indenture" means that certain Trust Indenture dated as of September 1, 1984 from the Board to SouthTrust Bank of Alabama, National Association, as trustee, as supplemented by a First Supplemental Indenture dated as of September 1, 1989 and by a Second Supplemental Indenture dated as of April 1, 1992, under which the Series 1989 Bonds and the Series 1992 Bonds were issued.

"Federal Securities" means (i) any securities that are direct obligations of the United States of America, (ii) any securities with respect to which payment of the principal thereof

and the interest thereon is unconditionally guaranteed by the United States of America, and (iii) any share or other investment unit representing a beneficial interest in any money market fund which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of Federal law), provided that the investment portfolio of such money market fund consists solely of obligations described in clauses (i) and (ii) of this definition and that such money market fund is rated at least AAAm or AAAm-G by Standard & Poor's Corporation.

"Fiscal Year" means the period beginning on October 1 of one calendar year and ending on September 30 of the next succeeding calendar year.

"Gas System" means the natural gas distribution system of the Board as it now exists.

"Holder", when used in conjunction with a Bond, means the Person in whose name such bond is registered.

"Improvement Fund" means the Alabaster Water and Gas Board Improvement and Extension Fund created in Section 9.4 hereof.

"Improvements" means the extensions and improvements to the Water System that are referred to in Section 1.2 hereof, the costs of which are to be financed in part through the issuance of the Series 1994 Bonds.

"Indenture" means this Trust Indenture, as supplemented and amended by any Supplemental Indenture executed by the Board and the Trustee in accordance with the applicable provisions of Article XIV hereof.

"Indenture Indebtedness" means all indebtedness of the Board at the time secured by the Indenture, including, without limitation, all principal of and interest and premium (if any) on the Bonds, and all reasonable and proper fees, charges and disbursements of the Trustee for services performed under the Indenture.

"Independent Auditor" means a public accountant who is not a full-time employee of the Board and who is regularly engaged in the auditing of financial records.

"Independent Counsel" means an attorney who is duly licensed to practice before the Supreme Court of Alabama and who is not regularly employed by the Board.

"Independent Engineer" means an engineer who is duly registered and qualified to practice the profession of engineering under the laws of Alabama and who is not a full-time employee of the Board.

"Maximum Annual Debt Service" means the maximum principal and interest maturing with respect to those of the Bonds in question during any one Bond Year.

"Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by AMBAC Indemnity insuring the payment when due of the principal of and interest on the Series 1994 Bonds as provided therein.

"Operating Expenses" means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the Water System, including, without limitation, the costs of water purchased or produced, the costs of all items of labor, materials, supplies, equipment (other than equipment chargeable to fixed capital account), premiums on insurance policies and fidelity bonds, fees for engineers, attorneys and accountants (except where such fees are chargeable to fixed capital account) and all other items, except depreciation and interest, that by generally accepted accounting principles are properly chargeable to expenses of administration and operation, (b) the expenses of maintaining the Water System in good repair and in good operating condition, but not including items that by generally accepted accounting principles are properly chargeable to fixed capital account, (c) the fees and charges of the Trustee and (d) any other charge herein expressly stated to constitute an Operating Expense.

"Permitted Encumbrances" means, as of any particular time, (a) liens for ad valorem taxes not then delinquent, (b) easements, restrictions and exceptions that an Independent Engineer certifies will not interfere with or impair the operation of the Water System, (c) minor clouds, encumbrances, defects and restrictions of the type that customarily exist with respect to properties of a size and character similar to those comprising the Water System and that do not, in the opinion of Counsel, in the aggregate materially impair the use of such properties in the operation of the Water System, and (d) until such time as the Series 1978 Bonds are paid in full, the Series 1978 Bonds and the Trust Indenture of the Board under which such bonds were issued.

"Person" means any natural person, corporation, partnership, trust, government or governmental body, political subdivision or other legal entity as in the context may be possible or appropriate.

"Prime Rate" means at any time the rate of interest which has been most recently announced by the Trustee as its prime (or equivalent) lending rate.

"Reserve Fund" means the Alabaster Water and Gas Board Debt Service Reserve Fund created in Section 9.3 hereof.

"Resolution" means a resolution duly adopted by the Directors.

"Revenue Account" means the Alabaster Water and Gas Board Revenue Account created in Section 9.1 hereof.

"Series 1978 Bonds" means the Board's Water and Gas Revenue Bonds, Series 1978, dated April 1, 1978, which bonds are now outstanding in the aggregate principal amount of \$515,000.

"Series 1989 Bonds" means (i) the Board's Water and Gas Revenue Bonds, Series 1989-A, dated September 1, 1989, originally issued and now outstanding under the Existing Indenture in the aggregate principal amount of \$2,080,000; and (ii) the Board's Water and Gas Revenue Bonds, Series 1989-B, dated September 1, 1989, originally issued and now outstanding under the Existing Indenture in the aggregate principal amount of \$1,540,000.

"Series 1992 Bonds" means the Board's Water and Gas Revenue Bonds, Series 1992, dated April 1, 1992, originally issued and now outstanding under the Existing Indenture in the aggregate principal amount of \$2,000,000.

"Series 1994 Bonds" means the Board's \$6,140,000 in principal amount Water Revenue Bonds, Series 1994, authorized to be issued in Section 3.1 hereof.

"Series 1994 Term Bonds" means those of the Series 1994 Bonds maturing on September 1, 2014.

"Special Funds" means the Bond Fund, the Reserve Fund and the Improvement Fund, as each thereof shall exist from time to time.

"Supplemental Indenture" means an agreement supplemental hereto.

"Trustee" means the party of the second part hereto and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"Water System" means the entire water works plant and distribution system of the Board, as said water system now exists and as it may be hereafter extended.

Section 1.2 Findings. The Directors have heretofore made the following findings and determinations:

(a) The Board has issued the Series 1989 Bonds under the Existing Indenture for the purposes of refunding certain indebtedness of the Board and of financing the costs of improving the Water System.

(b) The Board has also issued the Series 1992 Bonds under the Existing Indenture for the purpose of constructing various additions and improvements to the Water System.

(c) The Board has now determined that it is advantageous to the Board and to the inhabitants of the City for the Board to sell the Gas System to Alabama Gas Corporation, an Alabama corporation.

(d) In order to complete the sale of the Gas System to the said Alabama Gas Corporation, the Board must refund and retire the Series 1989 Bonds and the Series 1992 Bonds.

(e) The Board has also determined that it is necessary and desirable, and in the best interest of the Board and the inhabitants of the City, for the Board to construct the Improvements, which primarily consist of (i) chlorine contact basins, fluoridation facilities and other improvements to existing sources of water supply to the Water System; (ii) various transmission mains and other water pipes to extend and enlarge the Water System; and (iii) a ground level water storage reservoir and related improvements to the Water System.

(f) It is appropriate and desirable for the Board to sell and issue the Series 1994 Bonds for the purposes of (i) providing for the payment and retirement of the Series 1989 Bonds and the Series 1992 Bonds, and (ii) providing long-term financing for a portion of the costs of acquiring, constructing and installing the Improvements and the expenses of issuing the Series 1994 Bonds.

Section 1.3 Use of Phrases. "Herein", "hereby", "hereunder", "hereof", "hereinbefore", "hereinafter" and other equivalent words refer to the Indenture as an entirety and not solely to the particular portion thereof in which any such word is used. The definitions set forth in Section 1.1 hereof include both singular and plural. Whenever used herein, any pronoun shall be deemed to include both singular and plural and to cover all genders. Any percentage of Bonds, specified herein for any purpose is to be computed with respect to the unpaid principal amount thereof then outstanding.

ARTICLE II

PLEDGE AND SEVERANCE OF REVENUES; SOURCE OF PAYMENT OF THE BONDS

Section 2.1 Pledge of Revenues. In order to secure to the Holders thereof payment of the principal of and the interest on the Bonds and the performance and observance of the covenants and conditions therein and herein contained, and in consideration of (i) the purchase and acceptance of the Bonds by the Holders thereof and (ii) the acceptance by the Trustee of the trusts herein provided, the Board has pledged and does hereby pledge with the Trustee the revenues to be derived from the operation of the Water System remaining after the payment of Operating Expenses. The aforesaid pledge is made for the equal and pro rata protection and benefit of the Holders, present and future, of the Bonds, without preference or priority of one over another by reason of priority in issuance or acquisition or otherwise, as if all the Bonds at any time outstanding had been executed, sold, authenticated, delivered and negotiated simultaneously with the execution and delivery hereof. The aforesaid pledge is subordinate to the pledge of the aforesaid revenues made for the benefit of the Series 1978 Bonds, and the Board expressly recognizes the priority of said pledge made in the Trust Indenture under which the Series 1978 Bonds were issued. The Board warrants and represents that it has heretofore established a special fund consisting of cash and direct obligations of the United States of America sufficient (with the interest to be earned on said obligations) to pay the principal of and interest on the outstanding Series 1978 Bonds as the said principal and interest respectively mature.

Section 2.2 Severance of Revenues. In order to safeguard the aforesaid pledge and the performance and observance of the agreements and covenants of the Board herein contained, the Board does hereby declare its intention that the revenues derived from the operation of the Water System shall be and the same hereby are severed from the physical properties comprising the Water System to such extent as shall be necessary to fulfill and preserve inviolate the said pledge and to fulfill the said agreements and covenants.

Section 2.3 Source of Payment of the Bonds. The principal of and the interest on the Bonds shall be payable solely out of revenues derived from the operation of the Water System remaining after the payment of Operating Expenses. Neither the Bonds nor any of the agreements herein contained shall constitute a general indebtedness of the Board or of any county or municipality in the State of Alabama. The general faith and credit of the Board are not pledged for payment of the principal of or the interest on the Bonds, and the Bonds shall not be general obligations of the Board. Neither the Indenture nor any of the Bonds shall be deemed to impose upon the Board any obligation to pay the principal of or the interest on the Bonds, or any other sum, except with revenues derived from the operation of the Water System. None of the agreements, representations or warranties made or implied in the Indenture, or in the issuance of the Bonds, shall ever impose any personal or pecuniary liability or charge upon the Board, whether before or after any breach by the Board of any such agreement, representation or warranty, except with respect to the revenues derived from the operation of the Water System. Nothing contained in this Section 2.3 shall, however, relieve the Board from the performance of the several agreements and representations on its part herein contained so long as such performance does not impose a personal, pecuniary or general liability or charge upon the Board. No county or municipality in the State of Alabama shall in any manner be liable for payment of the principal of or the interest on the Bonds or for the performance of any of the undertakings of the Board contained herein or contained in the Bonds.

ARTICLE III

THE SERIES 1994 BONDS

Section 3.1 Authorization and Description of the Series 1994 Bonds. Pursuant to the applicable provisions of Article 9, Chapter 50, Title 11, Code of Alabama 1975, and for the purposes of (i) providing for the refunding and retirement of the Series 1989 Bonds and the Series 1992 Bonds and (ii) providing long-term financing for the costs of acquiring, constructing and installing the Improvements and the expenses of issuing the Series 1994 Bonds, there are hereby authorized to be issued by the Board \$6,140,000 in principal amount of its Water Revenue Bonds, Series 1994. The Series 1994 Bonds shall be dated September 1, 1994, shall be numbered from R1 upwards in the order issued and shall be issued initially in the respective principal amounts of \$5,000 or any greater integral multiple thereof. The Series 1994 Bonds shall mature and become payable on September 1 in the respective years and in the respective principal amounts set forth below and shall bear interest from their respective dates, payable on March 1, 1995, and on each March 1 and September 1 thereafter, at the per annum rates set forth below:

<u>Year of Maturity</u>	<u>Principal Amount Maturing</u>	<u>Interest Rate</u>
September 1, 1995	\$ 185,000	4.00%
September 1, 1996	190,000	4.25
September 1, 1997	200,000	4.50
September 1, 1998	210,000	4.75
September 1, 1999	215,000	4.90
September 1, 2000	230,000	5.10
September 1, 2001	240,000	5.20
September 1, 2002	255,000	5.30
September 1, 2003	265,000	5.40
September 1, 2004	280,000	5.40
September 1, 2005	295,000	5.60
September 1, 2006	310,000	5.70
September 1, 2007	330,000	5.70
September 1, 2008	350,000	5.80
September 1, 2009	370,000	5.90
September 1, 2014	2,215,000	6.35

The principal of and the interest on each Series 1994 Bond shall bear interest after their respective due dates until paid at the rate of interest borne by the principal of such Series 1994 Bond prior to maturity. The Series 1994 Bonds shall be initially issued and registered in the names of such Holders as shall be designated by the initial purchasers of the Series 1994 Bonds.

Section 3.2 Method of Payment of the Series 1994 Bonds. The principal of the Series 1994 Bonds shall be payable at the principal corporate trust office of the Trustee, upon presentation and surrender of the Series 1994 Bonds as the same become due and payable, whether at maturity or upon redemption prior to maturity. Interest on the Series 1994 Bonds shall be payable by check or draft mailed or otherwise delivered by the Trustee to the respective Holders thereof at their addresses as they appear on the registry books of the Trustee pertaining to the registration of the Series 1994 Bonds. The Trustee may designate February 15 and August 15 of each year as the record dates for the payment of interest due on the Series 1994 Bonds on March 1 and September 1, respectively, of each year, in which event interest on the Series 1994 Bonds shall be payable on each such date to the Holders of record of the Series 1994 Bonds as of the immediately preceding record date.

Section 3.3 Optional Redemption of the Series 1994 Bonds. Those of the Series 1994 Bonds having stated maturities in 2005 and thereafter will be subject to redemption and prepayment prior to their stated maturities, at the option of the Board, as a whole or in part (and, if redeemed in part, from such maturity or maturities as shall be specified by the Board) on September 1, 2004, and on any date thereafter, at and for the following respective redemption prices (expressed as a percentage of the principal amount thereof) plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(dates inclusive)</u>	<u>Redemption Price</u>
September 1, 2004, through August 31, 2005	102%
September 1, 2005, through August 31, 2006	101
September 1, 2006, or thereafter	100

The Series 1994 Bonds may be redeemed only in installments of \$5,000 or any integral multiple thereof. In the event that less than all of the Series 1994 Bonds of a particular maturity are redeemed and prepaid pursuant to this Section 3.3, the Trustee shall select by lot the Series 1994 Bonds (or portions of the principal thereof) of such maturity to be redeemed and prepaid. The redemption of Series 1994 Bonds pursuant to this section shall comply with the applicable provisions of Article VII hereof, including the giving of such notice to the Holders of Series 1994 Bonds called for redemption as may be required by Section 7.1(b) hereof.

Section 3.4 Scheduled Mandatory Redemption of Series 1994 Term Bonds.
The Series 1994 Term Bonds shall be subject to mandatory redemption on September 1, 2010, and on each September 1 thereafter until and including September 1, 2013, in the following respective years and principal amounts:

<u>Year</u>	<u>Principal Amount</u>
2010	\$ 390,000
2011	415,000
2012	440,000
2013	470,000

In the absence of prior optional redemption of Series 1994 Term Bonds, Series 1994 Term Bonds in the principal amount of \$500,000 will remain to be paid at their stated maturity on September 1, 2014.

Each Series 1994 Term Bond (or portion of the principal thereof) called for such mandatory redemption shall be redeemed at and for a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, and such redemption shall be effected in accordance with the applicable provisions of Article VII hereof. Those Series 1994 Bonds to be redeemed, in whole or in part, pursuant to this section shall be selected by the Trustee by lot. Not later than July 15 preceding each September 1 on which mandatory redemptions of Series 1994 Term Bonds are required by this section, the Trustee will take such actions as are necessary under the provisions of Article VII hereof to redeem the principal amount of Series 1994 Term Bonds required to be redeemed on such September 1.

