

SECOND SUPPLEMENTAL INDENTURE

between the

ALABASTER WATER BOARD

and

SOUTHTRUST BANK

Dated as of February 1, 2003

Relating to

\$2,135,000

ALABASTER WATER BOARD

**Water Revenue Refunding Bonds
Series 2003**

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and
SOUTHTRUST BANK

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SECOND SUPPLEMENTAL INDENTURE between the **ALABASTER WATER BOARD**, a public corporation and instrumentality under the laws of the State of Alabama (herein called the "Board"), and **SOUTHTRUST BANK**, an Alabama banking corporation in its capacity as Trustee under that certain Trust Indenture of the Board dated as of September 1, 1994 (said banking corporation in such capacity, as well as any successor trustee under said Trust Indenture, being herein called the "Trustee"),

RECITALS

Under and pursuant to the provisions of the aforesaid Trust Indenture (herein called the "Original Indenture"), the Board has heretofore issued \$6,140,000 principal amount of Water Revenue Bonds, Series 1994, dated September 1, 1994 (herein called the "Series 1994 Bonds"), which bonds are now outstanding in the aggregate principal amount of \$4,415,000. The Series 1994 Bonds were issued to refund certain outstanding indebtedness of the Board and to pay the costs of certain capital improvements to the Board's waterworks plant and distribution system (herein called the "System"). Under and pursuant to the provisions of the Original Indenture, as supplemented and amended by that certain First Supplemental Indenture dated as of February 1, 1997 (herein called the "First Supplemental Indenture"), between the Board and the Trustee, the Board has heretofore issued \$3,965,000 principal amount of Water Revenue Bonds, Series 1997, dated February 1, 1997 (herein called the "Series 1997 Bonds"), which bonds are now outstanding in the aggregate principal amount of \$2,920,000. The Series 1997 Bonds were issued to pay the costs of certain capital improvements to the System, paying costs incurred in connection with the issuance of the Series 1997 Bonds and funding a debt service reserve fund.

Under the provisions of Article IV of the Original Indenture, the Board reserved the right to issue, upon compliance with the conditions precedent set forth in said Article IV, additional bonds (herein called "Additional Bonds"), to be secured on a parity with the Series 1994 Bonds and any other Additional Bonds theretofore issued, for the purposes of refunding any bonds outstanding under the Original Indenture, of providing for the completion of the acquisition, construction and installation of the capital improvements to the System for which the Series 1994 Bonds were issued and of financing the costs of acquiring and constructing additional capital improvements to the System. The Series 1997 Bonds were issued as Additional Bonds in accordance with the provisions of said Article IV. No other Additional Bonds have heretofore been issued by the Board.

The Board proposes to sell and issue the Series 2003 Bonds hereinafter referred to in order to obtain funds to pay for the refunding and retirement of a certain portion of the Series 1994 Bonds. The Board has, by proper corporate action and pursuant to the provisions of the Original Indenture (as heretofore amended), duly authorized said Series 2003 Bonds, which are to be secured by the Original Indenture (as heretofore amended) on a parity with the outstanding Series 1994 Bonds and Series 1997 Bonds. This Second Supplemental Indenture is being executed and delivered in order

to specify the details with respect to said Series 2003 Bonds and to provide for certain other matters set forth herein.

NOW, THEREFORE,

THIS SECOND SUPPLEMENTAL INDENTURE

W I T N E S S E T H:

It is hereby agreed among the Board, the Trustee and the holders at any time of said Series 2003 Bonds (the holders of said Series 2003 Bonds evidencing their consent hereto by their acceptance of said Series 2003 Bonds and the parties signatory hereto evidencing their consent hereto by their execution hereof), each with each of the others, as follows:

ARTICLE I

DEFINITIONS, FINDINGS AND USE OF PHRASES

Section 1.1 **New Definitions.** Unless the context clearly indicates a different meaning, the following words and phrases, as used in this Second Supplemental Indenture, shall have the following respective meanings:

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

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

"Financial Guaranty Insurance Policy" means the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Series 2003 Bonds.

