

RESOLUTION NO. 2004- 16

RESOLUTION SUPPLEMENTING RESOLUTION NO. 89-84 ADOPTED BY THE BOARD OF COUNTY COMMISSIONERS OF ST. JOHNS COUNTY, FLORIDA, ON APRIL 25, 1989, ENTITLED "RESOLUTION PROVIDING FOR THE ACQUISITION, CONSTRUCTION AND ERECTION OF ADDITIONS, EXTENSIONS AND IMPROVEMENTS TO THE WATER DISTRIBUTION FACILITIES OF ST. JOHNS COUNTY, AND OF NEW SEWAGE COLLECTION AND TREATMENT FACILITIES TO BE OPERATED BY THE COUNTY IN COMBINATION WITH SUCH WATER FACILITIES AS A SINGLE WATER AND SEWER SYSTEM; AUTHORIZING THE ISSUANCE BY THE COUNTY OF NOT EXCEEDING \$10,000,000 PRINCIPAL AMOUNT OF WATER AND SEWER REVENUE BONDS, SERIES 1989A AND SERIES 1989B, TO FINANCE THE COST THEREOF AND THE COST OF REFUNDING THE COUNTY'S OUTSTANDING WATER REVENUE BONDS; PROVIDING FOR THE REFUNDING OF SAID OUTSTANDING BONDS; PLEDGING TO SECURE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID SERIES 1989 BONDS CERTAIN PLEDGED FUNDS INCLUDING THE NET REVENUES OF SAID SYSTEM AND CERTAIN LAWFULLY AVAILABLE CONNECTION CHARGES, ALL MONEYS ON DEPOSIT IN AND INVESTMENTS HELD FOR THE CREDIT OF CERTAIN FUNDS CREATED HEREUNDER AND THE EARNINGS ON SUCH INVESTMENTS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID SERIES 1989 BONDS; MAKING CERTAIN COVENANTS AND AGREEMENTS WITH THE HOLDERS OF SAID SERIES 1989 BONDS; REPEALING THE COUNTY'S RESOLUTION NO. 88-241 AND RESOLUTION NO. 88-253; AND PROVIDING AN EFFECTIVE DATE," AS HERETOFORE AMENDED AND SUPPLEMENTED, FOR THE PURPOSE OF AUTHORIZING THE ISSUANCE BY THE COUNTY OF NOT EXCEEDING \$30,000,000 PRINCIPAL AMOUNT OF WATER AND SEWER REVENUE BONDS, SERIES 2004 TO FINANCE THE COST OF THE ACQUISITION, CONSTRUCTION AND ERECTION OF CERTAIN ADDITIONS, EXTENSIONS AND IMPROVEMENTS TO THE COUNTY'S PUBLIC WATER AND SEWER SYSTEM, THE COST OF A RESERVE ACCOUNT INSURANCE POLICY RELATING TO SAID SERIES 2004 BONDS AND THE COSTS OF ISSUANCE OF SAID SERIES 2004 BONDS; PLEDGING TO SECURE PAYMENT OF THE

PRINCIPAL OF AND INTEREST ON SAID SERIES 2004 BONDS WITH THE ABOVE-DESCRIBED PLEDGED FUNDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID SERIES 2004 BONDS; MAKING CERTAIN COVENANTS AND AGREEMENTS WITH THE HOLDERS OF SAID SERIES 2004 BONDS; RATIFYING THE COUNTY'S ACCEPTANCE OF THE INSURER'S COMMITMENTS RELATING TO A BOND INSURANCE POLICY AND RESERVE ACCOUNT SURETY WITH RESPECT TO SAID SERIES 2004 BONDS; AUTHORIZING A NEGOTIATED SALE AND AWARD OF THE SALE OF SAID SERIES 2004 BONDS, APPROVING THE CONDITIONS AND CRITERIA FOR SUCH SALE AND AUTHORIZING THE EXECUTION AND DELIVERY OF A PURCHASE CONTRACT WITH RESPECT TO SAID SERIES 2004 BONDS; APPROVING A PRELIMINARY OFFICIAL STATEMENT WITH RESPECT TO SAID SERIES 2004 BONDS AND AUTHORIZING A FINAL OFFICIAL STATEMENT WITH RESPECT THERETO; APPOINTING THE REGISTRAR AND PAYING AGENT FOR SAID SERIES 2004 BONDS; AND PROVIDING AN EFFECTIVE DATE.

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BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF ST. JOHNS COUNTY, FLORIDA:

ARTICLE 1

GENERAL

SECTION 1.1        Definitions. When used in this Resolution, the terms defined in the Original Instrument (as hereinafter defined) shall have the respective meanings assigned thereto by the Original Instrument and the following terms shall have the following meanings, unless the context clearly otherwise requires:

“Bond Counsel” shall mean Rogers Towers, P.A., Jacksonville, Florida, bond counsel to the Issuer with respect to the issuance of the Series 2004 Bonds.

“Bond Resolution” shall mean the Original Instrument as supplemented by the Resolution.

“Construction Account” shall mean the special account for payment of the Cost of Project 2004, to be established in the Construction Fund pursuant to the Original Instrument and Section 3.4 hereof.

“Continuing Disclosure Certificate” shall mean the Continuing Disclosure Certificate of the Issuer with respect to the Series 2004 Bonds, substantially in the form attached hereto as Exhibit F and incorporated herein by reference.

“County Administrator” shall mean the county administrator of the Issuer.

“Depository” shall mean any Person which acts as securities depository. The initial Depository for the Series 2004 Bonds shall be The Depository Trust Company.

“Draft Preliminary Official Statement” shall mean the draft preliminary official statement relating to the Series 2004 Bonds, substantially in the form attached hereto as Exhibit A and incorporated herein by reference.

“Financial Advisor” shall mean Public Financial Management, Inc.

“Financial Guaranty Insurance Policy” shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal and interest on Series 2004 Bonds as provided therein.

“Insurer” or “Ambac Assurance” shall mean, with respect to the Series 2004 Bonds, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

“Maturity Amount” means, with respect to each Series 2004 Capital Appreciation Bond, the Accreted Value required to be paid to the Holder thereof on the Maturity Date thereof.

"Maturity Date" means the final maturity date of each Series 2004 Bond as indicated on the face of each such Bond.

"Original Instrument" shall mean St. Johns County Resolution No. 89-84 adopted by the Governing Body on April 25, 1989, the title of which is quoted in the title of this Resolution, as amended by St. Johns County Resolution No. 89-189 adopted by the Governing Body on August 1989, St. Johns County Resolution No. 90-61 adopted by the Governing Body on March 27, 1990, St. Johns County Resolution No. 90-208 adopted by the Governing Body on November 14, 1990, St. Johns County Resolution No. 91-113 adopted by the Governing Body on July 23, St. Johns County Resolution No. 95-87 adopted by the Governing Body on May 9, 1995, St. Johns County Resolution No. 96-34 adopted by the Governing Body on February 27, 1996, St. Johns County Resolution No. 98-99 adopted by the Governing Body on May 12, 1998, St. Johns County Resolution No. 99-72 adopted by the Governing Body on April 27, 1999 and St. Johns County Resolution No. 2002-239 adopted by the Governing Body on November 5, 2002.

"Parity Obligations" shall mean the Series 1991A Bonds, the Series 1996 Bonds, the Series 1998 Bonds, the Series 1999 Bonds and the Series 2002 Bonds.

"Project 2004" shall mean the acquisition, construction and erection of additions, extensions and improvements to the System, as more particularly described in accordance with certain plans on file or to be on file with the Issuer, with such changes, deletions, additions or modifications to the numerated improvements, equipment and facilities or such other improvements, equipment and facilities for the System as shall be designated and approved by the County Administrator or his or her designee in accordance with applicable law. Project 2004 is hereby determined by the Issuer to be an Additional Project.

"Purchase Contract" shall mean the Bond Purchase Agreement to be executed between the Issuer and the Purchaser, substantially in the form attached hereto as Exhibit B and incorporated herein by reference.

"Purchaser" shall mean William R. Hough & Co. on behalf of itself and Merchant Capital, L.L.C., the purchaser of the Series 2004 Bonds.

"Reserve Account Surety" shall mean the surety bond issued by Ambac Assurance guaranteeing certain payments into the Debt Service Fund with respect to the Bonds (other than the Series 1991A Bonds and the Series 1998 Bonds).

"Reserve Account Surety Agreement" shall mean the Guaranty Agreement between the Issuer and Ambac Assurance in the form attached to the commitment of the Insurer relating to the Reserve Account Surety.

"Resolution" and "this Resolution" shall mean this instrument, as the same may from time to time be amended, modified or supplemented.

"Series 1991A Bonds" shall mean the Issuer's outstanding Water and Sewer Revenue Bonds, Series 1991A, authorized to be issued pursuant to the Original Instrument.

“Series 1996 Bonds” shall mean the Issuer’s outstanding Water and Sewer Revenue and Refunding Bonds, Series 1996, authorized to be issued pursuant to the Original Instrument.

“Series 1998 Bonds” shall mean the Issuer’s outstanding Water and Sewer Revenue Refunding Bonds, Series 1998, authorized to be issued pursuant to the Original Instrument.

“Series 1999 Bonds” shall mean the Series 1999A Bonds and the Series 1999B Bonds.

“Series 1999A Bonds” shall mean the Issuer’s Water and Sewer Revenue Refunding Bonds, Series 1999A, authorized to be issued by the Issuer pursuant to the Original Instrument.

“Series 1999B Bonds” shall mean the Issuer’s Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B, authorized to be issued by the Issuer pursuant to the Original Instrument.

“Series 2002 Bonds” shall mean the Series 2002A Bonds and the Series 2002B Bonds.

“Series 2002A Bonds” shall mean the Issuer’s Water and Sewer Revenue Refunding Bonds, Series 2002A, authorized to be issued by the Issuer pursuant to the Original Instrument.

“Series 2002B Bonds” shall mean the Issuer’s Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B, authorized to be issued by the Issuer pursuant to the Original Instrument.

“Series 2004 Bonds” shall mean the Issuer’s Water and Sewer Revenue Bonds, Series 2004, authorized to be issued by the Issuer pursuant to Section 2.1 hereof.

“Series 2004 Capital Appreciation Bonds means the Series 2004 Bonds designated as Capital Appreciation Bonds in the Purchase Contract.

“Series 2004 Current Interest Bonds” means the Series 2004 Bonds designated as current interest bonds in the Purchase Contract.

“Subordinated Indebtedness” shall mean the Issuer’s outstanding loan (the “State Loan”) under that certain State Revolving Fund Loan Agreement dated June 27, 1994, as amended and restated on September 12, 1995 (the “State Loan Agreement”), between the Issuer and the State of Florida Department of Environmental Protection (the “State Department”).

“Underwriting Policy” shall mean, as to the Series 2004 Bonds, that (i) they will be sold with retail orders as the first priority filled, (ii) sales to institutional investors shall be only with net designated orders, allocating to each underwriter the “takedown” income only from Series 2004 Bonds it sells and (iii) the risk for buying unsold Series 2004 Bonds shall be allocated in the proportions of 70% for William R. Hough & Co. and 30 % for Merchant Capital, L.L.C.

The terms “herein,” “hereunder,” “hereby,” “hereto,” “hereof,” and any similar terms, shall refer to this Resolution; the term “heretofore” shall mean before the date of adoption of this Resolution; and the term “hereafter” shall mean after the date of adoption of this Resolution.

Words importing the singular number include the plural number, and vice versa.

SECTION 1.2      Authority for Resolution. This Resolution is adopted pursuant to the provisions of the Act and other applicable provisions of law. This instrument supplements the Original Instrument.

SECTION 1.3      Resolution to Constitute Contract. In consideration of the purchase and acceptance of any or all of the Series 2004 Bonds by those who shall hold the same from time to time, the provisions of this Resolution shall be deemed to be and shall constitute a contract between the Issuer and the Holders from time to time of the Series 2004 Bonds and shall be a part of the contract of the Issuer with any Credit Bank and any Insurer that pertains to the Series 2004 Bonds. The pledge made in this Resolution and the provisions, covenants and agreements herein set forth to be performed by or on behalf of the Issuer shall be for the equal benefit, protection and security of the Holders of any and all of the Series 2004 Bonds and for the benefit, protection and security of any Credit Bank and any Insurer insuring the Series 2004 Bonds. All of the Series 2004 Bonds, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Series 2004 Bonds over any other thereof except as expressly provided in or pursuant to this Resolution.

SECTION 1.4      Findings. It is hereby ascertained, determined and declared as follows:

(A)      The Issuer presently owns and operates a water and sewer system for the health, benefit and welfare of its citizen and inhabitants, and it is in the best interest of the Issuer and said citizens and inhabitants that the Issuer acquire and construct Project 2004 and finance the costs of such acquisition and construction through the issuance of the Series 2004 Bonds in the manner herein provided.

(B)      In connection with the Series 1991A Bonds, the Issuer has not heretofore levied any Assessments, on its own behalf or as the governing body of a municipal service benefit unit, against the lots and parcels of real property specially benefited by the capital project financed with the proceeds of the Series 1991A Bonds as permitted under the Original Instrument. Accordingly, no Assessments are pledged to the payment of the principal of and interest on the Parity Obligations.

(C)      The Issuer deems it necessary, desirable and in the best interest of the Issuer that the Pledged Funds be pledged to the payment of the principal of and interest on the Series 2004 Bonds. No part of the Pledged Funds shall be pledged or encumbered in any manner, except that the Pledged Funds have been pledged as security for the Parity Obligations, and except that the Pledged Funds have been pledged as security for the Subordinated Indebtedness; and the Original Instrument, in Section 5.02 thereof, provides for the issuance of Additional Bonds payable from the Pledged Funds on a parity with the Parity Obligations under the terms, limitations and conditions provided therein. The Issuer will issue the Series 2004 Bonds as Additional Bonds within the authorization contained in Section 5.02 of the Original Instrument. The Series 2004 Bonds shall be payable on a parity and rank equally as to lien on and source and security for payment from the Pledged Funds and in all other respects, with the

Parity Obligations. Prior to the issuance of the Series 2004 Bonds, the Issuer will receive the written consent of the State Department in accordance with Section 7.02 of the State Loan Agreement that the lien on the Pledged Funds in favor of the Series 2004 Bonds will be superior to the lien thereon in favor of the State Loan.

(D) No Bondholder shall ever be entitled to compel the payment of the principal of and interest on the Series 2004 Bonds or any other payments provided for in this Resolution from any funds or revenues of the Issuer other than the sources herein provided in accordance with the terms hereof, nor will any Bondholder or any Credit Bank or any Insurer have the right to compel the exercise of the ad valorem taxing power of the Issuer to pay the principal of or interest on the Series 2004 Bonds or to make any other payments provided for in this Resolution, and the Series 2004 Bonds shall not constitute a lien upon the System or any other property of the Issuer or any other property situated within its territorial limits, except the Pledged Funds.

(E) The Issuer has received from the Insurer its commitments to provide a Bond Insurance Policy and Reserve Account Surety with respect to the Series 2004 Bonds, copies of which commitments are attached hereto as Exhibit C and incorporated herein by reference; pursuant to Section 4.06(A)(2)(d) of the Original Instrument, Financial Guaranty Insurance Company and MBIA Insurance Corporation, the insurers of the Parity Obligations, have approved in writing said Reserve Account Surety, copies of which approvals are attached hereto as Exhibit D; on behalf of the Issuer, Ben W. Adams, Jr., its County Administrator, accepted the Insurer's commitments; and it is in the best financial interest of the Issuer that the Issuer ratify such acceptance of said commitments.

(F) The Governing Body is advised that due to the present volatility of the market for tax-exempt and taxable public obligations such as the Series 2004 Bonds, it is in the best interest of the Issuer to sell the Series 2004 Bonds by a negotiated sale, allowing the Issuer to enter such market at the most advantageous time, rather than at a specified advertised future date, thereby permitting the Issuer to obtain the best possible price, interest rate and other terms for the Series 2004 Bonds and, accordingly, the Governing Body does hereby find and determine that it is in the best financial interest of the Issuer that a negotiated sale of the Series 2004 Bonds be authorized.

(G) The Purchaser has verbally agreed with the Governing Body to use its reasonable efforts to submit to the Issuer an offer to purchase the Series 2004 Bonds in the form of the Purchase Contract upon terms acceptable to the Governing Body as hereinafter authorized, and the Governing Body does hereby find and determine that it is in the best financial interest of the Issuer to accept the offer of the Purchaser to purchase the Series 2004 Bonds at a negotiated sale and to authorize the execution and delivery of the Purchase Contract in the manner and upon the terms hereinafter provided; and upon the execution of the Purchase Contract by the Issuer and the Purchaser, the Series 2004 Bonds shall be sold to the Purchaser pursuant to the terms and provisions of the Purchase Contract.

(H) The Issuer is advised that because the terms of the Series 2004 Bonds cannot be determined on the date of adoption of this Resolution, it is in the best interest of the Issuer to delegate the authority to determine, in accordance with Sections 2.2 and 4.3 of this

Resolution, the terms of the Series 2004 Bonds, including their date, Amortization Installments, Maturity Dates, Table of Accreted Values (as described herein), interest rates, redemption provisions and which of the Series 2004 Bonds shall be Series 2004 Current Interest Bonds and Series 2004 Capital Appreciation Bonds, to the Chairman or the County Administrator in the manner hereinafter provided.

(I) It is appropriate that the Issuer approve and confirm the distribution of a draft preliminary official statement for the purpose of acquainting potential investors with pertinent information with respect to the Issuer and the Series 2004 Bonds and that the Issuer authorize the distribution of a preliminary official statement and a final official statement prior to or contemporaneously with the issuance and delivery of the Series 2004 Bonds. For this purpose, it is appropriate that the distribution of the Draft Preliminary Official Statement be approved and confirmed and that preparation and distribution of a preliminary official statement and a final official statement be authorized in substantially the form of the Draft Preliminary Official Statement, the final form thereof to be approved by the Chairman or Vice-Chairman at any time at or prior to the issuance of the Series 2004 Bonds.

(J) It is necessary and appropriate that the Issuer appoint a registrar and a paying agent for the Series 2004 Bonds in order to provide for the services of a Registrar and Paying Agent for the Series 2004 Bonds, it is necessary and appropriate that the Issuer authorize the execution and delivery of the Registrar and Paying Agency Agreement between the Issuer and the Registrar and Paying Agent in the manner hereinafter provided.

(K) In order to provide for compliance with the requirements of Securities and Exchange Commission Rule 15c2-12, it is necessary and appropriate that the Issuer authorize the execution and delivery of the Continuing Disclosure Certificate in the manner hereinafter provided.

## ARTICLE 2

### AUTHORIZATION, TERMS, EXECUTION AND REGISTRATION OF SERIES 2004 BONDS

SECTION 2.1 Authorization of Series 2004 Bonds. The Issuer hereby authorizes the issuance of Bonds of the Issuer to be designated as "St. Johns County, Florida, Water and Sewer Revenue Bonds, Series 2004," in an aggregate principal amount not to exceed \$30,000,000 for the principal purpose of paying the cost of Project 2004, the cost of a Reserve Account Insurance Policy relating to the Series 2004 Bonds and costs of issuance incurred with respect to the Series 2004 Bonds.

SECTION 2.2 Description of Series 2004 Bonds. The Series 2004 Current Interest Bonds shall be dated the date of delivery thereof to the Purchaser; shall be issued as fully registered Bonds; and shall be numbered consecutively from one upward in order of maturity preceded by the letter "R"; shall be in denominations of \$5,000 and integral multiples of \$5,000; and shall bear interest at the rates, not exceeding the maximum rate permitted by law (calculated on the basis of a 360-day year of twelve 30-day months), payable on June 1 and December 1 in each year, commencing on June 1, 2004, shall mature on June 1 in such years not exceeding 30

years from their date, shall be dated such date, shall contain such redemption provisions, and shall have such other terms as are provided herein and in the Purchase Contract.

The Series 2004 Capital Appreciation Bonds shall be dated the date of delivery thereof to the Purchaser; shall be issued as fully registered Bonds; shall be numbered consecutively from one upward in order of maturity preceded by the letters "CA"; and shall be in denominations of \$5,000 Maturity Amount and integral multiples thereof. Interest on the Series 2004 Capital Appreciation Bonds shall not be payable currently but shall accrete from the date of delivery thereof to the Purchaser, which interest shall be compounded semiannually commencing on a date designated in the Purchase Contract, and on each June 1 and December 1 thereafter until such Bonds shall no longer be Outstanding, and shall be payable on the Maturity Date or earlier upon redemption prior to the Maturity Date. The total amount of principal and accreted interest in all instances applicable to the Series 2004 Capital Appreciation Bonds shall be equal to the Accreted Value which is determined by reference to the Table of Accreted Values to be set forth in the Series 2004 Capital Appreciation Bonds and otherwise in accordance with this Resolution and the Original Instrument. Interest on the Series 2004 Capital Appreciation Bonds shall accrete in the manner set forth above at the rates, not exceeding the maximum rate permitted by law (then calculated on the basis of a 360-day year of twelve 30-day months) set forth in the Purchase Contract. The Series 2004 Capital Appreciation Bonds shall mature in full as to the applicable Maturity Amounts on Maturity Dates not exceeding 30 years from their date, shall contain such redemption provisions, and shall have such other terms as are provided in the Purchase Contract.

The principal of the Series 2004 Current Interest Bonds and the Accreted Value of the Series 2004 Capital Appreciation Bonds or the Redemption Price, if applicable, of the Series 2004 Bonds is payable upon presentation and surrender of the Series 2004 Bonds at the office of the Paying Agent. Interest payable on any Series 2004 Current Interest Bond on any Interest Date will be paid by check or draft of the Paying Agent to the Holder in whose name such Bond shall be registered at the close of business on the date which shall be the fifteenth day (whether or not a business day) of the calendar month next preceding such Interest Date, or, unless otherwise provided by Supplemental Resolution, at the option of the Paying Agent, and at the request and expense of such Holder, by bank wire transfer for the account of such Holder. In the event the interest payable on any Series 2004 Current Interest Bond is not punctually paid or duly provided for by the Issuer on such Interest Date, such defaulted interest will be paid to the Holder in whose name such Bond shall be registered at the close of business on a special record date for the payment of such defaulted interest as established by notice to such Holder, not less than ten (10) days preceding such special record date. All payments of principal of or Redemption Price, if applicable, and interest on the Series 2004 Current Interest Bonds and all payments of Accreted Value or Redemption Price, if applicable, of the Series 2004 Capital Appreciation Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

From and after any maturity date of any of the Series 2004 Bonds, whether at fixed maturity, or by redemption, or otherwise (deposit of moneys and/or Securities for the payment of the principal and interest on such Series 2004 Current Interest Bonds and the Accreted Value of Series 2004 Capital Appreciation Bonds having been made by the Issuer with the Paying Agent), notwithstanding that any of such Series 2004 Bonds shall not have been surrendered for

cancellation, no further interest shall accrue upon the principal or upon the interest which shall have accrued and shall then be due on such date or accrete upon the Accreted Value on such date, and such Series 2004 Bonds shall cease to be entitled to any lien, benefit or security under this Resolution, and the Holders shall have no rights in respect of such Series 2004 Bonds except to receive payment of such principal and unpaid interest accrued to the Maturity Date or Accreted Value on the Maturity Date.

Redemption of the Series 2004 Bonds shall be in accordance with and governed by the provisions of Article III of the Original Instrument.

**SECTION 2.3      Application of Series 2004 Bond Proceeds.** The proceeds derived from the sale of the Series 2004 Bonds, including accrued interest and premium, if any, shall, simultaneously with the delivery of the Series 2004 Bonds to the Purchaser, be applied by the Issuer as follows:

(A)      Accrued interest, if any, shall be deposited in the Interest Account.

(B)      An amount shall be deposited in the Reserve Account which, together with any moneys and securities on deposit therein and any Reserve Account Insurance Policy and/or Reserve Account Letter of Credit obtained in accordance with Section 4.06(A)(2)(d) of the Original Instrument, shall equal the Reserve Account Requirement.

(C)      The Issuer covenants and agrees to establish a separate account with an Authorized Depository to be known as the "St. Johns County Water and Sewer Revenue Bonds, Series 2004, Costs of Issuance Account," which shall be used only for payment of the costs and expenses described in this subsection. Such moneys shall be in an amount sufficient to pay all costs and expenses in connection with the preparation, issuance and sale of the Series 2004 Bonds, including fees of financial advisors, engineering and other consulting fees, legal fees, bond insurance premiums, printing fees, rating agency fees and all other similar costs shall be deposited to the credit of said account, and all such costs and expenses shall be promptly paid by the Issuer from said account to the Persons respectively entitled to receive the same. When all moneys on deposit to the credit of said account shall have been disbursed by the Issuer for the payment of such costs and expenses, said account shall be closed; *provided, however*, that if any balance shall remain in said account six months after issuance of the Series 2004 Bonds, such moneys shall be transferred by the Issuer to the Construction Account and the special account created pursuant to this subsection shall be closed. After said account shall be closed, the Issuer may pay from the Construction Account any unpaid issuance expenses.

(D)      The balance of the Series 2004 Bonds proceeds shall be deposited by the Issuer in the Construction Account.

**SECTION 2.4      Execution of Series 2004 Bonds.** The Series 2004 Bonds shall be executed in the name of the Issuer with the manual or facsimile signature of the Chairman or any other member of the Governing Body whose signature shall have been filed with the Florida Department of State pursuant to Section 116.34 Florida Statutes, as amended, and the official Seal of the Issuer shall be imprinted thereon, attested and countersigned with the manual or facsimile signature of the Clerk or a deputy clerk. In case any one or more of the officers who



shall have signed or sealed any of the Series 2004 Bonds or whose facsimile signature shall appear thereon shall cease to be such officer of the Issuer before the Series 2004 Bonds so signed and sealed have been actually sold and delivered such Series 2004 Bonds may nevertheless be sold and delivered as herein provided and may be issued as if the person who signed or sealed such Series 2004 Bonds had not ceased to hold such office. Any Series 2004 Bond may be signed and sealed on behalf of the Issuer by such person who at the actual time of the execution of such Series 2004 Bond shall hold the proper office of the Issuer, although at the date of such Series 2004 Bond such person may not have held such office or may not have been so authorized. The Issuer may adopt and use for such purposes the facsimile signatures of any such persons who shall have held such offices at any time after the date of the adoption of this Resolution, notwithstanding that either or both shall have ceased to hold such office at the time the Series 2004 Bonds shall be actually sold and delivered.

## SECTION 2.5      Book-Entry Only.

A Depository may act as securities depository for the Series 2004 Bonds. The ownership of one fully-registered, certificated Series 2004 Bond for each maturity, each in the aggregate principal amount of such maturity, may be registered in the name of a Depository or its nominee.

The Series 2004 Bonds in a Book-Entry System registered in the name of a Depository or its nominee shall be payable in lawful money of the United States of America in immediately available funds (i) in the case of principal of such Series 2004 Bonds, delivered or transmitted to the Depository or its authorized representative when due, and (ii) in the case of interest on the Series 2004 Bonds, delivered or transmitted on any date interest is due to the Depository or nominee that was the Holder of that Series 2004 Bond (or one or more predecessor Series 2004 Bonds) at the close of business on the record date applicable to that interest payment date.

The Issuer will recognize the Depository or its nominee as the Holder for all purposes, including notices. Conveyance of notices and other communications by the Depository to participants, by participants to indirect participants, and by participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

In the event that (i) the Depository determines to discontinue providing its service with respect to the Series 2004 Bonds by giving written notice to the Issuer and discharging its responsibilities with respect thereto under applicable law, and the Issuer fails to appoint a successor Depository for the Series 2004 Bonds, or (ii) the Issuer determines to discontinue the Book-Entry System through a Depository, then bond certificates are required to be delivered as described in the Series 2004 Bonds. The Purchaser of beneficial ownership interests in the Series 2004 Bonds (the "Beneficial Owners"), upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Series 2004 Bonds.

Neither the Issuer, the Registrar nor the Paying Agent will have any responsibility or obligation to any Beneficial Owner or any other person with respect to (i) the accuracy of any records maintained by the Depository or any persons participating by or through the Depository; (ii) the payment by the Depository or any persons participating by or through the Depository of any amount with respect to the principal or interest on the Bonds; (iii) any notice which is

permitted or required to be given to Holders pursuant to this Resolution; or (iv) any consent given or other action taken by the Depository as Holder.

SECTION 2.6        Authentication. No Series 2004 Bond shall be secured hereunder or entitled to the benefit hereof or shall be valid or obligatory for any purpose unless there shall be manually endorsed on such Series 2004 Bond a certificate of authentication by the Registrar or such other entity as may be approved by the Issuer for such purpose. Such certificate on any Series 2004 Bond shall be conclusive evidence that such Series 2004 Bond has been duly authenticated and delivered under this Resolution. The form of such certificate shall be substantially in the form provided in Section 2.8 hereof.

SECTION 2.7        Series 2004 Bonds Mutilated, Destroyed, Stolen or Lost. In case any Series 2004 Bond shall become mutilated, or be destroyed, stolen or lost, the Issuer may, in its discretion, issue and deliver, and the Registrar shall authenticate, a new Series 2004 Bond of like tenor as the Series 2004 Bond so mutilated, destroyed, stolen or lost, in exchange and Substitution for such mutilated Series 2004 Bond upon surrender and cancellation of such mutilated Series 2004 Bond or in lieu of and substitution for the Series 2004 Bond destroyed, stolen or lost, and upon the Holder furnishing the Issuer and the Registrar proof of such Holder's ownership thereof and satisfactory indemnity and complying with such other reasonable regulations and conditions as the Issuer or the Registrar may prescribe and paying such expenses as the Issuer and the Registrar may incur. All Series 2004 Bonds so surrendered or otherwise substituted shall be canceled by the Registrar. If any of the Series 2004 Bonds shall have matured or be about to mature, instead of issuing a substitute Series 2004 Bond, the Issuer may pay the same or cause the Series 2004 Bond to be paid, upon being indemnified as aforesaid, and if such Series 2004 Bonds be lost, stolen or destroyed, without surrender thereof.

Any such duplicate Series 2004 Bonds issued pursuant to this Section 2.7 shall constitute original, additional contractual obligations on the part of the Issuer whether or not the lost, stolen or destroyed Series 2004 Bond be at any time found by anyone, and such duplicate Series 2004 Bond shall be entitled to equal and proportionate benefits and rights as to lien on the Pledged Funds and the Assessments to the same extent as all other Series 2004 Bonds issued hereunder and shall be entitled to the same benefits and security as the Series 2004 Bond so lost, stolen or destroyed.

SECTION 2.8        Interchangeability, Negotiability and Transfer. Series 2004 Bonds, upon surrender thereof at the office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Holder thereof or such Holder's attorney duly authorized in writing, may, at the option of the Holder thereof, be exchanged for an equal aggregate principal amount of registered Series 2004 Bonds of the same maturity of any other authorized denominations.

The Series 2004 Bonds shall be and have all the qualities and incidents of negotiable instruments under the laws of the State of Florida, subject to the provisions for registration and transfer contained in this Resolution and in the Series 2004 Bonds. So long as any of the Series 2004 Bonds shall remain Outstanding, the Issuer shall maintain and keep, at the office of the Registrar, books for the registration and transfer of the Series 2004 Bonds.

Each Series 2004 Bond shall be transferable only upon the books of the Issuer, at the office of the Registrar, under such reasonable regulations as the Issuer may prescribe, by the Holder thereof in person or by such Holder's attorney duly authorized in writing upon surrender thereof together with a written instrument of transfer satisfactory to the Registrar duly executed and guaranteed by the Holder or such Holder's duly authorized attorney. Upon the transfer of any such Series 2004 Bond, the Issuer shall issue, and cause to be authenticated, in the name of the transferee a new Series 2004 Bond or Bonds of the same aggregate Principal amount and Series and maturity as the surrendered Series 2004 Bond. The Issuer, the Registrar and any Paying Agent or fiduciary of the Issuer may deem and treat the Person in whose name any Outstanding Series 2004 Bond shall be registered upon the books of the Issuer as the absolute owner of such Series 2004 Bond, whether such Series 2004 Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if applicable, and interest on such Series 2004 Bond and for all other purposes, and all such payments so made to any such Holder or upon such Holder's order shall be valid and effectual to satisfy and discharge the liability upon such Series 2004 Bond to the extent of the sum or sums so paid and neither the Issuer nor the Registrar nor any Paying Agent or other fiduciary of the Issuer shall be affected by any notice to the contrary.

The Registrar, in the event it is not also the Paying Agent for the Series 2004 Bonds, shall forthwith (a) following the fifteenth day of the calendar month next preceding an interest payment date for the Series 2004 Bonds, (b) following the fifteenth day next preceding the date of first mailing of notice of redemption of any Series 2004 Bonds, and (c) at any other time as reasonably requested by the Paying Agent of the Series 2004 Bonds, certify and furnish to such Paying Agent the names, addresses and holdings of Bondholders and any other relevant information reflected in the registration books. Any Paying Agent of any fully registered Bond shall effect payment of interest on such Series 2004 Bonds by mailing a check or draft to the Holder entitled thereto or may, in lieu thereof, upon the request and at the expense of such Holder, transmit such payment by bank wire transfer for the account of such Holder.

In all cases in which the privilege of exchanging Series 2004 Bonds or transferring Series 2004 Bonds is exercised, the Issuer shall execute and the Registrar shall authenticate and deliver such Series 2004 Bonds in accordance with the provisions of this Resolution. Execution of Series 2004 Bonds, by the officers of the Issuer described in Section 2.4 above, for purposes of exchanging, replacing or transferring Series 2004 Bonds may occur at the time of the original delivery of the Series 2004 Bonds. All Series 2004 Bonds surrendered in any such exchanges or transfers shall be canceled by the Registrar. For every such exchange or transfer of Series 2004 Bonds, the Issuer or the Registrar may make a charge sufficient to reimburse it for any tax, fee, expense or other governmental charge required to be paid with respect to such exchange or transfer.