In the event that any Series 1994 Term Bonds are required by the first paragraph of this section to be redeemed on any September 1, then at the option of the Board, to be exercised on or before the July 15 next preceding such September 1, the principal amount

of Series 1994 Term Bonds so required to be redeemed shall be reduced to the extent of the sum of the following credits:

(a) a credit equal to such principal amount of Series 1994 Term Bonds as shall have been delivered by the Board to the Trustee for cancellation and retirement and as shall not have been theretofore credited against any previous mandatory redemption of Series 1994 Term Bonds;

(b) a credit equal to such principal amount of Series 1994 Term Bonds as shall have been purchased by the Trustee for cancellation and retirement with moneys provided by the Board and as shall not have been theretofore credited against any previous mandatory redemption of Series 1994 Term Bonds; and

(c) a credit equal to that principal amount of Series 1994 Term Bonds which shall have been theretofore duly called for redemption on or before such September 1 pursuant to the provisions of Section 3.3 hereof, for which all moneys necessary to effect the redemption thereof shall have theretofore been deposited with the Trustee and which shall not have been theretofore credited against any previous mandatory redemption of Series 1994 Term Bonds.

The Series 1994 Term Bonds so delivered, purchased or redeemed, as the case may be, in respect of any redemption of Series 1994 Term Bonds required on any September 1 shall be credited by the Trustee at the face amount thereof against the principal amount of Series 1994 Term Bonds required to be redeemed on such September 1, and any unused credit shall be credited against the next succeeding mandatory redemption of Series 1994 Term Bonds; provided that no credit in respect of the redemption of Series 1994 Term Bonds required on any September 1 shall be allowed for any Series 1994 Term Bond so delivered, purchased or redeemed, as the case may be, unless the delivery, purchase or redemption thereof is accomplished in a timely manner, which, in the case of any Series 1994 Term Bond delivered to or purchased by the Trustee pursuant to clause (a) or (b), respectively, of this paragraph, shall mean that such Series 1994 Term Bond shall be delivered to or purchased by the Trustee before the July 15 next preceding such September 1 and which, in the case of any Series 1994 Term Bond to be credited in the manner contemplated by clause (c) of this paragraph, shall mean that such Series 1994 Term Bond shall have been duly called for redemption on or before such September 1, and all moneys necessary to effect such redemption deposited with the Trustee, on or before the date fixed for redemption. If the Board shall make a written request to the Trustee therefor, the Trustee shall use reasonable efforts to purchase Series 1994 Term Bonds with moneys provided by the Board pursuant to clause (b) of this paragraph, including requesting or advertising for tenders if requested to do so by the Board; provided, however, that the Trustee's obligation to make any such purchase shall be subject to the Trustee's complete satisfaction as to the manner of such purchase, including, without limitation, a requirement that any Series 1994 Term Bonds be purchased pursuant to an offer to purchase Series 1994 Term Bonds from all Holders thereof in a principal amount proportionate to the principal amount of Series 1994 Term Bonds then held by such Holders and that the same terms and conditions for the purchase of such Series 1994

Term Bonds are offered to each Holder thereof, and the expenses of the Trustee incurred in connection with any such purchase shall be reimbursed by the Board.

Section 3.5 Form of Series 1994 Bonds. The Series 1994 Bonds and the authentication certificate and assignment applicable thereto shall be in substantially the following forms, respectively, with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof:

[Form of Series 1994 Bond]

No. R _____

\$ _____

UNITED STATES OF AMERICA

STATE OF ALABAMA

ALABASTER WATER AND GAS BOARD

WATER REVENUE BOND
Series 1994

Interest Rate

Maturity Date

CUSIP

For value received, the ALABASTER WATER AND GAS BOARD, a public corporation under the laws of the State of Alabama (herein called the "Board"), will pay to _____, or registered assigns, solely out of the revenues hereinafter referred to, the principal sum of

_____ DOLLARS

on the date specified above with interest thereon from the date hereof until the maturity hereof at the per annum rate of interest specified above (computed on the basis of a 360-day year of twelve consecutive 30-day months), payable on March 1, 1995, and semiannually thereafter on each March 1 and September 1 until the due date hereof. The principal of and the interest on this bond shall bear interest after their respective due dates until paid at the rate of interest borne by the principal hereof prior to maturity. The principal of and premium (if any) on this bond shall be payable only upon presentation and surrender of this bond at the principal corporate trust office of the Trustee hereinafter referred to.

This bond is one of a duly authorized issue or series of bonds authorized to be issued in the aggregate principal amount of \$6,140,000 and designated Water Revenue Bonds, Series 1994 (herein called the "Series 1994 Bonds"). The Series 1994 Bonds have been issued under a Trust Indenture dated as of September 1, 1994 (herein called the "Indenture"), between the

Board and SouthTrust Bank of Alabama, National Association, Birmingham, Alabama, as Trustee (herein, in such capacity, together with its successors in trust, called the "Trustee"). The Board is authorized by the Indenture to issue thereunder, upon the terms and conditions therein specified, additional bonds, without express limit as to principal amount, on a parity of lien and pledge with the Series 1994 Bonds (the Series 1994 Bonds and all such additional parity bonds being herein together called the "Bonds"). The principal of and the interest on the Bonds are payable solely out of revenues derived from the operation of the waterworks plant and distribution system of the Board (which, as presently or hereafter constituted, is herein called the "Water System") and payment of said principal and interest is secured, pro rata and without priority of one Bond over another or of the Bonds of any one series over the Bonds of any other, by a valid pledge of the revenues out of which they are payable.

The Indenture contains no provisions requiring publication of notice of redemption of any Series 1994 Bond, and each holder of any of the Series 1994 Bonds must maintain a current address on file with the Trustee in order to receive notice of any such redemption. From and after the date any Series 1994 Bond is called for redemption (provided the Trustee has sufficient funds on hand to effect such redemption), interest shall cease to accrue thereon.

The Series 1994 Bonds having stated maturities on September 1, 2005, and thereafter are subject to redemption and prepayment prior to maturity, at the option of the Board, as a whole or in part (but only in installments of \$5,000 or any integral multiple thereof and from such maturity or maturities as shall be specified by the Board), on September 1, 2004, and on any date thereafter, such redemption to be at and for the following respective redemption prices (expressed as a percentage of the principal amount redeemed) plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(dates inclusive)</u>	<u>Redemption Price</u>
September 1, 2004, through August 31, 2005	102%
September 1, 2005, through August 31, 2006	101
September 1, 2006, or thereafter	100

The Series 1994 Bonds maturing on September 1, 2014, are subject to scheduled mandatory redemption, at a redemption price equal to the principal amount of the Series 1994 Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, in the following principal amounts on the following dates:

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2010	\$ 390,000
September 1, 2011	415,000
September 1, 2012	440,000
September 1, 2013	470,000

Series 1994 Bonds in the aggregate principal amount of \$500,000 will remain to be paid at their stated maturity on September 1, 2014.

In the event that less than all of the Series 1994 Bonds of a particular maturity are to be redeemed and prepaid, the Trustee shall select by lot the Series 1994 Bonds (or portions of the principal thereof) of such maturity to be redeemed and prepaid. The Indenture requires that written notice of the call for redemption of this bond (or portion of the principal hereof) be forwarded by United States registered or certified mail to the registered holder of this bond, not less than thirty (30) or more than sixty (60) days prior to the date fixed for redemption. In the event that less than all the outstanding principal of this bond is to be redeemed, the registered holder hereof shall surrender this bond to the Trustee in exchange for a new Series 1994 Bond of like tenor herewith except in a principal amount equal to the unredeemed portion of this bond. Upon the giving of notice of redemption in accordance with the provisions of the Indenture, the Series 1994 Bonds (or principal portions thereof) so called for redemption and prepayment shall become due and payable on the date specified in such notice, anything herein or in the Indenture to the contrary notwithstanding, and the holders thereof shall then and there surrender them for prepayment, and all future interest on the Series 1994 Bonds (or principal portions thereof) so called for redemption shall cease to accrue after the date specified in such notice, whether or not such Series 1994 Bonds are so presented.

Reference is hereby made to the Indenture for a description of the nature and extent of the security afforded thereby, the rights and duties of the Board and the Trustee with respect thereto, the rights of the holders of the Bonds and the terms and conditions on which additional series of Bonds may be issued. The Indenture provides, inter alia, (a) that the holder of this bond shall have no right to enforce the provisions of the Indenture except as provided therein and then only for the equal and pro rata benefit of the holders of all the Bonds, and (b) that if this bond shall not be presented for payment when due (whether by maturity or otherwise) and if funds sufficient for such payment shall have been made available to the Trustee therefor, all liability of the Board to the holder of such bond and all rights of such holder against the Board under such bond or under the Indenture shall cease and terminate and that the sole right of such holder shall thereafter be against the said funds so made available, which the Trustee is required to set aside and hold, subject to any applicable escheat or other similar law, for the benefit of such holder. The Indenture also provides that the Board and the Trustee, with the written consent of the holders of a majority in principal amount of the Bonds then outstanding, may at any time and from time to time amend the Indenture or any indenture supplemental thereto, provided that no such amendment shall (1) without the consent of the holder of each Bond affected, reduce the principal of, the rate of interest on, or the premium (if any) payable on redemption of, any Bond, or (2) without the consent of the holders of all the Bonds then outstanding, extend the maturity of any installment of principal of or interest on any of the Bonds, make any change in any mandatory redemption schedule with respect to any series of the Bonds, create a lien or charge on the revenues from the Water System ranking prior to or (except in connection with the issuance of additional parity bonds under the Indenture) on a parity with the lien or charge thereon contained in the Indenture, effect a preference or priority of any Bond over any other Bond or reduce the aggregate principal amount of Bonds the holders of which are required to consent to any such amendment.

The Board is a public corporation organized under the provisions of Article 9, Chapter 50, Title 11, Code of Alabama 1975, and the Series 1994 Bonds are authorized to be issued for purposes for which bonds may be issued under the provisions of said article of said chapter of said title. The covenants and representations contained herein or in the Indenture are and shall be solely and exclusively obligations of the Board and do not and shall never constitute obligations or debts of any county or municipality in the State of Alabama, nor shall any such county or municipality in said State in any manner be liable for payment of the principal of or the interest on the Series 1994 Bonds or for the performance of the undertakings of the Board contained herein or in the Indenture.

It is hereby certified that all conditions, actions and things required by the constitution and laws of Alabama to exist, be performed and happen precedent to or in the issuance of this bond exist, have been performed and have happened in due and legal form, and that provision has been made for deposit in a special fund of revenues from the operation of the Water System in amounts sufficient to pay the principal of and the interest on the Series 1994 Bonds at the time outstanding as said principal and interest shall respectively mature.

The Series 1994 Bonds are issuable only as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Provision is made in the Indenture for the exchange of the Series 1994 Bonds for a like aggregate principal amount of Series 1994 Bonds of the same maturity and in authorized denominations, all upon the terms and subject to the conditions set forth in the Indenture.

This bond is transferable by the registered holder hereof, in person or by authorized attorney, only on the books of the Trustee and only upon surrender of this bond to the Trustee for cancellation, and upon any such transfer a new Series 1994 Bond of like tenor hereof will be issued to the transferee in exchange therefor, all as more particularly described in the Indenture. Each holder, by receiving or accepting this bond, shall consent and agree and shall be estopped to deny that, insofar as the Board and the Trustee are concerned, this bond may be transferred only in accordance with the provisions of the Indenture.

In the event that this bond (or any principal portion hereof) is duly called for redemption and prepayment, the Trustee shall not be required to transfer or exchange this bond during the period of forty-five (45) days next preceding the date fixed for such redemption and prepayment.

The interest payable on this bond on each interest payment date shall be remitted by the Trustee by check or draft mailed or otherwise delivered to the registered holder hereof at the address shown on the registry books of the Trustee as of the 15th day of the month immediately preceding such interest payment date. Any such payment of interest shall be deemed timely made if so mailed on the interest payment date (or, if any such interest payment date is not a business day, on the business day next following such interest payment date). The Indenture provides that all payments by the Board or the Trustee to the person in whose name a Series 1994 Bond is registered shall to the extent thereof fully discharge and satisfy all liability for the same. Any transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

Execution by the Trustee of its authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Indenture.

IN WITNESS WHEREOF, the Board has caused this bond to be executed in its name and behalf with the facsimile signature of the Chairman of its Board of Directors, has caused a facsimile of its corporate seal to be hereunto imprinted and has caused the signature of the aforesaid Chairman to be attested by its Secretary, who has caused a facsimile of her signature to be imprinted hereon, and has caused this bond to be dated September 1, 1994.

ALABASTER WATER AND GAS BOARD

By _____
Chairman of its Board of Directors

ATTEST:

Secretary

[S E A L]

[Form of Trustee's Authentication Certificate]

The within bond is one of those described in the within-mentioned Trust Indenture.

**SOUTHTRUST BANK OF ALABAMA,
NATIONAL ASSOCIATION
Trustee**

By _____
Its Authorized Officer

[Form of Assignment]

For value received _____ hereby sell(s), assign(s), and transfer(s) unto _____ the within bond and hereby irrevocably constitute(s) and appoint(s) _____, attorney, with full power of substitution in the premises, to transfer this bond on the books of the within-mentioned Trustee.

DATED this _____ day of _____, _____.

NOTE: The signature on this assignment must correspond with the name of the registered holder as it appears on the face of the within bond in every particular, without alteration, enlargement or change whatsoever.

Signature Guaranteed:

(Bank, Trust Company or Firm)

By _____
(Authorized Officer)

Section 3.6 Execution and Delivery of the Series 1994 Bonds. The Series 1994 Bonds shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee upon receipt by the Trustee of an order signed on behalf of the Board by the Chairman or the Vice Chairman of the Directors requesting such authentication and delivery and designating the Person or Persons to receive the same or any part thereof.

Section 3.7 Application of Proceeds from Sale of Series 1994 Bonds. The proceeds derived from the sale of the Series 1994 Bonds shall be paid to the Trustee and applied for the following purposes only and in the following order:

(a) payment into the Bond Fund of that portion of the proceeds derived from the sale of the Series 1994 Bonds that is allocable to accrued interest;

(b) payment of the sum of \$36,135.62 to AMBAC Indemnity as the premium for the Municipal Bond Insurance Policy;

(c) payment of the sum of \$5,432,822.95 to the Escrow Trustee for deposit into the escrow fund established in the Escrow Trust Agreement to provide for the refunding and retirement of the Series 1989 Bonds and the Series 1992 Bonds;

(d) payment of the sum of \$6,852.59 to the Internal Revenue Service as a yield reduction payment with respect to the Series 1994 Bonds pursuant to Section 1.148-5(c) of the United States Treasury Regulations; and

(e) payment of the balance of said proceeds into the Construction Fund.