"Second Supplemental Indenture" or **"this Second Supplemental Indenture"** means this Second Supplemental Indenture.

"Series 2003 Bonds" means the Board's Water Revenue Refunding Bonds, Series 2003, authorized to be issued in the aggregate principal amount of \$2,135,000.

Section 1.2 **Findings.** The Directors have ascertained and do hereby find and declare as follows:

(a) Purposes for which Additional Bonds may be Issued. In the Original Indenture, the Board reserved the right to issue, upon compliance with the conditions precedent set forth therein, additional bonds to be secured on a parity with the Series 1994 Bonds and any other Additional Bonds theretofore issued, as respects the pledge of the revenues derived by the Board from the operation of the System, for the purposes of refunding or retiring all or any portion of any one or more series of Bonds outstanding under the Indenture and of acquiring and constructing Capital Improvements.

(b) Purpose of the Series 2003 Bonds. The Board has now determined that it can realize significant debt service savings by refunding \$1,945,000 in principal amount of the Series 1994 Bonds in advance of their respective maturities.

(c) No Default. No Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute such an Event of Default, has occurred and is continuing.

(d) Additional Bonds Previously Issued. The Board has heretofore issued the Series 1997 Bonds (which are now outstanding in the aggregate principal amount of \$2,920,000) as Additional Bonds. Except for the Series 1994 Bonds and the Series 1997 Bonds, no Bonds have heretofore been issued by the Board under the Indenture, and the Board now has no outstanding obligations payable from the revenues derived by the Board from the operation of the System after the payment of the costs of operating and maintaining the same, except the Series 1994 Bonds and the Series 1997 Bonds.

(e) Auditor's Certificate. Moses, Phillips, Young, Brannon and Henninger, LLP, has heretofore furnished to the Board and to the Trustee a certificate that satisfies the requirements of Section 4.2(c) of the Original Indenture.

Section 1.3 Use of Phrases. "Herein", "hereby", "hereunder", "hereof", "hereinbefore", "hereinafter" and other equivalent words refer to this Second Supplemental Indenture as an entirety and not solely to the particular portion thereof in which any such word is used. The terms used herein include both singular and plural. Whenever used herein, any pronoun shall be deemed to include both singular and plural and to cover all genders.

Section 1.4 Definitions Contained in the Original Indenture. Unless the context clearly indicates a different meaning, (i) any words, terms or phrases that are used in this Second Supplemental Indenture as defined terms without being herein defined shall have the meanings respectively given them in the Original Indenture or the First Supplemental Indenture and (ii) the term "Indenture," as used herein, means the Original Indenture as supplemented and amended by the First Supplemental Indenture and this Second Supplemental Indenture.

ARTICLE II

THE SERIES 2003 BONDS

Section 2.1 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) refunding \$1,945,000 in principal amount of the Series 1994 Bonds and (ii) providing for the payment of the expenses of issuing the Series 2003 Bonds, there are hereby authorized to be issued by the Board \$2,135,000 in principal amount of its Water Revenue Refunding Bonds, Series 2003. The Series 2003 Bonds shall be dated February 1, 2003, 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 2003 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 September 1, 2003, 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, 2004	\$ 170,000	1.25%
September 1, 2005	170,000	1.25
September 1, 2006	175,000	1.60
September 1, 2007	180,000	2.00
September 1, 2008	185,000	2.50
September 1, 2009	190,000	2.85
September 1, 2013	555,000	3.65
September 1, 2014	510,000	3.80

The principal of and the interest on each Series 2003 Bond shall bear interest after their respective due dates until paid at the rate of interest borne by the principal of such Series 2003 Bond prior to maturity. The Series 2003 Bonds shall be initially issued and registered in the names of such Holders as shall be designated by the initial purchasers of the Series 2003 Bonds.