**SECTION 2.9**      Form of Bonds. The Series 2004 Bonds shall be in substantially the following forms with such omissions, insertions and variations as may be necessary and/or desirable and approved by the officers of the Issuer described in Section 2.4 above, prior to the issuance thereof (which necessity and/or desirability and approval shall be evidenced conclusively by the Issuer's delivery of the Series 2004 Bonds to the Purchaser):

[FORM OF SERIES 2004 CURRENT INTEREST BOND]

No. R -

\$

UNITED STATES OF AMERICA  
STATE OF FLORIDA  
ST. JOHNS COUNTY  
WATER AND SEWER REVENUE BOND, SERIES 2004

| Interest<br>Rate | Maturity<br>Date | Date of<br>Original Issuance | CUSIP |
|------------------|------------------|------------------------------|-------|
| _____ %          | June 1, _____    | _____, 2004                  | _____ |

Registered Holder:

Principal Amount:

KNOW ALL MEN BY THESE PRESENTS, that St. Johns County, a political subdivision created and existing under and by virtue of the laws of the State of Florida (the "Issuer"), for value received, hereby promises to pay, solely from the sources of payment hereinafter described, to the Registered Holder identified above, or registered assigns as hereinafter provided, the Principal Amount identified above on the Maturity Date identified above and interest (calculated on the basis of a 360-day year of twelve 30-day months) on such Principal Amount from the Date of Original Issuance identified above or from the most recent interest payment date to which interest has been paid, at the Interest Rate per annum identified above, on June 1 and December 1 of each year commencing \_\_\_\_\_ 1, 2004, until such Principal Amount shall have been paid or provided for, except as the provisions hereinafter set forth with respect to redemption prior to maturity may be or become applicable hereto.

Such Principal Amount and interest and the premium, if any, on this bond are payable in any coin or currency of the United States of America which, on the respective dates of payment thereof, shall be legal tender for the payment of public and private debts. Such Principal Amount and the premium, if any, on this bond, are payable, upon presentation and surrender hereof, at the designated corporate trust office of \_\_\_\_\_, as paying agent, or such other Paying agent as the Issuer shall hereafter duly appoint (the "Paying Agent"). Payment of each installment of interest shall be made to the person in whose name this bond shall be registered on the registration books of the Issuer maintained by \_\_\_\_\_, as registrar, or such other registrar as the Issuer shall hereafter duly appoint (the "Registrar"), at the Close of business on the date which shall be the fifteenth day (whether or not a business day) of the calendar month next preceding each interest payment date and shall be paid by a check or draft of the Paying Agent mailed to such Registered Holder at the address appearing on such registration books or, at the option of the Paying Agent, and at the request and expense of such Registered Holder, by bank wire transfer for the account of such Holder. In the event interest payable on this bond is not punctually paid or duly provided for by the Issuer on such interest payment date, payment of each installment of such defaulted interest shall be made to the person in whose name this bond shall be registered at the close of business on a special record date for the payment of such

defaulted interest as established by notice to such Registered Holder, not less than ten (10) days preceding such special record date.

This bond is one of an authorized issue of bonds of the Issuer issued in the aggregate principal amount of \$30,000,000 (the "Bonds"). The Bonds maturing in the years \_\_\_\_ through \_\_\_\_ are designated pursuant to the Resolution (described below) as "Current Interest Bonds." The Bonds maturing in years \_\_\_\_ through \_\_\_\_ are designated pursuant to the Resolution as "Capital Appreciation Bonds." The Bonds are parity bonds equally secured by the security described below. The Bonds are of like tenor and effect, except as to series, maturity date, interest rate, the date on which interest is paid, denomination and number. The Bonds are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof.

The Bonds are issued to finance the cost of the acquisition, construction and erection of certain additions, extensions and improvements to the System (as described below), to the cost of a reserve account surety relating to the Bonds and the costs of issuance of the Bonds under the authority of and in full compliance with the Constitution and laws of the State of Florida, particularly Chapter 125, Part I, Florida Statutes, as amended, other applicable provisions of law, St. Johns County Ordinance No. 86-89, as amended and supplemented, and Resolution No. 89-84 duly adopted by the Board of County Commissioners of the Issuer on April 25, 1989, as amended and supplemented, particularly as supplemented by Resolution No. 2004-16 adopted by said Board on January 20, 2004 (the "Resolution"), and are subject to all the terms and conditions of the Resolution.

The principal of and interest on this bond are payable solely from and secured by a prior lien upon and a pledge of (1) the Net Revenues (as defined in the Resolution) of the water and Sewer System of the Issuer (the "System," as defined in the Resolution), (2) certain Connection Charges (as defined in the Resolution to the extent provided in the Resolution and (3) until applied in accordance with the provisions of the Resolution, the proceeds of the Bonds, all moneys and investments thereof in certain of the funds and accounts established pursuant to the resolution and the earnings on such investments (collectively, the "Pledged Funds"), all in the manner to the extent described in the Resolution. It is expressly agreed by the Registered Holder of this bond that the full faith and credit of the Issuer is not pledged to the payment of the principal of or premium, if any, or interest on this bond and that the Registered Holder shall never have the right to require or compel the exercise of the ad valorem taxing power of the Issuer to the payment of such principal, premium, if any, and interest. This bond and the obligation evidenced hereby shall not constitute a lien upon the System or any other property of the Issuer, except the Pledged Funds and shall be payable solely from the Pledged Funds in accordance with the terms of the Resolution.

The Bonds are payable on a parity, equally and ratably, from the Pledged Funds with the Issuer's outstanding Water and Sewer Revenue Bonds, Series 1991A, Water and Sewer Revenue and Refunding Bonds, Series 1996, Water and Sewer Revenue Refunding Bonds, Series 1998, Water and Sewer Revenue Refunding Bonds, Series 1999A, and Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B, Water and Sewer Revenue Refunding Bonds, Series 2002A and Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B.

Neither the members of the Board of County Commissioners of the Issuer nor any person executing this bond shall be liable personally hereon or be subject to any personal liability or accountability by reason of the issuance hereof.

The Bonds maturing prior to \_\_\_\_\_, shall not be subject to redemption prior to maturity. The Bonds maturing on \_\_\_\_\_, or thereafter may be redeemed prior to maturity at the option of the Issuer, as a whole on \_\_\_\_\_, or on any date thereafter, or in part, from such maturity or maturities as the Issuer shall designate and by lot within a maturity, on \_\_\_\_\_, or on any interest payment date thereafter, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) plus accrued interest to the redemption date, if redeemed during the following periods:

| Redemption Period<br>(both dates inclusive) | Redemption<br>Price | % |
|---------------------------------------------|---------------------|---|
| _____ through _____                         |                     |   |
| _____ through _____                         |                     |   |
| _____ and thereafter                        |                     |   |

The Bonds maturing \_\_\_\_\_, are subject to mandatory redemption in part prior to maturity by lot at a redemption price equal to the principal amount thereof, without premier, plus accrued interest to the redemption date, beginning on \_\_\_\_\_, and on each \_\_\_\_\_ thereafter in the years and in the principal amounts corresponding to the Amortization Installments (as defined in the Resolution) as follows:

| <u>Year</u> | <u>Amortization<br/>Installments</u> |
|-------------|--------------------------------------|
|             | \$                                   |

(maturity)

Notice of redemption, unless waived, is to be given by the Registrar by mailing an official redemption notice by registered or certified mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered holders of the Bonds to be redeemed at such holders' addresses shown on the registration books maintained by the Registrar or at such other addresses as shall be furnished in writing by such registered holders to the Registrar; *provided, however*, that no defect in any such notice to any registered holder of Bonds to be redeemed nor failure to give such notice to any such registered holder nor failure of any such registered holder to receive such notice shall in any manner defeat the effectiveness of a call for redemption as to all other registered holders of Bonds to be redeemed. Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the Issuer shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest.

This bond is transferable in accordance with the terms of the Resolution only upon the books of the Issuer kept for that purpose at the office of the Registrar by the Registered Holder hereof in person or by such Holder's attorney duly authorized in writing, upon the surrender of this bond together with a written instrument of transfer satisfactory to the Registrar duly executed by the Registered Holder or such Holder's attorney duly authorized in writing, and thereupon a new bond or bonds in the same aggregate principal amount shall be issued to the transferee in exchange therefor, and upon the payment of the charges, if any, prescribed in the Resolution. The Issuer, the Registrar and any Paying Agent may treat the Registered Holder of this bond as the absolute owner hereof for all purposes, whether or not this bond shall be overdue, and shall not be affected by any notice to the contrary. The Issuer and the Registrar shall not be obligated to make any exchange or transfer of any Bonds which shall have been selected for redemption or of any Bonds during the fifteen (15) days next preceding an interest payment date on the Bonds, or, in the case of any proposed redemption of Bonds, during the fifteen (15) days next preceding the date of selection of Bonds to be redeemed.

It is hereby certified and recited that all acts, conditions and things required to exist, to happen and to be performed precedent to and in connection with the issuance of this bond, exist, have happened and have been performed, in regular and due form and time as required by the Constitution and laws of the State of Florida applicable thereto, and that the issuance of the Bonds does not violate any constitutional or statutory limitations or provisions.

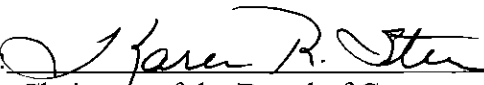
This bond is and has all the qualities and incidents of a negotiable instrument under the laws of the State of Florida.

This bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Registrar.

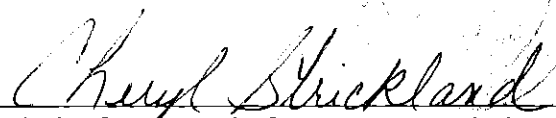
IN WITNESS WHEREOF, St. Johns County, Florida, has issued this bond and has caused the same to be executed by the manual or facsimile signature of the Chairman of its Board of County Commissioners and attested and countersigned by the manual or facsimile signature of the Clerk of said Board and its official seal or a facsimile thereof to be affixed or reproduced hereon, all as of the 20<sup>th</sup> day of January, 2004.

ST. JOHNS COUNTY, FLORIDA

(SEAL)

By:   
Chairman of the Board of County  
Commissioners

ATTESTED AND COUNTERSIGNED:

  
Clerk of the Board of County Commissioners

CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds of the issue described in the within-mentioned Resolution.

DATE OF AUTHENTICATION:

\_\_\_\_\_, Registrar

By \_\_\_\_\_  
Authorized Signatory

\_\_\_\_\_  
The following abbreviations, when used in the inscription on the face of the within bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common

TEN ENT -- as tenants by the entireties

TT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF TRANS MIN ACT - \_\_\_\_\_  
(Cust.)

Custodian for \_\_\_\_\_

under Uniform Transfer to Minors Act of \_\_\_\_\_  
(State)

Additional abbreviations may also be used though not in list above.



ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto \_\_\_\_\_

\_\_\_\_\_  
Insert Social Security or Other  
Identifying Number of Assignee

\_\_\_\_\_  
(Names and Address of Assignee)

the within bond and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorneys to register the transfer of the said bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
NOTICE: Signature(s) must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program.

\_\_\_\_\_  
NOTICE: The signature to this assignment must correspond with the name of the Registered Holder as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever and the Social Security or other identifying number of such assignee must be supplied.

[FORM OF SERIES 2004 CAPITAL APPRECIATION BOND]

[The form of Series 2004 Capital Appreciation Bond shall be the same as the form for the Series 2004 Current Interest Bonds set forth above, with the following modifications: (i) the caption and first and second paragraphs of the foregoing form shall be deleted and the caption and paragraph set forth below shall be substituted therefor; and (ii) the Table of Accreted Values set forth below shall be inserted in such form of Bond immediately preceding the form of assignment.]

No. CA-\_\_\_\_\_

Accreted Value at Maturity  
\$ \_\_\_\_\_

UNITED STATES OF AMERICA  
STATE OF FLORIDA  
COUNTY OF ST. JOHNS  
WATER AND SEWER REVENUE BOND, SERIES 2004

|                              |                  |                              |                                                                           |       |
|------------------------------|------------------|------------------------------|---------------------------------------------------------------------------|-------|
| Approximate<br>Interest Rate | Maturity<br>Date | Date of<br>Original Issuance | Original Principal<br>Amount per \$5,000<br>Accreted Value of<br>Maturity | CUSIP |
| _____ %                      | June 1, _____    | _____, 2004                  | _____                                                                     | _____ |

Registered Holder:

Accreted Value at  
Maturity Amount:

KNOW ALL MEN BY THESE PRESENTS, that St. Johns County, a political subdivision created and existing under and by virtue of the laws of the State of Florida (the "Issuer"), for value received, hereby promises to pay, solely from the sources of payment hereinafter described, to the Registered Holder identified above, or registered assigns as hereinafter provided, the Accreted Value at Maturity identified above on the Maturity Date identified above, upon presentation and surrender hereof, at the designated principal corporate trust office of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, as paying agent, or such other paying agent as the Issuer shall hereafter duly appoint (the "Registrar or the Paying Agent"), the Accreted Value at Maturity identified above representing the principal amount hereof plus interest accreted thereon (compounded on the basis of a 360-day year consisting of twelve-30 day months) at the Approximate Interest Rate per annum identified above compounded semiannually on June 1 and December 1 of each year from the Date of Original Issuance identified above to the Maturity Date identified above as shown on the Table of Accreted Values made a part of this bond, in any coin or currency of the United States of America which, on the date of payment, shall be legal tender for the payment of public and private debts, except as the provisions hereinafter set forth with respect to redemption prior to maturity may be or become applicable hereto.

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## TABLE OF ACCRETED VALUES

The Accreted Values of the Capital Appreciation Bonds per \$5,000 Maturity Amount are the following amounts on the following dates:

| Interest<br><u>Compounding Dates</u> | Bonds Due<br><u>June 1, 20__</u> | Bonds Due<br><u>June 1, 20__</u> | Bonds Due<br><u>June 1, 20__</u> |
|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|
|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|

## ARTICLE 3

### SECURITY, SPECIAL FUNDS AND APPLICATION THEREOF

SECTION 3.1      Series 2004 Bonds not to be Indebtedness of Issuer. The Series 2004 Bonds shall not be or constitute general obligations or indebtedness of the Issuer as "bonds" within the meaning of any constitutional or statutory provision, but shall be special obligations of the Issuer, payable solely from and secured by a lien upon and pledge of the Pledged Funds in accordance with the terms of this Resolution and the Original Instrument. No Holder of any Series 2004 Bond or any Credit Bank or any Insurer shall ever have the right to compel the exercise of the ad valorem taxing power of the Issuer to pay such Series 2004 Bond or be entitled to payment of such Series 2004 Bond from any moneys of the Issuer except the Pledged Funds in the manner provided herein and in the Original Instrument.

SECTION 3.2      Security for Series 2004 Bonds. The payment of the principal of or Redemption Price, if applicable, and interest on the Series 2004 Bonds shall be secured forthwith equally and ratably by a pledge of and prior lien upon the Pledged Funds. The Pledged Funds shall be subject to the lien of this pledge immediately upon the issuance and delivery of the Series 2004 Bonds, without any physical delivery by the Issuer of the Pledged Funds or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind against the Issuer, in tort, contract or otherwise. The Issuer does hereby irrevocably pledge the Pledged Funds to the payment of the principal of or Redemption Price, if applicable, and interest on the Series 2004 Bonds in the manner provided in this Resolution and the Original Instrument. The Series 2004 Bonds are payable from the Pledged Funds on a parity, equally and ratably, with the Parity Obligations.

SECTION 3.3      Additional Security. Anything herein to the contrary notwithstanding, however, the Series 2004 Bonds will be payable from and secured by a Bond Insurance Policy of the Insurer, and the Issuer may cause the Series 2004 Bonds to be payable from and secured by a Credit Facility or any other insurance policy of an Insurer not applicable

to any one or more other Series of Bonds, as shall be provided by Supplemental Resolution of the Governing Body, in addition to the security of the Pledged Funds provided herein.

SECTION 3.4      Construction Account.      The Issuer covenants and agrees to establish a separate account within the Construction Fund, which shall be used only for payment of the Cost of Project 2004. Moneys in such Construction Account, until applied in payment of any item of the Cost of Project 2004 in the manner hereinafter provided, shall be held in trust by the Issuer and shall be subject to a lien and charge in favor of the Holders of the Series 2004 Bonds and for the further security of such Holders.

There shall be paid into such Construction Account the amounts required to be so paid by the provisions of this Resolution, and there may be paid into the Construction Account, at the option of the Issuer, any moneys received for or in connection with Project 2004 by the Issuer from any other source.

The proceeds of insurance against, physical loss of or damage to Project 2004, or of contractors' performance bonds with respect thereto pertaining to the period of construction thereof, shall be deposited into the Construction Account.

The Issuer covenants that the acquisition and construction of Project 2004 will be completed without delay and in accordance with sound engineering practices. The Issuer shall make disbursements or payments from the Construction Account to pay items of the Cost of Project 2004 upon the filing with the Clerk of documents and/or certificates signed by an Authorized Issuer Officer stating with respect to each disbursement or payment to be made: (1) the item number of the payment, (2) the name and address of the Person to whom payment is due, (3) the amount to be paid, (4) that the Construction Account is the proper Construction Fund account from which payment is to be made, (5) the purpose, by general classification, for which payment is to be made, and (6) that (A) each obligation, item of cost or expense mentioned therein has been properly incurred, is in payment of a part of the Cost of Project 2004 and is a proper charge against the Construction Account and has not been the basis of any previous disbursement or payment, or (B) each obligation, item of cost or expense mentioned therein has been paid by the Issuer prior to or subsequent to issuance of the Series 2004 Bonds, is a reimbursement of a part of the Cost of Project 2004, is a proper charge against the Construction Account, has not been theretofore reimbursed to the Issuer or otherwise been the basis of any previous disbursement or payment and the Issuer is entitled to reimbursement thereof. The Clerk shall retain all such documents and/or certificates of the Authorized issuer Officers for five (5) years from the dates of such documents and/or certificates. The Clerk shall make available the documents and/or certificates at all reasonable times for inspection by any Holder of any of the Series 2004 Bonds or the agent or representative of any Holder of any of the Series 2004 Bonds.

The date of completion of Project 2004 shall be determined by the authorized Issuer Officer who shall certify such fact in writing to the Governing Body. Promptly after the date of the completion of Project 2004, and after paying or making provisions for the payment of all unpaid items of the Cost thereof, the Issuer shall deposit in the following order of priority any balance of moneys remaining in the Construction Account in (1) another account of the Construction Fund for which the Authorized Issuer Officer has stated that there are insufficient moneys on deposit to pay in full the Cost of the project for which such account is maintained, (2)

the Reserve Account, to the extent of a deficiency therein, (3) the Debt Service Fund, to the extent of a deficiency therein, and (4) any other fund or account of the Issuer designated by the Governing Body provided that the Issuer has received an opinion of Bond Counsel to the effect that such transfer shall not adversely affect the exclusion, if any, of interest on the Bonds from gross income for federal income tax purposes.

SECTION 3.5            Application of Provisions of Original Instrument. The Series 2004 Bonds shall for all purposes be considered to be Additional Bonds issued under the authority of Section 5.02 of the Original Instrument and shall be entitled to all the protection and security provided in and by the Original Instrument for the Parity Obligations, and the Series 2004 Bonds shall be in all respects entitled to the same security, rights and privileges enjoyed by the Parity Obligations. The covenants and pledges contained in Articles IV, V, VI and VII of the Original Instrument and in Sections 8.01 and 8.02 of Article VIII thereof shall be applicable to the Series 2004 Bonds in like manner as applicable to the Parity Obligations. The principal of, Redemption Price, if applicable, and interest on the Series 2004 Bonds shall be payable from the Debt Service Fund and established by the Original Instrument on a Parity with the Parity Obligations, and deposits shall be made into the Debt Service Fund by the Issuer in amounts fully sufficient to pay the principal of and interest on the Series 2004 Bonds and on the Parity Obligations as such principal and interest become due. The Reserve Account established by the Original Instrument shall be applicable pro rata to the Series 2004 Bonds in the same manner as applicable to the Parity Obligations. Notwithstanding the provisions of the Original Instrument, Prerefunded Obligations shall not be used to defease the lien on the Pledged Funds of the Series 2004 Bonds without the written consent of the Insurer.

## ARTICLE 4

### MISCELLANEOUS

SECTION 4.1            Ratification of Acceptance of Insurance Commitments. The Issuer hereby ratifies the acceptance of the Insurer's commitments to provide a Bond Insurance Policy and Reserve Account Insurance Policy with respect to the Series 2004 Bonds, copies of which commitments are attached hereto as Exhibit C. The Insurer is hereby designated as the Insurer for the Series 2004 Bonds; the Insurer shall have the same rights to receive notices, grant consents and direct actions as the insurers of the Parity Obligations. The Reserve Account Surety issued by the Insurer shall be in the amount specified in the Reserve Account Surety. Such amount, together with the other amounts on deposit in or credited to the Reserve Account, shall equal not less than the Reserve Account Requirement. Such amount may equal an amount which, together with the other amounts on deposit in or credited to the Reserve Account, is greater than the Reserve Account Requirement in order to comply with the terms of the Insurer's commitments.

The Chairman or Vice Chairman and the Clerk or any deputy clerk are hereby authorized to execute and deliver the Reserve Account Surety Agreement, with such omissions, insertions and variations as may be necessary and/or desirable and approved by the Chairman or Vice Chairman and the Clerk or any deputy clerk prior to the delivery thereof, such necessity and/or desirability and approval by the Chairman or Vice Chairman and the Clerk or any deputy clerk to be presumed by their execution and delivery thereof; and all of the provisions of the Reserve

Account Surety Agreement, when executed and delivered by the Issuer as authorized herein, and by the Insurer, shall be deemed to be a part of this Resolution and the Original Instrument as fully and to the same extent as if incorporated verbatim herein and therein.

SECTION 4.2            Insurer. Notwithstanding any provision to the contrary contained herein, the following provisions shall apply so long as the Financial Guaranty Insurance Policy and the Reserve Account Surety with respect to the Series 2004 Bonds issued by the Insurer shall be in full force and effect:

(A) Any provision of the Bond Resolution expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance thereunder without the prior written consent of Ambac Assurance. Ambac Assurance has reserved the right to charge the Issuer a fee for any consent or amendment to the Bond Resolution while the Financial Guaranty Insurance Policy or Reserve Account Surety is outstanding.

(B) Unless otherwise provided in Section 7.01 of the Original Instrument, Ambac Assurance's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution; (ii) removal of the Paying Agent for the Series 2004 Bonds and selection and appointment of any successor Paying Agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of Holders of the Series 2004 Bonds.

(C) Any reorganization or liquidation plan with respect to the Issuer 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 Holders who hold Series 2004 Bonds absent a default by Ambac Assurance under the Financial Guaranty Insurance Policy.

(D) Anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined therein, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 Bonds or a trustee for the benefit of the Holders of the Series 2004 Bonds under the Bond Resolution.

(E) While the Financial Guaranty Insurance Policy or Reserve Account Surety is in effect, the following shall be sent to the attention of the Surveillance Department of Ambac Assurance:

1. the Issuer shall furnish to Ambac Assurance, upon request, the following: (a) a copy of any financial statement, audit and/or annual report of the Issuer and (b) such additional information Ambac Assurance may reasonably request.
2. a copy of any notice to be given to the registered owners of the Series 2004 Bonds, including, without limitation, notice of any redemption of or defeasance of Series 2004 Bonds, and any certificate rendered

pursuant to the Bond Resolution relating to the security for the Series 2004 Bonds.

(F) While the Financial Guaranty Insurance Policy or Reserve Account Surety is in effect, the following notices shall be sent to the attention of the General Counsel Office of Ambac Assurance:

1. The Issuer shall notify Ambac Assurance of any failure of the Issuer to provide relevant notices, certificates, etc.
2. Notwithstanding any other provision of the Bond Resolution, the Issuer shall immediately notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest on the Series 2004 Bonds as required and immediately upon the occurrence of any Event of Default under the Bond Resolution.

(G) The Issuer will permit Ambac Assurance to discuss the affairs, finances and accounts of the Issuer or any information Ambac Assurance may reasonably request regarding the security for the Series 2004 Bonds with appropriate officers of the Issuer. The Issuer will permit Ambac Assurance to have access to Project 2004 and have access to and to make copies of all books and records relating to the Series 2004 Bonds at any reasonable time.

(H) Ambac Assurance shall have the right to direct an accounting at the Issuer's expense, and the Issuer'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 under the Bond Resolution; 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 2004 Bonds.

(I) As long as the Financial Guaranty Insurance Policy shall be in full force and effect, the Issuer hereby directs the Paying Agent to comply with the following provisions with respect to the Series 2004 Bonds:

1. at least one day prior to all Interest Dates the Paying Agent will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest on the Series 2004 Bonds on such Interest Date. If the Paying Agent determines that there will be insufficient funds in such Funds or Accounts, the Paying Agent shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Series 2004 Bonds to which such deficiency is applicable and whether such Series 2004 Bonds will be deficient as to principal or interest, or both. If the Paying Agent has not so notified Ambac Assurance at least one (1) day prior to an Interest Date, Ambac Assurance will make payments of principal or interest due on the Series 2004 Bonds on or before the first day next

following the date on which Ambac Assurance shall have received notice of nonpayment from the Paying Agent.

2. the Paying Agent shall, after giving notice to Ambac Assurance as provided in (1) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Issuer maintained by the registrar, and all records relating to the funds and accounts maintained under the Bond Resolution relating to the Series 2004 Bonds.
3. the Paying Agent shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Series 2004 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 2004 Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Series 2004 Bonds surrendered to the Insurance Trustee by the registered owners of Series 2004 Bonds entitled to receive full or partial principal payments from Ambac Assurance.
4. the Paying Agent shall, at the time it provides notice to Ambac Assurance pursuant to (1) above, notify registered owners of Series 2004 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 2004 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 2004 Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Paying Agent and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Series 2004 Bonds for payment thereon first to the Paying Agent who shall note on such Series 2004 Bonds the portion of the principal paid by the Paying Agent 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.



5. in the event that the Paying Agent has notice that any payment of principal of or interest on a Series 2004 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Issuer 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 Paying Agent shall, at the time Ambac Assurance is notified pursuant to (1) 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 Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Paying Agent shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Series 2004 Bonds which have been made by the Paying Agent and subsequently recovered from registered owners and the dates on which such payments were made.
6. in addition to those rights granted Ambac Assurance under the Bond Resolution, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Series 2004 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 Paying Agent shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Paying Agent upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Series 2004 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Paying Agent shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Paying Agent upon surrender of the Series 2004 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(J) 1. The Paying Agent for the Series 2004 Bonds may be removed at any time, at the request of Ambac Assurance, for any breach of its obligations and duties.

2. Any successor Paying Agent shall not be appointed unless Ambac Assurance approves such successor in writing.
3. Notwithstanding any other provision of the Bond Resolution in determining whether the rights of the Holders of the Series 2004 Bonds will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Paying Agent shall consider the effect on the Holders as if there were no Financial Guaranty Insurance Policy.

4. Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to Ambac Assurance, shall be appointed.

SECTION 4.3            Provisions Relating to the Reserve Account Surety. As long as the Reserve Account Surety shall be in full force and effect, the Issuer hereby directs the Paying Agent to comply with the following provisions:

(A) In the event and to the extent that moneys on deposit in the Debt Service Fund (exclusive of the Reserve Account), plus all amounts on deposit in and credited to the Reserve Account in excess of the amount of the Reserve Account Surety and amounts available under other Reserve Account Insurance Policies and Reserve Account Letters of Credit or other such funding instrument (collectively, the "Additional Funding Instruments") are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one day after receipt by the General Counsel of Ambac Assurance of a demand for payment in the form attached to the Reserve Account Surety as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due under the Bond Resolution has not been made to the Payment Agent; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac Assurance, Ambac Assurance will make a deposit of funds in an account with the Paying Agent or its successor, in New York, New York, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent under the Bond Resolution (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Reserve Account Surety; *provided, however*, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Account Surety and the Additional Funding Instruments, draws on the Reserve Account Surety and the Additional Funding Instruments shall be made on a pro rata basis (calculated by reference to the coverage then available thereunder), to fund the insufficiency.

(B) the Paying Agent shall, after submitting to Ambac Assurance the Demand for payment as provided in (A) above, make available to Ambac Assurance all records relating to the funds and accounts maintained under the Bond Resolution.

(C) the Paying Agent shall, upon receipt of moneys received from the draw on the Reserve Account Surety, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such Demand.

(D) the Reserve Account shall be replenished in the following priority; (i) principal and interest on the Reserve Account Surety and on the Additional Funding Instruments shall be paid from first available Pledged Funds on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Account Surety and the Additional Funding Instruments shall be deposited from next available Pledged Funds.

SECTION 4.4            Sale of the Series 2004 Bonds; Authorization of Execution of Purchase Contract. A negotiated sale of the Series 2004 Bonds is hereby authorized. The Chairman or the County Administrator is hereby authorized and directed to award the sale of the

Series 2004 Bonds to the Purchaser in an aggregate principal amount which shall not exceed \$30,000,000 (the "Maximum Principal Amount"), at an aggregate purchase price (including any original issue discount on Series 2004 Current Interest Bonds) of not less than 98.5% of the original principal amount of such Series 2004 Bonds (the "Minimum Purchase Price"), as approved by the Chairman or the County Administrator, within the following parameters (the "Parameters"): the principal amount of the Series 2004 Bonds shall not exceed \$30,000,000; the true interest cost of the Series 2004 Bonds shall not exceed 6.0%; the final maturity of the Series 2004 Bonds shall not be later than June 1, 2034; the Purchase Contract shall contain a provision to the effect that, prior to the issuance of the Series 2004 Bonds, the Issuer shall have received the consent of the State Department described in Section 1.4(C) hereof; the costs of issuance shall be comparable to or less than the current average issuance cost for bonds of similar tenor and amount; and the Insurer's commitments to provide a Bond Insurance Policy and Reserve Account Surety with respect to the Series 2004 Bonds shall be in effect.

The proposed form of the Purchase Contract presented by the Purchaser, with such omissions, insertions and variations as may be necessary and/or desirable and approved by the Chairman or the County Administrator prior to the execution and delivery thereof, is hereby approved; such necessity and/or desirability and approval by the Chairman or the County Administrator to be presumed by the Chairman's or the County Administrator's execution thereof; the Chairman or the County Administrator is hereby authorized to accept the offer of the Purchaser to purchase the Series 2004 Bonds in an aggregate principal amount not to exceed the Maximum Principal Amount, at a purchase price of not less than the Minimum Purchase Price plus accrued interest thereon to the date of delivery and with final terms within the Parameters, upon the terms and conditions set forth in the Purchase Contract; and the Chairman or the County Administrator is hereby authorized to execute and deliver the Purchase Contract in the form approved by such person for and on behalf of the Issuer pursuant to the terms hereof. Receipt by the Chairman or the County Administrator of a report of the Financial Advisor stating that (i) the aggregate purchase price set forth in the Purchase Contract is not less than the Minimum Purchase Price, (ii) the final terms of the Series 2004 Bonds are within the Parameters, and (iii) the pricing and presale of the Series 2004 Bonds complies with the Governing Body's Underwriting Policy shall constitute conclusive proof that all of the terms and conditions set forth in this Section 4.4 have been fully satisfied.

The Series 2004 Bonds shall be dated such date or dates, shall bear interest (or interest shall accrete) at such rates (or approximate rates), mature on such dates, have such Amortization Installments, have such Table of Accreted Values (in the case of Series 2004 Capital Appreciation Bonds) be redeemable prior to maturity upon such terms and conditions and have such other terms as are set forth in the Purchase Contract and approved by the Chairman or the County Administrator, and the authority to approve such matters is hereby expressly delegated to the Chairman and the County Administrator as herein provided, with the Chairman's or the County Administrator's approval to be conclusively evidenced by the Chairman's or the County Administrator's execution of any documents including such terms.

Prior to the execution and delivery of the Purchase Contract by the Issuer, the Purchaser shall include in or attach to the Purchase Contract the disclosure statements required by Section 218.385, Florida Statutes, as amended. The Chairman, the County Administrator and the other officers, agents and employees of the Issuer are hereby authorized and directed to conclude the

execution, issuance and delivery of the Series 2004 Bonds in accordance with the provisions of the Original Instrument, this Resolution and the Purchase Contract.

Authority for the issuance of such aggregate principal amount of the Series 2004 Bonds herein authorized which shall not be hereafter delivered to the Purchaser pursuant to the provisions of the Purchase Contract is hereby cancelled and rescinded.

Notwithstanding the foregoing, in the event the Purchase Contract is not executed and delivered by the Issuer and the Purchaser on or before March 31, 2004 the Chairman's and the County Administrator's authority to award the sale of the Series 2004 Bonds to the Purchaser and to execute the Purchase Contract for and on behalf of the Issuer pursuant to the terms hereof shall be automatically terminated on April 1, 2004.

SECTION 4.5      Approval of Draft Preliminary Official Statement and Authorization of Preliminary Official Statement and Final Official Statement. The Draft Preliminary Official Statement is hereby approved, and a preliminary official statement and a final official statement in substantially the form of the Draft Preliminary Official Statement, with such omissions, insertions and variations as may be necessary and/or desirable and approved by Chairman or Vice Chairman prior to the release thereof, are hereby approved and each is authorized to be delivered by the Issuer to the Purchaser for distribution prior to or contemporaneously with the issuance and delivery of the Series 2004 Bonds. The Chairman or the County Administrator is hereby authorized to deem the preliminary official statement final as of its date on behalf of the Issuer for purposes of Rule 15c2-12 of the Securities and Exchange Commission (except for such omissions permitted by such Rule 15c2-12), and to execute a certificate to that effect to be delivered to the Purchaser. A final official statement in substantially the form of the "deemed final" preliminary official statement, with such omissions, insertions and variations as may be necessary and/or desirable and approved by the Chairman or Vice Chairman prior to the release thereof, is hereby authorized to be delivered by the Issuer to the Purchaser for distribution at or prior to the issuance and delivery of the Series 2004 Bonds. The Chairman or the Vice Chairman are hereby authorized to evidence the Issuer's approval of the final official statement by either's endorsement thereof upon one or more copies, and approval of all such omissions, insertions and variations may be presumed from such endorsement upon any copy of such final official statement. Bond Counsel is hereby directed to furnish to the Division of Bond Finance of the State Board of Administration of the State of Florida a copy of the final official statement, a notice of the impending sale of the Series 2004 Bonds and the other information required by Section 218.38, Florida Statutes, as amended, within the appropriate time periods specified by such section.