Section 3.8 Disposition of Special Accounts and Funds under the Existing Indenture. Simultaneously with the delivery of this Indenture and the Escrow Trust Agreement, the Board will cause the following transfers of cash and securities held in the special accounts and funds established under the Existing Indenture to be made in the following order:

(a) all moneys on deposit in the "Bond Principal and Interest Fund" created in the Existing Indenture shall be paid to the Escrow Trustee and applied to the payment, redemption and retirement of the Series 1989 Bonds and the Series 1992 Bonds in accordance with the provisions of the Escrow Trust Agreement;

(b) of the moneys and securities on deposit in the "Debt Service Reserve Fund" created in the Existing Indenture, the sum of \$533,727.50 shall be paid into the Reserve Fund and applied as herein provided, and the balance of all such moneys and securities on deposit therein shall be paid to the Escrow Trustee and applied to the payment, redemption and retirement of the Series 1989 Bonds and the Series 1992 Bonds in accordance with the provisions of the Escrow Trust Agreement;

(c) all moneys on deposit in the "Gross Revenue Account" created in the Existing Indenture shall be paid into the Revenue Account and applied as herein provided; and

(d) all moneys on deposit in the "Replacement, Capital Improvement and Repair Fund" created in the Existing Indenture shall be paid into the Improvement Fund and applied as therein provided.

ARTICLE IV

ADDITIONAL BONDS

Section 4.1 Additional Bonds – In General. If no Event of Default shall have occurred and be continuing, the Board may at any time and from time to time issue Additional Bonds, within the limitations of and upon compliance with the provisions of this Article IV, for any of the following purposes: (a) for the purpose of providing funds with which to pay the costs of completing the acquisition, construction and installation of the Improvements, (b) for the purpose of acquiring and constructing Capital Improvements, (c) for the purpose of refunding any of the Bonds, and (d) for any combination of the foregoing purposes. The Additional Bonds may be in such denomination or denominations, shall bear interest at such rate or rates, shall mature as to principal on September 1 and as to interest on March 1 and September 1 in such amounts, and may contain such provisions for redemption prior to maturity, all as may be provided in the Supplemental Indenture under which they are issued; provided that (i) any redemption of Additional Bonds prior to maturity shall be subject to the provisions of Article VII hereof, and (ii) the forms of Additional Bonds shall be substantially identical to those of the Series 1994 Bonds with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof and of the Supplemental Indenture under which they are issued.

Section 4.2 Conditions Precedent to Issuance of Additional Bonds. Prior to the issuance of any Additional Bonds, the Board shall deliver to the Trustee those of the Additional Bonds proposed to be issued, duly executed and sealed, accompanied by the following:

(a) Supplemental Indenture. A Supplemental Indenture duly executed, sealed and acknowledged on behalf of the Board and containing, along with any other provisions that do not conflict with the provisions hereof, a description of such Additional Bonds, including the aggregate principal amount, the numbers and series designation, the denomination or denominations, the date, the interest rate or rates and the maturity or maturities thereof, the provisions for redemption thereof prior to maturity and the forms of such Additional Bonds and the various certificates applicable thereto;

(b) Resolution. A certified copy of the Resolution adopted by the Directors authorizing the issuance of such Additional Bonds and the execution and delivery of the Supplemental Indenture providing therefor, which shall include the following: (i) a statement of the sale price of such Additional Bonds; (ii) a general statement of the purpose for which such Additional Bonds are proposed to be issued; (iii) a statement that such Additional Bonds are being issued on a parity of lien and pledge with the Bonds under the provisions of this Article IV; (iv) a statement that the Board is not at the time in default in payment of the Bonds; (v) a list of all Additional Bonds previously issued by the Board under the provisions of this Article IV and at the time outstanding; and (vi) any other provisions that do not conflict with the provisions hereof;

(c) Auditor's or Engineer's Certificate. A certificate signed by an Independent Auditor certifying that the Annual Net Income derived from the operation of the Water System during the Fiscal Year next preceding the Fiscal Year during which any such Additional Bonds are issued was not less than one hundred and twenty-five percent (125%) of the Maximum Annual Debt Service with respect to the then outstanding Bonds and the Additional Bonds proposed to be issued; or a certificate signed by an Independent Auditor stating that if any increase in rates for water service from the Water System that has actually been put into effect as of the date of issuance of such Additional Bonds had been in effect throughout the Fiscal Year next preceding the Fiscal Year during which any such Additional Bonds are issued, Annual Net Income derived from the operation of the Water System during such next preceding Fiscal Year would have been not less than one hundred and twenty-five percent (125%) of the Maximum Annual Debt Service with respect to the then outstanding Bonds and the Additional Bonds proposed to be issued; or a certificate signed by an Independent Engineer certifying that the estimated average Annual Net Income for the first three complete Fiscal Years following completion of the Capital Improvements to be constructed or acquired with the proceeds of the proposed Additional Bonds will not be less than one hundred and thirty-five percent (135%) the Maximum Annual Debt Service with respect to the Bonds that will be outstanding immediately following the issuance of the proposed Additional Bonds;

(d) Opinion of Independent Counsel. An opinion, acceptable to the Trustee and dated as of the date of the issuance of such Additional Bonds, of Independent Counsel acceptable to the Trustee [which Independent Counsel may, but need not, be the Bond Counsel rendering the opinion required by subsection (e) of this section] approving the forms of all documents required by the preceding portions of this section to be delivered to the Trustee and stating that they comply with the applicable requirements of this article; and

(e) Opinion of Bond Counsel. An opinion, dated as of the date of the issuance of such Additional Bonds, of Bond Counsel approving the validity of such Additional Bonds.

Upon receipt of the documents required by the provisions of this section to be furnished to it, the Trustee shall, unless it has cause to believe any of the statements set out in said documents to be incorrect, thereupon execute the Supplemental Indenture so presented and authenticate the Additional Bonds with respect to which the said documents shall have been provided and shall, upon receipt of evidence satisfactory to it that the Board has received the purchase price or other consideration therefor, deliver such Additional Bonds to the Person or Persons to whom the Resolution provided for in subsection (b) of this section directed that they be delivered.

ARTICLE V

EXECUTION OF THE BONDS

Section 5.1 Execution of Bonds. The Bonds shall be executed on behalf of the Board by the Chairman of the Directors, the seal of the Board shall be affixed thereto, and the signature of the said Chairman shall be attested by the Secretary of the Board; provided that the signatures of the Chairman of the Directors and the Secretary of the Board may be facsimiles of the signatures of such officers; and provided further that a facsimile of the seal of the Board may be imprinted on the Bonds rather than manually affixed thereto. Signatures on the Bonds by persons who were officers of the Board at the time such signatures were written or printed shall continue effective although such persons cease to be such officers prior to the delivery of the Bonds.

Section 5.2 Authentication Certificate of Trustee. A duly executed authentication certificate by the Trustee in substantially the applicable form set forth in Section 3.5 hereof shall be endorsed on each of the Bonds and shall be essential to its validity. Such certificate shall be conclusive of the due issue of such Bond hereunder.

Section 5.3 Replacement of Mutilated, Lost, Stolen or Destroyed Bonds. In the event any Bond is mutilated, lost, stolen or destroyed, the Board may execute and deliver a new Bond of like tenor and denomination as that mutilated, lost, stolen or destroyed; provided that (a) in the case of any such mutilated Bond, such Bond is first surrendered to the Board and the Trustee, and (b) in the case of any such lost, stolen or destroyed Bond, there is first furnished to the Board and the Trustee evidence of such loss, theft or destruction satisfactory to the Trustee, together with indemnity satisfactory to each of them. The Board may charge the Holder with the expense of issuing any such new Bond. In lieu of issuing a new Bond to replace any mutilated, lost, stolen or destroyed Bond which shall have already matured, the Trustee may pay such Bond at or after the maturity thereof if the Holder of such Bond satisfies the same terms and conditions as those provided in the preceding provisions of this section for the replacement thereof.

ARTICLE VI

REGISTRATION, TRANSFERS AND EXCHANGES OF THE BONDS

Section 6.1 Registration and Transfer of Bonds. All Bonds shall be registered as to both principal and interest, and shall be transferable only on the registry books of the Trustee pertaining to the Bonds. The Trustee shall be the registrar and transfer agent of the Board and shall keep at its office proper registry and transfer books in which it will note the registration and transfer of such Bonds as are presented for those purposes, all in the manner and to the extent hereinafter specified.

No transfer of a Bond shall be valid hereunder except upon presentation and surrender of such Bond at the principal corporate trust office of the Trustee with written power to transfer signed by the Holder thereof in person or by duly authorized attorney, properly stamped if required, in form and with guaranty of signature satisfactory to the Trustee, whereupon the Board shall execute, and the Trustee shall authenticate and deliver to the transferee, a new Bond, registered in the name of such transferee and of like tenor as that presented for transfer. The Person in whose name a Bond is registered on the books of the Trustee shall be the sole Person to whom or on whose order payments on account of the principal thereof and the interest and premium (if any) thereon may be made. Each Holder of any of the Bonds, by receiving or accepting such Bond, shall consent and agree and shall be estopped to deny that, insofar as the Board and the Trustee are concerned, the Bonds may be transferred only in accordance with the provisions of the Indenture.

Any Series 1994 Bond authenticated and delivered pursuant to the provisions of this section shall be dated September 1, 1994. Any Additional Bond authenticated and delivered pursuant to the provisions of this section shall be dated in accordance with the provisions of the Supplemental Indenture under which such Additional Bond is issued.

If any Bond is duly called for redemption (in whole or in part), the Trustee shall not be required to transfer it during the period of forty-five (45) days next preceding the date fixed for such redemption.

Section 6.2 Exchange of Bonds. The Bonds of each series shall be freely exchangeable within the limits provided in the Indenture or in the Supplemental Indenture under which such series is issued; provided, however, that under no circumstances shall a Bond be issuable in exchange for other Bonds unless all the Bonds being so exchanged are of the same series, bear interest at the same rate and have the same stated maturity. Upon the request of the Holder of any Bond in a principal amount greater than the minimum authorized denomination applicable to the series to which such Bond belongs, the Board shall execute, and the Trustee shall thereupon authenticate and deliver, upon surrender to the Trustee of such Bond and in exchange therefor, two or more Bonds of like tenor as the Bond so surrendered and in authorized denominations aggregating the same principal amount as the Bond so surrendered. Upon the request of the Holder of two or more Bonds, the Board shall execute, and the Trustee shall thereupon authenticate and deliver, upon surrender to the Trustee of such Bonds and in exchange therefor, a new Bond or Bonds of like tenor in different authorized denominations and aggregating the same principal amount as the then unpaid principal amount of the Bonds so surrendered. Any Bonds surrendered for exchange pursuant to the provisions of this section shall be accompanied by a written power to transfer signed by the Holder thereof in person or by duly authorized attorney, properly stamped if required, in form and with guaranty of signature satisfactory to the Trustee.

Any Series 1994 Bond authenticated and delivered pursuant to the provisions of this section shall be dated September 1, 1994. Any Additional Bond authenticated and delivered pursuant to the provisions of this section shall be dated in accordance with the provisions of the Supplemental Indenture under which such Additional Bond is issued.

The Trustee shall not be required to exchange any Bond duly called for redemption (in whole or in part) during the period of forty-five (45) days next preceding the date fixed for such redemption.

Section 6.3 Persons Deemed Owners of Bonds. The Board and the Trustee may deem and treat the Person in whose name a Bond is registered as the absolute owner thereof for all purposes; they shall not be affected by notice to the contrary; and all payments by either of them to the person in whose name a Bond is registered shall to the extent thereof fully discharge and satisfy all liability for the same.

Section 6.4 Expenses of Transfer and Exchange. Except as otherwise provided in Section 5.3 hereof, no Holder or transferee of any Bonds shall be required to pay any expenses incurred in connection with any transfer or exchange of such Bonds; provided, however, that in every case involving any transfer or exchange of any of the Bonds that is requested by the Holder thereof, such Holder shall pay all taxes and other governmental charges required to be paid in connection with such transfer or exchange.

ARTICLE VII

GENERAL PROVISIONS RESPECTING REDEMPTION OF BONDS

Section 7.1 Manner of Effecting Redemption of Bonds. Any redemption of any Bonds of any series shall be effected in the following manner:

(a) Call. The Directors shall adopt a Resolution containing the following: (1) a call for redemption, on a specified date when they are by their terms subject to redemption, of Bonds bearing stated numbers and series designations; (2) unless all the Bonds then outstanding are to be redeemed (or unless a portion of all such outstanding Bonds are to be redeemed and the remainder are, simultaneously with or prior to such redemption, to be otherwise retired), a statement that the Board is not in default under the Indenture; and (3) a summary of any applicable restrictions upon or conditions precedent to such redemption and the provisions made to comply therewith; provided, however, that it shall not be necessary for the Directors to adopt any such Resolution (i) in the case of Series 1994 Bonds that are to be redeemed pursuant to any of the provisions of Section 3.4 hereof, or (ii) in the case of any redemption of the Bonds of any series of Additional Bonds, if such redemption is required by the terms of the Supplemental Indenture under which such series of Additional Bonds is issued or if, in such Supplemental Indenture, the adoption of such a Resolution is expressly stated to be unnecessary.

(b) Notice by Registered or Certified Mail. The Trustee (on behalf of the Board) shall forward by United States registered or certified mail to the

Holder of any Bond called for redemption, in whole or in part, at the address of such Holder as such address appears on the registry books of the Trustee pertaining to the registration of the Bonds, a notice stating the following: that Bonds bearing stated numbers and series designations (and, in the case of the partial redemption of any Bonds, the respective principal amounts thereof to be redeemed) have been called for redemption and will become due and payable at the applicable redemption price or prices on a specified redemption date [which shall be the date provided for such redemption in the Resolution required in subsection (a) of this Section 7.1]; and that all interest thereon will cease after such redemption date. Such notice shall be so mailed to all Persons entitled to receive the same not more than sixty (60) nor less than thirty (30) days prior to the date fixed for redemption, but Holders of any Bonds may waive the requirements of this subsection (b) with respect to the Bonds held by them without affecting the validity of the call for redemption of any other Bonds.

(c) Deposit of Funds. Prior to the date fixed for redemption the Board shall deposit or cause to be deposited with the Trustee the total redemption price of the Bonds (or portions thereof) so called for redemption and shall further furnish or cause to be furnished to the Trustee the following: (1) a certified copy of the Resolution required in subsection (a) of this Section 7.1; and (2) in the case of the redemption of any Bonds when such Bonds may then be redeemed only with funds from a specified source or are subject to some other restriction or requirement, evidence satisfactory to the Trustee showing compliance with such restriction or requirement.

Section 7.2 Presentation of Bonds for Redemption. Bonds to Cease to Bear Interest. Upon compliance by the Board and the Trustee with the requirements contained in Section 7.1 hereof [and, unless all the Bonds then outstanding are to be redeemed (or unless a portion of all such outstanding Bonds are to be redeemed and the remainder are, simultaneously with or prior to such redemption, to be otherwise retired), if the Board is not on the date fixed for redemption in default in payment of the principal of or the interest on any of the Bonds], the Bonds so called for redemption (or, in the case of any Bonds called for redemption in part, the portions thereof called for redemption) shall become due and payable at the place at which the same shall be payable, at the redemption price or prices and on the redemption date specified in such notice, anything herein or in the Bonds to the contrary notwithstanding, and the Holders thereof shall then and there surrender them for redemption; provided, however, that with respect to any Bond called for partial redemption, the Holder thereof shall surrender such Bond to the Trustee in exchange for one or more Bonds in authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered, all as shall be requested by the Holder of such Bond so called for partial redemption. All future interest on the Bonds so called for redemption (or, in the case of any Bonds called for redemption in part, the portions thereof called for redemption) shall cease to accrue after the date fixed for redemption. The Bonds so called (or, in the case of any Bonds called for redemption in part, the portions thereof called for redemption) shall, subject to such deposit having been made, be entitled to no security under the Indenture other than the moneys deposited with the Trustee under the

provisions of this article; and out of the moneys so deposited with it, the Trustee shall pay on the redemption date the applicable redemption price or prices of the Bonds so called for redemption (or, in the case of any Bonds called for redemption in part, the portions thereof called for redemption).