Section 2.2 Method of Payment of the Series 2003 Bonds. The principal of the Series 2003 Bonds shall be payable at the principal office of the Trustee in Birmingham, Alabama, upon presentation and surrender of the Series 2003 Bonds as the same become due and payable, whether at maturity or upon redemption prior to maturity. Interest on the Series 2003 Bonds shall be paid 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 2003 Bonds. 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).

Section 2.3 Optional Redemption of the Series 2003 Bonds. Those of the Series 2003 Bonds having stated maturities in 2013 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, 2011, and on any date thereafter, at and for a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption. The Series 2003 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 2003 Bonds of a particular maturity are redeemed and prepaid pursuant to this Section 2.3, the Trustee shall select by lot the Series 2003 Bonds (or portions of the principal thereof) of such maturity to be redeemed and prepaid. The redemption of Series 2003 Bonds pursuant to this section shall comply with the applicable provisions of Article VII of the Original Indenture, including the giving of such notice to the Holders of Series 2003 Bonds called for redemption as may be required by Section 7.1(b) thereof.

Section 2.4 Scheduled Mandatory Redemption of Series 2003 Term Bonds. The Series 2003 Bonds with a stated maturity date of September 1, 2013 (the "Series 2003 Term Bonds") shall be subject to mandatory redemption on September 1 in the following respective years and principal amounts:

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2010	\$ 20,000
September 1, 2011	20,000
September 1, 2012	25,000

In the absence of prior optional redemption of Series 2003 Term Bonds, Series 2003 Term Bonds in the principal amount of \$490,000 will remain to be paid at their stated maturity on September 1, 2013.

Each Series 2003 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 of the Original Indenture. Those Series 2003 Bonds to be redeemed, in whole or in part, pursuant to this section shall be selected by the Trustee by lot. Not later than the July 15 preceding each September 1 on which mandatory redemptions of Series 2003 Term Bonds are required by this section, the Trustee will take such actions as are necessary under the provisions of Article VII of the Original Indenture to redeem the principal amount of Series 2003 Term Bonds required to be redeemed on such September 1.

In the event that any Series 2003 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 2003 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 2003 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 2003 Term Bonds;

(b) a credit equal to such principal amount of Series 2003 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 2003 Term Bonds; and

(c) a credit equal to that principal amount of Series 2003 Term Bonds which shall have been theretofore duly called for redemption on or before such September 1 pursuant to the provisions of Section 2.3 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 2003 Term Bonds.

The Series 2003 Term Bonds so delivered, purchased or redeemed, as the case may be, in respect of any redemption of Series 2003 Term Bonds required on any September 1 shall be credited by the Trustee at the face amount thereof against the principal amount of Series 2003 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 2003 Term Bonds; provided that no credit in respect of the redemption of Series 2003 Term Bonds required on any September 1 shall be allowed for any Series 2003 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 2003 Term Bond delivered to or purchased by the Trustee pursuant to clause (a) or (b), respectively, of this paragraph, shall mean that such Series 2003 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 2003 Term Bond to be credited in the manner contemplated by clause (c) of this paragraph, shall mean that such Series 2003 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 2003 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.

Section 2.5 Special Provisions Respecting Partial Redemption of Series 2003 Bonds.
The principal of any Series 2003 Bonds shall be redeemed only in the amount of \$5,000 or any

integral multiple thereof. If less than all the outstanding Series 2003 Bonds of a particular maturity are to be redeemed on any single redemption date, the Trustee shall assign a number or other unique designation to each \$5,000 in principal amount of the Series 2003 Bonds of such maturity then outstanding and select by lot, from among all such numbers or other unique designations associated with the Series 2003 Bonds of such maturity then outstanding, numbers or other unique designations representing an aggregate principal amount equal to the principal amount of the Series 2003 Bonds of such maturity to be so called for redemption, whereupon there shall be called for redemption an amount of the unpaid principal of each Series 2003 Bond of such maturity equal to the principal amount represented by the numbers or other unique designations related thereto that were so selected.