SECTION 4.6      Registrar and Paying Agent. J. P. Morgan Trust Company, National Association, is hereby appointed as Registrar and Paying Agent under the Original Instrument to serve as Registrar and Paying Agent for the Series 2004 Bonds. The Registrar and Paying Agency Agreement, substantially in the form attached hereto as Exhibit E and incorporated herein by reference, with such omissions, insertions and variations as may be approved on behalf of the Issuer by the Chairman or County Administrator, such approval to be evidenced conclusively by the Chairman's or County Administrator's execution thereof, is hereby approved and authorized. The Issuer hereby authorizes and directs the Chairman or County Administrator to execute the Registrar and Paying Agency Agreement and to deliver the

same to the Registrar and Paying Agent for the Series 2004 Bonds. All of the provisions of the Registrar and Paying Agency Agreement, when executed, dated and delivered by or on behalf of the Issuer authorized herein and by or on behalf of the Registrar and Paying Agent for the Series 2004 Bonds, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

SECTION 4.7            Continuing Disclosure. The Issuer agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, attached hereto as Exhibit F and incorporated herein by reference, executed by the Issuer and dated the date of issuance of the Series 2004 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof (the "Continuing Disclosure Certificate"). Notwithstanding any other provision of this Resolution, failure of the Issuer to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default nor give rise to pecuniary liability; however, any Bondholder or Beneficial Owner (as hereinafter defined) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Section 4.7. For purposes of this Section 4.7, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2004 Bonds (including persons holding Series 2004 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2004 Bonds for federal income tax purposes.

SECTION 4.8            General Authority. The members of the Governing Body and the Issuer's officers, attorneys and other agents and employees are hereby authorized to do all acts and things required of them by this Resolution or desirable or consistent with the requirements hereof for the full, punctual and complete performance of all of the terms, covenants and agreements contained in the Series 2004 Bonds and this Resolution, and they are hereby authorized to execute and deliver all documents which shall be reasonably required by Bond Counsel or the Purchaser to effectuate the sale and delivery of the Series 2004 Bonds.

SECTION 4.9            Authorization of Execution of Certificates and Other Instruments. The Chairman or Vice Chairman and the Clerk or any deputy clerk are hereby authorized and directed, either alone or jointly, under the official seal of the Issuer, to execute and deliver Certificates of the Issuer certifying such facts as the Issuer's attorney, counsel to the Purchaser or Bond Counsel shall require in connection with the issuance, sale and delivery of the Series 2004 Bonds, and to execute and deliver such other instruments as shall be necessary or desirable to perform the Issuer's obligations under this Resolution, the Original Instrument and the Purchase Contract and to consummate the transactions contemplated hereby and thereby.

SECTION 4.10          No Personal Liability. No representation, statement, covenant, warranty, stipulation, obligation or agreement herein contained, or contained in the Series 2004 Bonds, or in any certificate or other instrument to be executed on behalf of the Issuer in connection with the issuance of the Series 2004 Bonds, shall be deemed to be a representation, statement, covenant, warranty, stipulation, obligation or agreement of any member of the Governing Body, officer, employee or agent of the Issuer in his or her individual capacity, and none of the foregoing persons nor any officer of the Issuer executing the Series 2004 Bonds, or any certificate or other instrument to be executed in connection with the issuance of the Series

2004 Bonds, shall be liable personally thereon or be subject to any personal liability or accountability by reason of the execution or delivery thereof.

SECTION 4.11      No Third Party Beneficiaries. Except such other Persons as may be expressly described herein or in the Series 2004 Bonds, nothing in this Resolution, or in the Series 2004 Bonds, expressed or implied, is intended or shall be construed to confer upon any Person other than the Issuer, the Insurer and the Holders thereof any right, remedy or claim; legal or equitable, under and by reason of this Resolution or any provision hereof, or of the Series 2004 Bonds, all provisions hereof and thereof being intended to be and being for the sole and exclusive benefit of the Issuer, the Insurer and the Persons who shall from time to time be the Holders.

SECTION 4.12      Severability of Invalid Provisions. If any one or more of the covenants, agreements or provisions of this Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements and provisions of this Resolution and shall in no way affect the validity of any of the other covenants, agreements or provisions hereof or of the Series 2004 Bonds.

SECTION 4.13      Repeal of Inconsistent Resolutions. All other resolutions or parts thereof in conflict herewith are hereby superseded and repealed to the extent of such conflict.

SECTION 4.14      Original Instrument in Full Force and Effect. Except as hereby supplemented, the Original Instrument shall remain in full force and effect.

SECTION 4.15      Table of Contents and Headings not Part Hereof. The Table of Contents preceding the body of this Resolution and the headings preceding the several articles and sections hereof shall be solely for convenience of reference and shall not constitute a part of this Resolution or affect its meaning, construction or effect.

SECTION 4.16      Effective Date. This Resolution shall become effective immediately upon its passage.

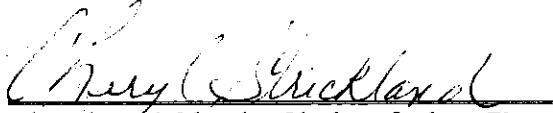
PASSED, APPROVED AND ADOPTED this 20<sup>th</sup> day of January, 2004.

BOARD OF COUNTY COMMISSIONERS OF  
ST. JOHNS COUNTY, FLORIDA

By:   
Karen R. Stern, Chair

(OFFICIAL SEAL)

ATTEST:

  
Cheryl Strickland, Clerk of the Circuit  
Court of St. Johns County, ex officio Clerk  
of the Board of County Commissioners

I, Cheryl Stickland, Clerk of the Board of County Commissioners of St. Johns County, Florida, hereby certify that the foregoing is a true and correct copy of Resolution No. 2004-~~16~~ of said County passed and adopted on January 20, 2004.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of said County this 3 day of ~~January~~, 2004.

*February*

*Cheryl Stickland*  
Clerk of the Board of County Commissioners

(OFFICIAL SEAL)

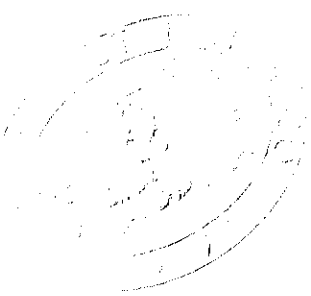




EXHIBIT A

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY \_\_, 2004

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: Moody's: "\_\_\_" (Ambac Insured)  
"A2" (Underlying)  
S&P: "\_\_\_" (Ambac Insured)  
"A+" (Underlying)

*In the opinion of Rogers Towers, P.A., Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2004 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that the Series 2004 Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds. See "TAX MATTERS" herein.*

[INSERT COUNTY LOGO]

\$30,000,000\*  
ST. JOHNS COUNTY, FLORIDA  
Water and Sewer Revenue Bonds  
Series 2004

Dated: Date of Delivery

Due: June 1, or as otherwise shown on the  
inside cover of this Official Statement

The St. Johns County, Florida Water and Sewer Revenue Bonds, Series 2004 (the "Series 2004 Bonds") are being issued by St. Johns County, Florida (the "County") as fully registered bonds, initially registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2004 Bonds. Individual purchases of Series 2004 Bonds which are current interest bonds (the "Series 2004 Current Interest Bonds") may be made only in book-entry form in denominations of \$5,000 and integral multiples of \$5,000. Individual purchases of the Series 2004 Bonds, which are Capital Appreciation Bonds (the "Series 2004 Capital Appreciation Bonds"), may be made only in book-entry form in denominations of \$5,000 Maturity Amount and integral multiples thereof. Purchasers of Series 2004 Bonds will not receive physical delivery of bond certificates representing their ownership interests in the Series 2004 Bonds purchased. As long as DTC or its nominee is the registered owner of the Series 2004 Bonds, principal and interest payments will be made to DTC. See "BOOK-ENTRY ONLY SYSTEM" herein. Interest on the Series 2004 Current Interest Bonds is payable on June 1 and December 1 in each year, commencing on June 1, 2004. Interest on the Series 2004 Bonds Capital Appreciation Bonds

\*Preliminary, subject to change

will be compounded on June 1 and December 1 in each year, commencing on June 1, 2004, and will be payable as part of the Maturity Amounts. J.P. Morgan Trust Company, National Association is Paying Agent and Registrar for the Series 2004 Bonds. See "DESCRIPTION OF THE SERIES 2004 BONDS" herein. Capitalized terms used but not defined in this Official Statement have the meaning ascribed thereto in the Resolution (as defined herein), unless the context would clearly indicate otherwise.

The Series 2004 Bonds are subject to optional and mandatory redemption prior to their stated maturities as set forth herein. See "DESCRIPTION OF THE SERIES 2004 BONDS -- Redemption of the Series 2004 Bonds" herein.

The Series 2004 Bonds are being issued to provide funds to: (i) finance all or a portion of the cost of the acquisition, construction and installation of Project 2004 (as defined herein), (ii) fund the Reserve Account Requirement for the Series 2004 Bonds by the purchase of a financial guaranty debt service reserve insurance policy, and (iii) pay the costs of issuance related to the Series 2004 Bonds, including the financial guaranty insurance premium.

The Series 2004 Bonds, redemption premiums, if any, and the interest thereon are payable solely from and secured by a pledge of and prior lien upon the Pledged Funds (as defined herein), which include the Net Revenues derived from the operation of the water and sewer systems owned, operated and maintained by the County (the "System") and certain legally available connection charges. The Series 2004 Bonds are being issued on a parity with the County's outstanding Water and Sewer Revenue Bonds, Series 1991A; its outstanding Water and Sewer Revenue and Refunding Bonds, Series 1996; its outstanding Water and Sewer Revenue Refunding Bonds, Series 1998; its outstanding Water and Sewer Revenue Refunding Bonds, Series 1999A; its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B; its outstanding Water and Sewer Revenue Refunding Bonds, Series 2002A; and its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B. See "SECURITY FOR THE SERIES 2004 BONDS" herein.

The payment, in the case of the Series 2004 Current Interest Bonds, of the principal of and interest on, and in the case of the Series 2004 Capital Appreciation Bonds, of the Maturity Amounts when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2004 Bonds. See "FINANCIAL GUARANTY INSURANCE POLICY" herein.

### ***Ambac***

**THE SERIES 2004 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE COUNTY AS "BONDS" WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, BUT SHALL BE SPECIAL OBLIGATIONS OF THE COUNTY, PAYABLE SOLELY FROM AND SECURED BY A LIEN UPON AND A PLEDGE OF THE PLEDGED FUNDS IN ACCORDANCE WITH THE TERMS OF THE RESOLUTION. NO HOLDER OF ANY SERIES 2004 BONDS OR ANY CREDIT BANK OR ANY INSURER SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION**

**THEREOF TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON ANY SUCH SERIES 2004 BOND OR SHALL BE ENTITLED TO PAYMENT OF SUCH SERIES 2004 BOND FROM ANY MONEYS OF THE COUNTY EXCEPT THE PLEDGED FUNDS IN THE MANNER PROVIDED IN THE RESOLUTION.**

A DETAILED MATURITY SCHEDULE IS SET FORTH ON THE INSIDE COVER.

**This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

*The Series 2004 Bonds are offered when, as and if issued and received by the Underwriters, subject to the unqualified approval of legality by Rogers Towers, P.A., Jacksonville, Florida, Bond Counsel. Certain legal matters will be passed upon for the County by the Office of the County Attorney. Nabors, Giblin & Nickerson, P.A., Orlando, Florida is serving as Disclosure Counsel to the County. Public Financial Management, Inc., Orlando, Florida is serving as Financial Advisor to the County in connection with the issuance of the Series 2004 Bonds. It is expected that the Series 2004 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about February 12, 2004.*

Dated: January \_\_, 2004

**William R. Hough & Co.**

**MERCHANT CAPITAL**  
L.L.C.

# MATURITY SCHEDULE

\$30,000,000\*  
ST. JOHNS COUNTY, FLORIDA  
Water and Sewer Revenue Bonds  
Series 2004

\$\_\_\_\_\_ Current Interest Bonds

| <u>Maturity</u><br><u>(June 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u> | <u>Yield</u> | <u>Initial</u><br><u>CUSIP Number</u> <sup>†</sup> |
|------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|----------------------------------------------------|
| \$                                 |                                   | %                              |              | %            |                                                    |

\$\_\_\_\_\_ % Current Interest Term Bonds due June 1, \_\_\_\_\_ - Price \_\_\_\_\_, Yield \_\_\_\_\_ %  
\$\_\_\_\_\_ % Current Interest Term Bonds due June 1, \_\_\_\_\_ - Price \_\_\_\_\_, Yield \_\_\_\_\_ %

\$\_\_\_\_\_ Capital Appreciation Bonds

| <u>Maturity</u><br><u>(June 1)</u> | <u>Original Principal</u><br><u>Amount</u> | <u>Value at</u><br><u>Maturity</u> | <u>Original Principal</u><br><u>Per \$5,000</u><br><u>Maturity Amount</u> | <u>Approximate</u><br><u>Yield to Maturity</u> | <u>Initial</u><br><u>CUSIP Number</u> <sup>†</sup> |
|------------------------------------|--------------------------------------------|------------------------------------|---------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------------|
| \$                                 |                                            | \$                                 | %                                                                         | %                                              |                                                    |

\$\_\_\_\_\_ Original Principal Amount Capital Appreciation Term Bonds due June 1, \_\_\_\_\_  
Approximate Yield to Maturity \_\_\_\_\_ %, \$\_\_\_\_\_ Value at Maturity

(\$\_\_\_\_\_ Original Principal Amount per \$5,000 Maturity Amount)

<sup>†</sup> The County is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the County as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

**ST. JOHNS COUNTY, FLORIDA**

**MEMBERS OF THE BOARD OF COUNTY COMMISSIONERS**

Karen R. Stern, Chair  
Bruce A. Maguire, Vice-Chair  
James E. Bryant  
Marc A. Jacalone  
Nicholas M. Meiszer

**CONSTITUTIONAL OFFICERS**

Neil Perry, Sheriff  
Cheryl Strickland, Clerk of Circuit Court  
Dennis Hollingsworth, Tax Collector  
Sharon P. Outland, Property Appraiser  
Penny Halyburton, Supervisor of Elections

**COUNTY ADMINISTRATOR**

Ben W. Adams, Jr.

**FINANCE DIRECTOR**

Richard A. MacDonald, Jr.

**COUNTY ATTORNEY**

Daniel J. Bosanko

**BOND COUNSEL**

Rogers Towers, P.A.  
Jacksonville, Florida

**DISCLOSURE COUNSEL**

Nabors, Giblin & Nickerson, P.A.  
Orlando, Florida

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Orlando, Florida

**CONSULTING ENGINEER**

Hartman & Associates, Inc.  
Orlando, Florida

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE COUNTY OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN AS SET FORTH IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COUNTY OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE SERIES 2004 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER, SOLICITATION OR SALE IN SUCH JURISDICTION.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE SERIES 2004 BONDS. STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED IN THIS OFFICIAL STATEMENT, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACTS. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COUNTY SINCE THE DATE HEREOF OR THE EARLIEST DATE AS OF WHICH SUCH INFORMATION IS GIVEN.

THE SERIES 2004 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2004 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2004 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2004 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THIS PRELIMINARY OFFICIAL STATEMENT IS IN A FORM DEEMED FINAL BY THE COUNTY FOR PURPOSES OF RULE 15C2-12 ISSUED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT FOR CERTAIN INFORMATION PERMITTED TO BE OMITTED PURSUANT TO RULE 15C2-12(B)(1).

IN CONNECTION WITH THIS OFFERING OF THE SERIES 2004 BONDS, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2004 BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE PUBLIC OFFERING PRICE AND SUCH PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME, AFTER THE INITIAL OFFERING TO THE PUBLIC, BY THE UNDERWRITERS.

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## OFFICIAL STATEMENT

*relating to*

**\$30,000,000\***

**ST. JOHNS COUNTY, FLORIDA**  
**Water and Sewer Revenue Bonds**  
**Series 2004**

### INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover and the appendices hereto, is to provide information concerning the issuance by St. Johns County, Florida (the "County") of \$30,000,000\* aggregate principal amount of the County's Water and Sewer Revenue Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds are issued under the authority of and in full compliance with the Constitution and laws of the State of Florida, particularly Chapter 125, Part I, Florida Statutes, as amended, County Ordinance No. 86-89 enacted by the Board of County Commissioners of the County (the "Board"), as amended and supplemented (the "Ordinance"), and other applicable provisions of law and Resolution No. 89-84 of the County duly adopted by the Board on April 25, 1989, as amended and supplemented (the "Master Resolution"), as particularly supplemented by Resolution No. 2004-[ ] duly adopted by the Board on January 20, 2004 (together with the Master Resolution, the "Resolution"). Capitalized terms used herein and not otherwise defined have the definitions set forth in the Resolution. See "THE COMPOSITE RESOLUTION" attached hereto as APPENDIX D for pertinent provisions of the Master Resolution.

The Series 2004 Bonds are being issued on a parity with the Parity Obligations (as defined herein). See "DEBT SERVICE SCHEDULE" and "SECURITY FOR THE SERIES 2004 BONDS – Source of Payment" herein. The County may issue Additional Bonds payable from the Pledged Funds (as defined herein) on parity with the Parity Obligations and the Series 2004 Bonds, provided, however, that such Additional Bonds may be issued only if the County first has complied with certain requirements set out in the Master Resolution. See "SECURITY FOR THE SERIES 2004 BONDS – Additional Bonds" herein.

For a complete description of the terms and conditions of the Series 2004 Bonds, reference is made to the Resolution. See "THE COMPOSITE RESOLUTION" attached hereto as APPENDIX D. The description of the Series 2004 Bonds and of the documents authorizing and securing the same and the description of other debt of the County do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each. All information included herein has been provided by the County except where attributed to other sources. This Official Statement speaks only as of its date and the information contained herein is subject to change. This Official Statement contains certain information concerning Ambac Assurance and the Financial Guaranty Insurance Policy and the 2004 Reserve Account Insurance Policy (each as defined herein) with respect to the Series 2004 Bonds, and DTC (as defined herein) and its book-entry system. Such information has not been provided by the County and the County does not certify as to the accuracy or sufficiency of the disclosure practices or content

\*Preliminary, subject to change.

of information provided by such parties and is not responsible for the information provided by such parties.

### **PURPOSE OF THE SERIES 2004 BONDS**

The Series 2004 Bonds are being issued to provide funds to: (i) finance all or a portion of the cost of the acquisition, construction and installation of Project 2004 (as defined herein), (ii) fund the Reserve Account Requirement for the Series 2004 Bonds by the purchase of a municipal bond debt service reserve insurance policy, and (iii) pay the costs of issuance related to the Series 2004 Bonds, including the municipal bond insurance premium.

### **THE COUNTY**

The County was established in 1821. The City of St. Augustine ("St. Augustine"), which is the County seat, was founded over 400 years ago by Spanish explorers and is the nation's oldest city. The County encompasses approximately 608 square miles and is located in the northeastern region of the State of Florida (the "State") directly south of the City of Jacksonville and is bordered on the west by the St. Johns River, on the south by Flagler County, and on the east by the Atlantic Ocean. The 2002 population of the County was 133,953. For further information concerning the County, see "GENERAL INFORMATION CONCERNING THE COUNTY" attached hereto as APPENDIX A.

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## PROJECT 2004

"Project 2004" consists of acquisition, construction and erection of additions, extensions and improvements to the System generally described as set forth in the table below, with such changes, deletions, additions or modifications to the numerated improvements, equipment and facilities or such other improvements, equipment and facilities as shall be designated and approved by the County Administrator or his or her designee in accordance with applicable law. The County shall obtain all local, state and federal permits as needed for the acquisition and construction of Project 2004. See "THE SYSTEM" herein and "CONSULTING ENGINEER'S REPORT" attached hereto as APPENDIX C.

| <u>No.</u> | <u>Description</u>                                      | <u>Improvement<br/>Category</u> | <u>Service<br/>Category</u> | <u>Estimated<br/>Project Costs</u> |
|------------|---------------------------------------------------------|---------------------------------|-----------------------------|------------------------------------|
| 1          | Administrative Building Improvements                    | Upgrade, Expansion              | General                     | \$ 450,000                         |
| 2          | Expansion of Billing and Administration Building        | Upgrade, Expansion              | General                     | 2,350,000                          |
| 3          | Telemetry System Improvements <sup>(1)</sup>            | Upgrade, Expansion              | Combination                 | 350,000                            |
| 4          | Water Transmission Mains <sup>(1)</sup>                 | Upgrade, Expansion              | Water                       | 7,440,000                          |
| 5          | CR 214 WTP Well Field                                   | Expansion                       | Water                       | 1,200,000                          |
| 6          | CR 214 WTP Improvements                                 | R&R, Expansion                  | Water                       | 9,200,000                          |
| 7          | Meter Change Out Program                                | Upgrade                         | Water                       | 1,500,000                          |
| 8          | Wastewater Lift Station Improvements <sup>(1)</sup>     | Upgrade, Expansion              | Wastewater                  | 1,316,000                          |
| 9          | Wastewater Transmission Mains <sup>(1)</sup>            | Expansion                       | Wastewater                  | 1,155,000                          |
| 10         | <u>Anastasia Island WWTP Improvements<sup>(1)</sup></u> | R&R, Expansion                  | Wastewater                  | <u>1,900,000</u>                   |
|            | Combined Project Cost                                   |                                 |                             | <u>\$26,861,000</u>                |

<sup>(1)</sup> Advance funded from existing reserves and subject to reimbursement from proceeds of the Series 2004 Bonds.

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## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2004 Bonds are expected to be applied as described below:

### Sources:

|                                            |                 |
|--------------------------------------------|-----------------|
| Principal Amount of Series 2004 Bonds..... | \$ _____        |
| Original Issue Premium .....               | _____           |
| Original Issue Discount.....               | _____           |
| Total Sources.....                         | <u>\$ _____</u> |

### Uses:

|                                          |                 |
|------------------------------------------|-----------------|
| Deposit to the Interest Account.....     | \$ _____        |
| Deposit to the Construction Account..... | _____           |
| Cost of Issuance <sup>(1)</sup> .....    | _____           |
| Underwriters' Discount .....             | _____           |
| Total Uses .....                         | <u>\$ _____</u> |

<sup>(1)</sup> Includes, among other things, legal, financial and administrative expenses, and the premium for the Financial Guaranty Insurance Policy and the 2004 Reserve Account Insurance Policy.

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## DEBT SERVICE SCHEDULE

The following table sets forth the debt service schedule for the Series 2004 Bonds and the Parity Obligations.

| Year Ending<br>(June 1) | Series 2004 Bonds |                 | Parity Obligations     | Total               |
|-------------------------|-------------------|-----------------|------------------------|---------------------|
|                         | <u>Principal</u>  | <u>Interest</u> | <u>Debt Service</u>    | <u>Debt Service</u> |
| 2004                    | \$                | \$              | \$ 4,289,540.00        | \$                  |
| 2005                    |                   |                 | 4,289,295.00           |                     |
| 2006                    |                   |                 | 4,293,650.00           |                     |
| 2007                    |                   |                 | 4,293,920.00           |                     |
| 2008                    |                   |                 | 4,288,705.00           |                     |
| 2009                    |                   |                 | 4,294,690.00           |                     |
| 2010                    |                   |                 | 4,334,710.00           |                     |
| 2011                    |                   |                 | 4,346,550.00           |                     |
| 2012                    |                   |                 | 4,429,150.00           |                     |
| 2013                    |                   |                 | 4,423,225.00           |                     |
| 2014                    |                   |                 | 4,421,475.00           |                     |
| 2015                    |                   |                 | 4,423,650.00           |                     |
| 2016                    |                   |                 | 4,424,475.00           |                     |
| 2017                    |                   |                 | 4,423,950.00           |                     |
| 2018                    |                   |                 | 4,427,100.00           |                     |
| 2019                    |                   |                 | 4,423,625.00           |                     |
| 2020                    |                   |                 | 4,423,800.00           |                     |
| 2021                    |                   |                 | 4,422,375.00           |                     |
| 2022                    |                   |                 | 634,325.00             |                     |
| 2023                    |                   |                 | 637,650.00             |                     |
| 2024                    |                   |                 | 634,325.00             |                     |
| 2025                    |                   |                 | 634,625.00             |                     |
| 2026                    |                   |                 | 638,275.00             |                     |
| Total                   | <u>\$</u>         | <u>\$</u>       | <u>\$81,853,085.00</u> | <u>\$</u>           |

## DESCRIPTION OF THE SERIES 2004 BONDS

### General

The Series 2004 Current Interest Bonds are issuable only in fully registered form in denominations of \$5,000 and integral multiples of \$5,000, shall be dated the date of delivery and shall bear interest from their dated date. Interest on the Series 2004 Current Interest Bonds shall be payable on June 1 and December 1 in each year, commencing on June 1, 2004.

The Series 2004 Capital Appreciation Bonds are issuable only in fully registered form in denominations of \$5,000 Maturity Amount and integral multiples thereof. The Maturity Amounts (which include the amount of principal and accreted interest) for the Series 2004 Capital Appreciation Bonds per \$5,000 maturity amount, as of the date of delivery thereof

and as of each June 1 and December 1 thereafter, are set forth in "TABLE OF ACCRETED VALUES" attached hereto as APPENDIX H. The difference between the Maturity Amounts of the Series 2004 Capital Appreciation Bonds and the price at which such Series 2004 Capital Appreciation Bonds are initially offered represents an investment return over the life of the Series 2004 Capital Appreciation Bonds at the semiannual compounding rate (compounded on each June 1 and December 1, commencing June 1, 2004) necessary to produce an approximate yield to maturity from the date of delivery of such Series 2004 Capital Appreciation Bonds as shown on the inside cover page of this Official Statement.

The Accreted Value for any Series 2004 Capital Appreciation Bond (per \$5,000 maturity amount of such Bonds) with respect to any date other than a date set forth in "TABLE OF ACCRETED VALUES" attached hereto as APPENDIX H, and prior to the stated maturity of such Series 2004 Capital Appreciation Bond, shall be determined by adding to the principal amount for such Series 2004 Capital Appreciation Bonds as of the date stated in such tables immediately preceding the date of computation or the date of computation of an Interest Date, such interest to accrue at a rate not exceeding the legal rate, compounded semiannually, plus, with respect to matters related to the payment upon redemption or acceleration of the Series 2004 Capital Appreciation Bonds, if such date of computation shall not be an Interest Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Date and the Accreted Value as of the immediately preceding Interest Date, for such Series 2004 Capital Appreciation Bonds as of the date shown on such tables immediately succeeding the date of calculation, based on the assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a 360 day year of twelve 30 day months. The Series 2004 Bonds will mature in the amounts and on the dates and bear interest at the interest rates per annum set forth on the inside cover page of this Official Statement.

J.P. Morgan Trust Company, National Association will act as Paying Agent and Registrar for the Series 2004 Bonds.

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## Redemption of the Series 2004 Bonds

Optional Redemption. The Series 2004 Current Interest Bonds maturing prior to June 1, 20\_\_\_\_, shall not be subject to redemption prior to maturity. The Series 2004 Current Interest Bonds maturing on or after June 1, 20\_\_\_\_ may be redeemed prior to their respective maturities, at the option of the County, from any moneys legally available therefor, upon notice as provided in the Resolution, as a whole on June 1, 20\_\_\_\_, or on any date thereafter, or in part, from such maturity or maturities as the County shall designate and by lot within a maturity, on June 1, 20\_\_\_\_, or on any interest payment date thereafter, at the following redemption prices (expressed as a percentage of the principal amount of the Series 2004 Current Interest Bonds to be redeemed), plus accrued interest to the redemption date, if redeemed during the following periods.

| <b>Redemption Period</b><br><b>(Both Dates Inclusive)</b> | <b>Redemption</b><br><b>Price</b> |
|-----------------------------------------------------------|-----------------------------------|
| _____ through _____                                       | _____ %                           |
| _____ through _____                                       |                                   |
| _____ and thereafter                                      |                                   |

The Series 2004 Capital Appreciation Bonds maturing on or after June 1, 20\_\_\_\_ may be redeemed prior to their respective maturities, at the option of the County, from any moneys legally available therefor, upon notice as provided in the Resolution, in whole or in part at any time on or after June 1, 20\_\_\_\_, by lot within a maturity, and in such maturities as shall be determined by the County, at the following redemption prices (expressed as a percentage of the principal amount of the Series 2004 Capital Appreciation Bonds to be redeemed), plus accreted interest to the redemption date.

| <b>Redemption Period</b><br><b>(Both Dates Inclusive)</b> | <b>Redemption</b><br><b>Price</b> |
|-----------------------------------------------------------|-----------------------------------|
| _____ through _____                                       | _____ %                           |
| _____ through _____                                       |                                   |
| _____ and thereafter                                      |                                   |

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**Mandatory Redemption.** The Series 2004 Current Interest Bonds maturing on June 1, 20\_\_ are subject to mandatory redemption by the County in part prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof without premium, plus accrued interest to the redemption date, beginning on June 1, 20\_\_ and on each June 1 thereafter in the years and in the principal amounts corresponding to the following Amortization Installments in the years specified.

| <b><u>Year</u></b><br><b><u>(June 1)</u></b> | <b><u>Amortization</u></b><br><b><u>Installments</u></b> |
|----------------------------------------------|----------------------------------------------------------|
|                                              | \$                                                       |

\*

---

\* Final Maturity

The Series 2004 Current Interest Bonds maturing on June 1, 20\_\_ are subject to mandatory redemption by the County in part prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof without premium, plus accrued interest to the redemption date, beginning on June 1, 20\_\_ and on each June 1 thereafter in the years and in the principal amounts corresponding to the following Amortization Installments in the years specified.

| <b><u>Year</u></b><br><b><u>(June 1)</u></b> | <b><u>Amortization</u></b><br><b><u>Installments</u></b> |
|----------------------------------------------|----------------------------------------------------------|
|                                              | \$                                                       |

\*

---

\* Final Maturity

**Notice of Redemption.** Unless waived by any Holder of Bonds to be redeemed, notice of any redemption shall be given by the Registrar on behalf of the County by mailing a copy of an official redemption notice by registered or certified mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to each Holder of Bonds to be redeemed at the address of such Holder shown on the registration books maintained by the Registrar or at such address as shall be furnished in writing by such Holder to the Registrar; provided, however, that no defect in any notice given pursuant to the Resolution to any Holder of Bonds to be redeemed nor failure to give such notice shall in any manner defeat the effectiveness of a call for redemption as to all other Holders of Bonds to be redeemed. Additional notice shall be given as provided in the Resolution.



Payment of Redeemed Bonds. Official notice of redemption having been given substantially as provided in the Resolution, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the County shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar and/or Paying Agent at the appropriate Redemption Price, plus accrued or accreted interest, as the case may be. Installments of interest due on or prior to the Redemption Date shall be payable as provided in the Resolution for payment of interest. All Bonds which have been redeemed shall be canceled by the Registrar and shall not be reissued.

### **BOOK-ENTRY ONLY SYSTEM**

The information in this caption concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and neither the County nor the Underwriters (as defined herein) makes any representation or warranty or take any responsibility for the accuracy or completeness of such information.

DTC, will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2004 Bond certificate will be issued for each maturity of the Series 2004 Bonds as set forth in the inside cover of this Official Statement, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The

DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the "SEC"). More information about DTC can be found at <http://www.dtcc.com>.

Purchases of Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2004 Bonds may wish to ascertain that the nominee holding the Series 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2004 Bonds within a series or maturity of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series or maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts Series 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2004 Bonds, as applicable, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County and/or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

In the event that (i) DTC determines to discontinue providing its service with respect to the Series 2004 Bonds by giving written notice to the County and discharging its responsibilities with respect thereto under applicable law, and the County fails to appoint a successor Depository (as defined in the Resolution) for the Series 2004 Bonds, or (ii) the County determines to discontinue the book-entry system through a Depository, then bond certificates are required to be delivered as described in the Series 2004 Bonds. The Beneficial Owners, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Series 2004 Bonds.

## **SECURITY FOR THE SERIES 2004 BONDS**

### **Source of Payment**

The Series 2004 Bonds are special obligations of the County secured equally and ratably by a pledge of and prior lien upon the Pledged Funds (as defined herein); provided, however, that a Series of Bonds may be payable from and secured by a Credit Facility or an insurance policy of an Insurer not applicable to any one or more other Series of Bonds, as further provided in the Resolution. The Series 2004 Bonds are being issued on a parity with the Parity Obligations and any Additional Bonds issued after the date hereof. The term "Pledged Funds" is defined in the Master Resolution to mean the Net Revenues, any Connection Charges on deposit in the Current Account and, until applied in accordance with the provisions of the Resolution, the proceeds of the Bonds and all moneys, including investments thereof, in the Revenue Fund and the Debt Service Fund. Pledged Funds do not include Net Revenues on deposit in the Rebate Fund or Connection Charges on deposit in the Stabilization Account. The County also has outstanding its subordinated debt in the outstanding principal amount of \$1,351,602 (the "Subordinated Indebtedness") evidenced by that certain State Revolving Fund Loan Agreement dated June 27, 1994, as amended and restated on September 12, 1995 (the "FDEP Loan Agreement"), between

the County and the State of Florida Department of Environmental Protection ("FDEP"). The Subordinated Indebtedness is payable from and secured by a lien upon and pledge of the Pledged Funds junior and subordinate to the lien of and pledge thereon in favor of the Series 2004 Bonds and the Parity Obligations. Prior to the date of delivery of the Series 2004 Bonds, the County will obtain the written consent of the FDEP in accordance with the terms of the FDEP Loan Agreement that the lien on the Pledged Funds in favor of the Series 2004 Bonds will be superior to the lien thereon in favor of the Subordinated Indebtedness.