ARTICLE VIII

AGREEMENTS RESPECTING CONSTRUCTION OF IMPROVEMENTS AND USE OF MONEYS IN CONSTRUCTION FUND

Section 8.1 Agreement to Construct Improvements. The Board will proceed continuously and with reasonable dispatch with the acquisition, construction and installation of the Improvements, substantially in accordance with the plans and specifications therefor prepared by Paul B. Krebs & Associates, Inc., Consulting Engineers, of Birmingham, Alabama. The Board will complete the acquisition, construction and installation of the Improvements, including the acquisition of such real estate (and interests therein) as may be necessary therefor, as soon as may be practicable, delays incident to strikes, riots, acts of God and the public enemy and similar acts beyond the reasonable control of the Board only excepted. The Board will promptly pay, as and when due, all expenses incurred in said acquisition, construction and installation, and it will not suffer or permit any mechanics' or materialmen's liens which might be filed or otherwise claimed or established upon or against the Improvements or any part thereof and which might be or become a lien thereon to remain unsatisfied and undischarged for a period exceeding thirty (30) days after the filing or establishment thereof; provided, however, that the Board may in good faith contest any such mechanics' or materialmen's lien claims so filed or established and, in the event any such lien claims are so contested, may permit the mechanics' or materialmen's liens so contested to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom, irrespective of whether such period extends beyond the thirty (30) day period after the filing or establishment of such liens or not, unless the Trustee shall be of the opinion that by such action the title of the Board to the Improvements or any part thereof shall be subject to loss or forfeiture, in which event such mechanics' or materialmen's liens shall be satisfied prior to the expiration of said thirty (30) day period.

Section 8.2 Creation of Construction Fund. Purposes for Which Moneys Therein May Be Expended. There is hereby created a special trust fund, the full name of which shall be the "Alabaster Water and Gas Board Construction Fund," for the purpose of providing funds for the acquisition, construction and installation of the Improvements and for payment of the expenses incurred in connection with the issuance and sale of the Series 1994 Bonds. The Trustee shall be and remain the depository, custodian and disbursing agent for the Construction Fund. The moneys in the Construction Fund shall be paid out from time to time by the Trustee for the following purposes only and only upon presentation of the requisitions and certificates specified in Section 8.3 hereof:

(a) payment of the expenses incurred by the Board in the issuance and sale of the Series 1994 Bonds, including the initial charge of the Trustee under the Indenture and the legal, fiscal and recording fees and expenses incurred in connection therewith;

(b) payment of the reasonable expenses and charges of the Trustee in connection with the Construction Fund;

(c) payment of the costs of acquiring any real estate (including easements and other interests therein) necessary and suitable for the construction or installation thereon of any part or parts of the Improvements;

(d) payment for labor, services, materials, supplies and equipment furnished in acquiring, constructing and installing the Improvements (which payments may be based on bills or contractor's estimates); and

(e) payment of all expenses (including the reasonable fees and expenses of engineers and attorneys and recording fees) incurred in connection with matters referred to in the preceding subsections (c) and (d) of this section.

Section 8.3 Payments from the Construction Fund. The Trustee shall disburse the moneys on deposit in the Construction Fund for the purposes specified in Section 8.2 hereof as follows:

(I) If the payment is requested for any of the purposes specified in subsection (a) or (b) of the preceding Section 8.2 hereof, only upon receipt of a requisition signed by an Authorized Board Representative and stating the name and address of the Person to whom payment is due, the amount to be paid and the purpose for which the obligation to be paid was incurred.

(II) If the payment is requested for any of the purposes specified in subsection (c) of the preceding Section 8.2 hereof, only upon receipt of the following:

(1) Requisition. A requisition signed by an Authorized Board Representative and stating the name and address of the Person to whom payment is due, the amount to be paid and briefly describing the real estate (or easement or other interest therein) for which payment is requested in such requisition;

(2) Construction Engineer's Certificate. A certificate of the Construction Engineer approving the expenditure with respect to which such requisition was filed and stating (i) that the real estate (or easement or other interest therein) for which payment is requested in such requisition is necessary and suitable for the construction or installation thereon of part of the Improvements and has a value not less than the cost of its acquisition, (ii) that such expenditure has not

formed the basis of any previous payment from the Construction Fund, and (iii) that the amount that will remain in the Construction Fund after payment of such requisition (together with the amount of any then unexpended Available Construction Moneys) will be sufficient to pay all costs of completing the acquisition, construction and installation of the Improvements substantially in accordance with the plans and specifications therefor; and

(3) Certificate of Counsel. A certificate of Counsel acceptable to the Trustee approving the title of the Board to such real estate (or easement or other interest therein), subject only to Permitted Encumbrances.

(III) If the payment is requested for any of the purposes specified in subsection (d) or (e) of the preceding Section 8.2 hereof, only upon receipt of the following:

(1) Requisition. A requisition signed by an Authorized Board Representative and stating with respect to each such payment the name and address of the Person to whom payment is due, the amount to be paid and the purpose for which the obligation to be paid was incurred; and

(2) Construction Engineer's Certificate. A certificate of the Construction Engineer approving the expenditure with respect to which such requisition was filed and stating (i) that such expenditure or indebtedness has not formed the basis of any previous payment from the Construction Fund, (ii) that the amount that will remain in the Construction Fund after payment of such requisition (together with the amount of any then unexpended Available Construction Moneys) will be sufficient to pay all costs of completing the acquisition, construction and installation of the Improvements substantially in accordance with the plans and specifications therefor, and (iii) that the purpose for which such payment is requested is one for which moneys may be paid out of the Construction Fund under the provisions of subsection (d) or (e) of the preceding Section 8.2 hereof.

Upon certification by the Construction Engineer that the acquisition, construction and installation of the Improvements have been completed in substantial accordance with the said plans and specifications therefor, and upon certification by an Authorized Board Representative that all the items referred to in subsections (a), (c), (d) and (e) of Section 8.2 hereof have been paid in full, and upon payment of the expenses and charges referred to in subsection (b) of said Section 8.2, any moneys then remaining in the Construction Fund shall thereupon be paid by the Trustee into the Revenue Account.

Section 8.4 Trustee Protected in Construction Fund Payments. Additional Evidence May Be Required. The Trustee shall be fully protected in making withdrawals

and payments out of the Construction Fund for the purposes specified in Section 8.2 hereof upon presentation to it of the respective requisitions and certificates provided for in Section 8.3 hereof, but the Trustee may in its discretion, and shall when requested in writing so to do by the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding, require as a condition precedent to any withdrawal or disbursement from the Construction Fund such additional evidence as it may deem appropriate respecting the application of any moneys previously disbursed from the Construction Fund or as to the correctness of any estimate or bill presented to it pursuant to the provisions of said Section 8.3.

Section 8.5 Trustee May Complete Construction. If the moneys on deposit in the Construction Fund shall not be sufficient to make all payments provided for in subsections (a) through (e), inclusive, of Section 8.2 hereof, or if the Board should abandon or unreasonably delay the acquisition, construction and installation of the Improvements, or if for any reason whatsoever said acquisition, construction and installation shall not be completed as provided in Section 8.1 hereof, the Trustee may at its election, but without prejudice to any other right which it may have in case of such default, complete the said acquisition, construction and installation. For such purpose the Trustee may make any and all necessary contracts, either in its own name or in the name of the Board, for engineers, contractors, labor, materials and supplies in connection with the completion of the acquisition, construction and installation of the Improvements. In the event that the Trustee shall, pursuant to the provisions of this section, elect to complete said acquisition, construction and installation, the Trustee may thereafter make disbursements from the Construction Fund, without any approval of such disbursements by the Board or any officer thereof, for the purpose of paying the costs of completing the said acquisition, construction and installation and also of discharging any unpaid bills previously incurred by the Board for any costs related thereto, provided that any such disbursement shall be approved by the Construction Engineer by certificate, with the necessary changes in detail, substantially identical to that required by the applicable clause of Section 8.3 hereof; and provided further, that if any such disbursement is for payment of the cost of acquiring real estate (including easements or any other interest therein), the Trustee shall obtain the certificate of Counsel provided for in the applicable clause of Section 8.3 hereof. Approval by the Construction Engineer as above provided and, when required by the preceding sentence, a certificate of title as provided in that sentence shall fully protect the Trustee in making disbursements from the Construction Fund pursuant to the provisions of this section. Regardless of whether or not the Trustee may undertake the completion of said acquisition, construction and installation as herein provided, and regardless of whether or not any lien claims may have been filed or established, the Trustee may at its option advance any funds necessary to make up any deficit in paying the costs of completing the acquisition, construction and installation of the Improvements, including the acquisition of real estate for location thereon of any part or parts thereof. All moneys advanced by the Trustee pursuant to the provisions of this section shall be secured by the Indenture, shall be repayable by the Board upon demand (subject to the provisions of Section 18.1 hereof), shall bear interest from the date on which they are so expended until they are repaid at a per annum rate equal to two percent (2%) above the Prime Rate from time to time in effect until such moneys are repaid and shall (together with the interest thereon) be entitled to priority of payment over the principal of and the interest and premium (if any) on the Bonds.

Section 8.6 Security for Construction Fund Moneys. The moneys at any time on deposit in the Construction Fund shall be and at all times remain public funds impressed with a trust for the purposes specified in Section 8.2 hereof. The Trustee shall at all times keep the moneys on deposit in the Construction Fund continuously secured, for the benefit of the Board and the Holders of the Bonds, either

(a) by holding on deposit, as collateral security, Federal Securities, or other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency, having a market value (exclusive of accrued interest) not less than the amount of moneys on deposit in the Construction Fund, or

(b) if the furnishing of security in the manner provided by the foregoing clause (a) of this section is not permitted by the then applicable law and regulations, then in such other manner as may be required or permitted by the then applicable state and federal laws and regulations respecting the security for, or granting a preference in the case of, the deposit of trust funds;

provided, however, that it shall not be necessary for the Trustee so to secure any portion of the moneys on deposit in the Construction Fund that is invested in Federal Securities or that is insured by the Federal Deposit Insurance Corporation or any agency of the United States of America that may succeed to its functions.

Section 8.7 Investment of Construction Fund Moneys. The Trustee will, at the written direction of the Board and to the extent practicable, cause the moneys on deposit in the Construction Fund to be invested in Eligible Investments having stated maturities in such amounts and at such times as to make available from the Construction Fund cash moneys sufficient to meet the needs of the Construction Fund as specified to the Trustee by the Board. In the event of any such investment, the securities or certificates in which such moneys are so invested, together with all income derived therefrom, shall become a part of the Construction Fund to the same extent as if they were moneys originally deposited therein. The Trustee may at any time and from time to time sell or otherwise convert into cash any such securities or certificates, whereupon the net proceeds therefrom shall become a part of the Construction Fund. The Trustee shall be fully protected in making any such investment, sale or conversion in accordance with the provisions of this section. In any determination of the amount of moneys at any time forming a part of the Construction Fund, all such securities or certificates in which any portion of the Construction Fund is at the time so invested shall be included therein at their then market value.

Section 8.8 Construction Engineer. The firm of Paul B. Krebs & Associates, Inc., Consulting Engineers, of Birmingham, Alabama, is hereby designated by the Board as the Construction Engineer and is hereby authorized to take the actions provided in the Indenture to be taken by the Construction Engineer. In the event the said firm should become unavailable or unable to take any action provided in the Indenture to be taken by the Construction Engineer, another engineer or engineering firm or corporation licensed under the laws of Alabama and acceptable to the Trustee and to the original purchasers of the Bonds from the

Board shall thereupon by Resolution be appointed Construction Engineer and authorized to take such actions. If the Board fails to appoint such successor Construction Engineer for a period of thirty (30) days following the date when said Paul B. Krebs & Associates, Inc. becomes unavailable or unable to take any of the said actions, the Trustee may then appoint as successor Construction Engineer any engineer or engineering firm or corporation licensed under the laws of Alabama. Any approval or certification made by any successor Construction Engineer appointed under the provisions of this section shall have the same effect as an approval or certification by said Paul B. Krebs & Associates, Inc.

Section 8.9 Acquisition of Surety Bond by Contractor Required. Whenever the Board shall enter into a contract with a contractor for the construction referred to in Section 8.1 hereof or for any part thereof, it will cause such contractor to obtain and deliver to the Board a surety bond signed by a surety company authorized to do business in the State of Alabama and guaranteeing to the Board the performance of such contract, the completion of the work provided for therein and the payment of all bills incurred thereunder for material and labor, which bond shall be in such amount as shall be approved by the Construction Engineer. If the Board has previously entered into any such contract, it will cause the contractor thereunder to obtain and deliver such a performance and surety bond promptly following the execution and delivery of the Indenture (unless such a performance and surety bond has previously been furnished to the Board by any such contractor). Nothing contained in the Indenture shall, however, impose on the Trustee any duty or liability with respect to the appropriateness or sufficiency of any such contract or surety bond or with respect to the completion of said construction.

ARTICLE IX

DISPOSITION OF REVENUES FROM THE WATER SYSTEM AND MAINTENANCE OF SPECIAL FUNDS

Section 9.1 Revenue Account. There is hereby created a special fund, the name of which is the "Alabaster Water and Gas Board Revenue Account" and which shall be continued and maintained in accordance with the provisions of the Indenture until the principal of and the interest on the Bonds have been paid in full. The Board will deposit therein, daily as received by it, all the revenues derived by it from the operation of the Water System and will, on or before the last day of each succeeding month, beginning with the month during which the Series 1994 Bonds are issued, apply the moneys in the Revenue Account for the following purposes, in the order stated, to the extent necessary and to the extent that the moneys on deposit in the Revenue Account are sufficient therefor:

- (a) payment of all Operating Expenses that are then due and that were incurred during the then current or in any then preceding calendar month, and

(b) payment into the Special Funds of such amounts as are required hereby to be paid therein on or before such date, in the order in which said funds are herein addressed, to the respective extents herein provided and to the extent that moneys on deposit in the Revenue Account are sufficient therefor.

No payments or withdrawals shall at any time be made from the Revenue Account except for the payments, withdrawals and uses provided for in subsection (a) of this Section 9.1 and Sections 9.2 to 9.4, inclusive, of the Indenture.

Section 9.2 Bond Fund. There is hereby created a special fund, the name of which is the "Alabaster Water and Gas Board Bond Fund" and which shall be continued and maintained in accordance with the provisions of the Indenture until the principal of and the interest on the Bonds have been paid in full. The Trustee shall be and remain the depository, custodian and disbursing agent for the Bond Fund. Out of the moneys on deposit in the Bond Fund, the Trustee shall make provision for the payment of the principal of and the interest on the Bonds as said principal and interest respectively become due.

The following amounts shall be paid or transferred into the Bond Fund at the following times:

(a) Amounts Referable to Series 1994 Bonds. In order to provide funds for the payment of the principal of and the interest on the Series 1994 Bonds, there shall be transferred or paid into the Bond Fund, out of moneys held in the Revenue Account [except as otherwise provided in clause (1)], the following amounts at the following times:

(1) simultaneously with the issuance and sale of the Series 1994 Bonds and out of the proceeds derived therefrom, that portion of such proceeds allocable to premium (if any) and accrued interest; and

(2) on or before the last business day of September, 1994, and on or before the last business day of each calendar month thereafter until and including the month of August, 2014, an amount equal to one-sixth (1/6) of the interest that will become due with respect to the Series 1994 Bonds on the then next succeeding interest payment date, as well as one-twelfth (1/12) of the principal amount of Series 1994 Bonds maturing or required to be redeemed on the next succeeding September 1.