Section 2.6 **Form of Series 2003 Bonds.** The Series 2003 Bonds and the Trustee's authentication certificate and the form of assignment and related signature guaranty 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 2003 Bond]

No. R_____ \$ _____

UNITED STATES OF AMERICA

STATE OF ALABAMA

ALABASTER WATER BOARD

WATER REVENUE REFUNDING BOND
Series 2003

Interest Rate	Maturity Date	CUSIP
_____	_____	_____

On the maturity date specified above (unless the principal of this bond shall have been duly called for previous redemption and payment duly provided for), for value received, the ALABASTER WATER 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

D O L L A R S

with interest thereon from the date hereof until the maturity hereof at the per annum rate specified above (computed on the basis of a 360-day year of twelve consecutive 30-day months), payable on September 1, 2003, and semiannually thereafter on each March 1 and September 1 until the due date hereof. The principal of and the premium (if any) on this bond shall be payable in lawful money of the United States of America at the principal corporate trust office of SouthTrust Bank, Birmingham, Alabama, or its successors as Trustee under the Indenture hereinafter referred to, and the interest payable on this bond on each interest payment date shall be remitted, by the said Trustee, by check or draft mailed or otherwise delivered to the registered holder hereof at the address shown on the registry books of the said Trustee as of the fifteenth 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 principal of and the interest and premium (if any) on this bond shall bear interest after their respective due dates until paid at the per annum rate shown above.

This bond is one of a duly authorized issue or series of bonds authorized to be issued in the aggregate principal amount of \$2,135,000 and designated Water Revenue Refunding Bonds, Series 2003 (herein called the "Series 2003 Bonds"). The Series 2003 Bonds have been issued, on a parity with the outstanding Series 1994 Bonds and Series 1997 Bonds hereinafter referred to, under a Trust Indenture dated as of September 1, 1994 (herein called the "Original Indenture"), between the Board and SouthTrust Bank, Birmingham, Alabama, as Trustee (herein, in such capacity, together with its successors in trust, called the "Trustee"), as supplemented and amended by a First Supplemental Indenture dated as of February 1, 1997 (herein called the "First Supplemental Indenture"), and a Second Supplemental Indenture dated as of February 1, 2003 (herein called the "Second Supplemental Indenture"). As used herein, the term "Indenture" means the Original Indenture as supplemented and amended by the First Supplemental Indenture and the Second Supplemental Indenture.

The Board originally issued under the Original Indenture \$6,140,000 principal amount of its Water Revenue Bonds, Series 1994, dated September 1, 1994 (herein called the "Series 1994 Bonds"), of which \$4,415,000 in aggregate principal amount were outstanding and unpaid at the time of the issuance of the Series 2003 Bonds. The Board has heretofore issued under the Original Indenture, as supplemented and amended by the First Supplemental Indenture, \$3,965,000 principal amount of its Water Revenue Bonds, Series 1997, dated February 1, 1997 (herein called the "Series 1997 Bonds"), of which \$2,920,000 in aggregate principal amount were outstanding and unpaid at the time of issuance of the Series 2003 Bonds. The Series 2003 Bonds have been issued on a parity with the outstanding Series 1994 Bonds and Series 1997 Bonds with respect to the security provided by the Indenture. 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 1997 Bonds and the Series 2003 Bonds (the Series 1994 Bonds, the Series 1997 Bonds, the Series 2003 Bonds and all such additional parity bonds being herein together called the "Bonds"). The principal of and the interest and premium (if any) 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 "System"), and payment of said principal, interest and premium 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 Series 2003 Bonds 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), from such maturity or maturities as shall be specified by the Board, on September 1, 2011, and on any date thereafter, such redemption, whether in whole or in part, to be at and for a redemption price for each Series 2003 Bond redeemed equal to 100% of the principal amount thereof plus accrued interest to the date fixed for redemption.