Net Revenues. Pursuant to the Resolution, Net Revenues include all income and moneys received by the County from the fees and charges made and collected by the County (excluding Connection Charges and non-ad valorem special assessments) for the use of the services or facilities of the System (such fees and charges, "Rates"), together with all earnings and income derived from the investment of moneys under the provisions of the Resolution which are transferred to the Revenue Fund or the Interest Account as provided in the Resolution, less the expenses for operation, maintenance, repairs and replacements with respect to the System, as further provided in the Resolution.

Connection Charges. Pursuant to the Resolution, Connection Charges include all non-refundable (except at the option of the County) "water unit connection fees," "sewer unit connection fees," impact fees, capital expansion fees, utility improvement fees or other similar fees and charges, whether payable in full prior to connection with the System or to initiation of any service afforded by System facilities or payable in installments over any period of time, separately imposed from time to time by the County upon new customers of the System as a nonuser capacity charge for a proportionate share of the cost of the acquisition or construction of Expansion Facilities, which are imposed by the County for the purpose of allocating to each such customer a proportionate share of the cost of the additional System capacity made necessary by the inclusion or expected inclusion of System services to such new customers, but only to the extent that any such fee or charge has been lawfully levied and collected by the County and may under applicable law be used for the acquisition or construction of the Expansion Facilities or for debt service thereon as more particularly provided in the Resolution, and any income from the investment of moneys on deposit in the Connection Charges Fund or any other moneys transferred to the Connection Charges Fund pursuant to the provisions of the Resolution. Connection Charges do not include Assessments.

Assessments. Pursuant to the Resolution, Assessments are the proceeds to be derived by the County from any non-ad valorem special assessments which are levied by the County, on its own behalf or as the governing body of a municipal service benefit unit, against some or all of the parcels of real property to be specially benefited by the services and facilities of any Additional Project or by any portion thereof, and which are expressly declared by resolution of the Governing Body to be Assessments, and which are expressly pledged by such resolutions including interest on such non-ad valorem special assessments and any penalties thereon and moneys received upon the foreclosure of the liens thereof and, by reason of such non ad valorem special assessments, upon the sale of tax certificates, to the payment of the principal of and premium, if any, and interest on the Bonds or one or more Series of Bonds. The County has the right to levy and collect non-ad valorem special assessments upon some or all of the parcels of real property specifically benefited by any Additional Project or by any portion thereof without declaring that such assessments shall be Assessments, as defined in the Resolution, and to

provide for the application of such assessments to any lawful public purpose, including provision for the application of such assessments to the payment of the principal of or Redemption Price, if applicable, and interest on any particular Series of Bonds or Subordinated Indebtedness or any other obligations of the County. **No Assessments are currently pledged to the payment of the principal of or Redemption Price, if applicable, or interest on the Series 2004 Bonds or on any Parity Obligations.**

In connection with the issuance of the County's Water and Sewer Revenue Bonds, Series 1991A (the "Series 1991A Bonds"), the County declared that any non-ad valorem special assessments that may be levied by the County, on its own behalf or as the governing body of a municipal service benefit unit, against the parcels of real property to be specially benefited by the project financed with the proceeds of the Series 1991A Bonds (the "1991 Project") for the purpose of raising revenue to assist in the financing of the 1991 Project are to be Assessments as defined in the Resolution. The County has not levied any such Assessments in connection with the 1991 Project.

The Series 2004 Bonds are being issued on a parity with the County's outstanding Water and Sewer Revenue Bonds, Series 1991A currently outstanding in the aggregate principal amount of \$15,584,418.75, its outstanding Water and Sewer Revenue and Refunding Bonds, Series 1996 currently outstanding in the aggregate principal amount of \$14,660,000, its outstanding Water and Sewer Revenue Refunding Bonds, Series 1998 currently outstanding in the aggregate principal amount of \$1,925,000, its outstanding Water and Sewer Revenue Refunding Bonds, Series 1999A currently outstanding in the aggregate principal amount of \$9,485,000, its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B currently outstanding in the aggregate principal amount of \$2,525,000, its outstanding Water and Sewer Revenue Refunding Bonds, Series 2002A currently outstanding in the aggregate principal amount of \$4,090,000, and its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B currently outstanding in the aggregate principal amount of \$625,000 (collectively, the "Parity Obligations") and any Additional Bonds issued after the date hereof. See "SECURITY FOR THE SERIES 2004 BONDS – Additional Bonds" below.

**THE SERIES 2004 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE COUNTY AS "BONDS" WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, BUT SHALL BE SPECIAL OBLIGATIONS OF THE COUNTY, PAYABLE SOLELY FROM AND SECURED BY A LIEN UPON AND A PLEDGE OF THE PLEDGED FUNDS IN ACCORDANCE WITH THE TERMS OF THE RESOLUTION. NO HOLDER OF ANY SERIES 2004 BONDS OR ANY CREDIT BANK OR ANY INSURER SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON ANY SUCH SERIES 2004 BOND OR SHALL BE ENTITLED TO PAYMENT OF SUCH SERIES 2004 BOND FROM ANY MONEYS OF THE COUNTY EXCEPT THE PLEDGED FUNDS IN THE MANNER PROVIDED IN THE RESOLUTION.**

## **Rate Covenant**

The County covenants in the Resolution to fix, establish, maintain and collect Rates, and revise the same effective at the beginning of each Fiscal Year, to the extent necessary, to provide if no Assessments are pledged to the Bonds:

(i) Net Revenues in such Fiscal Year, together with any Connection Charges actually on deposit in the Current Account at the beginning of such Fiscal Year, equal to at least one hundred twenty percent (120%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms of the Resolution to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, and

(ii) Net Revenues in such Fiscal Year, not taking into account Connection Charges, equal to at least one hundred ten percent (110%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms of the Resolution to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year.

Under the Resolution, the County is prohibited from reducing Rates so that they will be insufficient to provide Net Revenues in each Fiscal Year which will be fully adequate for the purposes provided therefor by the Resolution, provided that the Resolution is not to be construed to obligate the County to impose or, once imposed, continue Connection Charges; but at any time and while Connection Charges shall be in effect and imposed by the County, the Connection Charges shall be pledged to the extent provided in the Resolution.

## **Reserve Account**

The Resolution requires the establishment and maintenance of a Reserve Account in an amount equal to the Reserve Account Requirement for the benefit of the owners of the Bonds. The Reserve Account Requirement is defined in the Resolution as of any date of calculation, an amount of money equal to the lesser of (i) the Maximum Debt Service Requirement for the Parity Obligations, the Series 2004 Bonds and any Additional Bonds (as defined below), (ii) 125% of average annual debt service for the Parity Obligations, the Series 2004 Bonds and any Additional Bonds, or (iii) 10% of the initial proceeds of the Parity Obligations, the Series 2004 Bonds and any Additional Bonds. The Resolution permits the Reserve Account Requirement to be funded by cash or by a surety bond, irrevocable letter of credit, guaranty or insurance policy issued in compliance with the Resolution. Moneys in the Reserve Account shall be used only for the purpose of payment of the principal of or redemption Price, if applicable, and interest on the Parity Obligations, the Series 2004 Bonds or any Additional Bonds when the other moneys in the Debt Service Fund are insufficient therefor, and for no other purpose.

Upon the issuance of Additional Bonds, the County is required by the Resolution to provide for the additional funding of the Reserve Account in the manner described in the Resolution.

Pursuant to the Resolution, upon delivery of the Series 2004 Bonds, the County shall deposit into the Reserve Account a Reserve Account Insurance Policy satisfying the requirements of the Resolution. A portion of the Reserve Account Requirement has been funded by Reserve Account Insurance Policies issued in accordance with and satisfying such requirements of the Resolution. See "THE 2004 RESERVE ACCOUNT INSURANCE POLICY" herein.

### **Other Covenants**

The County has also covenanted in the Resolution to maintain the System and all portions thereof in good condition and to operate the System or cause to operate the same in an efficient and economical manner, making or causing to be made such expenditures for equipment and for renewals, repairs and replacements as may be proper for the economical operation and maintenance thereof. The County must obtain and renew, to the full extent required by applicable law, all permits for acquisition, construction and operation of the System. The County is required to prepare and adopt, prior to the beginning of each Fiscal Year, an Annual Budget in accordance with applicable law and not to incur expenditures for Operating Expenses in any Fiscal Year in excess of the amount provided in the Annual Budget without a written finding and recommendation by and Authorized Issuer Officer, which finding and recommendation shall state in detail the purpose of and necessity for such increased expenditures and until the Governing Body shall have approved such finding and recommendation by resolution. The County must keep books, records and accounts of the receipt of the Pledged Funds in accordance with generally accepted accounting principles, and any Credit Bank, Insurer, or Holder of any Bonds Outstanding or the duly authorized representatives thereof shall have the right at all reasonable times to inspect all books, records and accounts of the Issuer related thereto. Within 180 days of the close of each Fiscal Year it must cause to be prepared and file with the Clerk and mail to all Credit Banks, Insurers and Holders who have filed their names and addresses with the Clerk for such purpose a statement setting forth in respect of the preceding Fiscal Year the amount of the Pledged Funds received in the preceding Fiscal Year, the total amounts deposited to the credit of each fund and account created under the Resolution and the amounts on deposit at the end of such Fiscal Year to the credit of each such fund or account, and other matters as provided in the Resolution. An annual audit by an independent firm of certified public accountants is required of the financial statements of the County.

The County also irrevocably covenants not to sell, lease, encumber or in any manner dispose of any facilities of the System, except as provided in the Resolution, until all of the Bonds and all interest thereon shall have been paid in full or provision for payment shall have been made in accordance with the Resolution. The County is also required to carry, with a reputable insurance carrier or carriers, such insurance as is ordinarily carried by private or public corporations owning and operating water and sewer facilities similar to the System including public liability insurance, in such amounts as the County shall determine to be sufficient. The property loss or damage insurance is required at all times to be in an amount or amounts equal to the fair appraisal value of the buildings, furniture, fixtures and equipment of the System.

## **Additional Bonds**

The County may issue Additional Bonds payable from the Pledged Funds on a parity with the Series 2004 Bonds and the Parity Obligations then outstanding pursuant to the Resolution for the purposes specified and upon satisfaction of the requirements set forth in the Master Resolution including the following:

The County shall certify that it is current in all deposits into the various funds and accounts established in the Resolution and all payments theretofore required to have been deposited or made by it under the provisions of the Resolution and has complied with the covenants and agreements of the Resolution.

There shall have been obtained and filed with the County a certificate of an independent certified public accountant: (i) stating that he has examined the books and records of the County relating to the collection and receipt of the Gross Revenues, the Connection Charges and the Assessments; (ii) stating for the immediately preceding Fiscal Year or any twelve (12) consecutive months selected by the County of the twenty-four (24) months immediately preceding the issuance of such Additional Bonds the amount of the Net Revenues, the amount of the Connection Charges deposited into the Current Account and, as to each separate lot of Assessments which shall have been levied for a Project or a part of a Project, the dollar amount of the Assessments deposited into the Assessments Fund, and stating, for each separate lot of Assessments which shall have been levied for a Project or a part of a Project, the dollar amount of the portion of such lot of Assessments to become due and payable to the County during the first full Fiscal Year after the issuance of such Additional Bonds in which installments of such lot of Assessments shall be payable; (iii) if no Assessments shall be pledged to the Outstanding Bonds or such Additional Bonds then proposed to be issued, stating that (a) such Net Revenues and such Connection Charges, each adjusted as provided in the Master Resolution, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, and (b) such Net Revenues, adjusted as provided in the Master Resolution, not taking into account Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued; (iv) if Assessments shall be pledged to the Outstanding Bonds or such Additional Bonds then proposed to be issued, stating that (a) such Net Revenues, adjusted as provided in the Master Resolution, together with the dollar amount of the portion of each lot of Assessments to become due and payable during the first full Fiscal Year after the issuance of such Additional Bonds in which installments of such lot of Assessments shall be payable, but (except for the first Fiscal Year in which such lot of Assessments shall be billed) not exceeding the dollar amount of the portion of such lot of Assessments deposited in the Assessments Fund as stated pursuant to clause (ii) of this paragraph, and such Connection Charges, adjusted as provided in the Master Resolution, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, (b) such Net Revenues, adjusted as provided in the Master Resolution, and the amount of the Assessments allowed under clause (iv)(a) of this paragraph, without taking into account Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, (c) such Net Revenues and Connection Charges, each adjusted as provided in the Master



Resolution, without taking into account Assessments, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, excluding all Outstanding and proposed Assessments Redemption Bonds, and (d) such Net Revenues, adjusted as provided in the Master Resolution, not taking into account Assessments or Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, excluding all Outstanding and proposed Assessments Redemption Bonds; and (v) stating that no Event of Default was disclosed in the report of the most recent Annual Audit, or if such Event of Default was so disclosed, that it shall have been cured.

### **FINANCIAL GUARANTY INSURANCE POLICY**

The following information has been provided by Ambac Assurance Corporation ("Ambac Assurance") for use in this Official Statement. See "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" attached hereto as APPENDIX G.

#### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2004 Bonds effective as of the date of issuance of the Series 2004 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2004 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the County (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Series 2004 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2004 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2004 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2004 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2004 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final,

nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2004 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2004 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of Series 2004 Bonds at Auctions or losses suffered as a result of a Holder's inability to sell Series 2004 Bonds.

The insurance provided by the Financial Guaranty Insurance Policy is not covered by the Florida Insurance Guaranty Association.

#### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of approximately \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Series 2004 Bonds.

Ambac Assurance makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY."

#### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the SEC. These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;

4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
10. The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
11. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;
12. The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;
13. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003; and
14. The Company's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

## **THE 2004 RESERVE ACCOUNT INSURANCE POLICY**

### **Reserve Account Ambac Assurance Surety Bond**

The Resolution requires the establishment of a Reserve Account in an amount equal to \$ \_\_\_\_\_ and authorizes the County to obtain a surety bond in place of fully funding the Reserve Account. Accordingly, application has been made to Ambac Assurance for the issuance of a surety bond (the "2004 Reserve Account Insurance Policy") for the purpose of funding the Reserve Account. See "THE COMPOSITE RESOLUTION" attached hereto as APPENDIX D.

The Series 2004 Bonds will only be delivered upon the issuance of the 2004 Reserve Account Insurance Policy. The premium on the 2004 Reserve Account Insurance Policy is to be fully paid at or prior to the issuance and delivery of the Series 2004 Bonds. The 2004 Reserve Account Insurance Policy provides that upon the later of (i) one day after receipt by Ambac Assurance of a demand for payment (the "Demand for Payment") executed by the Paying Agent certifying that provision for the payment of principal of or interest on the Series 2004 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Series 2004 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the 2004 Reserve Account Insurance Policy.

Pursuant to the terms of the 2004 Reserve Account Insurance Policy, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the 2004 Reserve Account Insurance Policy and the County is required to reimburse Ambac Assurance for any draws under the 2004 Reserve Account Insurance Policy with interest at a market rate. Upon such reimbursement, the 2004 Reserve Account Insurance Policy is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the County is subordinate to the County's obligations with respect to the Series 2004 Bonds.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the 2004 Reserve Account Insurance Policy, any draw on the 2004 Reserve Account Insurance Policy shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the 2004 Reserve Account Insurance Policy, includes amounts available under a letter of credit, insurance policy, 2004 Reserve Account Insurance Policy or other such funding instrument (collectively, the "Additional Funding Instruments"), draws on the 2004 Reserve Account Insurance Policy and the Additional Funding Instruments shall be made on a pro rata basis (calculated by reference to the coverage then available thereunder) to fund the insufficiency. The Resolution provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the 2004 Reserve Account Insurance Policy and on the Additional Funding Instruments shall be paid from first available Pledged Funds on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the 2004 Reserve Account Insurance Policy and the Additional Funding Instruments shall be deposited from next available Pledged Funds.

The 2004 Reserve Account Insurance Policy does not insure against nonpayment caused by the insolvency or negligence of the Paying Agent.

The insurance provided by the 2004 Reserve Account Insurance Policy is not covered by the Florida Insurance Guaranty Association.

## **THE SYSTEM**

Pursuant to the Resolution, the System includes the complete water and sewer facilities now owned, operated and maintained by the County and all other water and sewer facilities hereafter acquired and operated by the County which are expressly declared by a resolution of the governing body of the County to be part of the System. In addition to water and sewer service provided by the County, St. Augustine and JEA, formerly known as the Jacksonville Electric Authority, under an agreement with the County, provide water and sewer services in portions of the unincorporated area of the County. Certain areas of the County are also served by other private utilities. The areas currently serviced by the County's existing facilities, together with the service areas of other utilities are illustrated in Figure 2 of the Consulting Engineer's Report attached hereto as APPENDIX C.

### **Utility Department**

The System is operated as a separate water, wastewater and reuse utilities department of the County (the "Utility Department"). The Utility Department is operated under the direction of the Utility Director, who is directly responsible to the County Administrator. The County Administrator reports directly to the Board. The Utility Department consists of the Utilities Administration Division, Water and Wastewater Treatment Plant Operations Divisions, Water and Wastewater Maintenance Divisions and an Environmental Laboratory.

### **Utility Management**

The Utility Department has an existing staff consisting of a Utility Director and managers who have experience in utility management, engineering, financing and operations. The personnel strategically involved in the management of the utility include the following:

Mr. William G Young was first hired in 1985 as a Water Treatment Plant Operator. In 1995 he was promoted to Assistant Utility Director and in 1999 he was named Utility Director. He has a Masters Degree in Public Administration and is a member of the Florida Water Environment Association, Florida Water Pollution Control Operators Association and a Board member of the American Water Works Association – Florida Section, St. Augustine Rotary, Association of Retarded Citizens and the St. Augustine YMCA. Mr. Young is a native of St. Johns County.

Mr. Ram "Neal" Shinkre joined the Utility Department in 2000 as Engineering Manager. He has a Masters Degree in Civil Engineering and Business Administration and is a Professional Engineer in the States of Florida and Georgia. He has several years of experience with private engineering consulting firms where he primarily performed treatment plant, lift station and system design. Mr. Shinkre is a member of the American Water Works Association and the Florida Engineering Society.

Mr. Gerald Solana has worked for the Utility Department for 20 years. Most of the time he has served as Superintendent of Utilities and was promoted to Operations Manager in 2001. He holds a State of Florida "A" certification in Wastewater Treatment Operations and a "C" certification in Water Treatment Operations as well as a "C" certification in Reuse, Collection, Distribution and Stormwater Management. He has a certificate in Reverse Osmosis Treatment

from David H. Paul and is working on his Associate of Science Degree in Industrial Technology in Reverse Osmosis Treatment. Mr. Solana has 10 years of experience with other municipally owned utilities and is a native of St. Johns County. He is a retired Florida National Guard member with 20 years as an Environmental Non-Commissioned Officer. He is also a member of the American Water Works Association and the Florida Water Pollution Control Operators Association.

Mr. Frank Kenton has been with the Utility Department since 1999 when he was hired as the Administrative Manager. He has a Bachelors Degree in Finance and a Masters Degree in Public Administration. He has several years of experience with other municipal and privately owned utility companies. Mr. Kenton is a native of St. Johns County and a member of the American Water Works Association and the Florida Water Pollution Control Operators Association.

## **Water System**

*General.* The County's overall water system is comprised of water supply wells, treatment facilities, transmission and localized distribution pipelines, and remote storage and pumping facilities. The locations of the major existing water facilities providing service to the approximately 42 square mile service area are illustrated in Figure 3 at the end of the Consulting Engineer's Report attached hereto as APPENDIX C. The County's water system collectively consists of eleven raw water supply wells, three water treatment plants ("WTP"s) with a combined permitted capacity of approximately 8.46 million gallons per day ("MGD"), five remote storage and pumping stations, and two elevated steel water storage tanks. Additionally, there are approximately 18,460 feet of raw water supply mains ranging in size from 6 to 24-inches in diameter and approximately 355 miles of water transmission and localized distribution pipelines ranging in size from 1 to 24-inches in diameter currently in service. As stated above, a portion of the County's water system is served by St. Augustine and JEA pursuant to separate interlocal agreements. The County's water system is governed by the Florida Department of Environmental Protection ("FDEP") as well as the St. Johns River Water Management District ("SJRWMD").

*Raw Water Supply Facilities.* The primary sources of water supply to the water system are the surficial and Floridan aquifers. The wellfields which draw from these aquifers consist of seven surficial wells and four Floridan wells which have been in service since 1991. The County Road 214 Water Treatment Plant (the "CR 214 WTP") is served by two Floridan aquifer wells and seven surficial aquifer wells having a total combined installed pumping capacity of approximately 6.93 MGD and 3.0 MGD, respectively. The County has recently completed construction of a third Floridan aquifer well to support the CR 214 WTP, which is anticipated to have a pumping capacity identical to the existing wells. Raw water from each aquifer source is blended prior to treatment at the CR 214 WTP. The remaining two Floridan wells serve the Northwest WTP ("NW WTP") and have a total installed pumping capacity of approximately 4.3 MGD. The Harmony Village WTP is served by a single small capacity well.

The raw water supply for the water system is regulated by the SJRWMD, a governmental agency created by the Florida Legislature, which has the responsibility of managing the water resources within its boundaries (i.e. northeast central Florida). The SJRWMD authorizes the use

of groundwater by the County from the surficial and Floridan aquifers pursuant to Consumptive Use Permits ("CUP"). Due to the small capacity of the well which serves the Harmony Village WTP, no CUP is required for that facility.

The County's existing CUPs for the CR 214 WTPs and the NW WTPs expired in 1996 and 1999, respectively, prior to which time application for renewal was submitted to the SJRWMD. The County's CUP renewal application to cover all sources of groundwater withdrawal is nearing completion and is anticipated to be issued within the next five to six months pending final hydrogeologic modeling utilizing the SJRWMD's northeast regional model. It is anticipated that the County's renewal CUP will have a duration between 10 and 20 years, with issuance in early 2004. Additionally, the County anticipates the renewal CUP to authorize the withdrawal of an annual average of approximately 14.64 MGD, which would far exceed both current and projected demands. Since the time of the renewal application the County has been operating within limits acceptable to the SJRWMD, and will continue such operation until such time as a renewal permit is issued. It should be noted that the CUP is considered current because the County applied for a renewal permit prior to the expiration date and has responded in a timely manner to all related requests for information from SJRWMD. A main issue involved in the review included minimizing wetland impacts and use of the surficial aquifer wells. Due to this issue, the County reworked its water supply plan, moving toward increasing the use of the upper Floridan aquifer system rather than the surficial aquifer. No impact to the County's ability to provide raw water supply is anticipated as a result of the change of sources.

*Raw Water Transmission Facilities.* Raw water is transmitted from each of the County's raw water supply field wells via dedicated raw water transmission mains to the associated treatment facilities. The transmission system consists of approximately 3.5 miles (approximately 18,460 feet) of pipelines ranging in size from 6 to 24-inches in diameter. The pipelines are constructed of either ductile iron ("DI") or polyvinyl chloride ("PVC") and were installed up to 13 years ago coincident with the construction of the water treatment facilities they serve.

*Water Treatment Facilities.* The County's CR 214 WTPs and NW WTPs provide service to unincorporated areas within the County and have permitted maximum daily demand capacities of 7.0 MGD and 1.44 MGD, respectively. Additionally, the County is responsible for the Harmony Village WTP which is a minor facility with a permitted capacity of 0.024 MGD.

***County Road 214 WTP.*** The CR 214 WTP is located approximately one mile northwest of the intersection of Interstate 95 (I-95) and County Road 214, at 2150 Water Plant Road, St. Augustine, Florida. This facility is a lime softening WTP which was originally placed into service in 1991. The facility has a permitted maximum daily demand capacity of 7.0 MGD. Current blending of the surficial and Floridan aquifer supply sources allows production of high quality water. The treatment process at this facility includes cascade tray aeration, lime softening, clarification, recarbonation, dual media filtration, and disinfection. Finished water from the treatment process is stored on-site in a 1.5 MG prestressed concrete ground storage reservoir ("GSR") and subsequently pumped to the water distribution system.



***Northwest WTP.*** The NW WTP is located just south of the World Golf Village along International Golf Parkway at 3390 International Golf Parkway, St. Augustine, Florida. The CUP for this facility was acquired during construction by World Golf Village who subsequently transferred ownership to the County prior to the end of construction. The facility was placed into operation in 1996. The facility has a permitted capacity of 1.44 MGD. The treatment process at this facility includes cascade tray aeration and disinfection. The facility includes an on-site 0.7 MG finished water prestressed concrete GSR, high service pumping, and an diesel fuel emergency power generator to maintain system operation in the event of a power outage.

***Harmony Village WTP.*** The Harmony Village WTP is located in the far northwest portion of the County, along the St. Johns River at 788 Harmony Village Drive, St. Augustine, Florida. This facility serves approximately 45 connections and was acquired by the County in 1989. The facility has a permitted capacity of 0.024 MGD. The treatment process at the Harmony Village WTP consists of disinfection. The facility also includes an on-site 1,000 gallon steel hydropneumatic storage tank and high service pumping.

***Water Transmission and Localized Distribution Facilities.*** The water transmission and localized distribution facilities are comprised of approximately 355 miles (1,876,289 feet) of water pipelines and range in size from 1 to 24-inches in diameter. The mains are constructed of DI, PVC, high density polyethylene ("HDPE"), or asbestos cement ("AC") and were installed up to 25 years ago coincident with the growth and development of the System. These facilities are generally thought to be in good repair with approximately 55% of the lines having been constructed during, or after, 1990. Based on current operating records and studies performed by the County, these facilities have a line loss of less than 10% which is well within industry standards.

The water transmission system is well looped with small diameter (8-inches and less) localized distribution facilities within the serviced development units. The large diameter transmission mains are used along the major roadways to serve existing customers and provide for future service to platted areas adjacent to these mains which presently do not have service available. The pressure in the localized distribution system is generally maintained between 65 and 75 pounds per square inch (psi) which meets the fire flow requirements of the County. The distribution system is equipped with isolation valves that allow for repairs and maintenance without the need for shutting down a significant portion of the water flow at once. The localized distribution system also includes over 1,200 fire hydrants to provide fire protection to the County's service area.

***Remote Storage and Booster Pumping Facilities.*** In addition to the storage and high service pumping facilities at each WTP, the County operates five remote storage and booster pumping facilities. Additionally, the County operates two steel elevated storage tanks. The combination of these facilities are used to pressurize the water transmission system. The remote storage facilities and elevated storage tanks have a total combined storage capacity of 5.95 MG with the addition of storage provided at each WTP equates to a total water system storage capacity of 8.20 MG. Each storage and booster pumping station generally is equipped with

onsite storage, high service pumps, rechlorination facilities, standby power and are remotely monitored via telemetry at the CR 214 WTP.

*Bulk Water Service.* Under separate agreements with St. Augustine and JEA, water services are provided to additional portions of the unincorporated area of the County. The water system receives a portion of its water supply from St. Augustine and JEA pursuant to interlocal agreements with each entity. Water from St. Augustine and JEA is purchased at a discounted (wholesale) rate.

## **Wastewater System**

*General.* The County's overall wastewater system is comprised of localized collection, transmission, treatment, and effluent disposal facilities. The location of the major existing wastewater facilities providing service to the approximately 27 square mile service area are illustrated in Figure 4 of the Consulting Engineer's Report attached hereto as APPENDIX C. The County's wastewater system collectively consists of five wastewater treatment plants ("WWTP"s), approximately 110 miles of gravity sewers, approximately 170 wastewater lift stations, and approximately 118 miles of wastewater force mains. A portion of the collected wastewater is transferred to St. Augustine and JEA for treatment and effluent disposal per interlocal agreements. The County's wastewater system is governed by the FDEP.

*Localized Wastewater Collection and Transmission Facilities.* Wastewater collection and transmission facilities consist of approximately 229 miles of gravity sewers and sewer force mains ranging in size from 1 to 27-inches in diameter located throughout the service area. The materials of construction of the localized facilities consist of PVC, vitrified clay pipe ("VCP"), cast iron ("CI"), DI and HDPE. The collection system also includes approximately 2,732 manholes for maintenance and operation access as well as approximately 170 wastewater lift stations, each of which is typically a duplex station ranging in size from 2 to 10 horsepower. Of the total number of wastewater lift stations, 11 are considered master lift stations which receive flow from smaller stations for repumping to the treatment facilities. The overall service areas are subdivided such that smaller lift stations boost flows to the larger master lift stations which then boost flow on to the WWTPs. In general the localized collection facilities include all gravity sewers, manholes, lift stations, and force mains 6-inches and greater in diameter.

*Wastewater Treatment Facilities.* The wastewater treatment facilities owned and operated by the County consist of the Anastasia Island ("AI"), State Road 207 ("SR 207") and State Road 16 ("SR 16") WWTPs. In addition to these major facilities, the County is currently responsible for the Harmony Village WWTPs and Moultrie WWTPs. Both of these facilities are considered minor and are anticipated to be decommissioned sometime in the future. These facilities have a total combined permitted capacity of approximately 5.59 MGD. Of this total permitted capacity, approximately 2.37 MGD is permitted as reclaimed (reuse) and is supplied to golf courses or wetlands. Effluent disposal for these facilities include surface water discharge, rapid rate land application, and/or non-restricted public access reuse. The County regularly applies for renewal permits and anticipates no problems with the continued issuance of permits for all facilities.

**Anastasia Island WWTP.** The Anastasia Island WWTP is located on Anastasia Island west of US Highway A1A at 860 W. 16<sup>th</sup> Street, St. Augustine, Florida. This facility is a complete mixed activated sludge wastewater treatment facility, originally placed into service in 1985. This facility has a permitted annual average daily capacity of 4.0 MGD and serves approximately 17 square miles of the County, with the ability to receive flows from the SR 207 WWTP area located on the mainland. The plant currently consists of an aerated grit chamber, aeration basins, secondary clarifiers, chlorine contact chamber, and residual management facilities. Reclaimed water is treated in a shallow bed filters and rechlorinated before being discharged to the golf course storage ponds.

**State Road 207 WWTP.** The SR 207 WWTP is located southwest of the intersection of I-95 and SR 207, at 4428 Golfridge Drive, Elkton, Florida. This facility provides extended aeration treatment and was placed into service in 1989. This facility has a permitted annual average daily capacity of 0.25 MGD and serves an approximately 3 square mile area along the SR 207 corridor. The plant includes a manually cleaned bar rack, aeration basin, secondary clarifier, chlorine contact chamber, filters and a 1.0 MG open top concrete storage tank which is divided into a 0.75 MG area designated to reclaimed water and 0.25 MG area for the storage of substandard effluent. Biosolid residuals produced at this facility are transported to the AI WWTP for dewatering and disposal.

**State Road 16 WWTP.** The SR 16 WWTP is located southeast of the intersection of I-95 and SR 16, at 3000 Industry Center Drive, St. Augustine, Florida. This facility provides conventional activated sludge wastewater treatment, and was initially placed into service in 1991. This facility currently has a permitted annual average daily capacity of 1.32 MGD serving an approximate 6.5 square mile area. In July 2000 the facility was expanded to the current treatment capacity of 1.5 MGD, and the treatment process was changed from extended aeration to conventional activated sludge. The facility consists of influent screening, grit removal, aeration basins, secondary clarifiers, sand filtration basins, chlorine contact chambers, a reclaimed water pump station, and a substandard water holding pond. Biosolid residuals produced at this facility are transported to the AI WWTP for dewatering and disposal.

**Harmony Village WWTP.** The Harmony Village WWTP is located at 788 Harmony Village Drive, Jacksonville, Florida. This facility provides extended aeration treatment for the domestic wastewater from approximately 45 households in the Harmony Village subdivision. The facility was taken over by the County in 1989 and has a permitted annual average daily capacity of 0.0075 MGD. The effluent disposal facilities consist of two (2) percolation ponds.

The Harmony Village WWTP is a prefabricated modular concrete package plant and consists of aeration basins, secondary clarifier, chlorine contact chamber, and an aerobic digester. Biosolid residuals generated at this facility are transported to the AI WWTP for treatment and disposal. The County is currently responsible for this minor facility but anticipates decommissioning and/or transferring the operations in the future.

***Moultrie WWTP.*** The Moultrie WWTP is located at Brinkoff Road, St. Augustine, Florida. This facility provides an extended aeration treatment for the domestic wastewater from connections to an apartment complex and a County park in the nearby area of the County. The facility was constructed in 1984, and has a permitted annual average daily capacity of 0.010 MGD. The WWTP is permitted for effluent discharge to two percolation ponds. Although the WWTP has an operational capacity of 0.025 MGD the permitted capacity has been reduced to 0.010 MGD for staffing purposes.

The plant is a prefabricated package plant and consists of aeration basins, secondary clarifier, chlorine contact chamber, and an aerobic digester. Biosolid residuals generated at this facility are transported to the AI WWTP for further treatment and disposal. The County intends to decommission this facility in the near future when timing of private development construction allows this to be cost effective.

***Bulk Wastewater Service.*** Similar to the potable water bulk purchase arrangements, the County has entered into agreements with JEA and St. Augustine to treat and dispose of wastewater from areas the County is currently unable to collect and treat.

The County entered into a 30-year bulk service agreement with JEA to provide wastewater service for the County's U.S. Highway 1 North Corridor. Sewage flow from the north corridor is pumped north, from the northeast master lift station, along U.S. Highway 1 into Duval County where it is treated and disposed of by JEA. JEA is currently treating approximately 0.167 MGD of wastewater from the County and services an area of approximately 7.05 square miles within the County. The agreement requires JEA to provide up to 1.5 MGD of wastewater treatment and disposal capacity, on an average basis.

Additionally, the County has a contract with St. Augustine for the bulk treatment of wastewater from the Eagle Creek subdivision. This agreement includes treatment of wastewater from the subdivision for an indefinite time period at the County's request.

## **Telemetry System**

In order to increase reliability and provide enhanced customer service through immediate response, the County has invested in a state-of-the-art Supervisory Control and Data Acquisition System ("SCADA"), also known as telemetry. SCADA transmits radio frequencies from various facilities (lift stations, water plants, sewer plants) that can be converted into graphical information to provide the status of pumps, alarms and other conditions. Facilities can be controlled remotely via telemetry.