(b) Amounts Referable to Additional Bonds. In order to provide for the payment of the principal of and the interest on any Additional Bonds, there shall be transferred or paid into the Bond Fund the following amounts at the following times:

(1) simultaneously with the issuance and sale of such Additional Bonds and out of the proceeds derived therefrom, that

portion of such proceeds allocable to premium (if any) and accrued interest;

(2) any portion of the principal proceeds derived from the sale of such Additional Bonds that is to be used to pay interest thereon (i.e., capitalized interest), with such capitalized interest to be applied for payment of interest on such Additional Bonds according to such schedule and through such arrangements as may be provided in the Supplemental Indenture or Indentures under which such Additional Bonds are issued;

(3) out of moneys on deposit in the Revenue Account, such moneys as, when added to any other funds provided for the payment of such Additional Bonds, shall be necessary to pay the principal and interest maturing with respect to such Additional Bonds, as well as the redemption price of any such Additional Bonds that are required to be redeemed prior to the maturity thereof, such moneys to be paid into the Bond Fund in such amounts and on such dates as shall be provided in the Supplemental Indenture or Indentures under which such Additional Bonds are issued.

(c) General. There shall be transferred or paid into the Bond Fund any other moneys that are expressly required to be transferred or paid therein by the provisions of the Indenture.

There shall be credited against any payment into the Bond Fund required by any of the preceding provisions of this section any amount then held in such account, but only to the extent that such amount does not itself consist of prior payments made pursuant to any of the preceding provisions of this section [other than the payment pursuant to clause (1) of subparagraph (a) of the second paragraph of this Section 9.2] and has not theretofore been credited against any payment previously required by any of such provisions.

In the event that the moneys paid or transferred into the Bond Fund with respect to any calendar month shall be less than the total amount required by the provisions of the second paragraph of this Section 9.2 to be paid therein with respect to such calendar month, then on or before the last day of the next succeeding calendar month and on or before the last day of each calendar month thereafter until such time as the payments into the Bond Fund are current, the Board will pay into the Bond Fund [in addition to the monthly payments provided for in the second paragraph of this Section 9.2] all moneys remaining in the Revenue Account on the last day of each of said months after payment into the Bond Fund of the amount due to be paid therein during such month.

All moneys paid into the Bond Fund shall be used only for payment of the principal of and the interest on the Bonds upon or after the respective maturities of such principal and interest or for the redemption of Bonds prior to their respective maturities. When the amount of money on deposit in the Bond Fund equals or exceeds the aggregate of the principal and interest then remaining unpaid with respect to the Bonds, no further payments need thereafter be made into the Bond Fund except to make good moneys paid therein which

may become lost or which may not be immediately available for withdrawal under the provisions of this Section 9.2; provided, however, that in the event any of the Additional Bonds should be thereafter issued, monthly payments into the Bond Fund with respect to such Additional Bonds shall be resumed in accordance with the provisions of this Section 9.2.

Section 9.3 Reserve Fund. There is hereby created a special fund, the name of which is the "Alabaster Water and Gas Board Debt Service Reserve Fund" and which shall be continued and maintained in accordance with the provisions of the Indenture until the principal of and the interest on the Bonds have been paid in full. The Trustee shall be and remain the depository, custodian and disbursing agent for the Reserve Fund.

Simultaneously with the issuance and delivery of the Series 1994 Bonds, the Board shall deposit into the Reserve Fund the sum of \$533,727.50, from moneys previously on deposit in the reserve fund created in the Existing Indenture, the said sum being the Maximum Annual Debt Service with respect to the Series 1994 Bonds.

In the event that the Board hereafter issues any Additional Bonds, the Board will cause to be added to the moneys then on deposit in the Reserve Fund an amount equal to the difference obtained by subtracting (a) the Maximum Annual Debt Service with respect to the Bonds outstanding immediately prior to the issuance of those of the Additional Bonds that have been most recently issued from (b) the Maximum Annual Debt Service with respect to the Bonds outstanding immediately following the issuance of those of the Additional Bonds that have been most recently issued. Any such addition of moneys to the Reserve Fund that is required to be made in connection with the issuance of any Additional Bonds shall be effected through any of the following methods:

(i) a single deposit into the Reserve Fund out of the proceeds of the Additional Bonds with respect to which such deposit is required to be made, such deposit to be made at the time of issuance of such Additional Bonds;

(ii) a single deposit into the Reserve Fund out of the proceeds of the Additional Bonds with respect to which such deposit is required to be made equal to one-half (1/2) of the amount so required to be deposited into the Reserve Fund, together with a series of thirty-six (36) equal monthly deposits to the Reserve Fund out of the moneys remaining in the Revenue Account after compliance with the then applicable provisions of Sections 9.1 and 9.2 hereof, such deposits to be made on or before the last day of the calendar month next succeeding the month during which the Additional Bonds with respect to which such deposits are required to be made were issued and on or before the last day of each of the next succeeding thirty-five (35) calendar months; or

(iii) any series of deposits to the Reserve Fund out of the moneys remaining in the Revenue Account after compliance with the then applicable provisions of Sections 9.1 and 9.2 hereof that will result in the moneys required to be added to the Reserve Fund being paid therein at a faster rate than the series of deposits described in the foregoing clause (ii).

The moneys forming a part of the Reserve Fund shall be transferred to the Bond Fund for payment of the principal of and the interest on the Bonds, but only when the moneys on deposit in the Bond Fund shall not be sufficient to pay a maturing installment of such principal or interest and only for payment of principal or interest so maturing as to which there would otherwise be a default. Whenever any of the moneys forming a part of the Reserve Fund shall be so transferred to the Bond Fund, the Board will thereafter pay into the Reserve Fund (in addition to any monthly payments to such fund provided for in the third paragraph of this Section 9.3), on or before the last day of each successive month, beginning with the month during which the transfer from such account of the Reserve Fund to the Bond Fund was made and continuing until the sum transferred shall have been restored, all moneys remaining in the Revenue Account after compliance with the then applicable provisions of Sections 9.1 and 9.2 hereof and the third paragraph of this Section 9.3; provided, that in any event all moneys so required to be paid into the Reserve Fund after any such transfer into the Bond Fund shall be made within twenty-four (24) months after the date of any such transfer from the Reserve Fund into the Bond Fund.

When the amount of moneys in the Reserve Fund plus the amount of moneys in the Bond Fund equals or exceeds the aggregate principal and interest then remaining unpaid with respect to the Bonds, no further payments need be made into the Reserve Fund, except in the event the Board thereafter issues any Additional Bonds, in which case it will resume payments into the Reserve Fund in accordance with the provisions of the third paragraph of this Section 9.3.

Section 9.4 Improvement Fund. There is hereby created a special fund, the name of which shall be the "Alabaster Water and Gas Board Improvement and Extension Fund", which shall be held by any banking institution that shall from time to time be designated as the depository and disbursing agent thereof by any Resolution; provided that any such institution shall at all times while acting as depository and disbursing agent for the Improvement Fund be and remain a member of the Federal Deposit Insurance Corporation (or any agency of the United States of America that may succeed to its functions) and be and remain duly qualified and doing business in the State of Alabama. Contemporaneously with the delivery of this Indenture, there shall be deposited into the Improvement Fund, the amount specified in paragraph (d) of Section 3.8 hereof. On or before the last business day of each month, beginning with the month of October, 1994, the Board shall transfer the sum of \$1,000.00 from the Revenue Account into the Improvement Fund; provided that, whenever and so long as the moneys held in the Improvement Fund shall equal or exceed \$50,000.00, no further transfers need be made thereto. If any transfer or payment to the Improvement Fund shall be less than the amount herein prescribed, the required transfer or payment for the next succeeding month shall be increased by the amount of such deficiency. The moneys in the Improvement Fund shall be used upon the order of the Board solely for the payment of the reasonable cost of Capital Improvements to the Water System as shall have been approved in advance by the Directors.

If, after any moneys are expended from the Improvement Fund, the amount therein is less than \$50,000.00, the aforesaid monthly payments shall be resumed and shall be continued until the moneys held in said Fund shall again equal or exceed \$50,000.00.

Section 9.5 Disposition of Surplus Revenues. After compliance with the then applicable provisions of Sections 9.1 to 9.4 hereof, the balance remaining in the Revenue Account on the last day of each calendar month shall, to the extent necessary, be paid into the Bond Fund, the Reserve Fund and the Improvement Fund, in the order named, for the purpose of making good any delinquency or deficit existing in any of said funds by reason of the failure to pay therein any amounts required to be paid therein by the provisions of Sections 9.2, 9.3 and 9.4, respectively, of the Indenture. Thereafter and while all monthly payments herein provided to be made into the Bond Fund, the Reserve Fund and the Improvement Fund are current and each of the Special Funds is in a current condition, the balance remaining on deposit in the Revenue Account on the last day of each calendar month may be withdrawn by the Board and used for any lawful purpose.

Section 9.6 Security for Special Funds. The moneys at any time on deposit in the Bond Fund and the Reserve Fund shall be and at all times remain public funds impressed with a trust for the purposes for which said funds were respectively created. The Trustee shall at all times keep the moneys on deposit in said funds continuously secured, for the benefit of the Board and the Holders of the Bonds, either

(a) by holding on deposit, as collateral security, Federal Securities, or other marketable securities eligible as security for the deposit of trust funds under regulation of the Comptroller of the Currency, having a market value (exclusive of accrued interest) not less than the amount of moneys on deposit in the fund being secured, or

(b) if the furnishing of security in the manner provided by the foregoing clause (a) of this Section 9.6 is not permitted by the then applicable laws and regulations, then in such other manner as may be required or permitted by the then applicable state and federal laws and regulations respecting the security for, or granting a preference in the case of, the deposit of trust funds;

provided, however, that it shall not be necessary for the Trustee so to secure any portion of the moneys on deposit in any such fund that is invested in Federal Securities or that is insured by the Federal Deposit Insurance Corporation or by any agency of the United States of America that may succeed to its functions.

Section 9.7 Investment of Special Fund Moneys. The Trustee shall, to the extent practicable, cause all moneys on deposit in the Bond Fund to be kept continuously invested in Federal Securities having stated maturities, or being redeemable at the option of the holder at a stated price and time, not later than the date on which such moneys will be needed for payment of the principal of or the interest on any of the Bonds. Such Federal Securities, together with all income therefrom, shall become a part of the Bond Fund to the same extent as if they were moneys on deposit therein. The Trustee may at any time and from time to time, as in its sole discretion it deems desirable, cause any such securities to be sold or otherwise converted into cash. The Trustee shall cause such securities to be sold or converted into cash if and to the extent that such sale or conversion is necessary to obtain

moneys to prevent a default in payment of the principal of or the interest on any of the Bonds. The net proceeds from the sale or other conversion into cash of any securities forming a part of the Bond Fund shall be paid into and become a part of the Bond Fund.

The Trustee shall, to the extent practicable, cause all moneys on deposit in the Reserve Fund to be kept continuously invested in Federal Securities. All such Federal Securities shall have stated maturities or shall be redeemable at the option of the holder thereof not later than ten years after the date of investment therein or the date of the last maturity of the Bonds then outstanding hereunder, whichever date is earlier. Such securities, together with all income therefrom, shall become a part of the Reserve Fund to the same extent as if they were moneys on deposit therein; provided, however, that the Trustee shall pay to the Board the interest income from any such securities if at the time such interest income is received there is on deposit in the Reserve Fund an amount at least equal to the maximum at the time required to be maintained therein, which moneys the Board will in turn pay and transfer into the Revenue Account. The Trustee may at any time and from time to time, as in its sole discretion it deems desirable, cause any such securities to be sold or otherwise converted into cash. The Trustee shall cause such securities to be sold or converted into cash if and to the extent that such sale or conversion is necessary to obtain moneys to prevent a default in payment of the principal of and the interest on any of the Bonds. The net proceeds from the sale or other conversion into cash of any securities forming a part of the Reserve Fund shall be paid into and become a part of the Reserve Fund.

In making any investment of moneys forming a part of any of the Special Funds of which it has custody, the Trustee shall follow such written instructions as may be given it by an Authorized Board Representative, but if and only to the extent that such instructions are not inconsistent with any applicable provisions of the Indenture; provided, however, that the Board shall not direct the Trustee to make any investment of any such moneys that would result in any of the Bonds being considered "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Code and the applicable regulations thereunder, it being understood that, in determining whether any such investment would result in any of the Bonds being considered such "arbitrage bonds", the Trustee may rely upon the opinion of Bond Counsel acceptable to it. The Trustee and the Board shall be fully protected in making any investment, sale or conversion in accordance with the provisions of this section. In any determination of the amount of moneys at any time forming a part of the Bond Fund and the Reserve Fund, all securities in which any portion thereof is at the time so invested shall be included in the fund from which moneys were used to make such investment at their then market value.

Section 9.8 Commingling of Moneys in Separate Funds and Accounts. Any provision hereof to the contrary notwithstanding, moneys on deposit in any of the Special Funds may be commingled and combined for the purpose of making investments under the provisions of Section 9.7 hereof, subject to the following conditions:

- (a) all interest, income or profit realized from any such commingled investment shall be credited, and all losses resulting therefrom shall be charged, to each such account or fund in the same respective proportions as the

amount invested from each such account or fund bears to the total amount so invested; and

(b) no moneys forming a part of any such account or fund shall be invested in any investments other than such as are expressly authorized herein.

Section 9.9 Depository for Revenue Account. The Directors may at any time and from time to time designate any banking institution or institutions as depository or depositories for the Revenue Account, provided that each such depository so designated shall at all times while acting as such be and remain a member of the Federal Deposit Insurance Corporation or of any agency of the United States of America that may succeed to its functions, if there be any such, and shall be and remain duly qualified to do business in the State of Alabama. Each such depository shall be fully protected in paying out moneys from the Revenue Account on checks, vouchers or drafts signed by any duly authorized officer, employee or agent of the Board, and no such depository shall be liable for the misapplication by the Board of any moneys so withdrawn if such moneys shall be so withdrawn without knowledge or reason on the part of such depository to believe that such disbursement constitutes a misapplication of funds.

ARTICLE X

PARTICULAR COVENANTS OF THE BOARD

Section 10.1 To Pay the Bonds. To Comply with Certain Agreements, Laws, Etc. The Board will pay, out of the revenues derived from the operation of the Water System, the principal of and the interest on the Bonds as specified herein, and it will otherwise perform all obligations, which, either expressly or by reasonable implication, are imposed on it in the Indenture and will not default hereunder. Further, the Board will perform and comply with, in every respect, all applicable state laws and regulations.

Section 10.2 To Maintain Proper Books and Records and to Furnish Annual Audits. The Board will maintain complete books and records pertaining to the Water System and all receipts and disbursements with respect thereto. The Board will operate the Water System on a fiscal year basis, each Fiscal Year to comprise the period beginning on October 1 of one calendar year and continuing until and including September 30 in the following calendar year. The Board will, within sixty (60) days following the close of each Fiscal Year, cause an audit of its books for such fiscal year to be made by an Independent Auditor. Each such audit, in addition to whatever other matters may be thought proper by the auditor to be included therein, shall include the following matters with respect to the Water System: (a) a statement in reasonable detail of the revenues and expenditures during such Fiscal Year; (b) a balance sheet as of the end of such Fiscal Year; (c) a statement analyzing each of the Special Funds, including all deposits into and withdrawals therefrom and the balances in each of the Special Funds at the beginning and ending of the Fiscal Year; and (d) the auditor's

comments regarding the manner in which the Board has carried out the requirements hereof, and the auditor's recommendations for any changes or improvements in the operation of the Water System. All expenses incurred in the making of each such audit shall constitute and be paid as an Operating Expense. Within ninety (90) days following the end of each Fiscal Year, the Board will furnish a copy of such an audit with respect to that Fiscal Year to the original purchaser or purchasers of each series of the Bonds from the Board and to the Holder of any of the Bonds who has prior thereto filed with the Board a written request therefor, and each of them is granted the right to discuss the contents of the audit with the auditor making the same and to secure from the auditor such additional information respecting the matters herein or therein set out as may be reasonably required. In the event that the audit required to be prepared for any Fiscal Year is not furnished to the Trustee within one hundred twenty (120) days following the end of such Fiscal Year, then the Trustee may employ an Independent Auditor to prepare the audit for such Fiscal Year, and the cost thereof shall be borne by the Board.