The Series 2003 Bonds that have a stated maturity date of September 1, 2013, are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each Series 2003 Bond (or portion of the principal thereof) to be redeemed, equal to the principal amount thereof 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	\$20,000
September 1, 2011	20,000
September 1, 2012	25,000

In the event that less than all of the Series 2003 Bonds of a particular maturity are to be redeemed and prepaid, the Trustee shall select by lot the Series 2003 Bonds (or portions of the principal thereof) 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 2003 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 2003 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 2003 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 2003 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 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 of Chapter 50 of Title 11 of the Code of Alabama 1975, and the Series 2003 Bonds are authorized to be issued for purposes for which bonds may be issued under the provisions of said article. 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 2003 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.

The Series 2003 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 2003 Bonds for a like aggregate principal amount of Series 2003 Bonds of the same maturity and interest rate 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 2003 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. Any transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

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.

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, 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 February 1, 2003.

ALABASTER WATER 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,
Birmingham, Alabama
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.

[Form of Signature Guaranty]

Signature Guaranteed:

(Bank, Trust Company or Firm*)

By _____
(Authorized Officer)

Medallion Number: _____

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e., Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP), or New York Stock Exchange Medallion Signature Program (MSP).

Section 2.7 Execution and Delivery of the Series 2003 Bonds. The Series 2003 Bonds shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee from time to time 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 2.8 Application of Proceeds from Sale of Series 2003 Bonds. The entire proceeds derived by the Board from the sale of the Series 2003 Bonds shall be paid to the Trustee and promptly thereafter applied by the Trustee 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 2003 Bonds that is allocable to accrued interest thereon;
- (b) payment to Ambac Assurance of the sum of \$14,450.66 as the premium for the issuance of the Financial Guaranty Insurance Policy;
- (c) payment of the sum of \$2,047,077.41 into the escrow fund established by the Board with SouthTrust Bank, as escrow trustee, to provide for the payment and redemption of those of the Series 1994 Bonds being refunded; and
- (d) payment of the balance of such proceeds to the Board to be applied to pay the expenses of issuing the Series 2003 Bonds.

ARTICLE III

PROVISIONS CONCERNING THE FINANCIAL GUARANTY INSURANCE POLICY

Section 3.1 Consent of Ambac Assurance. Any provision of this Second Supplemental Indenture expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance hereunder without the prior written consent of Ambac Assurance.

Section 3.2 Consent of Ambac Assurance in Addition to Holder Consent. Unless otherwise provided in this section, Ambac Assurance's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental indenture or any amendment, supplement or change to or modification of the Indenture (other than a supplemental indenture that provides only for the issuance of Additional Bonds and makes no substantive amendments to any provisions of the 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.

Section 3.3 Consent of Ambac Assurance in the Event of Insolvency. Any reorganization or liquidation plan with respect to the Board must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Bondholders who hold Ambac Assurance-insured obligations, absent a default by Ambac Assurance under the applicable Financial Guaranty Insurance Policy insuring such obligations.

Section 3.4 Consent of Ambac Assurance Upon Default. Anything in this Second Supplemental Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2003 Bonds or the Trustee for the benefit of the Holders of the Series 2003 Bonds under the Indenture.

Section 3.5 Notices to Be Sent to the Attention of the Surveillance Department.
(a) While the Financial Guaranty Insurance Policy is in effect, the Board shall furnish to Ambac Assurance:

(i) 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, at no cost to Ambac Assurance;

(ii) such additional information as Ambac Assurance may reasonably request; and

(iii) a copy of any notice to be given to the registered owners of the Series 2003 Bonds, including, without limitation, notice of any redemption of or defeasance of Series 2003 Bonds, and any certificate rendered pursuant to this Second Supplemental Indenture relating to the security for the Series 2003 Bonds, at no cost to Ambac Assurance.

(b) To the extent that the Board has entered into a continuing disclosure agreement with respect to the Series 2003 Bonds, Ambac Assurance shall be included as party to be notified.