The County recently upgraded their existing fixed base telemetry system to a "thin-client" version. This version allows control via the Internet. All data can be shared to authorized users through the County Operated network and hence displaced to appropriate users in their respective work places.

At the present time the County has over 50 lift stations with telemetry units, two water plants and three sewer plants. The County plans to provide telemetry to over 75 lift stations, all water booster stations and other major facilities in the water and sewer system.

## Rates and Fees

The County has established a schedule of user rates and charges, miscellaneous service charges, and unit connection fees ("UCF"s). The UCFs are identified as "Connection Charges" in the Resolution. The water and wastewater user rates and charges were reviewed and adjusted pursuant to a December 2000 comprehensive rate study to provide for the equitable recovery of appropriate costs, revenue sufficiency and stability, administrative compatibility and public understandability, as well as the encouragement of SJRWMD's conservation initiatives. These rates, charges and fees, established by County Ordinance 2001-25 passed on March 20, 2001 and effective on March 29, 2001, as amended, were last adjusted on October 1, 2003 pursuant to annual indexing activities based on the Consumer Price Index (CPI). The user rates and charges recover the cost incurred by the County in the provision of water, wastewater and reuse services as well as other budgeted revenue requirements of the System.

Existing Water, Wastewater and Reuse Rate Structure and Monthly Rates. The County's existing water rate structure provides for: 1) a minimum monthly charge assessed per Equivalent Residential Unit ("ERU") regardless of the level of usage; and 2) inclining block (conservation) gallonage rates based on monthly metering activities, assessed in thousands of gallons. The determination of the number of ERUs for multi-family customers is derived from the number of dwelling units served, whereas ERU determination for all non-residential customers is predicated on meter size. Additionally, for rate purposes, each single-family residential customer represents one ERU. The current gallonage rates associated with the generation of monthly water service revenues utilize an inclining (conservation) block rate structure and as such, as consumption increases beyond predetermined levels, the incremental cost per thousand gallons also increases, thus encouraging water conservation.

Similarly, the wastewater rate structure utilized by the County incorporates a minimum monthly charge based on the number of ERUs and a gallonage rate assessed per thousand gallons. The single and multi-family residential classes are subject to a maximum monthly billing threshold, 10,000 gallons per month per ERU, for gallonage rates.

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Existing reuse rates consist of a single component, a uniform gallonage rate, charge per 1,000 gallons of metered flow for all customers. The County's existing user rates and charges are summarized below:

**Existing Water, Wastewater and Reuse Rates  
Fiscal Year 2003/2004**

|                                          |        |                   |  |
|------------------------------------------|--------|-------------------|--|
| <b>Water</b>                             |        |                   |  |
| Minimum Monthly Charge                   | \$9.52 | Per ERU           |  |
| <b>Gallonage Rates</b>                   |        |                   |  |
| Block 1 (0-4,000 gallons per ERU)        | 3.05   | Per 1,000 gallons |  |
| Block 2 (4,001 – 8,000 gallons per ERU)  | 4.21   | Per 1,000 gallons |  |
| Block 3 (8,001 – 15,000 gallons per ERU) | 5.67   | Per 1,000 gallons |  |
| Block 4 (Above 15,000 gallons per ERU)   | 7.65   | Per 1,000 gallons |  |
| <b>Wastewater</b>                        |        |                   |  |
| Minimum Monthly Charge                   | 9.13   | Per ERU           |  |
| <b>Gallonage Rates<sup>(1)</sup></b>     |        |                   |  |
| Residential                              | 3.28   | Per 1,000 gallons |  |
| Commercial                               | 3.93   | Per 1,000 gallons |  |
| <b>Reuse</b>                             |        |                   |  |
| Gallonage Rates                          | 0.16   | Per 1,000 gallons |  |

<sup>(1)</sup> Residential customers capped at 10,000 gallons per month per ERU.

**Existing Water and Wastewater Unit Connection Fees.** In addition to the monthly water, wastewater, and reuse rates that serve as the primary source of revenue, the County also imposes UCFs on all new customers. UCFs were established to provide for cost recovery of treatment and transmission facilities. UCFs are payable upon the initial request for service pursuant to a capacity related cost per unit (gallon) basis. Funds generated from UCFs are restricted in their use and generally limited for expansion related costs and/or debt service. The County's existing UCFs for water and wastewater are \$1,519.82 per ERU and \$1,924.19 per ERU, respectively.

**Mandatory Connection**

All new improvements within the System's service areas are required to connect and remain connected to the System when such facilities are available. Availability in general is defined for a single improvement as a service line within 200 feet of the property line for water service, a gravity flow line within 100 feet of the property line or a force main within 200 feet of the property line for wastewater service. All new subdivisions within the County's Water and Wastewater Service Area are required to connect to any existing system that is located within 2,640 feet (1/2 mile) of the proposed subdivision.

## **Billing and Collection**

The County's Utilities Department is responsible for customer billings and collections. Meters are read and billed on a monthly basis. Automated meter reading devices are currently operational for the entire meter inventory. This has helped keep the annual write-off for unpaid billings below 1% of total revenues by allowing a quicker turnaround in the billing and collection process. The delinquency collection procedure begins on the first day after the due date and allows ten extra days for payment. If the payment is not received at this time, the meter is pulled, with the account being closed 30 days thereafter and within another 30 days referred for collection.

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## Capital Improvement Program

The following table contains a summary of the County's Five-Year Capital Improvement Plan relating to the System

| <u>Description</u>                                 | <u>2004</u>  | <u>2005</u>  | <u>2006</u>  | <u>2007</u> | <u>2008</u> | <u>Total</u> |
|----------------------------------------------------|--------------|--------------|--------------|-------------|-------------|--------------|
| New Billing/Administration Building                | \$ 2,800,000 | \$ 0         | \$ 0         | \$ 0        | \$ 0        | \$ 2,800,000 |
| Administrative Building Improvements               | 450,000      | 0            | 0            | 0           | 0           | 450,000      |
| Anastasia Island WWTP Improvements                 | 2,051,330    | 1,100,000    | 0            | 0           | 0           | 3,151,330    |
| CR 214 Water Plant Well Field                      | 502,007      | 1,000,000    | 600,000      | 0           | 0           | 2,102,007    |
| CR 214 Water Treatment Plant (WTP) Improvements    | 839,758      | 8,600,000    | 250,000      | 0           | 0           | 9,689,758    |
| Customer Accommodation Program                     | 127,825      | 900,000      | 0            | 0           | 0           | 1,027,825    |
| Engineering Studies & Planning                     | 654,424      | 500,000      | 200,000      | 200,000     | 200,000     | 1,754,424    |
| FDOT Utility Relocation                            | 0            | 300,000      | 100,000      | 0           | 0           | 400,000      |
| Force Main Systems                                 | 2,239,220    | 1,700,000    | 875,000      | 800,000     | 2,800,000   | 8,414,220    |
| GIS Mapping                                        | 350,000      | 250,000      | 75,000       | 75,000      | 75,000      | 825,000      |
| Infiltration Inflow Program                        | 125,000      | 100,000      | 100,000      | 100,000     | 100,000     | 525,000      |
| Meter Change Out Program                           | 450,000      | 1,250,000    | 1,250,000    | 750,000     | 750,000     | 4,450,000    |
| Northwest Plant Well Field                         | 354,380      | 100,000      | 0            | 600,000     | 0           | 1,054,380    |
| Northwest Utilities - Phase II                     | 0            | 1,200,000    | 1,000,000    | 290,000     | 0           | 2,490,000    |
| Northwest Water Treatment Plant (WTP) Improvements | 400,000      | 700,000      | 3,000,000    | 0           | 0           | 4,100,000    |
| Ponte Vedra MSD Water Sewer Improvements           | 7,490,763    | 0            | 0            | 0           | 0           | 7,490,763    |
| Purchase Crescent Cove Water System                | 33,964       | 0            | 0            | 0           | 0           | 33,964       |
| Reuse Force Mains                                  | 0            | 0            | 600,000      | 0           | 0           | 600,000      |
| Sewage Lift Station Improvements                   | 2,227,705    | 1,500,000    | 750,000      | 750,000     | 750,000     | 5,977,705    |
| SR 16 WWTP Improvements                            | 75,000       | 0            | 500,000      | 500,000     | 800,000     | 1,875,000    |
| SR 207 WWTP Improvements                           | 8,429        | 0            | 0            | 0           | 0           | 8,429        |
| Telemetry System                                   | 456,791      | 100,000      | 100,000      | 100,000     | 100,000     | 856,791      |
| Water Booster Stations                             | 100,000      | 200,000      | 75,000       | 50,000      | 50,000      | 475,000      |
| Water Mains                                        | 4,462,428    | 1,551,875    | 1,040,625    | 1,068,750   | 2,283,250   | 10,406,928   |
| Water Treatment Concentrate Mains                  | 100,000      | 4,400,000    | 0            | 0           | 0           | 4,500,000    |
| Total                                              | \$26,301,028 | \$25,453,880 | \$10,517,631 | \$5,285,757 | \$7,910,258 | \$75,458,524 |



## HISTORICAL REVENUES, EXPENSES AND DEBT SERVICE COVERAGE

The following tables show historical revenues, expenses and debt service coverage for the System. The information is derived from financial records of the County.

|                                                                 | <u>1999</u>         | <u>2000</u>         | <u>2001</u>         | <u>2002</u>         | <u>2003</u>         |
|-----------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues:                                             |                     |                     |                     |                     |                     |
| Water Sales                                                     | \$ 6,918,776        | \$ 7,391,914        | \$ 7,071,819        | \$ 7,470,673        | \$ 7,912,820        |
| Sewer Service Charges                                           | 4,162,136           | 4,601,714           | 4,343,392           | 4,300,201           | 4,559,087           |
| Meter Installations (Tapping Fees)                              | 613,211             | 617,710             | 628,758             | 728,907             | 723,324             |
| Irrigation Water Sales                                          |                     |                     |                     |                     |                     |
| Other Revenue                                                   | <u>195,275</u>      | <u>198,650</u>      | <u>244,348</u>      | <u>249,258</u>      | <u>289,152</u>      |
| Total Operating Revenue                                         | <u>\$11,889,398</u> | <u>\$12,809,988</u> | <u>\$12,288,317</u> | <u>\$12,749,039</u> | <u>\$13,484,383</u> |
| Operating Expenses:                                             |                     |                     |                     |                     |                     |
| Contractual Services                                            | \$ 1,062,829        | \$ 1,585,037        | \$ 1,831,839        | \$ 1,613,605        | \$ 1,715,585        |
| Salaries and Benefits                                           | 2,625,048           | 2,557,655           | 2,882,345           | 3,083,216           | 3,387,063           |
| Operating and Maintenance Expenses                              | <u>2,022,105</u>    | <u>2,338,307</u>    | <u>2,439,429</u>    | <u>2,453,439</u>    | <u>2,713,308</u>    |
| Total Operating Expenses                                        | <u>\$ 5,709,982</u> | <u>\$ 6,480,999</u> | <u>\$ 7,153,613</u> | <u>\$ 7,150,260</u> | <u>\$ 7,815,956</u> |
| Net Operating Revenues                                          | \$ 6,179,416        | \$ 6,328,989        | \$ 5,134,704        | \$ 5,598,779        | \$ 5,668,427        |
| Investment Income                                               | 1,110,025           | 1,558,755           | 1,863,116           | 934,462             | 646,081             |
| Plus amortization expense                                       | <u>385,723</u>      | <u>190,827</u>      | <u>184,791</u>      | <u>168,238</u>      | <u>201,247</u>      |
| Total Net Revenues                                              | 7,675,164           | 8,078,571           | 7,182,611           | 6,701,479           | 6,515,755           |
| Pledged Unit Connection Fees ("UCF") <sup>(1)</sup>             | <u>2,514,324</u>    | <u>2,633,288</u>    | <u>2,641,469</u>    | <u>2,638,047</u>    | <u>2,419,227</u>    |
| Total Net Revenues + UCF                                        | <u>\$10,189,488</u> | <u>\$10,711,859</u> | <u>\$ 9,824,080</u> | <u>\$ 9,339,526</u> | <u>\$ 8,934,982</u> |
| Debt Service Requirement                                        | \$ 4,083,350        | \$ 4,280,602        | \$ 4,295,913        | \$ 4,292,454        | \$ 3,969,775        |
| Coverage on Net Revenue (1.10 x Required)                       | 1.88x               | 1.89x               | 1.67x               | 1.56x               | 1.64x               |
| Coverage on Net + UCF<br>(1.20 x Required)                      | 2.50x               | 2.50x               | 2.29x               | 2.18x               | 2.25x               |
| Revenue Net of Bonds Available<br>for Subordinated Indebtedness | \$ 3,591,814        | \$ 3,797,969        | \$ 2,886,698        | \$ 2,409,025        | \$ 2,545,980        |
| Annual Payment State                                            | \$ 122,454          | \$ 121,737          | \$ 123,118          | \$ 123,118          | \$ 123,118          |
| Revolving Fund ("SRF") Loan                                     |                     |                     |                     |                     |                     |
| Coverage - SRF Loan<br>(1.15 x Required)                        | 29.33x              | 31.20x              | 23.45X              | 19.57x              | 20.68x              |

<sup>(1)</sup> This is a Connection Charge for purposes of the Resolution.

## LEGAL MATTERS

Certain legal matters incident to the issuance of the Series 2004 Bonds and with regard to the tax-exempt status of the interest on the Series 2004 Bonds are subject to the legal opinion of Rogers Towers, P.A., Jacksonville, Florida whose legal services as Bond Counsel have been retained by the County. See "TAX MATTERS" herein. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2004 Bonds, will be delivered at the time of original delivery of the Series 2004 Bonds.

The proposed text of the legal opinion of Bond Counsel is set forth as "PROPOSED FORM OF BOND COUNSEL OPINION" attached hereto as APPENDIX F. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by re-circulation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

Certain legal matters will be passed upon for the County by the Office of the County Attorney. Certain legal matters will be passed upon by the County's Disclosure Counsel, Nabors, Giblin & Nickerson, P.A., Orlando, Florida.

### **LITIGATION**

There is no pending or, to the knowledge of the County, any threatened litigation against the County of any nature whatsoever which in any way questions or affects the validity of the Series 2004 Bonds, or any proceedings or transactions relating to their issuance, sale, execution, or delivery, or the adoption of the Resolution, or the pledge of the Pledged Funds. Neither the creation, organization or existence, nor the title of the present members of the Board, or other officers of the County is being contested.

The County experiences routine litigation and claims incidental to the conduct of its affairs. In the opinion of the Office of the County Attorney, there are no actions presently pending or threatened, which would materially adversely impact the County's ability to receive the Pledged Funds.

### **TAX MATTERS**

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Series 2004 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that the Series 2004 Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F attached hereto.

The amount by which the respective issue prices of the Series 2004 Bonds maturing on \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_, \_\_\_\_\_, inclusive, (collectively, the "Discount Bonds") is less than the amount to be paid at maturity of such Discount Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Discount Bonds) constitutes "original

issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Discount Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of each maturity of the Discount Bonds is the first price at which a substantial amount of the Bonds of such maturity is sold to the public (excluding bond houses, brokers, similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Discount Bonds accrues daily over the term to maturity of such Discount Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounded dates). The accruing original issue discount is added to the adjusted basis of such Discount Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Discount Bonds. Beneficial Owners of the Discount Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the Discount Bonds, including the treatment of purchasers who do not purchase such Discount Bonds in the original offering to the public at the first price at which a substantial amount of such Discount Bonds of the same maturity is sold to the public.

Series 2004 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2004 Bonds. The County has made representations related to certain of these requirements and has covenanted to comply with certain restrictions designed to insure that interest on the Series 2004 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2004 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2004 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2004 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2004 Bonds.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Tax Certificate to be executed by the Issuer simultaneously with the issuance of the Series 2004 Bonds and other relevant documents may be change and certain actions (including, without limitation, defeasance of Series 2004 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in the Resolution. Bond Counsel expresses no opinion as to any Series 2004 Bonds or the interest thereon if any such

change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner of the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Series 2004 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series 2004 Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2004 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service (the "IRS"), including but not limited to regulation, ruling, or selection of the Series 2004 Bonds for audit examination, or the course or result of any IRS examination of the Series 2004 Bonds, or obligations which present similar tax issues, will not affect the market price for the Series 2004 Bonds. The IRS has initiated a program of expanded audits of tax-exempt bonds.

## RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") are expected to issue their ratings of "Aaa" and "AAA," respectively, to the Series 2004 Bonds with the understanding that upon delivery of the Series 2004 Bonds, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. The County has also applied to Moody's and S&P for ratings without giving effect to the Financial Guaranty Insurance Policy. Moody's and S&P have assigned underlying ratings of "A2" and "A+," respectively, to the Series 2004 Bonds. The underlying ratings are based on the capacity of the County to pay debt service on the Series 2004 Bonds without giving effect to the Financial Guaranty Insurance Policy to be issued by Ambac Assurance.

Such ratings express only the views of Moody's and S&P. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will be in effect for any given period of time or that they will not be revised upward or downward or withdrawn entirely by such rating agency if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of any ratings may have an adverse effect on the market price of the Series 2004 Bonds.

## **UNDERWRITING**

The Series 2004 Bonds are being purchased by William R. Hough & Co. and Merchant Capital L.L.C. (collectively, the "Underwriters"), subject to certain terms and conditions, including the approval of certain legal matters by Bond Counsel.

The Underwriters have agreed to purchase the Series 2004 Bonds at a purchase price of \$\_\_\_\_\_ (representing the principal amount of \$\_\_\_\_\_, less an underwriters' discount of \$\_\_\_\_\_, less an original issue discount of \$\_\_\_\_\_ and plus an original issue premium of \$\_\_\_\_\_). The Series 2004 Bonds are offered for sale to the public at the prices or yields set forth on the inside cover page of this Official Statement. The Series 2004 Bonds may be offered and sold to certain dealers at prices lower than such offering prices and such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

Pursuant to Sections 218.385 and 218.386, Florida Statutes, Merchant Capital L.L.C. ("Merchant Capital") disclosed to the County that it has retained Mr. Billy Railey, P.O. Box 402, Eufaula, Alabama 36072-0402, to provide consulting services relating to the County with respect to, among other things, the Series 2004 Bonds. The fee paid by Merchant Capital for such services will be based upon a percentage of revenues derived by Merchant Capital.

On December 16, 2003, William R. Hough & Co. ("Hough") and RBC Dain Rauscher Inc. ("RBC Dain") announced that RBC Dain has agreed to acquire all of the outstanding stock of Hough, subject to regulatory approval, in a transaction that is expected to close on February 27, 2004. According to the agreement, Hough will merge into RBC Dain at or about that time. RBC Dain is a Minnesota Corporation and broker-dealer subsidiary of Royal Bank of Canada, a Canadian financial services company.

## **FINANCIAL ADVISOR**

The County has retained Public Financial Management, Inc., Orlando, Florida, as Financial Advisor in connection with preparation of the County's plan of financing and with respect to the authorization and issuance of the Series 2004 Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading of municipal securities or any other negotiable instruments.

## **DISCLOSURE REQUIRED BY SECTION 517.01(1), FLORIDA STATUTES**

Section 517.051, Florida Statutes and the regulations promulgated thereunder require that the County make full and fair disclosure of any of its bonds or other debt obligations of such entities that have been in default as to payment of principal or interest at any time after December 31, 1975. The County has not been, since December 31, 1975, in default as to

payment of principal or interest on any of its non-conduit bonds or other non-conduit debt obligations.

### **CONTINUING DISCLOSURE**

The County has covenanted, for the benefit of the Holders of the Series 2004 Bonds, in a Continuing Disclosure Certificate dated as of February 1, 2004 (the "Continuing Disclosure Certificate"), to provide certain financial information and operating data relating to the County (the "Annual Financial Information"), commencing with the report for the Fiscal Year ended 2003, and to provide notices of the occurrence of certain enumerated material events. The Annual Financial Information will be filed by the County with each nationally recognized municipal securities information repository (the "NRMSIRs") and with the appropriate state information depository, if any (the "SID"), that is subsequently established by the State and designated as such, when and if it occurs. The notices of material events must be filed by the County with the NRMSIRs, the Municipal Securities Rulemaking Board and the SID. The specific nature of the information to be contained in the Annual Financial Information, the notices of material events, and other details of the undertakings are described in the form of Continuing Disclosure Certificate attached hereto as APPENDIX E. The Continuing Disclosure Certificate will be executed by the County prior to the delivery of the Series 2004 Bonds. These covenants have been made in order to assist the Underwriters in complying with the continuing disclosure requirements of Rule 15c2-12 promulgated by the SEC (the "Rule").

The County has not failed to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule.

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the Holders of the Series 2004 Bonds upon an event of default under the Resolution, as applicable, are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy code, the Resolution, as applicable, and the Series 2004 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2004 Bonds (including Bond Counsel's approving opinion) are qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery.

### **MISCELLANEOUS**

This Official Statement includes descriptions of the terms of the Series 2004 Bonds and summaries of certain provisions of the Resolution. Such descriptions do not purport to be complete and all such descriptions and references thereto are qualified in their entirety by references to each such document. The appendices appended to this Official Statement are integral parts thereof and should be read together with all other parts of this Official Statement.

Any statements made in this Official Statement involving matters of opinion or of estimates or forecasts, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or forecasts will be realized.

### **INDEPENDENT AUDITORS**

The Basic Financial Statements of St. Johns County, Florida, for the Fiscal Year ended September 30, 2002, attached hereto as APPENDIX B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report therein.

### **AUTHORIZATION OF AND CERTIFICATION CONCERNING OFFICIAL STATEMENT**

The delivery of this Official Statement has been duly authorized by the Board. Concurrently with the delivery of the Series 2004 Bonds, the undersigned or the then Chair or Vice-Chair of the Board will furnish his or her certificate to the effect that to the best of his or her knowledge, this Official Statement did not as of its date and does not as of the date of the delivery of the Series 2004 Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purposes for which this Official Statement is to be used, or which is necessary in order to make the statements made herein, in light of the circumstances in which they were made, not misleading.

### **ST. JOHNS COUNTY, FLORIDA**

By: \_\_\_\_\_  
Karen R. Stern, Chair

## **APPENDIX A**

### **GENERAL INFORMATION CONCERNING THE COUNTY**

*The following information concerning St. Johns County, Florida is included only for the purpose of providing general background information.*

#### **Location**

St. Johns County (the "County") encompasses approximately 608 square miles and is located in the northeast region of the State of Florida. The County is located directly south of Duval County, Florida, and is bordered on the west by the St. Johns River, on the south by Flagler County, and on the east by the Atlantic Ocean.

There are three incorporated municipalities located in the County: St. Augustine, Hastings and St. Augustine Beach. St. Augustine, which was founded in 1565, is the oldest permanent European settlement in the United States and is the county seat. A small portion of the municipality of Marineland (primarily located in Flagler County) on which no improvements are located, is also a part of the County.

#### **Government**

The Board of County Commissioners of St. Johns County is organized under Article VIII of the Constitution of the State of Florida which empowers the creation of counties as a political subdivision of the state. St. Johns County is a nonchartered county and has the power of self government as provided by general and special law through county ordinances. Under the Constitution of the State of Florida, the offices of Clerk of Court, Property Appraiser, Sheriff, Tax Collector and Supervisor of Elections are specifically authorized and empowered to provide their functional services independently of the Board. The Board of County Commissioners of the County enacted an ordinance which established the office of the County Administrator, who serves as the Chief Administrative Officer of the County and is responsible for the administration of County departments, services and agencies as authorized by the Board of County Commissioners. The County School Board is a separately organized taxing entity not under the jurisdiction of the Board of County Commissioners and has specific legislative authority granted by the Constitution. The Board of County Commissioners is a five-member body with its members elected countywide. The Board serves as the taxing authority for certain entities authorized by the Constitution of the State of Florida including the constitutional officers and special taxing districts that are authorized under legislation and approved by the Board of County Commissioners. Certain dependent county taxing districts also come under the purview of the Board's taxing limitations. The current general taxing limitation for the Board of County Commissioners is ten mills plus an additional ten mills in municipal service taxing or benefit units in unincorporated areas of the County, as authorized by the Legislature. A mill generates one dollar of tax for every one thousand dollars of taxable value.



## **Population**

St. Johns County currently ranks 29<sup>th</sup> out of Florida's 67 counties in total gross population and ranks 7<sup>th</sup> statewide in the percentage change in population growth from 1990 to 2003.

St. Johns County has experienced steady population growth, as shown below:

| <u>Year</u> | <u>Population</u> |
|-------------|-------------------|
| 1980        | 51,303            |
| 1990        | 83,829            |
| 2000        | 123,135           |
| 2003        | 137,168           |

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Source: University of Florida Bureau of Economic and Business Research.

## **Commerce and Industry**

A combination of historical significance, favorable climate, and available recreational facilities including public beaches, golf courses, tennis courts, and cultural events has made the County a national and international tourist destination attracting more than a million visitors annually.

The County is home to a number of state, national and international business and sports organizations all contributing to a stable economy. Among those headquartered in the County are the PGA Tour, Inc., Association of Tennis Professionals, Flagler College, Florida School for the Deaf and Blind, Florida National Guard, and Florida East Coast Railway. The World Golf Village, located in the northwestern part of the County, is the home of the world Golf Hall of Fame, World Golf Village Resort Hotel, and the St. Johns County Convention Center.

While tourism ranks highly in the economy, manufacturing and commercial activities, including food processing, airplane modification and repair, book binding, aluminum extrusion and commercial fishing play key roles.

## **Agriculture**

Agribusiness remains a key sector of the state and the northeast region's economy. Agriculture is a major industry in the County and in 2002 provided the County with on-farm revenue in excess of \$88.95 million.

St. Johns County is known as the potato and cabbage capital of Florida, and leads the other counties in Florida in value of these products. Agriculture commodities produced in the County and their respective estimated values for 2002 are as follows:

|                               |                     |
|-------------------------------|---------------------|
| Potatoes                      | \$28,000,000        |
| Cabbage                       | 9,000,000           |
| Forest Products               | 900,000             |
| Ornamental Horticulture       | 50,000,000          |
| Corn, Corn Silage & Hay       | 200,000             |
| Livestock, Dairying & Poultry | 750,000             |
| Equine                        | 100,000             |
| Total                         | <u>\$88,950,000</u> |

Source: Florida Department of Agriculture St. Johns County Extension Service, as of October 13, 2003.

## Employment

The following table shows the average monthly employment for St. Johns County by category for calendar year ended 2002.

| <u>Distribution</u>                                                                                | <u>Number of Employees</u> | <u>Percentage of Total</u> |
|----------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Manufacturing                                                                                      | 3,498                      | 8.66%                      |
| Construction                                                                                       | 2,540                      | 6.28                       |
| Transportation, Communications, & Utilities                                                        | 855                        | 2.12                       |
| Wholesale Trade                                                                                    | 1,457                      | 3.61                       |
| Retail Trade                                                                                       | 10,512                     | 26.01                      |
| Finance, Insurance and Real Estate                                                                 | 1,712                      | 4.24                       |
| Services                                                                                           | 12,637                     | 31.26                      |
| Government                                                                                         | 6,191                      | 15.32                      |
| Agriculture (Except Domestics,<br>Self-Employed, Unpaid<br>Family Workers and<br>Seasonal Workers) | 984                        | 2.43                       |
| Mining                                                                                             | 0                          | 0.00                       |
| Nonclassifiable                                                                                    | 28                         | .07                        |
| TOTAL                                                                                              | 40,414                     | 100.00%                    |

Source: State of Florida, Department of Labor and Employment Security.

## Major Employers

The following table shows some of the major employers in St. Johns County and their approximate level of employment in 2002.

| <u>Establishment</u>                  | <u>Product</u>                      | <u>Approximate<br/>Employment</u> |
|---------------------------------------|-------------------------------------|-----------------------------------|
| St. Johns County School Board         | Education                           | 2,500                             |
| St. Johns County                      | County Government                   | 1,700                             |
| Flagler Hospital                      | Health Care                         | 1,000                             |
| Northrup Grumman                      | Aircraft Overhaul and Modification  | 1,000                             |
| Florida School for the Deaf and Blind | Educational Institution             | 639                               |
| Hyrdo Aluminum                        | Aluminum Fabrication                | 550                               |
| Luhrs Corporation                     | Pleasure Crafts/Sport Fishing Boats | 400                               |
| Tree of Life, Inc.                    | Health Food Distributor             | 385                               |
| National Guard                        | Florida National Guard Headquarters | 355                               |
| Tensolite                             | High-Tech Wire Manufacturers        | 275                               |
| Ideal/Stant                           | Automobile Parts Manufacturer       | 230                               |

Source: St. Augustine and St. Johns County Chamber of Commerce.

## Tourism and Recreation

A combination of favorable climate and available recreational activities including public beaches, tennis courts, golf courses and cultural performances has made tourism a major industry in the County. Each year, more than one million people visit the County to tour its 300-year old fortress, utilize the recreation facilities and to enjoy the antiquity of the nation's oldest city.

## Transportation Facilities

**Air:** Commercial airline service is available at the Jacksonville International Airport located approximately 60 miles north of St. Augustine. The Daytona Beach Regional Airport is approximately 55 miles south of St. Augustine. Charter flights and flight training are available at the St. Augustine Municipal Airport.

**Land:** Three major north/south highways, Interstate 95, U.S. 1 and State Route 1A, serve the County. Bus transportation is provided to St. Augustine by Greyhound with 5 northbound and 11 southbound buses each day.

**Rail:** The County is served by the Florida East Coast Railway with freight service only. Amtrak and piggyback facilities are located 38 miles north of the County in Jacksonville.

**Waterways:** The Mantanzas Bay provides access to the St. Augustine Inlet, the Intracoastal Waterway and the Atlantic Ocean. The nearest deep water port is in Jacksonville.

## **Health Care Facilities**

Medical facilities are provided by Flagler Hospital, which has 230 beds. There are approximately 110 physicians in the area, including specialists in most fields. The County has five nursing homes; two of which are funded by the County and three of which are private establishments. There is also the University of St. Augustine for Health Sciences. Programs offered are physical therapy and occupational therapy.

## **Education**

The public school system is operated by the St. Johns County School Board. There are fifteen elementary schools, six middle schools, four high schools, three alternative centers, a bi-county Vocational and Technical Center, St. Johns River Community College, and Flagler College, which is a four-year liberal arts institution in which more than 1,300 students are enrolled. The State operates the Florida School for the Deaf and Blind in St. Augustine, with primary school through senior high school levels.

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Source: St. Johns County School District - October 20, 2003

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**St. Johns County, Florida  
Civilian Labor Force  
(unadjusted)**

| <b><u>Fiscal Year</u></b> | <b><u>Employment</u></b> | <b><u>Unemployment</u></b> | <b><u>Unemployment Rate</u></b> | <b><u>State Unemployment Rate</u></b> |
|---------------------------|--------------------------|----------------------------|---------------------------------|---------------------------------------|
| 1992/93                   | 43,215                   | 2,863                      | 6.6                             | 7.0                                   |
| 1993/94                   | 44,701                   | 2,783                      | 6.2                             | 6.6                                   |
| 1994/95                   | 45,552                   | 2,140                      | 4.7                             | 5.8                                   |
| 1995/96                   | 51,750                   | 1,552                      | 3.0                             | 5.1                                   |
| 1996/97                   | 54,094                   | 1,567                      | 2.9                             | 4.2                                   |
| 1997/98                   | 56,374                   | 1,549                      | 2.7                             | 4.5                                   |
| 1998/99                   | 60,124                   | 1,563                      | 2.6                             | 4.0                                   |
| 1999/00                   | 61,865                   | 1,624                      | 2.6                             | 3.7                                   |
| 2000/01                   | 66,325                   | 2,143                      | 3.2                             | 4.6                                   |
| 2001/02                   | 63,496                   | 2,277                      | 3.6                             | 5.3                                   |

Source: Florida Department of Labor and Employment Security, Bureau of Research and Information.