Section 10.3 To Furnish No Free Service. The Board will not furnish or permit to be furnished by or from the Water System any free water or other free service of any kind to any incorporated municipality or county or to any other Person. The Board will levy charges for all water service of any kind furnished from the Water System at the rates at the time established therefor. The reasonable cost and value of all water service rendered to the Board from the Water System shall be charged against the Board and paid for from current funds of the Board, monthly as the said services are furnished to the Board.

Section 10.4 To Maintain Adequate Rates. The Board will make and maintain such rates and charges for water and water service supplied from the Water System and will make collections from the users thereof in such manner as shall produce revenues sufficient (a) to provide for payment of all Operating Expenses, (b) to produce Annual Net Income during each Fiscal Year in an amount at least equal to One Hundred Ten Percent (110%) of the total amount payable during such Fiscal Year with respect to the principal of and the interest on the Bonds and (c) to pay all amounts required to be paid into the Special Funds pursuant to the provisions of the Indenture. The Board will make from time to time such increases and other changes in such rates and charges as may be necessary to produce said amounts. Each schedule of rates shall provide that all charges for water service supplied from the Water System shall become due not less often than once during each calendar month.

Section 10.5 To Discontinue Service on Non-Payment of Bills. If the account of any user of water supplied from the Water System shall remain unpaid for a period of thirty (30) days after such account shall become due, the Board thereupon will promptly discontinue furnishing water service to such user whose account shall so remain unpaid, but upon subsequent payment of such account, including any penalties or charges for connection or disconnection, or either of them, which may be provided for in the schedule of rates of the Board, the Board may thereafter furnish water service to such user until such time as his said account shall again remain unpaid for a period of thirty (30) days after it becomes due, whereupon the furnishing of water shall again be discontinued.

Section 10.6 To Continue Operation of the Water System. The Board will continuously operate the Water System, or cause the same to be operated, so long as the principal of or the interest on any of the Bonds remains unpaid, and it will keep the same in good repair and in efficient operating condition, making from time to time all necessary repairs and replacements thereto and thereof. If the laws of Alabama at the time shall permit such action to be taken, nothing contained in this Section 10.6 shall prevent the transfer of the Water System as an entirety to any municipal or public corporation or entity having corporate authority to carry on the business of operating the Water System, provided that, upon any such transfer, the due and punctual payment of the principal of and the interest on the Bonds according to their tenor and the due and punctual performance and observance of all the agreements and conditions provided in the Indenture to be kept and performed by the Board shall be expressly assumed in writing by the corporation to which the Water System shall be transferred as an entirety; and provided further, that such transfer shall not cause or result in any mortgage or other lien being affixed to or imposed on or becoming a lien on the Water System or on the revenues therefrom that will be prior to the lien of the pledge herein made for the benefit of the Bonds. Nothing herein contained shall prevent the Board from hereafter disposing of any property (or interest therein) forming a part of the Water System if such property (or interest therein) is worn out, obsolete, unnecessary or undesirable in the operation of the Water System.

Section 10.7 To Respect Priority of Pledge of Revenues. The pledge of the revenues derived from the operation of the Water System herein made shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the Board, other than Additional Bonds issued under the provisions of Article IV hereof, and the Board will, in the event it should hereafter issue any securities, other than such Additional Bonds, or make any contract payable out of the revenues from the operation of the Water System or for which any part of said revenues may be pledged or any part of the Water System may be mortgaged, recognize in the proceedings under which any such securities or any such contract are hereafter authorized the priority of the pledge of said revenues made herein for the benefit of the Bonds.

Section 10.8 To Keep Water System Free from Prior Liens. The Board will keep the Water System free from all liens and encumbrances prior to the pledge herein made (other than Permitted Encumbrances), but it may defer payment pending the bona fide contest of any claim unless by such action any part of the Water System shall be subject to loss or forfeiture, in which event any such payment then due shall not be deferred. Nothing herein contained shall be construed to prevent the Board from hereafter purchasing additional property on conditional or lease sale contract or subject to vendor's lien or purchase money mortgage, and as to all property so purchased the pledge herein made shall be subject and subordinate to such conditional or lease sale contract, vendor's lien or purchase money mortgage.

Section 10.9 To Permit Inspection of the Water System by Trustee and Bondholders. The Board will permit the Trustee, any Bondholder and the original purchaser or purchasers of each series of the Bonds from the Board to inspect, at any reasonable time, any

and every part of the Water System and the books and records of the Board pertaining thereto and will assist in furnishing facilities for such inspection.

Section 10.10 Warranty of Title. The Board warrants its title to each and every part of the Water System presently in existence as being free and clear of every lien, encumbrance, trust or charge prior hereto, other than Permitted Encumbrances, warrants that it has power and authority to subject the Water System and the revenues therefrom to the lien of the pledge herein made and that it has done so hereby, and warrants that said revenues are not subject to any lien or charge that is prior to the charge thereon created herein for the benefit of the Bonds.

Section 10.11 Tax Covenants. The Board recognizes that the Holders of the Series 1994 Bonds from time to time will have accepted them on, and paid therefor a price which reflects, the understanding that interest on the Series 1994 Bonds is not includable in gross income for purposes of federal income taxation under the laws in force at the time the Series 1994 Bonds shall have been delivered. In this connection the Board covenants (i) that it will not take or omit to take any action which may render the interest on any of the Series 1994 Bonds includable in gross income for federal income tax purposes and (ii) that it will use the "proceeds" of the Series 1994 Bonds and any other funds of the Board in such a manner that the use thereof, as reasonably expected by the Board at the time of issuance of the Series 1994 Bonds, would not cause the Series 1994 Bonds to be "arbitrage bonds" under Section 103(b)(2) and Section 148 of the Code and the regulations thereunder. The Board further covenants and agrees that it will not permit at any time any "proceeds" of the Series 1994 Bonds or any other funds of the Board to be used, directly or indirectly, in a manner which would result in the exclusion of the interest on any Series 1994 Bond from the exemption from federal income taxation otherwise afforded by Section 103(a) of the Code by reason of the classification of such Series 1994 Bond as a "private activity bond" within the meaning of Section 141(a) of the Code. The officers and employees of the Board shall execute and deliver from time to time, on behalf of the Board, such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Board with said Section 103(b)(2) and Section 148 and the regulations thereunder with respect to the use of the proceeds of the Series 1994 Bonds. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of this section and the foregoing provisions hereof, and the Board hereby covenants and agrees to comply with the provisions of any such stipulations throughout the term of the Series 1994 Bonds.

ARTICLE XI

PROVISIONS RESPECTING INSURANCE

Section 11.1 Insurance on Physical Properties. The Board will keep those portions of the Water System that are of the character and type customarily insured by organizations operating businesses similar to the Water System insured in responsible insurance com-

panies, satisfactory to the Trustee, against loss by fire, including extended coverage, tornado and windstorm, to the extent of the full insurable value thereof. Prior to the expiration date of any policy evidencing the insurance provided for in this section, the Board will furnish the Trustee satisfactory evidence that such policy has been renewed or replaced by another policy or that there is no necessity therefor hereunder.

Section 11.2 Disposition of Insurance Proceeds. All proceeds of insurance coming into the hands of the Trustee shall be applied by the Trustee in one or both of the following ways in accordance with directions to be provided by the Board in one or more Resolutions forwarded to the Trustee:

(a) to the purchase or construction of additional property which the Board shall deem to have utility in the operation of the Water System equal to that of the property damaged or destroyed, which additional property shall thereupon become a part of the Water System; or

(b) to the repair or renewal of the property damaged or destroyed;

provided, however, that the Trustee may pay such proceeds to the Board upon being furnished by the Board with a certificate of an Independent Engineer acceptable to the Trustee stating (i) that additional property described in said certificate (and with respect to which no such certificate has been previously made) has been purchased or constructed by the Board and has utility in the operation of the Water System equal to or greater than the utility of the property damaged or destroyed; or (ii) that the property damaged or destroyed has been repaired in a workmanlike and suitable manner satisfactory to such engineer.

Section 11.3 Other Insurance. The Board will carry workmen's compensation insurance and public liability insurance in such amounts and to such extent as is customarily carried by like organizations engaged in like businesses of comparable size. The Board will furnish the Trustee such evidence as it may require showing that the foregoing insurance is in effect.

Section 11.4 Fidelity Bonds. The Board will at all times carry fidelity bonds on all of its officers and employees who may handle funds relating to the Water System, such bonds to be in such amounts as are customarily carried by like organizations engaged in like businesses of comparable size.

Section 11.5 Premiums To Be Operating Expense. The premiums payable on all insurance policies and fidelity bonds required to be carried by the provisions hereof shall constitute Operating Expenses.

ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES OF TRUSTEE AND BONDHOLDERS

Section 12.1 Events of Default Defined. Any of the following shall constitute an "Event of Default" under the Indenture:

(a) failure by the Board to pay the principal of or the interest on any of the Bonds when such principal and interest respectively become due and payable, whether by maturity or otherwise;

(b) failure by the Board to commence the repair or replacement of any property forming a part of the Water System that may be damaged or destroyed and that is necessary to the continued and efficient operation of the Water System, within one hundred and twenty (120) days after the occurrence of such damage or destruction;

(c) the sale, lease or other disposition by the Board of the Water System or any integral part thereof in violation of any of the provisions hereof;

(d) failure by the Board to perform any of the agreements on its part herein contained [other than the agreements referred to in the preceding clauses (a), (b) and (c) of this section] after thirty (30) days' written notice to it of such failure made by the Trustee or by the Holders of twenty-five percent (25%) in principal amount of the Bonds then outstanding; or

(e) appointment by a court having jurisdiction of a receiver for all or a substantial part of the Water System, or the approval by a court of competent jurisdiction of any petition for reorganization of the Water System or rearrangement or readjustment of the obligations of the Board under any provisions of the bankruptcy laws of the United States of America.

Section 12.2 Remedies on Default. Upon the occurrence and continuation of any Event of Default, the Trustee shall have the following rights and remedies:

(a) Acceleration. The Trustee may, with the consent of AMBAC Indemnity, and shall, at the direction of AMBAC Indemnity, by written notice to the Board and AMBAC Indemnity, declare the principal of all the Bonds forthwith due and payable, and thereupon they shall so be, anything herein or therein to the contrary notwithstanding. If, however, the Board shall make good the default which is the reason for such declaration and every other default hereunder (except the principal so declared payable), with interest on all overdue payments of principal and interest, and reimburse the Trustee for all of its reasonable expenses, then the Trustee may in its discretion, and shall upon the written request of the Holders of a majority in principal amount of

the then outstanding Bonds, waive such default and its consequences, but no such waiver shall affect any subsequent default or right relative thereto.

(b) Suits at Law or in Equity. The Trustee is empowered (i) to sue on the Bonds, (ii) by mandamus, suit or other proceeding, to enforce all agreements of the Board herein contained, including the fixing of rates and the collection and proper segregation and application of the revenues derived from the operation of the Water System, (iii) by action or suit in equity, to require the Board to account as if it were the trustee of an express trust for the Holders of the Bonds, and (iv) by action or suit in equity, to enjoin any act or things which may be unlawful or a violation of any of the rights of the Holders of the Bonds.

(c) Receivership. The Trustee shall be entitled to and shall have, regardless of the sufficiency of any security or the availability of any other remedy, the right to the appointment of a receiver to administer and operate the Water System and to perform the covenants on the part of the Board herein contained. Any receiver so appointed shall be entitled to take over and administer all of the following then on hand which shall be applicable to the Water System: cash on hand or on deposit, accounts and notes receivable, stocks, evidences of indebtedness, choses in action, customers' service and extension deposits, and water and other property held for sale in the ordinary course of business or for consumption in the operation of the Water System.

Nothing herein contained, however, shall be construed to give any authority to the Trustee or the Holders of any of the Bonds to compel a sale of the Water System or any part thereof, and no foreclosure proceedings or sale shall ever be had with respect to the Water System or any part thereof under the authority of the Indenture.

Section 12.3 Disposition of Receivership Moneys. Any moneys received from the operation of the Water System by a receiver appointed pursuant to the provisions of subsection (c) of Section 12.2 hereof shall, after payment of all costs of the receivership, including the receiver's fees and the fees and expenses of his attorneys, the costs of administration and operation of the Water System and the maintenance thereof in good repair and working order and all charges and expenses of the Trustee hereunder, be applied to the payment of the following items in the following order:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST – to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest, with interest on overdue installments of interest, and, if the amount available shall not be sufficient to pay in full any particular installment plus said interest thereon, then to the payment ratably, according to the amounts due

on such installments and with respect to said interest, to the Persons entitled thereto, without any discrimination or privilege;

SECOND – to the payment to the Persons entitled thereto of the unpaid principal of and premium (if any) on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of the maturity of such principal and premium, with interest on overdue installments of principal and premium (if any), and, if the amount available shall not be sufficient to pay in full all principal and premium (if any) due on any particular date, together with the aforesaid interest thereon, then to the payment of such principal and premium (if any) due on such date, together with such interest, ratably, without any discrimination or privilege; and

THIRD – the surplus, if any there be, into the Bond Fund and the Reserve Fund, in the order named, to such extent as will result in there being on deposit in such funds the respective amounts at the time required to be maintained therein or, in the event the Bonds have been fully paid, to the Board or to whosoever may be entitled thereto.

(b) If the principal of all the Bonds shall have become or been declared due and payable, all such moneys shall be applied as follows:

FIRST – to the payment of the principal and interest then due and unpaid upon the Bonds (with interest on overdue principal and interest), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; provided, however, that if the principal of all the Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded under the provisions of Section 12.2 hereof, then, subject to the provisions of this subsection (b) in the event that the principal of all the Bonds shall later become or be declared due and payable, such moneys shall be applied in accordance with the provisions of subsection (a) of this section; and

SECOND – the surplus, if any there be, to the Board or to whosoever may be entitled thereto.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys shall be applied at such time or times, and from time to time, as the Trustee shall determine, having due regard to 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 it shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal and interest to be paid on such dates shall cease to accrue. The Trustee shall give 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 to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 12.4 Remedies Vested in Trustee. All remedies hereunder are vested exclusively in the Trustee for the equal and pro rata benefit of all the Holders of the Bonds, unless the Trustee refuses or neglects to act within a reasonable time after written request so to act addressed to the Trustee by the Holders of twenty-five percent (25%) in principal amount of the outstanding Bonds, accompanied by indemnity satisfactory to the Trustee, in which event the Holder of any of the Bonds may thereupon so act in the name and behalf of the Trustee or may so act in his own name in lieu of action by or in the name and behalf of the Trustee. Except as above provided, no Holder of any of the Bonds shall have the right to enforce any remedy hereunder, and then only for the equal and pro rata benefit of the Holders of all the Bonds.