Section 3.6 Notices to Be Sent to the Attention of the General Counsel Office.

(a) The Board shall notify Ambac Assurance of any failure of the Board to provide Ambac Assurance with notices or certificates in accordance with the provisions hereof.

(b) Notwithstanding any other provision of the Indenture, the Board shall immediately notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest as required, and immediately upon the occurrence of any Event of Default under the Indenture.

Section 3.7 Other Information to be Given to Ambac Assurance. (a) The Board will permit Ambac Assurance to discuss the affairs, finances and accounts of the Board or any information Ambac Assurance may reasonably request regarding the security for the Series 2003 Bonds with appropriate officers of the Board. The Board will permit Ambac Assurance to have access to and to make copies of all books and records relating to the Series 2003 Bonds at any reasonable time.

(b) Ambac Assurance 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 Assurance 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 Series 2003 Bonds.

Section 3.8 Special Defeasance Provision. Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Series 2003 Bonds shall be paid by Ambac Assurance pursuant to the Financial Guaranty Insurance Policy, the Series 2003 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Board, and the assignment and pledge of the Water System revenues 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 Assurance and Ambac Assurance shall be subrogated to the rights of such registered owners.

Section 3.9 Payment Procedure Pursuant to the Financial Guaranty Insurance Policy. As long as the Financial Guaranty Insurance Policy insurance shall be in full force and effect, the Board and the Trustee agree to comply with the following provisions:

(a) At least one (1) day prior to each Interest Payment Date, the Trustee will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest on the Series 2003 Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Series 2003 Bonds to which such deficiency is applicable and whether such Series 2003 Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Series 2003 Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to The Bank of New York, as insurance trustee for Ambac Assurance 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 the Indenture.

(c) The Trustee shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Series 2003 Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Series 2003 Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Series 2003 Bonds surrendered to the Insurance Trustee by the registered owners of Series 2003 Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(d) The Trustee shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of Series 2003 Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Holder 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 Assurance, they must surrender their Series 2003 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 2003 Bonds to be registered in the name of Ambac Assurance) 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 Assurance,

they must surrender their Series 2003 Bonds for payment thereon first to the Trustee, who shall note on such Series 2003 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 2003 Bond which has become Due for Payment and which is made to a Holder 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 Assurance 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 owners will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Series 2003 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 Assurance under this Second Supplemental Indenture, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Series 2003 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Ambac Assurance's rights as subrogee on the registration books of the Board maintained by the Trustee upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Series 2003 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Ambac Assurance's rights as subrogee on the registration books of the Board maintained by the Trustee upon surrender of the Series 2003 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

Section 3.10 Ambac as Third Party Beneficiary. To the extent that this Second Supplemental Indenture confers upon or gives or grants to Ambac Assurance any right, remedy or claim under or by reason of this Second Supplemental Indenture, Ambac Assurance is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Confirmation of Indenture. All the terms, covenants and conditions of the Original Indenture, as supplemented by the First Supplemental Indenture and this Second Supplemental Indenture, are hereby in all things confirmed, and they shall remain in full force and effect. Further, the Board does hereby confirm the pledge made in the Original Indenture with respect to all properties now or hereafter constituting a part of the Water System, including specifically, without limiting the generality of the foregoing, all properties acquired as a part of the Water System since the execution and delivery of the Original Indenture.

Section 4.2 Bond Fund Deposits Referable to Series 2003 Bonds. In order to provide funds for the payment of the principal of and the interest on the Series 2003 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 2003 Bonds and out of the proceeds derived therefrom, that portion of such proceeds allocable to accrued interest;

(2) on or before the last day of March, 2003, and on or before the last day of each calendar month thereafter until and including August 2003, an amount equal to one-sixth ($1/6$) of the difference between (i) the amount of interest on the Series 2003 Bonds that will become due on September 1, 2003, and (ii) the amount deposited in the Bond Fund pursuant to the foregoing clause (1);

(3) on or before the last day of September, 2003, and on or before the last day of each calendar month thereafter until and including August, 2014, an amount equal to one-sixth ($1/6$) of the interest becoming due with respect to the then outstanding Series 2003 Bonds on the next succeeding interest payment date; and

(4) on or before the last day of September, 2003 and on or before the last day of each calendar month thereafter until and including August 2014, an amount equal to one-twelfth ($1/12$) of the principal amount of Series 2003 Bonds maturing or required to be redeemed on the next succeeding September 1.