**St. Johns County, Florida  
Assessed and Estimated Actual Value of Property Valuations**

| <b><u>Fiscal Year</u></b> | <b><u>Taxable Value Real Property</u></b> | <b><u>Taxable Value Personal Property</u></b> | <b><u>Taxable Value Centrally Assessed</u></b> | <b><u>Total Taxable Valuations</u></b> |
|---------------------------|-------------------------------------------|-----------------------------------------------|------------------------------------------------|----------------------------------------|
| 1992/93                   | 3,504,853,905                             | 300,136,448                                   | 8,979,760                                      | 3,813,970,113                          |
| 1993/94                   | 3,746,646,651                             | 301,885,084                                   | 9,448,364                                      | 4,057,980,099                          |
| 1994/95                   | 4,000,055,855                             | 317,459,944                                   | 12,768,651                                     | 4,330,284,450                          |
| 1995/96                   | 4,336,130,636                             | 338,279,655                                   | 12,176,831                                     | 4,686,587,122                          |
| 1996/97                   | 4,597,639,793                             | 353,147,333                                   | 11,966,300                                     | 4,962,753,426                          |
| 1997/98                   | 5,151,257,542                             | 380,758,444                                   | 15,038,418                                     | 5,547,054,404                          |
| 1998/99                   | 5,755,043,340                             | 459,394,987                                   | 14,988,390                                     | 6,229,426,717                          |
| 1999/00                   | 6,614,044,633                             | 539,554,576                                   | 15,702,372                                     | 7,169,301,581                          |
| 2000/01                   | 7,563,588,131                             | 588,493,446                                   | 17,115,611                                     | 8,169,197,188                          |
| 2001/02                   | 8,934,963,574                             | 629,849,926                                   | 17,326,818                                     | 9,582,140,318                          |
| 2002/03                   | 10,220,118,339                            | 631,954,462                                   | 18,404,181                                     | 10,870,476,982                         |
| 2003/04                   | 11,798,595,741                            | 666,830,119                                   | 20,372,764                                     | 12,485,798,624                         |

Source: St. Johns County Property Appraiser

**St. Johns County, Florida  
Property Tax Levies and Collections**

| <b>Tax<br/>Fiscal<br/>Year</b> | <b>Property<br/>Taxes Levied</b> | <b>Current Tax<br/>Collections<sup>(1)</sup></b> | <b>Delinquent<br/>Tax<br/>Collections</b> | <b>Total Tax<br/>Collection</b> | <b>% of Levy<br/>Collected<sup>(2)</sup></b> |
|--------------------------------|----------------------------------|--------------------------------------------------|-------------------------------------------|---------------------------------|----------------------------------------------|
| 1992/93                        | 27,424,618                       | 25,511,092                                       | 92,283                                    | 25,603,375                      | 93.36%                                       |
| 1993/94                        | 30,073,155                       | 28,944,275                                       | 254,752                                   | 29,199,027                      | 97.09%                                       |
| 1994/95                        | 30,857,851                       | 29,763,755                                       | 103,244                                   | 29,866,999                      | 96.79%                                       |
| 1995/96                        | 32,514,425                       | 32,340,780                                       | 99,229                                    | 32,440,009                      | 99.77%                                       |
| 1996/97                        | 34,897,004                       | 33,522,098                                       | 240,926                                   | 33,763,024                      | 96.75%                                       |
| 1997/98                        | 39,162,186                       | 37,767,161                                       | 195,502                                   | 37,962,663                      | 96.94%                                       |
| 1998/99                        | 43,705,566                       | 42,021,349                                       | 78,550                                    | 42,099,899                      | 96.33%                                       |
| 1999/00                        | 49,538,943                       | 47,928,518                                       | 34,256                                    | 47,962,774                      | 96.82%                                       |
| 2000/01                        | 55,872,261                       | 53,891,302                                       | 138,271                                   | 54,029,573                      | 96.70%                                       |
| 2001/02                        | 63,850,249                       | 63,123,231                                       | 197,727                                   | 63,320,958                      | 99.17%                                       |

<sup>(1)</sup> Aggregate amount of tax collections as of close-out of fiscal year ended September 30, which includes the aggregate amount of discounts actually taken by taxpayers as allowed by Florida law. A 4% discount is allowed if the taxes are paid in November with the discount declining by 1% each month thereafter. Total tax collections include current taxes paid, tax certificate proceeds, delinquent tax payments upon taxable personal property and any prior period payments on County-held tax certificates.

<sup>(2)</sup> Represents percentage of current gross collections (total collections plus discounts taken) to property taxes levied.

Source: State of Florida, Department of Revenue, Florida Ad Valorem Valuations and Tax Data.

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**St. Johns County, Florida**  
**Net Debt Statement**  
**as of September 30, [2003]**

| <b><u>Direct Debt</u></b>                                          | <b><u>General<br/>Obligation<br/>Bonds</u></b> | <b><u>Non-Self<br/>Supporting<br/>Revenue Bonds</u></b> | <b><u>Self<br/>Supporting<br/>Revenue Bonds</u></b> |
|--------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------|
| Water and Sewer Revenue Bonds,<br>Series 1991A                     |                                                |                                                         | \$14,885,193                                        |
| Water and Sewer Revenue<br>Refunding Bonds, Series 1996            |                                                |                                                         | 14,660,000                                          |
| Water and Sewer Revenue and<br>Refunding Bonds, Series 1998        |                                                |                                                         | 1,925,000                                           |
| Water and Sewer Revenue Refunding<br>Bonds, Series 1999A           |                                                |                                                         | 9,485,000                                           |
| Water and Sewer Revenue Refunding<br>Bonds, Series 1999B           |                                                |                                                         | 2,525,000                                           |
| Water and Sewer Revenue Refunding<br>Bonds, Series 2002A           |                                                |                                                         | 4,090,000                                           |
| Water and Sewer Revenue Refunding<br>Bonds, Series 2002B           |                                                |                                                         | 625,000                                             |
| State Revolving Loan Fund Agreement                                |                                                |                                                         | 1,395,094                                           |
| Taxable Convention Center Revenue<br>Bonds, Series 1996            |                                                |                                                         | 16,265,000                                          |
| Sales Tax Revenue Refunding<br>Bonds, Series 1998                  |                                                | \$10,630,000                                            |                                                     |
| Sales Tax Revenue and Refunding<br>Bonds, Series 2002              |                                                | 6,775,000                                               |                                                     |
| Capital Improvement Revenue Bonds,<br>Series 1998                  |                                                | 2,050,000                                               |                                                     |
| Transportation Improvement<br>Revenue Refunding Bonds, Series 2002 |                                                | 4,160,000                                               |                                                     |
| \$10M Commercial Paper Program                                     |                                                | <u>5,372,000</u>                                        |                                                     |
| Total Direct Debt                                                  | <u>\$ -</u>                                    | <u>\$28,987,000</u>                                     | <u>\$65,855,287</u>                                 |

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| <u>Indirect Debt</u>                                                                     | <u>General<br/>Obligation<br/>Bonds</u> | <u>Non-Self<br/>Supporting<br/>Revenue Bonds</u> | <u>Self<br/>Supporting<br/>Revenue Bonds</u> |
|------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------|----------------------------------------------|
| <b>City of St. Augustine, Florida</b>                                                    |                                         |                                                  |                                              |
| Water and Sewer Revenue<br>Refunding Bonds, Series 1995(A)                               |                                         |                                                  | \$12,325,000                                 |
| Water and Sewer Revenue<br>Refunding Bonds, Series 1995(B)                               |                                         |                                                  | 400,000                                      |
| Water and Sewer Revenue<br>Refunding Bonds, Series 1996                                  |                                         |                                                  | 4,665,000                                    |
| Water and Sewer Revenue Bonds,<br>Series 1999                                            |                                         |                                                  | 4,240,000                                    |
| Public Service Tax and<br>Guaranteed Entitlement Revenue<br>Refunding Bonds, Series 1995 |                                         | \$ 1,870,000                                     |                                              |
| Public Service Tax and<br>Guaranteed Entitlement Revenue<br>Refunding Bonds, Series 2001 |                                         | 13,155,002                                       |                                              |
| <b>Town of Hastings, Florida</b>                                                         |                                         |                                                  |                                              |
| Water and Sewer Bonds                                                                    |                                         |                                                  | 982,400                                      |
| Hastings Library Construction Note                                                       |                                         |                                                  | 143,436                                      |
| <b>School District of St Johns<br/>County, Florida</b>                                   |                                         |                                                  |                                              |
| General Obligation Refunding Bonds,<br>Series 1993                                       | \$21,575,000                            |                                                  |                                              |
| Certificates of Participation, Series<br>1993                                            |                                         | 8,155,000                                        |                                              |
| \$5.425M Revenue Note, Series 2000A                                                      |                                         | <u>2,855,707</u>                                 |                                              |
| Total Indirect Debt                                                                      | <u>\$21,575,000</u>                     | <u>\$26,035,709</u>                              | <u>\$22,755,836</u>                          |
| Total Direct and<br>Indirect Debt                                                        | <u>\$21,575,000</u>                     | <u>\$55,022,709</u>                              | <u>\$88,611,123</u>                          |

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## **DEBT RATIOS**

|                                                                |                  |
|----------------------------------------------------------------|------------------|
| Direct General Obligation Debt                                 | \$ 0             |
| Direct General Obligation and Non-Self Supporting Revenue Debt | \$ 28,987,000    |
| Per Capita                                                     | \$211.32         |
| As a Percent of Taxable Assessed Valuation                     | 0.27%            |
| As a Percent of Total Assessed Valuation                       | 0.22%            |
| 2002 St. Johns County Population Estimate                      | 137,168          |
| FY 2001 Taxable Assessed Valuation for St. Johns County        | \$10,870,476,982 |
| FY 2001 Total Assessed Valuation for St. Johns County          | \$13,172,360,667 |

### **Police and Fire Protection**

St. Johns County is served by the Sheriffs Office, which has approximately 480 full- and part-time employees including deputies, the detective division, communications, jail and administrative personnel. There are eighteen fire stations operating within the County, served by a force of 110 professional firefighters/paramedics and a significant volunteer auxiliary. The County operates a special rescue unit manned by trained emergency medical technicians.

Deloitte & Touche LLP  
Certified Public Accountants  
Suite 2801  
One Independent Drive  
Jacksonville, Florida 32202-5034

Tel: (904) 665 1400  
Fax: (904) 355 9104  
www.deloitte.com

**Deloitte  
& Touche**

## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the  
Board of County Commissioners  
St. Johns County, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of St. Johns County, Florida (the "County"), as of and for the year ended September 30, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the transportation trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective October 1, 2001 the County adopted the provisions of Governmental Accounting Standards Board ("GASB") No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

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Management's Discussion and Analysis, on pages 5 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*

January 24, 2003

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ST. JOHNS COUNTY, FLORIDA  
BASIC FINANCIAL STATEMENTS

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## MANAGEMENT'S DISCUSSION and ANALYSIS (Unaudited)

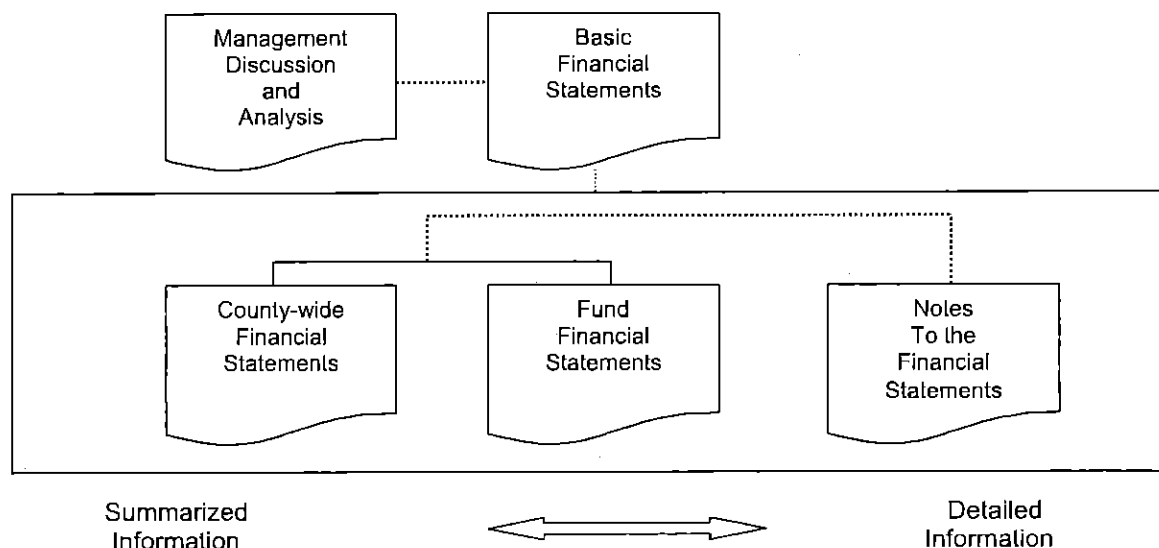
This section of St. Johns County, Florida's Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial performance during our most recent fiscal year, which ended September 30, 2002. It is designed to provide an objective and easy to read overview analysis of the County's financial activities, significant financial issues, material deviations from the Financial Plan (budget), changes in the County's financial position, and individual fund concerns. We encourage readers to consider the information contained in this discussion in conjunction with additional information contained in our transmittal letter in the front of this report and the County's financial statements.

### 1. Financial Highlights.

- Total assets exceeded total liabilities (reported as net assets) by \$238,721,458 as of September 30, 2002.
- Unrestricted net assets of \$86,501,623 represents the amount that may be used to meet the County's ongoing obligations to citizens and creditors.
- Net assets of the County's governmental activities increased by \$71,923,425, an increase of 75%. Over 83% of the increase was attributable to the net capital asset increase of \$59,827,180. Additionally, the net change in total governmental fund balance was \$10,859,691.

### 2. Overview of the Financial Statements.

This discussion is intended to introduce St. Johns County, Florida's basic financial statements. The basic financial statements are comprised of two kinds of statements that present different views of the County: (1) county-wide statements, and (2) fund statements. The basic financial statements also include notes essential to a full understanding of both kinds of statements. This report also has a separate section for supplementary and statistical information in addition to the basic financial statements themselves as indicated in below.



ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

---

The first two statements are county-wide financial statements that focus on the County as a whole and provide both long-term and short-term information about the County's overall financial condition. These statements provide readers with a broad view of the County's finances, similar to a private sector business.

The remaining statements are fund financial statements that are similar to traditional governmental financial statements. These statements report on individual parts of the County's operations and include more detail than the county-wide statements.

- A. County-wide financial statements. The county-wide statements report on St. Johns County as a whole using accounting rules very similar to those used by private companies. There are two county-wide statements. The statement of net assets combines and reports all of the County's assets and liabilities. The statement of activities combines and reports all of the County's revenues and expenses regardless of when cash is paid or received. These two financial statements demonstrate how the County's net assets have changed. Net assets are the difference between total assets and total liabilities and are one way of assessing the County's current financial condition. Increases or decreases in net assets are good indicators of whether the County's financial health is improving or deteriorating over time. Other non-financial factors, such as diversity in the local economy, are important in evaluating the County's overall financial condition.

The county-wide financial statements are grouped into three categories:

- *Governmental Activities.* Most of the County's basic services are included here, such as police, fire, public works, recreation, and general administration. Property taxes, sales and gas taxes, and federal and state funding finance most of the cost of these activities.
- *Business-type Activities.* The County's water and sewer utility, solid waste, golf course, convention center, and amphitheater operations are classified here. In these activities, the County charges customer fees to cover all or a portion of the cost of providing these goods and services.
- *Component Units.* These are other governmental units over which the County exercises influence, and are presented as separate columns in the county-wide statements. The Component Units are as follows; the St. Johns County Housing Finance Authority, and the St. Johns County Industrial Development Authority.

- B. Fund financial statements. The County's fund statements report in greater detail than the county-wide statements the County's most significant funds. A fund is a group of related accounts used to exercise control over specific resources set apart for specific activities. The County, like other state and local governments, uses funds to ensure and demonstrate compliance with financial requirements imposed by law, bond covenants, and local administrative and legislative actions.

The County maintains 58 individual governmental funds. The General Fund and Transportation Trust Fund are presented separately in the governmental fund balance sheet and in the statement of revenues, expenditures, and changes in fund balances. All other governmental funds are combined into a single, aggregated presentation. Individual fund data for these non-major governmental funds is provided in the form of combining statements in a separate section of this report.



ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

---

All of the County's funds are classified in one of the following categories:

- Governmental funds tell how basic governmental services were paid for in the short term as well what remains for near future spending. These funds account for essentially the same services as those reported as governmental activities in the county-wide statements. Because the fund view does not include the additional long-term focus of the county-wide statements, we provide additional information following the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances that explains the differences between the two views.
  - Enterprise funds report on business type operations of the utility fund, solid waste fund, golf course, convention center and amphitheater where the fees for services typically cover all or most of the costs of operations. These statements offer both long and short-term financial information and offer more detailed reporting of the amounts classified as business-type activities in the county-wide statements.
  - Internal service funds are used to account for the financing of activities provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis.
  - Fiduciary funds report information about financial arrangements in which the County acts solely as an agent or trustee for others. The County is responsible for ensuring these resources are used for their intended purposes. Since these funds are not resources of the County, but are held for the benefit of others, we exclude these activities from the county-wide statements.
- C. Notes to the financial statements. The notes provide additional information and explanation that is necessary for a full understanding of both the county-wide and fund statements.
- D. Other supplementary information. The combining statements for the non-major governmental funds, non-major enterprise funds, internal service and agency funds, as well as individual fund budget and actual comparison schedules are found in the Supplementary Information section of this report.

Additional statistical information is presented to give users of the report a historical perspective and to assist in determining current financial trends of the County.

**3. Financial Analysis of the County as a Whole.**

At the end of fiscal year 2002, the County is able to report positive balances in each component of net assets as reflected below, in the Summary Statement of Net Assets. This is a reflection of the County's low debt burden and the practice of funding a significant share of capital expenditures on a pay as you go basis.

ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

Summary Statement of Net Assets  
September 30, 2002  
(In Thousands)

|                                                    | Governmental<br>Activities | Business<br>Type<br>Activities | Total<br>Governmental |
|----------------------------------------------------|----------------------------|--------------------------------|-----------------------|
| Cash and Investments                               | \$ 75,641                  | \$ 48,069                      | \$ 123,710            |
| Other Current Assets                               | 4,209                      | 4,246                          | 8,455                 |
| Capital Assets                                     | 138,376                    | 99,093                         | 237,469               |
| Total assets                                       | <u>218,226</u>             | <u>151,408</u>                 | <u>369,634</u>        |
| Current Liabilities                                | 23,306                     | 8,733                          | 32,039                |
| Long-term Debt Outstanding                         | 27,094                     | 71,779                         | 98,873                |
| Total liabilities                                  | <u>50,400</u>              | <u>80,512</u>                  | <u>130,912</u>        |
| Net Assets                                         |                            |                                |                       |
| Invested in Capital Assets,<br>net of Related Debt | 108,569                    | 25,109                         | 133,678               |
| Restricted                                         | 9,628                      | 8,914                          | 18,542                |
| Unrestricted                                       | 49,629                     | 36,873                         | 86,502                |
| Total net assets                                   | <u>\$ 167,826</u>          | <u>\$ 70,896</u>               | <u>\$ 238,722</u>     |

Unrestricted net assets can be used to meet the County's ongoing obligations to citizens and creditors. However, both unrestricted and restricted net assets are governed by accounting principles generally accepted in the United States of America. The principles do not consider County management decisions regarding the balances, but rather legal restraints placed on the use of assets by external agencies, creditors, contributors, or imposed by law. The following briefly highlights the difference.

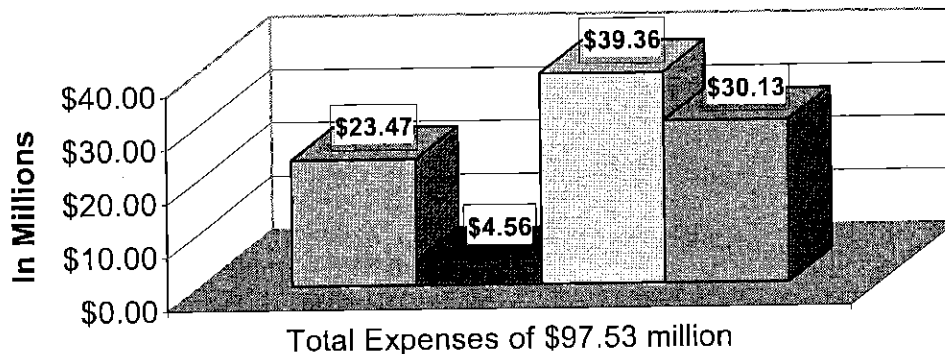
- Included in the \$49.6 million of unrestricted net asset balance for governmental activities is:
  - \$24.1 million in unreserved General Fund balance, which includes \$7.1 million resulting from the utility service territory sale to Jacksonville Electric Authority ("JEA"), has been recorded as a special item in this fiscal year
  - \$9.6 million in unreserved County Transportation Trust balance
  - \$7.5 million in unreserved Impact Fee balance

ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

- Included in the \$36.9 million of unrestricted net asset balances for business type activities is:
  - \$10.3 million in unit connection fee balance
  - \$7.8 million in solid waste long-term care balance

Although accounting principles do not restrict these amounts, they have been earmarked for future uses governed by prudent managerial decisions and plans.

### Statement of Activities Governmental Activities Revenue Resources



- |                                  |                                       |
|----------------------------------|---------------------------------------|
| ■ Charges for Service            | ■ Operating Grants & Contributions    |
| ■ Capital Grants & Contributions | ■ Net Primary Government Contribution |

The above Statement of Activities graphically portrays where the program revenue resources came from to cover the expenses associated with the various governmental activities of the County. Program revenues do not include general revenues such as taxes, intergovernmental revenue streams, transfers and interest earnings. Only \$30.1 million, or 32%, of \$95.3 million in general revenue from governmental activities was necessary for governmental activity expenses. For more information please refer to the summarized Statement of Activities on the following page.

ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

Statement of Activities  
(In Thousands)  
for the year ended September 30, 2002

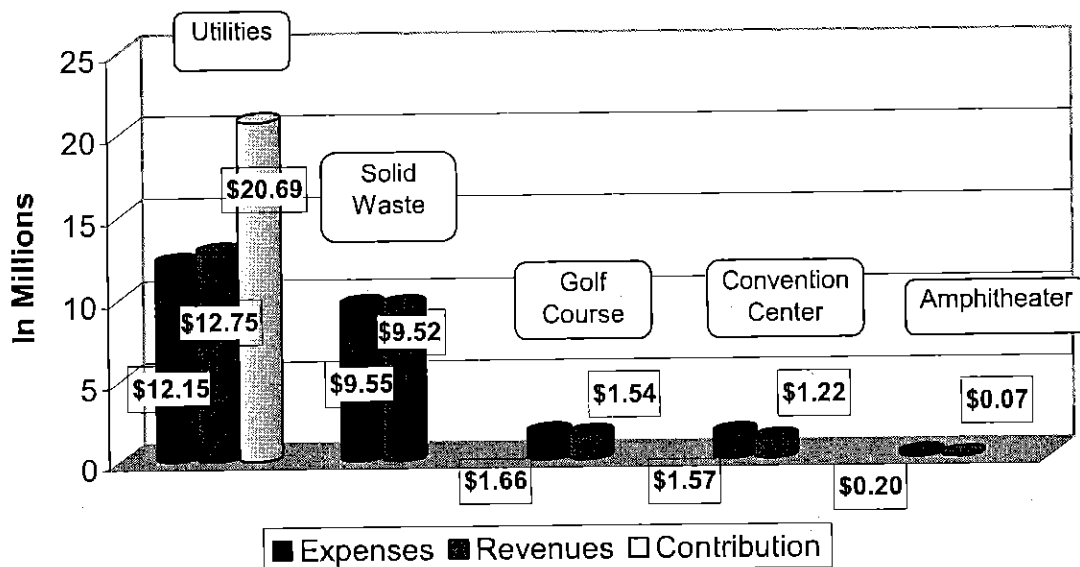
|                                                              | Governmental<br>Activities | Business<br>Type<br>Activities | Total<br>Primary<br>Government |
|--------------------------------------------------------------|----------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>                                             |                            |                                |                                |
| Program Revenues:                                            |                            |                                |                                |
| Fines & charges for services                                 | \$ 23,471                  | \$ 25,093                      | \$ 48,564                      |
| Operating grants & contributions                             | 4,563                      | 8                              | 4,571                          |
| Capital grants & contributions                               | 39,360                     | 20,699                         | 60,059                         |
| General Revenues:                                            |                            |                                |                                |
| Taxes                                                        | 69,336                     |                                | 69,336                         |
| Intergovernmental                                            | 21,495                     |                                | 21,495                         |
| Unrestricted earnings on investments                         | 2,787                      | 1,594                          | 4,381                          |
| Miscellaneous                                                | 1,726                      | 22                             | 1,748                          |
| <b>Total Revenues</b>                                        | <b>162,738</b>             | <b>47,416</b>                  | <b>210,154</b>                 |
| <b>Expenses:</b>                                             |                            |                                |                                |
| General government                                           | 31,552                     |                                | 31,552                         |
| Public safety                                                | 45,111                     |                                | 45,111                         |
| Physical environment                                         | 462                        |                                | 462                            |
| Transportation                                               | 1,879                      |                                | 1,879                          |
| Economic environment                                         | 2,209                      |                                | 2,209                          |
| Human services                                               | 8,637                      |                                | 8,637                          |
| Culture and recreation                                       | 6,072                      |                                | 6,072                          |
| Interest on long-term debt                                   | 1,608                      |                                | 1,608                          |
| Utilities                                                    |                            | 12,154                         | 12,154                         |
| Solid waste                                                  |                            | 9,548                          | 9,548                          |
| Golf course                                                  |                            | 1,663                          | 1,663                          |
| Convention center                                            |                            | 1,566                          | 1,566                          |
| Amphitheater                                                 |                            | 197                            | 197                            |
| <b>Total Expenses</b>                                        | <b>97,530</b>              | <b>25,128</b>                  | <b>122,658</b>                 |
| Increase in Net Assets Before Transfers<br>and Special Items | 65,208                     | 22,288                         | 87,496                         |
| Transfers                                                    | (402)                      | 402                            | -                              |
| Sale of utility franchise area to JEA                        | 7,117                      |                                | 7,117                          |
| <b>Increase in Net Assets:</b>                               | <b>\$ 71,923</b>           | <b>\$ 22,690</b>               | <b>\$ 94,613</b>               |

The increase in net assets of governmental activities is mainly attributable to \$10.8 million net change in fund balance, of which \$7.1 million came from the JEA sale, and the net effect of approximately \$59.8 million in capital assets and infrastructure that either contributed to the County or acquired using financial resources.

A significant resource, which dramatically impacts the primary government increase in net assets, is the large developer contribution of land, rights of way, and infrastructure. As portrayed on the following pages, this represented approximately 48% of the total governmental asset additions. And, as seen in the graph below, contributions were a significant business-type resource particularly for the utility department representing approximately 80% of assets added this fiscal year.

## Statement of Activities

### Business-type Program Revenues & Expenses (In Thousands)

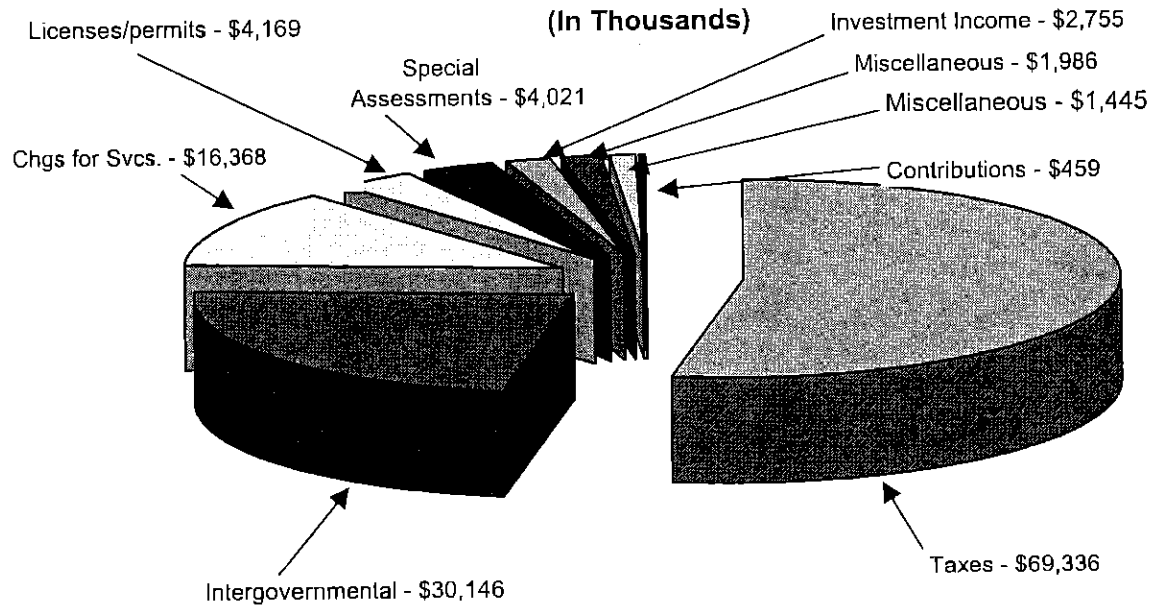


#### 4. Financial Analysis of the County's Funds.

The focus of St. Johns County's governmental funds is to provide information on near-term inflows, outflows, and balances of available spending resources. This information is useful in assessing the County's potential financing requirements. Unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

At September 30, 2002, the County's governmental funds reported combined ending fund balances of \$62,569,147, which is an increase of \$10,859,691 in comparison with the prior year.

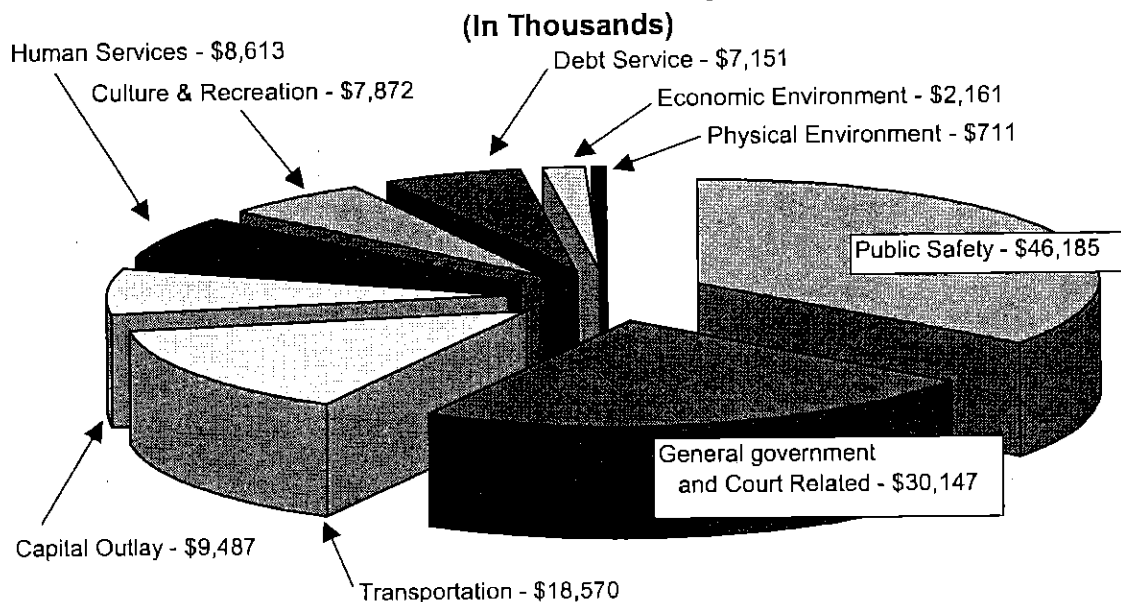
## Governmental Funds Revenue



Governmental funds revenues increased \$13.8 million, or 12%, over the prior fiscal year. This increase was primarily due to increased tax revenues generated from the additional value of property that was added to the tax roll, and from the 10% increase in intergovernmental revenues from federal and state resources.

The County's expenditures cover a range of services; over half are related to general governments and public safety.

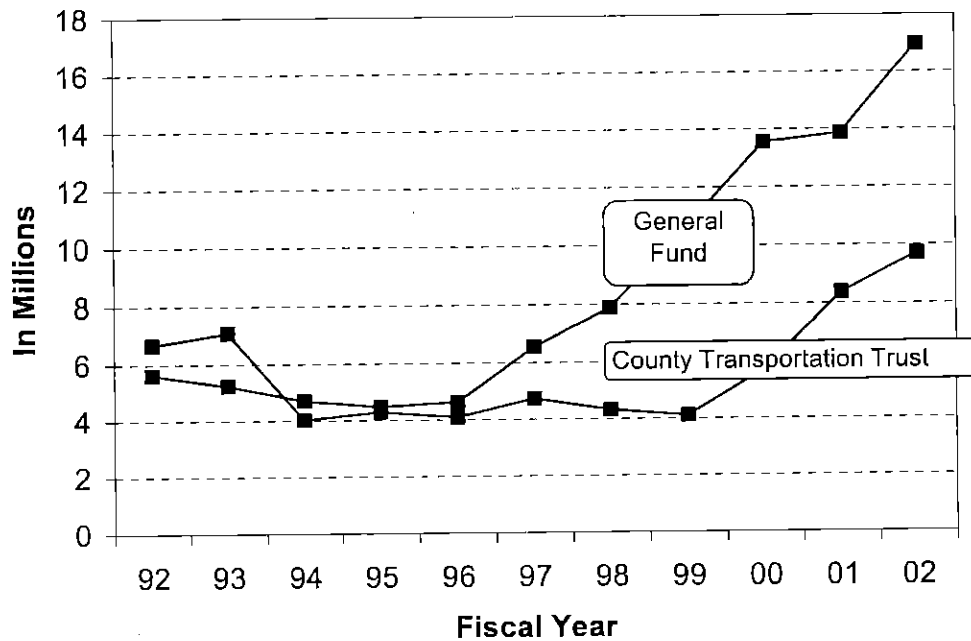
## Governmental Funds Expenditures



ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

Unreserved fund balance for the General Fund and County Transportation Trust Fund (CTTF) was \$24,067,431 and \$9,571,591 respectively. This represents a 74% increase in the General Fund and a 14% increase in CTTF.

### Major Governmental Funds Fund Balance Adjusted for Special Items



#### 5. General Fund budgetary highlights.

Total adjustments that were made to the General Fund's original budget and final amended budget was \$11,229,372 and included the following major transactions:

- \$7,116,576 of unanticipated revenue from the sale of utility franchise area to JEA
- \$1,333,471 increase in transfers out to other funds comprising:
  - \$800,000 transfer to the Mental Health fund for operating shortages due to state funding cut-backs
  - \$264,840 transfer related to on-going construction project contract change orders
- \$884,800 of unanticipated revenue for additional grant awards received during the fiscal year

ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

**6. Capital Asset and Debt Administration.**

- **Capital Assets.** The County's investment in capital assets for its governmental and business-type activities as of September 30, 2002 was \$237,468,949 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, current-year infrastructure, and construction in progress as presented in the table below.

Capital Assets  
Net of Depreciation  
for the year ended September 30, 2002  
(In Thousands)

|                               | Governmental<br>Activities | Business<br>Type<br>Activities | Total             |
|-------------------------------|----------------------------|--------------------------------|-------------------|
| Land                          | \$ 20,822                  | \$ 9,811                       | \$ 30,633         |
| Building & Improvements       | 71,493                     | 15,579                         | 87,072            |
| Equipment                     | 38,628                     | 4,585                          | 43,213            |
| Infrastructure                | 38,431                     | 86,479                         | 124,910           |
| Construction in progress      | 14,253                     | 3,790                          | 18,043            |
| Less accumulated depreciation | (45,251)                   | (21,151)                       | (66,402)          |
| Total                         | <u>\$ 138,376</u>          | <u>\$ 99,093</u>               | <u>\$ 237,469</u> |

In conjunction with the implementation of the new government-wide financial statements, St. Johns County reviewed all aspects of the Capital Asset Policy. The goal of these procedures is to assess and capture infrastructure costs of the County, as well as, accurately report the maintenance costs associated with those assets in the year that they occur.