Notwithstanding any other provision hereof, the right of the Holder of any Bond, which is absolute and unconditional, to payment of the principal of and the interest and premium (if any) on such Bond on or after the due date thereof, but solely from the revenues from the Water System, as therein and herein expressed or to institute suit for the enforcement of such payment on or after such due date, or the obligation of the Board, which is also absolute and unconditional, to pay, but solely from said revenues, the principal of and the interest on the Bonds to the respective Holders thereof at the time and place in said Bonds expressed, shall not be impaired or affected without the consent of such Holder; provided, however, that no Bondholder shall be entitled to take any action or institute any such suit to enforce the payment of his Bonds, whether for principal or interest, if and to the extent that the taking of such actions or the institution of or prosecution of any such suit or the entry of judgment therein would under applicable law result in a surrender, impairment, waiver or loss of the lien of the Indenture upon the revenues from the Water System, or any part thereof, as security for the Bonds held by any other Bondholder.

Section 12.5 Delay No Waiver. No delay or omission by the Trustee or by the Holders of the Bonds to exercise any available right, power or remedy hereunder shall impair or be construed as a waiver thereof or an acquiescence in the circumstances giving rise thereto; and every right, power or remedy given herein to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as deemed expedient.

ARTICLE XIII

CONCERNING THE TRUSTEE

Section 13.1 Acceptance of Trusts. The Trustee accepts the trusts hereby created and agrees to perform the duties herein required of it, either expressly or by reasonable implication, subject, however, to the following conditions:

(a) It shall not be liable hereunder except for its non-compliance with the provisions hereof, its willful misconduct or its gross negligence.

(b) It may execute any of the trusts and powers conferred on it hereunder or perform any duty hereunder either directly or through agents and attorneys in fact who are not regularly in its employ and who are selected by it with reasonable care, but it shall be responsible for the observance by such agents and attorneys in fact of the terms and conditions hereof.

(c) It may consult Counsel on any matters connected herewith and shall not be answerable for any action taken or failure to take any action in good faith on the advice of Counsel, provided that its action or inaction is not contrary to any express provision hereof.

(d) It need not recognize a Holder of a Bond as such without the satisfactory establishment of his title to such Bond.

(e) It shall not be answerable for any action taken in good faith on any notice, request, consent, certificate or other paper or document which it believes to be genuine and signed or acknowledged by the proper party.

(f) It need not take any action with respect to any Event of Default or with respect to any event or condition which with the giving of notice or the passage of time or both would constitute an Event of Default, unless requested so to do by the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding.

(g) Upon the occurrence of an Event of Default, the Trustee need not exercise any of its rights or powers specified in Section 12.2 hereof or take any action under said Section 12.2 unless requested in writing so to do by the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds then outstanding; it may exercise any such rights or powers or take any such action, if it thinks advisable, without any such request; it shall do so when so requested, provided that the furnishing of indemnity, satisfactory to the Trustee, against its prospective liabilities and expenses by the Bondholders requesting any action by the Trustee under said Section 12.2 shall be a condition precedent to the duty of the Trustee to take or continue any action under said Section 12.2 which in the opinion of the Trustee would involve it in any such liabilities or expenses. Whenever it has a choice of remedies under

said Section 12.2 or a discretion as to details in the exercise of its powers thereunder, it must follow any specific directions given by the Holders of a majority in principal amount of the Bonds at the time outstanding, anything therein or herein to the contrary notwithstanding, unless the observance of such directions would, in the opinion of the Trustee, unjustly prejudice the non-assenting Bondholders.

(h) It shall be entitled to reasonable compensation for its services hereunder, including extra compensation for unusual or extraordinary services, and to reimbursement for the reasonable compensation and expenses of its agents and legal counsel.

(i) Any action taken by the Trustee at the request of and with the consent of the Holder of a Bond will bind all subsequent Holders of the same Bond and any Bond issued in lieu thereof.

(j) It may be the Holder of Bonds as if not Trustee hereunder.

(k) It shall not be liable for the proper application of any moneys other than those that may be paid to or deposited with it.

(l) All moneys received by the Trustee to be held by it hereunder shall be held as trust funds until disbursed in the manner herein provided therefor. The Trustee shall not be liable to pay or allow interest thereon or otherwise to invest any such moneys except as specifically required herein.

(m) It may make any investments permitted hereby through its own Bond Department, and any Eligible Certificates issued or held by it hereunder shall be deemed investments and not deposits.

(n) It shall, upon reasonable request, advise the Board of the amount at the time on deposit in any of the Special Funds.

(o) It shall, upon reasonable request, issue to the Board a certificate indicating whether, to the knowledge of the Trustee, the Board is in default under the provisions hereof, and, in the event there is such a default, briefly describing the nature thereof.

(p) The recitals of fact herein and in the Bonds are statements by the Board and not by the Trustee, and the Trustee is in no way responsible for the validity or security of the Bonds, the validity or enforceability of the Indenture, the existence of any part of the Water System, the value thereof, the title of the Board thereto, the security afforded hereby, or the validity or priority of the pledge made herein. The Trustee does, however, assume responsibility for its eligibility to accept and administer the trusts created hereby, and it warrants and represents that it is duly authorized to accept and administer such trusts and that the acceptance and administration by it of such

trusts do not violate or contravene, and are not void or voidable under, any applicable state or federal law now existing.

Section 13.2 Trustee to Maintain Registration Book. The Trustee will keep on file at its principal corporate trust office a registration book, listing the names and addresses of the Bondholders. At reasonable times and under reasonable regulations established by the Trustee, said registration book may be inspected and copied by the Board or any duly authorized agent or representative thereof.

Section 13.3 Trustee Authorized to Perform Certain Acts on Failure of Board. Without relieving the Board from the consequences of any default in connection therewith, the Trustee may pay any charge which the failure of the Board to pay has made or will make an encumbrance or lien on the Water System or on the revenues therefrom prior to the pledge made herein, and in the event the Board fails to take out insurance on the Water System to the extent required by the Indenture, the Trustee may take out any such insurance on the Water System that the Board has failed to furnish and may pay the premiums thereon. The Trustee shall not be obligated to perform any acts or make any payments pursuant to the preceding provisions of this section unless it shall have been requested to do so by the Holders of a majority in aggregate principal amount of the Bonds of any series then outstanding and shall have been provided with adequate funds for the purpose of performing such acts or making such payments. All moneys expended under the provisions of this section (whether advanced by the Trustee or by any of the Bondholders) shall be secured by the Indenture, shall be repayable by the Board upon demand (subject to the provisions of Section 18.1 hereof), shall bear interest from the date on which they are so expended until they are repaid at a per annum rate equal to two percent (2%) above the Prime Rate from time to time in effect until such moneys are repaid and shall (together with the interest thereon) be entitled to priority of payment over the principal of and the interest and premium (if any) on the Bonds.

Section 13.4 Trustee May Institute Suit, etc. The Trustee may, in its own name and at any time, institute or intervene in any suit or proceeding for the enforcement of all rights of action (including the right to file proof of claims in connection with any reorganization, bankruptcy, receivership or like proceeding) under any of the Bonds or under the Indenture without the necessity of joining as parties to such suit or proceeding any Holders of the Bonds and without the necessity of possessing any of such Bonds or producing same in any trial or other proceedings related to such rights of action. The Holders of the Bonds do hereby appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment shall not include the power to agree to accept new securities of any nature in lieu of the Bonds or to alter or amend the terms of the Indenture except as herein provided.

Section 13.5 Resignation by the Trustee. The Trustee and any successor Trustee may at any time resign from the trusts created hereunder by giving thirty (30) days' written notice to the Board and each Bondholder. Such resignation shall take effect at the end of

such period of thirty days, or upon the earlier appointment of a successor Trustee by the Bondholders or the Board.

Section 13.6 Removal of the Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Trustee and to the Board and signed by the Holders of a majority in aggregate principal amount of the Bonds then outstanding. In addition, the Trustee may be removed at any time, at the request of AMBAC Indemnity, for any breach of the provisions of this Indenture. Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to AMBAC Indemnity, shall be appointed.

Section 13.7 Appointment of Successor Trustee by Bondholders; Temporary Trustee. In case the Trustee shall resign, be removed, be dissolved, be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers or of a receiver appointed by a court, a successor may be appointed by the Holders of a majority in aggregate principal amount of the Bonds then outstanding through an instrument or concurrent instruments in writing signed by such Holders. In case of any such resignation or event which causes the Trustee to be incapable of acting, the Board by an instrument signed by the Chairman of the Directors and attested by the Secretary of the Board under its seal, shall appoint a temporary Trustee to serve until a successor Trustee shall be appointed by the Bondholders in the manner provided above. Whenever necessary to avoid or fill a vacancy in the office of Trustee, the Board will so appoint a temporary Trustee in order that there shall at all times be a Trustee hereunder. Any temporary Trustee so appointed by the Board shall immediately and without further act be superseded by the Trustee appointed by the Bondholders. Every successor Trustee appointed pursuant to this section shall be a trust company or bank authorized to administer trusts and having, at the time of its acceptance of such appointment, capital, surplus and undivided profits of not less than \$10,000,000, and acceptable to AMBAC Indemnity.

Section 13.8 Concerning any Successor Trustee. Every successor Trustee shall execute, acknowledge and deliver to its predecessor and also to the Board an instrument in writing accepting its appointment as Trustee hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the estate and title of its predecessor under the Indenture and with all the rights, powers, trusts, duties and obligations of its predecessor. Such predecessor shall, nevertheless, on the written request of the Board or such successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the estate and title of such predecessor under the Indenture and all rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Board be required by any successor Trustee for more fully and certainly vesting in it the properties, rights, powers and duties hereby vested or intended to be vested in the Trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Board.

Section 13.9 Merger or Consolidation of Trustee. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 13.10 Notice of Events of Default. The Trustee shall not be required to take notice, or be deemed to have notice, of any default or Event of Default hereunder [other than a default under subsection (a) of Section 12.1] unless specifically notified in writing of such default (i) by the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding or (ii) by AMBAC Indemnity. The Trustee may, however, at any time, in its discretion, require of the Board full information and advice as to the performance of any of the covenants, conditions and agreements contained herein.

ARTICLE XIV

SUPPLEMENTAL INDENTURES

Section 14.1 Supplemental Indentures Without Bondholder Consent. Without the consent of or notice to any Bondholders, the Board and the Trustee may, at any time and from time to time, enter into such Supplemental Indentures (in addition to such Supplemental Indentures as are otherwise provided for herein or contemplated hereby, including, without limitation, Supplemental Indentures providing for the issuance of Additional Bonds) as shall not be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Board herein contained other covenants and agreements thereafter to be observed and performed by the Board, provided that such other covenants and agreements shall not either expressly or impliedly limit or restrict any of the obligations of the Board contained in the Indenture;

(b) to provide for the surrender by the Board of any right or power conferred in the Indenture on the Board, or to grant to or confer upon the Bondholders or the Trustee, for the benefit of the Bondholders, any right, power or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) to cure or correct any ambiguity, defect or inconsistent provision contained in the Indenture or in any Supplemental Indenture or to make any

provisions with respect to matters arising under the Indenture or any Supplemental Indenture for any other purpose if such provisions are necessary or desirable and are not inconsistent with the provisions of the Indenture or any Supplemental Indenture and do not adversely affect the interests of the Holders of the Bonds; or

(d) to subject to the lien of the pledge herein contained revenues from additional properties forming part of the Water System.

Section 14.2 Supplemental Indentures Requiring Bondholder Consent. In addition to those Supplemental Indentures permitted by Section 14.1 hereof, the Board and the Trustee may, at any time and from time to time, with the written consent of the Holders of a majority in principal amount of the Bonds then outstanding, enter into such Supplemental Indentures as shall be deemed necessary or desirable by the Board and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided that, without the written consent of the Holder of each Bond affected, no reduction in the principal amount of, the rate of interest on, or the premium payable upon the redemption of, any Bond shall be made; and provided further that, without the written consent of the Holders of all the Bonds then outstanding, none of the following shall be permitted:

(a) an extension of the maturity of any installment of principal of or interest on any Bond;

(b) a reduction in principal amount or a postponement in the redemption date of any Bonds required to be redeemed prior to the stated maturities thereof pursuant to any mandatory redemption provisions applicable to such Bonds;

(c) the creation of a lien or charge on the Water System or the revenues therefrom ranking prior to or (except in connection with the issuance of Additional Bonds) on a parity with the lien and charge thereon contained in the Indenture;

(d) the establishment of preferences or priorities as between the Bonds; or

(e) a reduction in the aggregate principal amount of Bonds the Holders of which are required to consent to such Supplemental Indenture.

Section 14.3 Execution of Supplemental Indentures. The Trustee is authorized to join with the Board in the execution of any Supplemental Indenture authorized under the provisions of this article and to make the further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects its rights, duties or immunities under the Indenture. Upon the

execution of any Supplemental Indenture under and pursuant to the provisions of this Article XIV, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Board, the Trustee and all Holders of the Bonds then outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Section 14.4 Notices With Respect to Certain Changes in the Indenture. If at any time the Board shall request the Trustee to enter into any Supplemental Indenture requiring the written consent of the Holders of a majority in principal amount of the Bonds then outstanding, the Trustee shall, upon being satisfactorily indemnified with respect to its prospective expenses incident thereto, cause notice of the proposed Supplemental Indenture to be forwarded by United States registered or certified mail, postage prepaid, to every Bondholder then shown on the registry books of the Trustee. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture.

If, within ninety (90) days (or such longer period as shall be prescribed by the Trustee) following the date on which the last of the notices to Bondholders were mailed as aforesaid, the Holders of a majority in aggregate principal amount of the Bonds outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as herein provided, and if such Supplemental Indenture does not require the written consent of the Holders of all the Bonds then outstanding, and if all other conditions hereof prerequisite to the execution of such Supplemental Indenture shall have been satisfied, then, and in such case, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Board from executing the same or from taking any action pursuant to the provisions thereof.

It shall not be necessary for any written consent of any Bondholder under this Article XIV to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 14.5 Discretion of the Trustee. In the case of any proposed Supplemental Indenture authorized by either Section 14.1 or 14.2 hereof, the Trustee shall be entitled to exercise its discretion in determining whether or not such proposed Supplemental Indenture, or any term or provision contained therein, is proper or desirable, having in view the purposes of such instrument, the needs of the Board and the Water System and the rights and interests of the Bondholders, and the Trustee shall not be under any responsibility or liability to the Board or to any Bondholder or to anyone whomsoever for any act or thing which it may in good faith do or decline to do under the provisions of this article. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Independent Counsel acceptable to it as conclusive evidence that any such Supplemental Indenture complies with the provisions of the Indenture and that it is proper for the Trustee acting under the provisions of this article to join in the execution of such Supplemental Indenture.

ARTICLE XV

PAYMENT AND CANCELLATION OF THE BONDS AND SATISFACTION OF THE INDENTURE

Section 15.1 Satisfaction of Indenture. Whenever the entire Indenture Indebtedness shall have been fully paid and the Board shall have performed and observed all the covenants and promises expressed in the Bonds and in the Indenture to be performed and observed by it or on its part, the Trustee shall, at the expense of the Board, cancel, satisfy and discharge the lien of the Indenture and shall execute and deliver to the Board such instruments as shall be requisite to satisfy of record the lien hereof. For purposes of the Indenture (except as may herein be expressly provided otherwise), any of the Bonds shall be deemed to have been fully paid when there shall have been irrevocably deposited with the Trustee for payment thereof the entire amount (principal, interest and premium, if any) due or to become due thereon until and at maturity, and, further, any Bonds subject to redemption shall also be deemed to have been fully paid when the Board shall have deposited with the Trustee the following:

- (a) the applicable redemption price in cash of such Bonds, including the interest that will mature thereon to the earliest date on which they may, under the terms of the Indenture, be redeemed, and
- (b) a certified copy of a Resolution calling such Bonds for redemption (if, under the terms of Section 7.1 hereof, the adoption of such a Resolution is required).