The Bond Fund deposits required by this Section 4.2 shall be in addition to the deposits respecting the Series 1994 Bonds and Series 1997 Bonds required by the Original Indenture and the First Supplemental Indenture.

Section 4.3 Tax Covenants. The Board recognizes that the Holders of the Series 2003 Bonds from time to time will have accepted them on, and paid therefor a price which reflects, the

understanding that interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes under the laws in force at the time the Series 2003 Bonds shall have been delivered. In this connection the Board covenants (i) that it will not take any action or omit to take any action if the taking of such action or the failure to take such action, as the case may be, will result in the interest on any of the Series 2003 Bonds becoming includable in gross income for purposes of federal income taxation, (ii) that it will use the "proceeds" of the Series 2003 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 2003 Bonds, will not cause the Series 2003 Bonds to be "arbitrage bonds" under Section 103(b)(2) and Section 148 of the Code and the regulations thereunder and (iii) that it will satisfy the requirements of Section 148(f) of the Code and the applicable regulations thereunder. The Board further covenants and agrees that it will not permit at any time any "proceeds" of the Series 2003 Bonds or any other funds of the Board to be used, directly or indirectly, in a manner which would result in any Series 2003 Bond being classified 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 2003 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 2003 Bonds.

Section 4.4 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 Second Supplemental Indenture to be executed in its corporate name and behalf by the Chairman of its Board of Directors, has caused its corporate seal to be hereunto affixed and has caused this Second Supplemental Indenture to be attested by its Secretary, and the Trustee has caused this Second Supplemental Indenture to be executed in its corporate name and behalf, has caused its corporate seal to be hereunto affixed and has caused this Second Supplemental Indenture to be attested, by its duly authorized officers, all in five (5) counterparts, each of which shall be deemed an original, and the Board and the Trustee have caused this Second Supplemental Indenture to be dated as of February 1, 2003, although actually executed and delivered on February 27, 2003.

ALABASTER WATER BOARD

By James W. Lucas
Chairman of its Board of Directors

ATTEST:

Jeannette S. Minor
Its Secretary

[SEAL]

SOUTHTRUST BANK, as Trustee under the Trust Indenture of the Alabaster Water Board dated as of September 1, 1994

By John D. W.
Its Vice President and Trust Officer

ATTEST:

Cameron J. Kilgore
Assistant Vice President
Its and Trust Officer

[SEAL]

STATE OF ALABAMA)
 :
JEFFERSON COUNTY)

I, the undersigned authority, a Notary Public in and for said county in said state, hereby certify that James Lucas, Jr., whose name as Chairman of the Board of Directors of the ALABASTER WATER 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 within 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 27th day of February, 2003.

[NOTARIAL SEAL]

Maureen M. DeMott
Notary Public

My Commission Expires: 7.24.04

STATE OF ALABAMA)
 :
JEFFERSON COUNTY)

I, the undersigned authority, a Notary Public in and for said county in said state, hereby certify that STEPHEN G. WALDRIP, whose name as Vice President and Trust Officer of SOUTHTRUST BANK, an Alabama banking corporation acting in its capacity as Trustee under the Trust Indenture of the Alabaster Water Board dated as of September 1, 1994, 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 within instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said banking corporation in its capacity as Trustee as aforesaid.

GIVEN under my hand and official seal of office, this 27th day of February, 2003.

[NOTARIAL SEAL]

Maureen M. DeMott
Notary Public

My Commission Expires: 7.24.04