- **Long-term Debt.** At the end of fiscal year 2002, the County had total bonded debt outstanding of \$90,683,037. Of this amount, the general obligation bonds, which are backed by the full faith and credit of the government was \$1,475,000. The remainder of the County's debt represents bonds secured by specific revenue sources.



ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

Outstanding Debt  
(In Thousands)  
for the year ended September 30, 2002

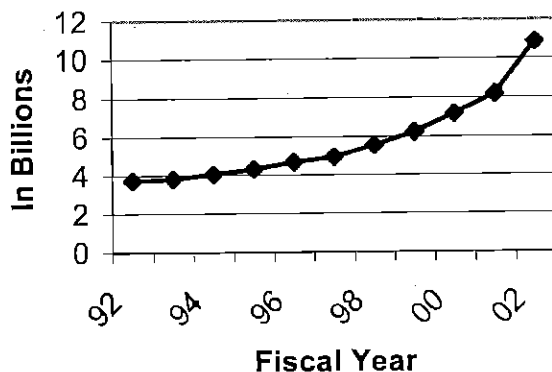
|                                                      | Governmental<br>Activities | Business<br>Type<br>Activities | Total             |
|------------------------------------------------------|----------------------------|--------------------------------|-------------------|
| General obligation bonds                             | \$ 1,475                   |                                | \$ 1,475          |
| Revenue bonds                                        | 23,005                     | \$ 66,203                      | 89,208            |
| Notes payable and obligations<br>under capital lease | 5,192                      | 1,588                          | 6,780             |
| Compensated Absences                                 | 4,063                      | 386                            | 4,449             |
| Total                                                | <u>\$ 33,735</u>           | <u>\$ 68,177</u>               | <u>\$ 101,912</u> |

The County's outstanding bonded debt and notes payable decreased by \$1,493,796 from the prior fiscal year. During the year, the County borrowed an additional \$2,800,000 from the Florida Local Government Finance Commission Pooled Commercial Paper Loan Program for construction of the Southwest Library. Subsequent to the end of the year, the County took advantage of historically low interest rates by refunding old bond issues and issuing \$17,790,000 in additional revenue bonds. The average combined present value savings for the three issues was \$1,321,184 or 7.43% of the refunded debt service. This translates into an annual debt service savings over the refunded bonds of \$203,285 - \$223,405 during the remaining life of the debt.

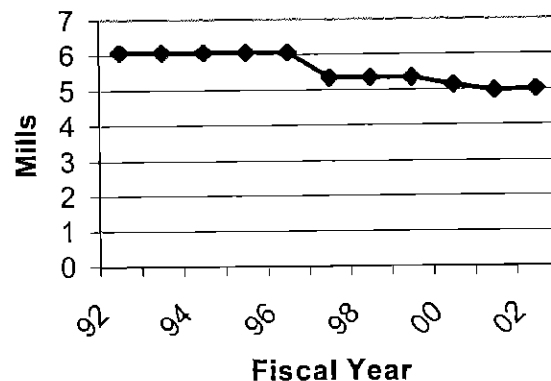
**7. Economic Factors and Next Year's Budgets and Rates.**

St. Johns County primarily relies on property taxes, intergovernmental resources, impact fees and a limited number of fees for governmental activities. The County has been able to hold the millage rate relatively constant during the last 10 years at an average of 5.59 mills. And, based on

**St. Johns County  
Taxable Property Value**



**St. Johns County  
General Fund Millage Rate**



the continued increases in taxable property values, which has doubled over the last five years, has been able to not only sustain government services, but has also been able to add additional facilities and programs that support parks and

ST. JOHNS COUNTY, FLORIDA  
MANAGEMENT DISCUSSION and ANALYSIS  
For the year ended September 30, 2002

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recreation, libraries, and governmental services including greater public safety through increased police, fire and emergency medical services. Additionally, the County has increased spending on health care, economic development through the County's new Housing Department, and greater cooperation with the County School District through cooperative agreements to pay for the increased wind-load capacities of several new school buildings to be able to provide additional shelters during emergencies. This contrast between level millage rates and increased value is portrayed in the graphs below.

Also completed this year was an adjustment in County utility rates. This rate adjustment culminated at the end of the fiscal year and will impact next year's revenue streams. The rate structure for water and sewer services provided by the County was established pursuant to Ordinance 2001-25 with an effective date of April 1, 2001. The new rate structure was designed to reduce the "average" rate utility customers were paying for water and sewer services. This reduction was approximately 20% of combined revenues for the utility. This decline, however, has been adequately covered during the current fiscal year by increased customer growth and the annual increases based on the Consumer Price Index.

As previously discussed, subsequent to the end of this fiscal year, the County took advantage of current market conditions and refunded part of the utility's outstanding debt. As part of the refunding, the County asked Moody's Investor Service and Standard & Poor's to evaluate the utility's underlying rating for the new issue. Both agencies increased the utility department's rating. Moody's and Standard & Poor's increased their rating to A2 and A+ respectively over the previous ratings. These increases were based on the capacity of the utility to pay debt service on the bonds without giving effect to the Bond Insurance Policy, which was issued by the County, through a strong and growing service area; solid operations and available capacity; and sound financial performance and liquidity, which the utility is striving to continue in the future.

Additional economic and consequently budgetary considerations involve the County Golf Course and Convention Center. During this fiscal year, it was necessary for the County to "budget and appropriate" sufficient funding from non-ad valorem resources to meet the Golf Course's debt service covenant and, although not anticipated to be levied at the Convention Center by the original operational pro-forma, a shortfall assessment was levied and collected during this year.

Since the events of September 11, 2001 and with the continued decline in tourism from the economy, both the number of rounds played at the County Golf Course and the amount of Convention Center revenues have been substantially down. This decrease has forced the County to generate sufficient resources for the debt obligations through various pledged revenue levies and management's decision again this year not to require the indirect administrative cost allocation from the Golf Course.

Finally, the Board passed and adopted Ordinance 2002-47, in accordance with Section 288.075 of Florida Statutes. The action completed the development and implementation of the Economic Development Agency. The ordinance authorizes the implementation of the County's incentive program for the purpose of enticing targeted industries to relocate or expand in St. Johns County; adopted the Target Industry List established by the St. Augustine and St. Johns County Chamber of Commerce; and has already been useful in bringing Ring Power's corporate headquarters to the County.

#### **8. Requests for Information.**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of St. Johns County's finances and to demonstrate the County's accountability to each of those groups. If you have questions about this report or need additional financial information, please contact the County Finance Department, Attn: Richard A. MacDonald, Jr., P.O. Box 300, St. Augustine, FL, 32145-0300.

## **BASIC FINANCIAL STATEMENTS**

**St Johns County, Florida**
**Statement of Net Assets**

September 30, 2002

|                                                 | Primary Government      |                          |                | Component Units                           |                                                  |
|-------------------------------------------------|-------------------------|--------------------------|----------------|-------------------------------------------|--------------------------------------------------|
|                                                 | Governmental Activities | Business-type Activities | Total          | St Johns County Housing Finance Authority | St Johns County Industrial Development Authority |
| <b>ASSETS</b>                                   |                         |                          |                |                                           |                                                  |
| Cash and cash equivalents                       | \$ 46,444,345           | \$ 20,805,683            | \$ 67,250,028  | \$ 158,857                                | \$ 156,613                                       |
| Investments                                     | 29,197,152              | 27,262,973               | 56,460,125     |                                           |                                                  |
| Accounts receivable, net                        | 809,036                 | 1,889,420                | 2,698,456      | 353,102                                   |                                                  |
| Interest receivable                             | 401,675                 | 263,109                  | 664,784        | 469                                       |                                                  |
| Due from individuals                            | 97,363                  |                          | 97,363         |                                           |                                                  |
| Due from other funds                            | 455,711                 | 59,784                   | 515,495        |                                           |                                                  |
| Due from other governments                      | 2,244,924               | 5,129                    | 2,250,053      |                                           |                                                  |
| Inventories                                     | 172,042                 | 412,096                  | 584,138        |                                           |                                                  |
| Other assets                                    | 27,214                  | 1,616,844                | 1,644,058      |                                           |                                                  |
| Capital Assets:                                 |                         |                          |                |                                           |                                                  |
| Land, and construction in progress              | 35,074,879              | 13,601,259               | 48,676,138     |                                           |                                                  |
| Other capital assets, net                       | 103,301,215             | 65,491,596               | 168,792,811    |                                           |                                                  |
| Total capital assets, net of depreciation       | 138,376,094             | 99,092,855               | 237,468,949    | -                                         | -                                                |
| Total Assets                                    | 218,225,556             | 151,407,893              | 369,633,449    | 512,428                                   | 156,613                                          |
| <b>LIABILITIES</b>                              |                         |                          |                |                                           |                                                  |
| Accounts payable and accrued expenses           | 14,634,984              | 2,420,504                | 17,055,488     | 3,000                                     | 2,978                                            |
| Due to individuals                              | 150,756                 | 762,742                  | 913,498        |                                           |                                                  |
| Due to other funds                              | 245,295                 | 270,200                  | 515,495        |                                           |                                                  |
| Due to other governments                        | 535,891                 |                          | 535,891        |                                           |                                                  |
| Interest payable                                | 11,441                  | 973,891                  | 985,332        |                                           |                                                  |
| Deferred revenue                                | 169,030                 |                          | 169,030        |                                           |                                                  |
| Other liabilities                               | 4,481                   | 72,883                   | 77,364         |                                           |                                                  |
| Long-term liabilities:                          |                         |                          |                |                                           |                                                  |
| Due within one year:                            |                         |                          |                |                                           |                                                  |
| Bonds, capital leases, and contracts            | 5,968,725               | 4,205,343                | 10,174,068     |                                           |                                                  |
| Compensated absences                            | 796,223                 | 27,477                   | 823,700        |                                           |                                                  |
| Estimated liability for self insured losses     | 789,046                 |                          | 789,046        |                                           |                                                  |
| Due in more than one year:                      |                         |                          |                |                                           |                                                  |
| Bonds, capital leases, and contracts            | 23,826,767              | 63,586,172               | 87,412,959     |                                           |                                                  |
| Accrued landfill closure and post-closure costs |                         | 7,834,593                | 7,834,593      |                                           |                                                  |
| Compensated absences                            | 3,267,046               | 358,481                  | 3,625,527      |                                           |                                                  |
| Total Liabilities                               | 50,399,705              | 80,512,286               | 130,911,991    | 3,000                                     | 2,978                                            |
| <b>NET ASSETS</b>                               |                         |                          |                |                                           |                                                  |
| Invested in capital assets, net of related debt | 108,569,141             | 25,109,464               | 133,678,605    |                                           |                                                  |
| Restricted for:                                 |                         |                          |                |                                           |                                                  |
| Capital projects                                | 8,566,231               | 6,609,227                | 15,175,458     |                                           |                                                  |
| Debt service                                    | 500,788                 | 1,596,022                | 2,096,810      |                                           |                                                  |
| Other purposes                                  | 560,663                 | 708,299                  | 1,268,962      | 19,395                                    |                                                  |
| Unrestricted                                    | 49,629,028              | 36,872,595               | 86,501,623     | 490,033                                   | 153,635                                          |
| Total Net Assets                                | \$ 167,825,851          | \$ 70,895,607            | \$ 238,721,458 | \$ 509,428                                | \$ 153,635                                       |

The accompanying notes are an integral part of the financial statements

**St Johns County, Florida**  
Statement of Activities  
For the Year Ended September 30, 2002

| Net (Expenses) Revenue and Changes in Net Assets     |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
|------------------------------------------------------|------------------|--------------------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|-----------------|--------------------------------------------|---------------------------------------------------|
| Functions/Programs                                   | Program Revenues |                                |                                    | Primary Government               |                         | Component Units          |                 |                                            |                                                   |
|                                                      | Expenses         | Fines and Charges for services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total           | St. Johns County Housing Finance Authority | St. Johns County Industrial Development Authority |
| <b>Primary Government:</b>                           |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| Governmental activities:                             |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| General government                                   | \$ 31,551,942    | \$ 18,942,076                  | \$ 519,788                         | \$ 745,147                       | \$ (11,864,719)         |                          | \$ (11,864,719) |                                            |                                                   |
| Public Safety                                        | 45,110,791       | 1,119,560                      |                                    | 979,092                          | (42,492,351)            |                          | (42,492,351)    |                                            |                                                   |
| Physical environment                                 | 461,796          |                                |                                    | 383,484                          | (78,312)                |                          | (78,312)        |                                            |                                                   |
| Transportation                                       | 1,879,114        | 1,863,121                      |                                    | 34,327,310                       | 34,377,238              |                          | 34,377,238      |                                            |                                                   |
| Economic environment                                 | 2,208,305        |                                |                                    | 65,921                           | (790,541)               |                          | (790,541)       |                                            |                                                   |
| Human Services                                       | 8,636,700        | 423,093                        |                                    | 1,343,364                        | (6,227,432)             |                          | (6,227,432)     |                                            |                                                   |
| Culture and recreation                               | 6,071,661        | 1,986,178                      |                                    | 1,986,178                        | (1,450,911)             |                          | (1,450,911)     |                                            |                                                   |
| Interest on long term debt                           | 1,608,613        | 1,123,362                      |                                    | 647,969                          | (1,608,613)             |                          | (1,608,613)     |                                            |                                                   |
| Total governmental activities                        | 97,629,545       | 23,471,232                     | 4,563,120                          | 39,359,652                       | (30,135,641)            |                          | (30,135,641)    |                                            |                                                   |
| <b>Business-type activities:</b>                     |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| Utilities                                            | 12,154,229       | 12,749,039                     |                                    | 20,686,268                       | 21,283,078              |                          | 21,283,078      |                                            |                                                   |
| Solid waste                                          | 9,548,028        | 9,513,358                      | 7,664                              |                                  | (27,006)                |                          | (27,006)        |                                            |                                                   |
| Golf course                                          | 1,663,104        | 1,541,970                      |                                    | 10,738                           | (110,396)               |                          | (110,396)       |                                            |                                                   |
| Convention center                                    | 1,586,193        | 1,220,648                      |                                    |                                  | (345,545)               |                          | (345,545)       |                                            |                                                   |
| Amphitheater                                         | 197,057          | 68,339                         |                                    |                                  | (128,718)               |                          | (128,718)       |                                            |                                                   |
| Total business-type activities                       | 25,128,611       | 25,093,354                     | 7,664                              | 20,699,006                       | 20,671,413              |                          | 20,671,413      |                                            |                                                   |
| Total primary government                             | \$ 122,658,156   | \$ 48,564,586                  | \$ 4,570,784                       | \$ 60,058,558                    | \$ (30,135,641)         | \$ 20,671,413            | \$ (9,464,228)  |                                            |                                                   |
| <b>Component units:</b>                              |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| Housing programs                                     | 20,750           | 40,760                         |                                    |                                  |                         |                          |                 | \$ 20,010                                  | \$ (56,050)                                       |
| Economic development programs                        | 56,050           |                                |                                    |                                  |                         |                          |                 | 20,010                                     | (56,050)                                          |
| Total component units                                | \$ 76,800        | \$ 40,760                      |                                    |                                  |                         |                          |                 | \$ 20,010                                  | \$ (56,050)                                       |
| <b>General revenues:</b>                             |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| Property taxes                                       |                  |                                |                                    |                                  | 69,336,192              |                          | 69,336,192      |                                            |                                                   |
| Intergovernmental                                    |                  |                                |                                    |                                  | 21,494,664              |                          | 21,494,664      |                                            |                                                   |
| Unrestricted earnings on investments                 |                  |                                |                                    |                                  | 2,767,275               | 1,593,855                | 4,361,130       | 10,346                                     | 3,549                                             |
| Miscellaneous                                        |                  |                                |                                    |                                  | 1,726,279               | 22,468                   | 1,748,747       |                                            |                                                   |
| Transfers                                            |                  |                                |                                    |                                  | (401,920)               | 401,920                  | -               |                                            |                                                   |
| Special items:                                       |                  |                                |                                    |                                  |                         |                          |                 |                                            |                                                   |
| Sale of utility franchise area                       |                  |                                |                                    |                                  | 7,116,576               |                          | 7,116,576       |                                            |                                                   |
| Total general revenues, special items, and transfers |                  |                                |                                    |                                  | 102,059,066             | 2,018,243                | 104,077,309     | 10,346                                     | 3,549                                             |
| Change in net assets                                 |                  |                                |                                    |                                  | 71,923,425              | 22,669,656               | 94,613,081      | 30,356                                     | (52,501)                                          |
| Net assets, beginning of year                        |                  |                                |                                    |                                  | 95,902,426              | 48,205,951               | 144,108,377     | 479,072                                    | 206,136                                           |
| Net assets, end of year                              |                  |                                |                                    |                                  | \$ 167,825,851          | \$ 70,895,607            | \$ 238,721,458  | \$ 509,428                                 | \$ 153,635                                        |

The accompanying notes are an integral part of the financial statements

**ST. JOHNS COUNTY, FLORIDA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
September 30, 2002

|                                                                        | General<br>Fund      | Transportation<br>Trust | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------------------------------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                                                          |                      |                         |                                |                                |
| Equity in pooled cash and cash equivalents                             | \$ 6,611,313         | \$ 3,326,503            | \$34,762,320                   | \$ 44,700,136                  |
| Investments                                                            | 18,969,752           | 8,173,197               | 1,943,328                      | 29,086,277                     |
| Accounts and notes receivable (net of<br>allowance for uncollectibles) | 600,253              | 21,270                  | 146,405                        | 767,928                        |
| Interest receivable                                                    | 303,565              | 81,336                  | 16,168                         | 401,069                        |
| Due from individuals                                                   | 97,034               |                         | 329                            | 97,363                         |
| Due from other funds                                                   | 561,554              | 74,177                  | 84,213                         | 719,944                        |
| Due from other governments                                             | 1,462,443            | 322,587                 | 459,894                        | 2,244,924                      |
| Inventory                                                              |                      | 130,458                 | 41,584                         | 172,042                        |
| Other assets                                                           | 27,214               |                         |                                | 27,214                         |
| <b>TOTAL ASSETS</b>                                                    | <b>\$ 28,633,128</b> | <b>\$ 12,129,528</b>    | <b>\$ 37,454,241</b>           | <b>\$ 78,216,897</b>           |
| <b>LIABILITIES AND FUND BALANCES</b>                                   |                      |                         |                                |                                |
| <b>LIABILITIES:</b>                                                    |                      |                         |                                |                                |
| Accounts payable and<br>accrued liabilities                            | \$ 3,752,546         | \$ 2,419,750            | \$8,094,276                    | \$ 14,266,572                  |
| Customer deposits                                                      | 135,923              |                         |                                | 135,923                        |
| Due to individuals                                                     | 14,833               |                         |                                | 14,833                         |
| Due to other funds                                                     |                      | 7,168                   | 513,852                        | 521,020                        |
| Due to other governments                                               | 511,811              | 561                     | 23,519                         | 535,891                        |
| Deferred revenue                                                       | 146,103              |                         | 22,927                         | 169,030                        |
| Other liabilities                                                      | 4,481                |                         |                                | 4,481                          |
| <b>TOTAL LIABILITIES</b>                                               | <b>4,565,697</b>     | <b>2,427,479</b>        | <b>8,654,574</b>               | <b>15,647,750</b>              |
| <b>FUND BALANCES:</b>                                                  |                      |                         |                                |                                |
| <b>Fund balances:</b>                                                  |                      |                         |                                |                                |
| <b>Reserved for:</b>                                                   |                      |                         |                                |                                |
| Records Modernization                                                  |                      |                         | 218,849                        | 218,849                        |
| School Crossing Guard and<br>law enforcement education                 |                      |                         | 226,180                        | 226,180                        |
| Teen Court                                                             |                      |                         | 115,634                        | 115,634                        |
| Capital outlay                                                         |                      |                         | 8,566,231                      | 8,566,231                      |
| Debt service                                                           |                      |                         | 500,788                        | 500,788                        |
| Inventory                                                              |                      | 130,458                 | 41,584                         | 172,042                        |
| Unreserved                                                             | 24,067,431           | 9,571,591               |                                | 33,639,022                     |
| Unreserved-undesignated, reported in nonmajor:                         |                      |                         |                                |                                |
| Special revenue funds                                                  |                      |                         | 19,130,401                     | 19,130,401                     |
| <b>TOTAL FUND BALANCES</b>                                             | <b>24,067,431</b>    | <b>9,702,049</b>        | <b>28,799,667</b>              | <b>62,569,147</b>              |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                             | <b>\$ 28,633,128</b> | <b>\$ 12,129,528</b>    | <b>\$ 37,454,241</b>           | <b>\$ 78,216,897</b>           |

The accompanying notes are an integral part of the financial statements.

**St Johns County, Florida**  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
September 30, 2002

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|                                                                                                                                                                                                                                                                                    |                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Total fund balances- governmental funds                                                                                                                                                                                                                                            | \$ 62,569,147         |
| Amounts reported for governmental activities in the statement of net assets are different because:                                                                                                                                                                                 |                       |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds                                                                                                                                                             | 138,376,094           |
| Bonds and notes payable (\$28,035,000), lease obligations (\$1,760,512), compensated absences for governmental funds (\$4,063,269), and interest payable (\$11,441) are not due and payable in the current period and therefore are not reported in the funds                      | (33,870,222)          |
| Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets | <u>750,832</u>        |
| Net assets of governmental activities                                                                                                                                                                                                                                              | <u>\$ 167,825,851</u> |

The accompanying notes are an integral part of the financial statements.

**ST. JOHNS COUNTY, FLORIDA**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES- GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

|                                                         | General<br>Fund      | Transportation<br>Trust | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| <b>REVENUES:</b>                                        |                      |                         |                                |                                |
| Taxes                                                   | \$ 48,258,066        | \$ 8,550,334            | \$12,527,792                   | \$ 69,336,192                  |
| Special assessments                                     |                      |                         | 4,020,981                      | 4,020,981                      |
| Licenses and permits                                    | 216,883              |                         | 3,952,280                      | 4,169,163                      |
| Intergovernmental                                       | 14,825,318           | 6,739,762               | 8,581,532                      | 30,146,612                     |
| Charges for services                                    | 11,617,309           | 1,836,696               | 2,914,155                      | 16,368,160                     |
| Fines and forfeitures                                   | 1,518,540            |                         | 468,239                        | 1,986,779                      |
| Contributions                                           | 147,472              | 65,921                  | 245,799                        | 459,192                        |
| Investment income                                       | 1,558,736            | 459,395                 | 736,942                        | 2,755,073                      |
| Miscellaneous revenue                                   | 1,003,447            | 134,310                 | 306,949                        | 1,444,706                      |
| <b>TOTAL REVENUES</b>                                   | <b>79,145,771</b>    | <b>17,786,418</b>       | <b>33,754,669</b>              | <b>130,686,858</b>             |
| <b>EXPENDITURES:</b>                                    |                      |                         |                                |                                |
| Current:                                                |                      |                         |                                |                                |
| General government                                      | 21,175,400           |                         | 3,674,972                      | 24,850,372                     |
| Public safety                                           | 35,556,136           |                         | 10,629,284                     | 46,185,420                     |
| Physical environment                                    | 678,094              |                         | 33,000                         | 711,094                        |
| Transportation                                          | 1,242,858            | 16,408,072              | 919,246                        | 18,570,176                     |
| Economic environment                                    | 690,707              |                         | 1,470,420                      | 2,161,127                      |
| Human services                                          | 3,884,912            |                         | 4,727,941                      | 8,612,853                      |
| Culture and recreation                                  | 5,397,198            |                         | 2,474,396                      | 7,871,594                      |
| Court Related                                           | 4,926,301            |                         | 370,683                        | 5,296,984                      |
| Capital outlay                                          |                      |                         | 9,487,050                      | 9,487,050                      |
| Debt service:                                           |                      |                         |                                |                                |
| Principal retirement                                    | 1,116,439            |                         | 4,417,000                      | 5,533,439                      |
| Interest and fiscal charges                             | 84,256               |                         | 1,533,390                      | 1,617,646                      |
| <b>TOTAL EXPENDITURES</b>                               | <b>74,752,301</b>    | <b>16,408,072</b>       | <b>39,737,382</b>              | <b>130,897,755</b>             |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>4,393,470</b>     | <b>1,378,346</b>        | <b>(5,982,713)</b>             | <b>(210,897)</b>               |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                      |                         |                                |                                |
| Operating transfers in                                  | 310,061              | 504,990                 | 8,007,584                      | 8,822,635                      |
| Operating transfers out                                 | (4,159,302)          | (550,000)               | (4,480,537)                    | (9,189,839)                    |
| Transfers in/(out) - Officers                           | 1,074,314            |                         | (1,074,314)                    | -                              |
| Long-term debt issued                                   | 1,239,643            |                         | 2,800,000                      | 4,039,643                      |
| Sale of capital assets                                  | 236,180              |                         | 45,393                         | 281,573                        |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <b>(1,299,104)</b>   | <b>(45,010)</b>         | <b>5,298,126</b>               | <b>3,954,012</b>               |
| <b>SPECIAL ITEM</b>                                     |                      |                         |                                |                                |
| Sale of utility franchise area                          | 7,116,576            |                         |                                | 7,116,576                      |
| <b>NET CHANGE IN FUND BALANCE</b>                       | <b>10,210,942</b>    | <b>1,333,336</b>        | <b>(684,587)</b>               | <b>10,859,691</b>              |
| <b>FUND BALANCES, BEGINNING OF YEAR, AS RESTATED</b>    | <b>13,856,489</b>    | <b>8,368,713</b>        | <b>29,484,254</b>              | <b>51,709,456</b>              |
| <b>FUND BALANCES, END OF YEAR</b>                       | <b>\$ 24,067,431</b> | <b>\$ 9,702,049</b>     | <b>\$ 28,799,667</b>           | <b>\$ 62,569,147</b>           |

The accompanying notes are an integral part of the financial statements.



**St Johns County, Florida**  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For The Year Ended September 30, 2002

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Net change in fund balances- total governmental funds \$ 10,859,691

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, certain capital assets are contributed to the County by developers upon completion, requiring recognition of income not reported in the funds.

|                                                       |                    |            |
|-------------------------------------------------------|--------------------|------------|
| Capital assets acquired by use of financial resources | 34,824,151         |            |
| Capital assets contributed by developers              | 31,737,681         |            |
| Current year depreciation                             | <u>(6,734,652)</u> |            |
|                                                       |                    | 59,827,180 |

Repayment of bond principal is an expenditure in governmental funds, but the repayment results in a reduction of long-term liabilities in the statement of net assets. Issuing debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount by which principal repayment (\$5,533,439) exceeded debt issued (\$4,039,643).

1,493,796

Some expenses reported in the statement of activities did not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds:

|                                           |           |
|-------------------------------------------|-----------|
| Loss on disposal of assets                | (359,416) |
| Reduction in accrued interest payable     | 9,033     |
| Increases in compensated absences payable | (224,340) |

Internal service funds are used to charge the cost of certain activities to individual funds. The net revenue (expense) is reported in the county-wide statements with governmental activities

317,481

Change in net assets of governmental activities \$ 71,923,425

The accompanying notes are an integral part of the financial statements.

**ST. JOHNS COUNTY, FLORIDA**
**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
GENERAL FUND AND MAJOR SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

|                                                         | General Fund         |                      |                                | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|---------------------------------------------------------|----------------------|----------------------|--------------------------------|-----------------------------------------------------------|
|                                                         | Original<br>Budget   | Final<br>Budget      | Actual<br>(Budgetary<br>Basis) |                                                           |
| <b>REVENUES:</b>                                        |                      |                      |                                |                                                           |
| Taxes                                                   | \$ 48,778,496        | \$ 48,778,496        | \$ 48,258,066                  | \$ (520,430)                                              |
| Licenses and permits                                    | 177,000              | 177,000              | 216,883                        | 39,883                                                    |
| Intergovernmental                                       | 12,387,998           | 13,382,715           | 14,825,318                     | 1,442,603                                                 |
| Charges for services                                    | 9,824,922            | 10,500,215           | 11,617,309                     | 1,117,094                                                 |
| Fines and forfeitures                                   | 1,342,655            | 1,342,655            | 1,518,540                      | 175,885                                                   |
| Contributions                                           | 243,334              | 311,249              | 147,472                        | (163,777)                                                 |
| Investment income                                       | 887,932              | 887,932              | 1,558,736                      | 670,804                                                   |
| Miscellaneous revenue                                   | 588,174              | 617,874              | 1,003,447                      | 385,573                                                   |
| <b>TOTAL REVENUES</b>                                   | <b>74,230,511</b>    | <b>75,998,136</b>    | <b>79,145,771</b>              | <b>3,147,635</b>                                          |
| <b>EXPENDITURES:</b>                                    |                      |                      |                                |                                                           |
| Current:                                                |                      |                      |                                |                                                           |
| General government                                      | 22,351,429           | 23,500,134           | 21,175,400                     | 2,324,734                                                 |
| Public safety                                           | 32,552,789           | 33,007,871           | 35,556,136                     | (2,548,265)                                               |
| Physical environment                                    | 834,004              | 882,304              | 678,094                        | 204,210                                                   |
| Transportation                                          | 1,445,939            | 1,445,939            | 1,242,858                      | 203,081                                                   |
| Economic environment                                    | 1,083,428            | 1,120,253            | 690,707                        | 429,546                                                   |
| Human services                                          | 4,070,372            | 4,258,082            | 3,884,912                      | 373,170                                                   |
| Culture and recreation                                  | 6,311,591            | 6,628,312            | 5,397,198                      | 1,231,114                                                 |
| Court Related                                           | 4,530,830            | 5,116,812            | 4,926,301                      | 190,511                                                   |
| Debt service:                                           |                      |                      |                                |                                                           |
| Principal retirement                                    | 1,088,755            | 1,088,755            | 1,116,439                      | (27,684)                                                  |
| Interest and fiscal charges                             | 91,715               | 91,715               | 84,256                         | 7,459                                                     |
| <b>TOTAL EXPENDITURES</b>                               | <b>74,360,852</b>    | <b>77,140,177</b>    | <b>74,752,301</b>              | <b>2,387,876</b>                                          |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>(130,341)</b>     | <b>(1,142,041)</b>   | <b>4,393,470</b>               | <b>5,535,511</b>                                          |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                      |                      |                                |                                                           |
| Operating transfers in                                  | 268,045              | 268,045              | 310,061                        | 42,016                                                    |
| Transfers in - from Officers                            | 285,957              | 285,957              | -                              | 285,957                                                   |
| Transfers in - from Board                               | 788,636              | 663,318              | 1,074,314                      | (410,996)                                                 |
| Operating transfers out                                 | (2,629,118)          | (3,962,589)          | (4,159,302)                    | (196,713)                                                 |
| Proceeds from sale of county property                   |                      | 148,300              | 236,180                        | (87,880)                                                  |
| Long-term debt issued                                   |                      |                      | 1,239,643                      | (1,239,643)                                               |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <b>(1,286,480)</b>   | <b>(2,596,969)</b>   | <b>(1,299,104)</b>             | <b>(1,607,259)</b>                                        |
| <b>SPECIAL ITEM</b>                                     |                      |                      |                                |                                                           |
| Sale of utility franchise area                          |                      | 7,116,576            | 7,116,576                      | -                                                         |
| <b>NET CHANGE IN FUND BALANCE</b>                       | <b>(1,416,821)</b>   | <b>3,377,566</b>     | <b>10,210,942</b>              | <b>3,928,252</b>                                          |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                 | <b>13,856,489</b>    | <b>13,856,489</b>    | <b>13,856,489</b>              | <b>-</b>                                                  |
| <b>FUND BALANCES, END OF YEAR</b>                       | <b>\$ 12,439,668</b> | <b>\$ 17,234,055</b> | <b>\$ 24,067,431</b>           | <b>\$ 3,928,252</b>                                       |

The accompanying notes are an integral part of the financial statements.

| Transportation Trust |                     |                                |                                                           |
|----------------------|---------------------|--------------------------------|-----------------------------------------------------------|
| Original<br>Budget   | Final<br>Budget     | Actual<br>(Budgetary<br>Basis) | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
| \$ 8,596,228         | \$ 8,596,228        | \$ 8,550,334                   | \$ (45,894)                                               |
| 7,633,923            | 7,948,923           | 6,739,762                      | (1,209,161)                                               |
| 2,136,418            | 2,136,418           | 1,836,696                      | (299,722)                                                 |
|                      |                     | 65,921                         | 65,921                                                    |
| 219,000              | 219,000             | 459,395                        | 240,395                                                   |
| 4,000                | 4,000               | 134,310                        | 130,310                                                   |
| <u>18,589,569</u>    | <u>18,904,569</u>   | <u>17,786,418</u>              | <u>(1,118,151)</u>                                        |
| 22,058,521           | 23,458,460          | 16,408,072                     | 7,050,388                                                 |
| <u>22,058,521</u>    | <u>23,458,460</u>   | <u>16,408,072</u>              | <u>7,050,388</u>                                          |
| (3,468,952)          | (4,553,891)         | 1,378,346                      | 5,932,237                                                 |
| 79,258               | 121,788             | 504,990                        | (383,202)                                                 |
| (550,000)            | (550,000)           | (550,000)                      |                                                           |
| (470,742)            | (428,212)           | (45,010)                       | (383,202)                                                 |
| (3,939,694)          | (4,982,103)         | 1,333,336                      | 5,549,035                                                 |
| 8,368,713            | 8,368,713           | 8,368,713                      | -                                                         |
| <u>\$ 4,429,019</u>  | <u>\$ 3,386,610</u> | <u>\$ 9,702,049</u>            | <u>\$ 5,549,035</u>                                       |