In addition, any of the Bonds shall, for all purposes of the Indenture (except as may herein be expressly provided otherwise), be considered as fully paid if the Trustee shall be provided with each of the following:

- (1) a trust agreement between the Board and the Trustee making provision for the retirement of such Bonds by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of such Bonds (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (i) Federal Securities which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient so to provide for payment and retirement of all such Bonds, or (ii) both cash and such Federal Securities which together will produce funds sufficient for such purpose, or (iii) cash sufficient for such purpose; provided, however, that said trust agreement shall require all cash held on deposit in such trust fund to be kept continuously secured in the manner provided in Section 9.6 hereof, but with the further

condition that only Federal Securities shall qualify as collateral security for such cash so held on deposit;

(2) a certified copy of a Resolution calling for redemption those of such Bonds that, according to said trust agreement, are to be redeemed prior to their respective maturities (if, under the terms of Section 7.1 hereof, the adoption of such a Resolution is required);

(3) a certificate of a firm of certified public accountants stating that, if the principal of and the interest on the investments (if any) forming part of the trust fund provided for in the preceding subparagraph (1) are paid on the respective due dates of such principal and interest, said trust fund will produce funds sufficient to provide for the full payment and retirement of such Bonds; and

(4) an opinion of Bond Counsel to the effect that the execution and effectuation of the trust agreement referred to in the preceding subparagraph (1) will not result in the interest income on such Bonds being includable in gross income for federal income tax purposes.

The Trustee is hereby irrevocably authorized to give notice, in accordance with the applicable requirements of Article VII hereof, of any redemption of Bonds to be effected in connection with arrangements made pursuant to the provisions of this Section 15.1.

Section 15.2 Destruction of Surrendered Bonds. Upon the surrender to the Trustee of any mutilated Bonds, or Bonds transferred or exchanged for other Bonds, or Bonds redeemed or paid at maturity by the Board, such Bonds shall forthwith be cancelled and destroyed by the Trustee, which shall deliver its certificate confirming such destruction to the Board.

ARTICLE XVI

SPECIAL PROVISIONS RESPECTING MUNICIPAL BOND INSURANCE

Section 16.1 Actions for which Consent of AMBAC Indemnity is Required. Any provision of this Indenture expressly recognizing or granting rights in or to AMBAC Indemnity may not be amended in any manner which affects the rights of AMBAC Indemnity hereunder without the prior written consent of AMBAC Indemnity. Unless otherwise provided in this section, AMBAC Indemnity's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture, (ii) removal of the Trustee and selection and appointment of any successor Trustee, and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent. Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, AMBAC Indemnity

shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under this Indenture, including, without limitation, acceleration of the principal of the Bonds as described in this Indenture and the right to annul any declaration of acceleration, and AMBAC Indemnity shall also be entitled to approve all waivers of Events of Default.

Section 16.2 Notices to be Given to AMBAC Indemnity. While the Municipal Bond Insurance Policy is in effect, the Board or the Trustee, as appropriate, shall furnish to AMBAC Indemnity:

- (a) as soon as practicable after the filing thereof, a copy of any financial statement of the Board and a copy of any audit and annual report of the Board;
- (b) a copy of any notice to be given to the registered owners of the Bonds, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this Indenture relating to the security for the Bonds; and
- (c) such additional information as it may reasonably request.

The Trustee will furnish the information set forth in subsection (a) above only to the extent it has said information in its possession and only after notice from AMBAC Indemnity that the Board has failed to furnish the same to it.

The Board will permit AMBAC Indemnity to discuss the affairs, finances and accounts of the Board or any information AMBAC Indemnity may reasonably request regarding the security for the Bonds with appropriate officers of the Board. The Trustee or the Board, as appropriate, will permit AMBAC Indemnity to have access to and to make copies of all books and records relating to the Bonds at any reasonable time; provided, however, that AMBAC Indemnity shall seek documents from the Trustee only to the extent that the Board has refused to furnish the same or said documents are not in the possession of the Board.

AMBAC Indemnity shall have the right to direct an accounting at the Board's expense, and the Board's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from AMBAC Indemnity shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

Notwithstanding any other provision of this Indenture, the Trustee shall immediately notify AMBAC Indemnity if at any time there are insufficient moneys to make any payments of principal or interest as required and immediately upon the occurrence of any Event of Default of which it is required to take notice hereunder.

Section 16.3 Payment Procedure Pursuant to Municipal Bond Insurance Policy. As long as the Municipal Bond Insurance Policy shall be in full force and effect, the Board and the Trustee agree to comply with the following provisions:

(a) At least one day prior to each interest payment date for the Series 1994 Bonds, the Trustee will determine whether there will be sufficient moneys in the Special Funds to pay the principal of and interest on the Series 1994 Bonds becoming due on such interest payment date. If the Trustee determines that there will be insufficient moneys in the Special Funds to pay such principal of and interest on the Series 1994 Bonds on such interest payment date, the Trustee shall so notify AMBAC Indemnity. Such notice shall specify the amount of the anticipated deficiency, the Series 1994 Bonds to which such deficiency is applicable and whether such Series 1994 Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified AMBAC Indemnity at least one day prior to an interest payment date, AMBAC Indemnity will make payments of principal or interest due on the Series 1994 Bonds on or before the first day next following the date on which AMBAC Indemnity shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to AMBAC Indemnity as provided in (a) above, make available to AMBAC Indemnity and, at AMBAC Indemnity's direction, to the United States Trust Company of New York, as insurance trustee for AMBAC Indemnity or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Board maintained by the Trustee and all records relating to the funds and accounts maintained under this Indenture.

(c) The Trustee shall provide AMBAC Indemnity and the Insurance Trustee with a list of registered owners of Series 1994 Bonds entitled to receive principal or interest payments from AMBAC Indemnity under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Series 1994 Bonds entitled to receive full or partial interest payments from AMBAC Indemnity and (ii) to pay principal of Series 1994 Bonds surrendered to the Insurance Trustee by the registered owners of Series 1994 Bonds entitled to receive full or partial principal payments from AMBAC Indemnity.

(d) The Trustee shall, at the time it provides notice to AMBAC Indemnity pursuant to (a) above, notify registered owners of Series 1994 Bonds entitled to receive payment of principal thereof or interest thereon from AMBAC Indemnity (i) as to the fact of such entitlement, (ii) that AMBAC Indemnity will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from AMBAC Indemnity, they must surrender their Series 1994 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance

Trustee to permit ownership of such Series 1994 Bonds to be registered in the name of AMBAC Indemnity) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from AMBAC Indemnity, they must surrender their Series 1994 Bonds for payment thereof first to the Trustee, who shall note on such Series 1994 Bonds the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest on a Series 1994 Bond which has become due for payment and which is made to a Bondholder by or on behalf of the Board has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time AMBAC Indemnity is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to AMBAC Indemnity its records evidencing the payments of principal of and interest on the Series 1994 Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted AMBAC Indemnity under this Indenture, AMBAC Indemnity shall, to the extent it makes payment of principal of or interest on Series 1994 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to the claims for past due interest, the Trustee shall note AMBAC Indemnity's rights as subrogee on the registration books of the Board maintained by the Trustee upon receipt from AMBAC Indemnity of proof of the payment of interest thereon to the registered owners of the Series 1994 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note AMBAC Indemnity's rights as subrogee on the registration books of the Board maintained by the Trustee upon surrender of the Series 1994 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

Section 16.4 Series 1994 Bonds Paid by AMBAC Indemnity Deemed Outstanding. In the event that the principal or interest due on the Series 1994 Bonds shall be paid by AMBAC Indemnity pursuant to the Municipal Bond Insurance Policy, the Series 1994 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Board, and the lien of the Indenture and all covenants, agreements and other obligations of the Board to the registered owners shall continue to exist

and shall run to the benefit of AMBAC Indemnity, and AMBAC Indemnity shall be subrogated to the rights of such registered owners.

ARTICLE XVII

POSSESSION, USE AND RELEASE OF THE WATER SYSTEM

Section 17.1 Retention of Possession of Water System by Board. While the Board is not in default hereunder, it may retain actual possession of the Water System and may manage, operate and use the same, and may collect, use and enjoy the rents, revenues, income and profits therefrom to such extent as does not violate any of its covenants herein contained.

Section 17.2 Release of Personal Property. While the Board is not in default hereunder, it may at any time and from time to time, without any release or consent by the Trustee, remove from the Water System and sell or otherwise dispose of, free from the lien of the Indenture, any mains, pipes, movable machinery, equipment, motor vehicles, office furniture, supplies, tools, implements and other movable personal property (including that embedded in land but not including land itself or any building thereon) that shall have become inadequate, obsolete or worn-out, or unsuitable, undesirable or unnecessary for use as a part of the Water System, upon replacing the same with, or substituting for the same, subject to the lien of the Indenture and free from all prior liens (other than Permitted Encumbrances), other property useful as a part of the Water System and having a value at least equal to the value, at the time of disposal, of the property so removed from the Water System.

ARTICLE XVIII

MISCELLANEOUS PROVISIONS

Section 18.1 Disclaimer of General Liability. It is hereby expressly made a condition of this Indenture that any covenants or representations herein contained or contained in the Bonds do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the Board, and in the event of a breach of any such covenant or representation no personal or pecuniary liability or charge payable directly or indirectly from the general revenues of the Board shall arise therefrom. Nothing contained in this section, however, shall relieve the Board from the observance and performance of the several covenants and representations on its part herein contained.

Section 18.2 Retention of Moneys for Payment of Bonds. Should any of the Bonds not be presented for payment when due, whether by maturity or otherwise, the

Trustee shall, subject to the provisions of any applicable escheat or other similar law, retain from any moneys transferred to it for the purpose of paying said Bonds so due, for the benefit of the Holders thereof, a sum of money sufficient to pay such Bonds when the same are presented by the Holders thereof for payment (upon which sum the Trustee shall not be required to pay interest). All liability of the Board to the Holders of such Bonds and all rights of such Holders against the Board under the Bonds or under the Indenture shall thereupon cease and terminate, and the sole right of such Holders shall thereafter be against such deposit. If any Bond shall not be presented for payment within a period of three (3) years following the date when such Bond becomes due, whether by maturity or otherwise, the Trustee shall, subject to the provisions of any applicable escheat or other similar law, return to the Board any moneys theretofore held by it for payment of such Bond, and such Bond shall (subject to the defense of any applicable statute of limitation) thereafter be an unsecured obligation of the Board.

Section 18.3 Payment Due on Saturdays, Sundays and Holidays. In any case where the date of maturity of the principal of or the interest or premium (if any) on the Bonds, or the redemption date of any Bonds, shall be, at the locale of payment, a Saturday, Sunday or legal holiday or a day on which banking institutions are authorized or obligated by law to close, then payment of such principal, interest and premium (if any) need not be made on such date, but may be made on the next succeeding business day not a Saturday, Sunday or a legal holiday or a day upon which banking institutions are authorized or obligated by law to close, with the same force and effect as if made on such date of maturity or such redemption date, and no interest shall accrue for the period after such date of maturity or such redemption date, as the case may be.

Section 18.4 Form of Requests, etc. by Bondholders. Any request, direction or other instrument required to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor, signed, or executed in person or by agent appointed in writing. Such signature or execution may be proved by the certificate of a notary public or other officer at the time authorized to take acknowledgments to deeds to be recorded in the State of Alabama, stating that the signer was known to him and acknowledged to him the execution thereof.

Section 18.5 Limitation of Rights. Nothing herein or in the Bonds shall confer any rights on anyone other than the Board, the Trustee, AMBAC Indemnity and the Holders of the Bonds.

Section 18.6 Manner of Proving Ownership of Bonds. The ownership at any given time of a Bond may be proved by a certificate of the Trustee stating that on the date stated the Bond described was registered on its books in the name of the stated party.

Section 18.7 Indenture Governed by Alabama Law. The Indenture shall be governed by and construed in accordance with the laws of the State of Alabama.

Section 18.8 Notices. All notices, demands, requests and other communications hereunder shall be deemed sufficient and properly given if in writing and delivered in person to the following addresses or received by certified or registered mail, postage prepaid with return receipt requested, at such addresses:

(a) If to the Board:

Alabaster Water and Gas Board
213 First Street North
Alabaster, Alabama 35007
Attention: Chairman of the Board of Directors

(b) If to the Trustee:

SouthTrust Bank of Alabama,
National Association
Post Office Box 2554
Birmingham, Alabama 35290
Attention: Corporate Trust Department

Any of the above-mentioned parties may, by like notice, designate any further or different addresses to which subsequent notices shall be sent. Any notice hereunder signed on behalf of the notifying party by a duly authorized attorney at law shall be valid and effective to the same extent as if signed on behalf of such party by a duly authorized officer or employee.

Section 18.9 Severability. In the event that any provision hereof shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 18.10 Article and Section Captions. The article and section headings and captions contained herein are included for convenience only and shall not be considered a part hereof or affect in any manner the construction or interpretation hereof.

IN WITNESS WHEREOF, the Board has caused this Indenture to be executed in its corporate name and behalf by the Chairman of the Directors, has caused its corporate seal to be hereunto affixed and has caused this Indenture to be attested by its Secretary, and the Trustee, to evidence its acceptance of the trusts hereby created, has caused this Indenture

to be executed in its name and behalf, has caused its seal to be hereunto affixed and has caused this Indenture to be attested, by its duly authorized officers, all in six (6) counterparts, each of which shall be deemed an original, and the Board and the Trustee have caused this Indenture to be dated as of September 1, 1994, although actually executed and delivered on September 14, 1994.

ALABASTER WATER AND GAS BOARD

By


Chairman of its Board of Directors

ATTEST:


Its Secretary

[SEAL]

SOUTHTRUST BANK OF ALABAMA,
NATIONAL ASSOCIATION

By


Its Vice President - Corporate Trust

ATTEST:


Its Vice President - Corporate Trust

[SEAL]

STATE OF ALABAMA)
 :
JEFFERSON COUNTY)

I, the undersigned authority, a Notary Public in and for said county in said state, hereby certify that ROGER N. WHEELER, whose name as Chairman of the Board of Directors of the ALABASTER WATER AND GAS BOARD, a public corporation and instrumentality under the laws of the State of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation.

GIVEN under my hand and official seal of office, this 14th day of September, 1994.

[NOTARIAL SEAL]

Alicia L. Smith
Notary Public

My Commission Expires: July 16, 1996

STATE OF ALABAMA)
 :
JEFFERSON COUNTY)

I, the undersigned authority, a Notary Public in and for said county in said state, hereby certify that E. FREEMAN, whose name as Vice President - Corporate Trust of SOUTHTRUST BANK OF ALABAMA, NATIONAL ASSOCIATION, a national banking association in its capacity as trustee of the foregoing Trust Indenture, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said banking association, acting in its capacity as trustee as aforesaid.

GIVEN under my hand and official seal of office, this 14th day of September, 1994.

[NOTARIAL SEAL]

Christi Renee Gilmore
Notary Public

Inst. # 1994-28356
My Commission Expires: 9/3/97

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09/16/1994-28356
11:10 AM CERTIFIED
SHELBY COUNTY JUDGE OF PROBATE
069 SNA 179.50