ST. JOHNS COUNTY, FLORIDA  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
SEPTEMBER 30, 2002

|                                                 | Business-type Activities - Enterprise Funds |                     |                       |                              |                      | Governmental<br>Activities -<br>Internal<br>Service<br>Funds |
|-------------------------------------------------|---------------------------------------------|---------------------|-----------------------|------------------------------|----------------------|--------------------------------------------------------------|
|                                                 | Utilities                                   | Solid<br>Waste      | Convention<br>Center  | Other<br>Enterprise<br>Funds | Totals               |                                                              |
| <b>ASSETS</b>                                   |                                             |                     |                       |                              |                      |                                                              |
| Current assets:                                 |                                             |                     |                       |                              |                      |                                                              |
| Equity in pooled cash and cash equivalents      | \$ 12,202,562                               | \$ 4,645,479        | \$ 879,315            | \$ 180,893                   | \$ 17,908,352        | \$ 1,644,628                                                 |
| Cash with claims administrator                  |                                             |                     |                       |                              | -                    | 110,875                                                      |
| Investments                                     | 11,751,177                                  | 6,780,445           |                       |                              | 18,531,623           | 99,581                                                       |
| Accounts receivable, net                        | 939,799                                     | 612,227             | 14,537                | 3,069                        | 1,569,732            | 41,106                                                       |
| Unl connection fee notes receivable             | 318,685                                     |                     |                       |                              | 319,685              |                                                              |
| Interest receivable                             | 157,864                                     | 105,445             |                       |                              | 263,109              | 606                                                          |
| Due from constitutional officers                |                                             | 59,784              |                       |                              | 59,784               | 11,492                                                       |
| Due from other governments                      |                                             | 5,129               |                       |                              | 5,129                |                                                              |
| Inventory                                       | 330,192                                     |                     |                       | 78,904                       | 412,096              |                                                              |
| Restricted assets:                              |                                             |                     |                       |                              |                      |                                                              |
| Cash and cash equivalents                       | 748,131                                     | 14,611              | 1,952,391             | 182,198                      | 2,897,331            |                                                              |
| Investments                                     | 5,617,770                                   | 3,113,580           |                       |                              | 8,731,350            |                                                              |
| Non-current assets:                             |                                             |                     |                       |                              |                      |                                                              |
| Land                                            | 3,655,800                                   | 762,807             |                       | 1,795,362                    | 6,223,969            |                                                              |
| Golf course land improvements                   |                                             |                     |                       | 3,587,125                    | 3,587,125            |                                                              |
| Buildings and improvements                      | 920,280                                     | 1,581,141           | 11,000,000            | 2,096,894                    | 15,578,325           |                                                              |
| Water and sewer systems                         | 86,479,037                                  |                     |                       |                              | 86,479,037           |                                                              |
| Furniture and equipment                         | 2,441,809                                   | 1,014,767           |                       | 1,128,628                    | 4,585,204            |                                                              |
| Accumulated depreciation                        | (17,780,886)                                | (1,035,907)         | (880,000)             | (1,453,178)                  | (21,150,971)         |                                                              |
| Construction in progress                        | 3,705,806                                   | 4,200               |                       | 80,180                       | 3,790,186            |                                                              |
| Other assets                                    | 936,817                                     |                     | 599,558               | 78,469                       | 1,616,844            |                                                              |
| <b>TOTAL ASSETS</b>                             | <b>112,440,758</b>                          | <b>17,642,709</b>   | <b>13,565,904</b>     | <b>7,758,524</b>             | <b>151,407,895</b>   | <b>1,908,280</b>                                             |
| <b>LIABILITIES:</b>                             |                                             |                     |                       |                              |                      |                                                              |
| Current liabilities:                            |                                             |                     |                       |                              |                      |                                                              |
| Accounts payable and accrued liabilities        | 1,382,745                                   | 962,787             |                       | 54,972                       | 2,420,504            | 358,412                                                      |
| Estimated liability for self insured losses     |                                             |                     |                       |                              | -                    | 789,046                                                      |
| Customer deposits                               | 748,131                                     | 14,611              |                       | 270,000                      | 762,742              |                                                              |
| Due to other funds                              |                                             |                     |                       |                              | 270,000              |                                                              |
| Due to constitutional officers                  | 70                                          | 93                  |                       | 37                           | 200                  |                                                              |
| Bonds and notes payable                         | 3,623,493                                   |                     | 260,000               | 255,000                      | 4,138,493            |                                                              |
| Capital lease obligations                       |                                             |                     |                       | 66,850                       | 66,850               |                                                              |
| Compensated absences                            | 27,477                                      |                     |                       |                              | 27,477               |                                                              |
| Non-current liabilities:                        |                                             |                     |                       |                              |                      |                                                              |
| Accrued landfill closure and post-closure costs |                                             | 7,834,593           |                       |                              | 7,834,593            |                                                              |
| Interest payable                                | 609,591                                     |                     | 325,191               | 39,109                       | 973,891              |                                                              |
| Other liabilities                               |                                             |                     |                       | 72,883                       | 72,883               |                                                              |
| Revenue bonds payable                           | 44,197,540                                  |                     | 15,808,020            | 2,044,308                    | 62,149,868           |                                                              |
| State loan payable                              | 1,395,094                                   |                     |                       |                              | 1,395,094            |                                                              |
| Long-term lease payable                         |                                             |                     |                       | 41,210                       | 41,210               |                                                              |
| Accrued compensated absences                    | 247,123                                     | 49,522              |                       | 61,836                       | 358,481              |                                                              |
| <b>TOTAL LIABILITIES</b>                        | <b>52,231,264</b>                           | <b>8,851,806</b>    | <b>16,493,211</b>     | <b>2,836,205</b>             | <b>80,512,286</b>    | <b>1,157,458</b>                                             |
| <b>NET ASSETS</b>                               |                                             |                     |                       |                              |                      |                                                              |
| Invested in capital assets, net of related debt | 30,270,355                                  | (5,528,585)         | (4,420,820)           | 4,786,514                    | 25,109,464           |                                                              |
| Restricted for:                                 |                                             |                     |                       |                              |                      |                                                              |
| Construction                                    | 3,416,308                                   | 3,113,580           |                       | 79,339                       | 6,609,227            |                                                              |
| Debt service                                    | 1,493,163                                   |                     |                       | 102,859                      | 1,596,022            |                                                              |
| Other purposes                                  | 708,299                                     |                     |                       |                              | 708,299              |                                                              |
| Unrestricted                                    | 24,321,367                                  | 11,205,108          | 1,493,513             | (148,393)                    | 36,872,595           | 750,832                                                      |
| <b>TOTAL NET ASSETS (DEFICIT)</b>               | <b>\$ 80,209,492</b>                        | <b>\$ 8,791,103</b> | <b>\$ (2,927,307)</b> | <b>\$ 4,622,319</b>          | <b>\$ 70,895,607</b> | <b>\$ 750,832</b>                                            |

The accompanying notes are an integral part of the financial statements.

**ST. JOHNS COUNTY, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS, PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

|                                                      | Business-type Activities - Enterprise Funds |                     |                       |                        |                      | Governmental Activities - Internal Service Funds |
|------------------------------------------------------|---------------------------------------------|---------------------|-----------------------|------------------------|----------------------|--------------------------------------------------|
|                                                      | Utilities                                   | Solid Waste         | Convention Center     | Other Enterprise Funds | Totals               |                                                  |
| <b>OPERATING REVENUES:</b>                           |                                             |                     |                       |                        |                      |                                                  |
| Charges for services                                 | \$ 12,702,794                               | \$ 8,857,382        | \$ 618,061            | \$ 1,510,819           | \$ 23,689,056        | \$ 7,517,840                                     |
| Special assessment revenue                           |                                             |                     | 802,587               |                        | 802,587              |                                                  |
| Other operating revenue                              | 46,245                                      | 500                 |                       | 62,444                 | 109,189              | 553,326                                          |
| Merchandise sales                                    |                                             |                     |                       | 37,046                 | 37,046               |                                                  |
| Total operating revenues                             | 12,749,039                                  | 8,857,882           | 1,220,648             | 1,610,309              | 24,437,878           | 8,171,166                                        |
| <b>OPERATING EXPENSES:</b>                           |                                             |                     |                       |                        |                      |                                                  |
| Contractual services                                 | 1,613,805                                   | 8,894,130           |                       | 36,104                 | 10,343,839           | 7,835,377                                        |
| Salaries and benefits                                | 3,179,356                                   | 548,571             |                       | 850,319                | 4,578,246            |                                                  |
| Operating and maintenance expenses                   | 2,453,439                                   | 181,256             | 25,497                | 505,813                | 3,166,005            | 15,794                                           |
| Loss from early asset retirement                     | 125,099                                     | 8,043               |                       | 98,963                 | 232,105              |                                                  |
| Depreciation                                         | 1,853,440                                   | 116,028             | 220,000               | 259,236                | 2,458,704            |                                                  |
| Total operating expenses                             | 9,234,939                                   | 9,546,028           | 245,497               | 1,750,435              | 20,776,899           | 7,851,171                                        |
| <b>OPERATING INCOME (LOSS)</b>                       | <b>3,514,100</b>                            | <b>(688,146)</b>    | <b>975,151</b>        | <b>(140,125)</b>       | <b>3,658,879</b>     | <b>319,995</b>                                   |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>            |                                             |                     |                       |                        |                      |                                                  |
| Investment income                                    | 834,462                                     | 589,389             | 61,250                | 6,754                  | 1,593,855            | 32,202                                           |
| Interest expense                                     | (2,918,290)                                 |                     | (1,320,686)           | (109,726)              | (4,348,712)          |                                                  |
| Grant proceeds                                       |                                             | 7,684               |                       |                        | 7,684                |                                                  |
| Franchise fees                                       |                                             | 855,476             |                       |                        | 855,476              |                                                  |
| Sale of surplus property                             | 10,390                                      | 9,900               |                       | 2,178                  | 22,468               |                                                  |
| Total non-operating revenues (expenses)              | (1,874,438)                                 | 1,262,429           | (1,259,436)           | (98,794)               | (2,070,249)          | 32,202                                           |
| <b>NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b> | <b>1,539,662</b>                            | <b>572,283</b>      | <b>(284,285)</b>      | <b>(238,920)</b>       | <b>1,588,730</b>     | <b>352,197</b>                                   |
| Contributions                                        | 20,888,288                                  |                     |                       | 10,738                 | 20,899,026           |                                                  |
| Transfers in                                         |                                             |                     | 181,920               | 220,000                | 401,920              |                                                  |
| Transfers out                                        |                                             |                     |                       |                        |                      | (34,716)                                         |
| <b>CHANGE IN NET ASSETS</b>                          | <b>22,227,930</b>                           | <b>572,283</b>      | <b>(102,375)</b>      | <b>(8,182)</b>         | <b>22,689,656</b>    | <b>317,481</b>                                   |
| <b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>       | <b>37,881,562</b>                           | <b>8,218,820</b>    | <b>(2,824,932)</b>    | <b>4,830,501</b>       | <b>48,205,951</b>    | <b>433,351</b>                                   |
| <b>NET ASSETS (DEFICIT), END OF YEAR</b>             | <b>\$ 60,209,492</b>                        | <b>\$ 8,791,103</b> | <b>\$ (2,827,307)</b> | <b>\$ 4,822,319</b>    | <b>\$ 70,885,607</b> | <b>\$ 750,832</b>                                |

The accompanying notes are an integral part of the financial statements.

**ST. JOHNS COUNTY, FLORIDA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

|                                                                                                | Business-type Activities - Enterprise Funds |                |                      |                              |               | Governmental<br>Activities -<br>Internal<br>Service<br>Funds |
|------------------------------------------------------------------------------------------------|---------------------------------------------|----------------|----------------------|------------------------------|---------------|--------------------------------------------------------------|
|                                                                                                | Utilities                                   | Solid<br>Waste | Convention<br>Center | Other<br>Enterprise<br>Funds | Totals        |                                                              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                    |                                             |                |                      |                              |               |                                                              |
| Receipts from customers                                                                        | \$ 12,789,511                               | \$ 8,645,850   | \$ 1,222,507         | \$ 1,613,617                 | \$ 24,271,485 | \$ 8,474,140                                                 |
| Payments to suppliers                                                                          | (4,038,222)                                 | (9,476,053)    |                      | (558,826)                    | (14,073,101)  | (7,992,989)                                                  |
| Payments to employees                                                                          | (3,083,216)                                 | (548,571)      |                      | (936,134)                    | (4,467,921)   |                                                              |
|                                                                                                |                                             |                |                      | 270,037                      | 270,037       |                                                              |
| Net cash provided by (used in) operating activities                                            | 5,668,073                                   | (1,378,774)    | 1,222,507            | 486,694                      | 6,000,500     | 481,151                                                      |
| <b>NONCAPITAL FINANCING ACTIVITIES:</b>                                                        |                                             |                |                      |                              |               |                                                              |
| Operating transfers in                                                                         |                                             |                | 181,920              | 220,000                      | 401,920       |                                                              |
| Grants received                                                                                |                                             | 7,664          |                      |                              | 7,664         |                                                              |
| Franchise fees                                                                                 |                                             | 555,476        |                      |                              | 555,476       |                                                              |
| Other revenue                                                                                  | 27,300                                      |                |                      |                              | 27,300        |                                                              |
| Operating transfer out                                                                         |                                             |                |                      |                              | -             | (34,716)                                                     |
| Net cash provided by (used in) noncapital financing activities                                 | 27,300                                      | 663,140        | 181,920              | 220,000                      | 1,092,360     | (34,716)                                                     |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                               |                                             |                |                      |                              |               |                                                              |
| Acquisition and construction of capital assets                                                 | (22,862,603)                                | (296,992)      |                      | (167,165)                    | (23,326,760)  |                                                              |
| Sale of capital assets                                                                         | 10,380                                      | 9,900          |                      | 2,178                        | 22,458        |                                                              |
| Principal payments on revenue bonds                                                            | (2,415,000)                                 |                | (240,000)            | (245,000)                    | (2,900,000)   |                                                              |
| Principal payments on long-term lease                                                          |                                             |                |                      | (66,481)                     | (66,481)      |                                                              |
| Principal payments on State Revolving Loan                                                     | (63,157)                                    |                |                      |                              | (63,157)      |                                                              |
| Interest paid on revenue bonds, loans and lease obligations                                    | (1,961,797)                                 |                | (1,309,765)          | (100,159)                    | (3,371,721)   |                                                              |
| Capital contributed by subdivider                                                              | 20,671,705                                  |                |                      | 10,738                       | 20,682,443    |                                                              |
| Net cash used in capital and related financing activities                                      | (5,640,461)                                 | (287,092)      | (1,549,765)          | (565,889)                    | (8,043,207)   |                                                              |
| <b>INVESTING ACTIVITIES:</b>                                                                   |                                             |                |                      |                              |               |                                                              |
| Investment purchases                                                                           | (10,286,841)                                | (6,097,354)    |                      |                              | (16,384,195)  | (6,263)                                                      |
| Proceeds from sale of investments                                                              | 2,545,374                                   | 3,456,358      |                      |                              | 6,001,732     | 6,312                                                        |
| Investment income received                                                                     | 1,102,925                                   | 818,774        | 61,250               | 8,754                        | 1,991,703     | 33,680                                                       |
| Net cash (used in) provided by investing activities                                            | (6,640,542)                                 | (4,022,222)    | 61,250               | 8,754                        | (10,592,760)  | 33,729                                                       |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                    | (7,585,630)                                 | (5,024,948)    | (54,088)             | 151,559                      | (12,543,107)  | 480,164                                                      |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                            | 20,536,423                                  | 9,685,036      | 2,915,797            | 211,532                      | 33,348,790    | 1,154,454                                                    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                                  | \$ 12,950,793                               | \$ 4,660,088   | \$ 2,831,709         | \$ 363,091                   | \$ 20,805,683 | \$ 1,644,628                                                 |
| <b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                      |                                             |                |                      |                              |               |                                                              |
| Accretion of interest on capital appreciation bonds                                            | 926,876                                     |                |                      |                              | 926,876       |                                                              |
| Decrease in fair value of investments                                                          | (181,680)                                   |                |                      |                              | (181,680)     |                                                              |
| Capital assets donated by developers                                                           | 16,250,337                                  |                |                      | 10,738                       | 16,261,075    |                                                              |
| <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b> |                                             |                |                      |                              |               |                                                              |
| Operating income (loss)                                                                        | \$ 3,514,100                                | \$ (690,146)   | \$ 975,151           | \$ (140,126)                 | 3,658,979     | 319,995                                                      |
| Adjustments to reconcile operating income (loss) to cash provided by operating activities:     |                                             |                |                      |                              |               |                                                              |
| Depreciation                                                                                   | 1,853,440                                   | 116,028        | 220,000              | 259,236                      | 2,458,704     |                                                              |
| Amortization of bond issuance cost                                                             | 168,238                                     |                | 25,497               |                              | 193,735       |                                                              |
| Loss from early asset retirement                                                               | 125,099                                     | 8,043          |                      | 98,963                       | 232,105       |                                                              |
| Decrease in accounts receivable                                                                | (169,341)                                   | (274,867)      | 1,859                | 3,308                        | (439,061)     | 18,518                                                       |
| Decrease in notes receivable                                                                   | 22,394                                      |                |                      |                              | 22,394        |                                                              |
| (Increase) decrease in due from other funds                                                    |                                             | (51,251)       |                      |                              | (51,251)      | 284,456                                                      |
| Increase in due from other governments                                                         | 187,419                                     | 114,106        |                      |                              | 301,525       |                                                              |
| Increase in inventory                                                                          | 20,488                                      |                |                      | 3,660                        | 24,148        |                                                              |
| (Decrease) increase in accounts payable and accrued liabilities                                | (126,014)                                   | (388,415)      |                      | (33,243)                     | (549,672)     | 359,405                                                      |
| Increase in customer deposits                                                                  | (31,970)                                    |                |                      |                              | (31,970)      |                                                              |
| Increase in estimated liability for self insured losses                                        |                                             |                |                      | 270,037                      | 270,037       | (501,223)                                                    |
| Decrease in due to other funds                                                                 | 70                                          |                |                      |                              | 70            |                                                              |
| Decrease in accrued landfill closure and post-closure costs                                    |                                             | (217,803)      |                      |                              | (217,803)     |                                                              |
| Decrease in accrued compensated absences                                                       | 95,140                                      |                |                      | 14,185                       | 109,325       |                                                              |
| Increase in other liabilities                                                                  |                                             | 5,468          |                      | 2,211                        | 7,679         |                                                              |
| Net cash provided by (used in) operating activities                                            | \$ 5,668,073                                | \$ (1,378,774) | \$ 1,222,507         | \$ 486,694                   | \$ 6,000,500  | \$ 481,151                                                   |

The accompanying notes are an integral part of the financial statements.

**ST. JOHNS COUNTY, FLORIDA**

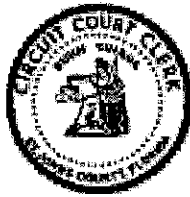
## STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

## FIDUCIARY FUNDS

SEPTEMBER 30, 2002

|                                            | Agency<br>Funds |
|--------------------------------------------|-----------------|
| <hr/>                                      |                 |
| ASSETS                                     |                 |
| Equity in pooled cash and cash equivalents | \$ 5,297,579    |
| Due from individuals                       | 17,060          |
|                                            | <hr/>           |
| TOTAL ASSETS                               | \$ 5,314,639    |
|                                            | <hr/>           |
| LIABILITIES:                               |                 |
| Accounts payable                           | \$ 11,707       |
| Due to individuals                         | 2,021,565       |
| Customer deposits                          | 1,628,890       |
| Other liabilities                          | 1,652,477       |
|                                            | <hr/>           |
| TOTAL LIABILITIES                          | \$ 5,314,639    |
|                                            | <hr/>           |

The accompanying notes are an integral part of the financial statements.



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ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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## 1. REPORTING ENTITY

St. Johns County (the "County") is a political subdivision of the State of Florida established in 1821. The County is organized under Article III of the Constitution of the State of Florida that empowers the creation of political subdivisions of the State. It is governed by an elected Board of County Commissioners ("Board"), which derives its authority by Florida Statutes and regulations. In addition to the members of the Board, there are five elected Constitutional Officers that are legally separate entities: Clerk of the Circuit Court, Sheriff, Tax Collector, Property Appraiser and Supervisor of Elections. The Constitutional Officers maintain separate accounting records and budgets.

For the purpose of these financial statements the financial reporting entity includes St. Johns County (the primary government) and its component units as required by accounting principles generally accepted in the United States of America ("Generally Accepted Accounting Principles").

The component units discussed below are included in the County's reporting entity either because of the significance of the operational relationship or the County is financially accountable for the component unit.

The County is financially accountable for an organization when the County appoints a voting majority for the organization's governing body and is able to impose its will on the organization; there is a potential for the organization to provide a financial benefit or impose a financial burden on the County; or the organization is fiscally dependent on the County.

Specific criteria used to determine financial accountability are:

Selection of a Voting Majority of the Governing Body

Imposition of Will: Ability to remove appointed members at will, ability to approve or modify charges affecting revenue; ability to appoint, hire or dismiss management.

Financial Benefit or Burden Relationship: The County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the obligation to finance the deficits of or provide support to the organization; or the County is obligated in some manner for the debt of the organization.

Fiscal Dependency: Ability to approve or modify the organization's budget; ability to approve or modify rate charges; ability to approve debt issuances and/or tax levies.

Blended Component Units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government.

### Blended Component Units

The Anastasia Sanitary District, St. Johns County Community Redevelopment Agency, Elkton Drainage District, Ponte Vedra Zoning & Adjustment Board, and the Vilano Street Lighting District are blended component units of the County. These component units are included in the County's reporting entity because each meets all of the specific criteria listed above for financial accountability.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**1. REPORTING ENTITY (continued)**

The Anastasia Sanitary District is a legislatively created body of local government. In 1992, its assets and liabilities were transferred to the Board by a subsequent act of the State legislature.

There has been no activity for the Anastasia Sanitary District since that date, but the Anastasia Sanitary District maintains its legal existence.

The constitutional officers are the Property Appraiser, Sheriff, Supervisor of Elections, Clerk of the Circuit Court and Tax Collector. The Property Appraiser, Sheriff and Supervisor of Elections are budget officers fully funded by the Board. The Clerk and Tax Collector act as fee officers in all or part of their operations. This means that these operations are funded by fees collected by the Officer and are not funded by the Board. The Clerk's duties as Clerk to the Board are budgeted functions fully funded by the Board; the Clerk's duties as Clerk of the Circuit Court are funded by fees collected by that office. Transfers to budgeted Constitutional Officers are reported as operating transfers in the financial statements of the Constitutional Officers. Although these five officers are operationally autonomous, they do not hold sufficient corporate powers of their own to be considered separate component units for financial reporting purposes. Therefore, they are reported together with the Board as part of the primary government.

Discretely Presented Component Units are reported in separate columns on the county-wide financial statements to emphasize they are legally separate from the County.

**Discretely Presented Component Units**

The St. Johns County Housing Finance Authority (the "HFA") was created as a Florida public corporation in accordance with Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes (1979), following the adoption of an approving ordinance (No. 80-7, dated February 26, 1980) by the Board of County Commissioners of St. Johns County, Florida. The purpose of the HFA is to encourage the investment of private capital and stimulate the construction of residential housing for low to moderate income families through the use of public financing. The HFA is authorized to issue bonds to fulfill its corporate purpose in principal amounts specifically authorized by the County.

The St. Johns County Industrial Development Authority (the "IDA") was created as a Florida public corporation in accordance with Florida Finance Authority Law, Part III of Chapter 159, Florida Statutes (1979), following the adoption of an approving ordinance (No. 80-9, dated January 22, 1980) by the Board of County Commissioners of St. Johns County, Florida. The purpose of the IDA is to stimulate industrial development through the use of public financing. The IDA is authorized to issue bonds to fulfill its corporate purpose in principal amounts specifically authorized by the County.

The addresses for the authorities are as follows:

Housing Finance Authority of St. Johns County  
P.O. Drawer 349  
St. Augustine, Florida 32085

St. Johns County Industrial Development Authority  
P.O. Drawer 349  
St. Augustine, Florida 32085

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

At September 30, 2002, St. Johns County had not entered into any joint ventures with any other governmental agencies.

The accounting policies of the County conform to accounting principles generally accepted in the United States (GAAP) as applicable to governments. The following is a summary of the more significant policies.

### **A. Basis of Presentation**

The accompanying financial statements of the County have been prepared in conformity with GAAP as prescribed by the Governmental Accounting Standards Board (GASB), The Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). Under the auspices of GASB Statement 20, the County does not apply FASB pronouncements issued after November 30, 1989, for proprietary activities and government wide governmental and business type activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles for units of local government.

### **B. Basic Financial Statements**

The basic financial statements include both county-wide and fund level statements. The county-wide statements report on all of the activities of the County. Both the county-wide and fund level statements classify primary activities of the County as either governmental activities, which are primarily supported by taxes and intergovernmental revenues, or business-type activities, which are primarily supported by user fees and charges.

The county-wide statement of net assets reports all assets and liabilities of the County, including both long-term assets and long-term debt and other obligations. The statement of activities reports the degree to which direct expenses of County functions are offset by program revenues, which include program specific grants and charges for services provided by a specific function. Direct expenses are those that are clearly identifiable with a specific function or program. The net cost of these programs, which was not reported in the previous statement model, is funded from general revenues such as taxes, intergovernmental revenue, and interest earnings.

The fund level statements are similar to the statements presented in the previous reporting model. The fund level statements report on governmental, proprietary, and fiduciary fund activities. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund level financial statements.

Since the fund level statements for governmental activities are presented using a different measurement focus and basis of accounting than the county-wide statements' governmental column (as discussed under Basis of Accounting in this summary of significant accounting principles), a reconciliation is presented on the page following governmental fund level statements that briefly explains the adjustments necessary to convert the fund level statements into the county-wide governmental column presentations.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Structure**

The County's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording assets and other financing resources, together with liabilities and residual equities or balances, and changes therein. For financial statement presentation, funds with similar characteristics, including those component units referenced above, are grouped into generic classifications as required by GAAP. A brief description of these classifications follows:

**Governmental Funds**

These funds report transactions related to resources received and used for those services traditionally provided by governmental agencies. The following are major governmental funds used by the County:

General Fund - The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Transportation Trust Fund- This fund is used to account for all revenues and expenditures for the County's transportation system.

**Proprietary Funds**

These funds report transactions related to activities similar to those found in the private sector. Major proprietary funds include:

Utilities - This fund accounts for the operations of the County's water and wastewater treatment services to certain areas of St. Johns County.

Solid Waste - This fund accounts for the operations and activities of the County's garbage disposal for all citizens of the County.

Convention Center - This fund accounts for the operation and maintenance of the County's publicly owned convention center.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operation. The principal operating revenues for the County's enterprise funds are charges to customers for sales and services. Operating expenses include direct expenses of providing the goods or services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The county-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major revenues that are determined to be susceptible to accrual include state shared revenue, intergovernmental revenue, charges for services and investment income. Federal grants collected on a reimbursement basis are recognized as revenue when reimbursable expenditures are made.

Revenues collected on an advance basis, including certain federal grant revenue, to which the County does not yet have legal entitlement, are not recognized as revenue until the related commitment arises. Generally, the County considers a 60-day availability period for revenue recognition.

Expenditures are recorded when the related fund liability is incurred, except for items that are not planned to be liquidated with expendable available resources.

As a general rule, the effect of inter-fund activity has been eliminated from the county-wide financial statements.

The County's policy is to use restricted resources first, then unrestricted resources, when both are available for use to fund an activity.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and have an original maturity of three months or less when acquired. This includes cash in banks, petty cash, repurchase agreements, and balances in the Local Government Surplus Funds Trust Fund (the "Trust Fund") administered by the State Board of Administration.

**E. Investments**

Investments are valued at fair value as determined from quoted market prices at September 30, 2002.

**F. Property Taxes**

The Tax Collector bills and collects property taxes. Tax revenues are recognized when levied, to the extent that they result in current receivables. At September 30, 2002, there were no property taxes receivable.

Details of the County's tax calendar are presented below:

Lien date January 2, 2001

Levy date November 1, 2001

Installment payments:

1st installment No later than June 30, 2001

2nd installment No later than September 30, 2001

3rd installment No later than December 31, 2001

4th installment No later than March 31, 2001

Regular payments:

Discount periods November 2001 - February 2002

No discount period March 2002

Delinquent date April 1, 2002

Fiscal 2003 installments received prior to September 30, 2002 are required by law to be deposited in the Tax Collector's Agency Fund. Such payments are not considered available resources as of September 30, 2002 and, accordingly, no revenue related to these installments has been recognized in the 2002 financial statements.

**G. Inventories**

Inventories, consisting primarily of expendable items (materials and supplies), are determined by physical count at the fiscal year end and valued at cost on the basis of the "first-in first-out" method of accounting.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Governmental Fund and Proprietary Fund inventories are recorded as an expenditure when consumed rather than when purchased (consumption method) for financial statement purposes.

**H. Restricted Assets**

Restricted assets are reported in connection with customer deposits and certain special accounts mandated by bond indentures involving proprietary fund borrowings. These assets are legally restricted for specific purposes, such as debt service and new construction.

**I. Capital Assets**

All purchased capital assets are recorded at cost where historical records are available and at estimated cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. Generally, capital assets costing more than \$750 and having a useful life of more than one year are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are reported in the applicable governmental or business-type column in the county-wide financial statements, and in the proprietary fund level statements.

In accordance with GASB Statement No. 34, an extended period of deferral until September 30, 2006 fiscal year end is available before the County is required to record and depreciate infrastructure assets acquired prior to October 1, 2001. Infrastructure assets include roads, bridges, drainage improvements, traffic signals, etc. The County has elected to defer reporting of infrastructure assets acquired prior to October 1, 2001. Infrastructure assets acquired during the 2001-02 fiscal year are reported on the county-wide Statement of Net Assets. This asset category is likely to be a significant asset of the County.

Depreciation on all capital assets is calculated using the straight-line method over the following useful lives:

|                            |             |
|----------------------------|-------------|
| Infrastructure             | 25-75 years |
| Bridges                    | 35-75 years |
| Buildings and improvements | 10-60 years |
| Furniture and equipment    | 4-10 years  |
| Water and Sewer Systems    | 10-50 years |

**J. Accrual for Landfill Closure and Post-Closure Costs**

Based on the consulting engineer's cost estimates, a portion of the estimated closure and post-closure cost for the Tillman Ridge Landfill is recognized as expense each year to match the flow of revenues. The estimated closure and post-closure cost accrued at September 30, 2002 is based on the current estimate to complete closure of the landfill, and the current estimate to perform long-term care over the next 30 years.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Deferred Revenue**

Deferred revenue reported in the Governmental Funds represents revenues that are measurable but not available. The deferred revenue will be recognized in the fiscal year it becomes available. Deferred revenue is recorded in other liabilities.

**L. Long-Term Obligations**

In the county-wide financial statements, governmental long-term debt and other governmental long-term obligations are reported as liabilities in the governmental activities column of the Statement of Net Assets. Long-term debt and other long-term obligations of the proprietary funds are reported as liabilities in the business-type activities column of the Statement of Net Assets and the appropriate proprietary fund in the fund level statements.

**M. Accrued Compensated Absences**

County employees may accumulate earned personal leave benefits (compensated absences) at various rates within limits specified in the County's Administrative Code. This liability reflects amounts attributable to employee services already rendered, cumulative, probable for payment, and reasonably estimated in conformity with GASB Statement No. 16, Accounting for Compensated Absences.

Compensated absences liabilities are accrued when incurred in the county-wide financial statements and the proprietary fund level statements. No expenditure is reported in the governmental fund level statements for these amounts until payment is made. No liability is recorded for non-vesting accumulated sick pay benefits. Compensated absences liability is based on current rates of pay.

**N. Contributed Capital**

GASB Statement 34 requires contributed capital to be shown as program revenue in the county-wide Statement of Activities, and in the proprietary funds separately after non-operating revenues and expenditures. Contributed capital is included within the various components of net assets, but is not separately stated.

**O. Reserves of Fund Balances and Retained Earnings**

Reserves reported in the fund level statements represent portions of fund balance that cannot be appropriated for expenditures or which have been segregated for specific future uses. Earnings on restricted assets are included in net income of the Proprietary Funds.



ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**P. Budgets and Budgetary Accounting**

The County uses the following procedures in establishing the budgetary data reflected in the financial statements.

- (1) The County adopts its budget in accordance with Chapters 129 and 200, Florida Statutes, and County Policy.
  - (a) The County and County Administrator follow an internal hearing process to set the proposed tentative budget and millage.
  - (b) Public hearings are then held to adopt a tentative budget and millage in accordance with Chapters 129 and 200, Florida Statutes.
- (2) The County presents a budgetary comparison statement as a part of the basic financial statements for the General Fund and each major special revenue fund with a legally adopted annual budget.
- (3) All other governmental funds with legally adopted annual budgets are included in the Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual in the Supplementary Information Section of this report.
- (4) The County, with the exception of certain Special Revenue Funds, adopts budgets for all Governmental Funds. Appropriations for these limited Special Revenue Funds are approved, as necessary, during the fiscal year.
- (5) Level of Control - Expenditures may not exceed appropriations and are controlled in the following manner:
  - (a) The budget is controlled according to Chapter 129, Florida Statutes, at the total fund level.
  - (b) The County has adopted more stringent policies that control expenditures on the department level within funds.
  - (c) The County has adopted a budget amendment policy that allows the County Administrator to make budget transfers within departments within a fund; therefore the legal level of control is at the department level. However, for the majority of the County's funds there is only one department within the fund. As a result, when the County reports by fund it is reporting at the legal level of control for those funds. For the funds that have more than one department, supporting schedules are presented in the supplementary information section for a comparison of budget to actual expenditures at the department level.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Those funds are as follows:

Major Funds:

General Fund  
County Transportation Trust

Non-Major Governmental Funds:

Building Service Fund  
Additional Court Costs  
Beach  
Tourist Development Tax

- (d) The Board of County Commissioners must authorize budget transfers between departments in a fund.
- (6) All budgets are adopted in accordance with generally accepted accounting principles.
- (7) Florida Statutes do not require adoption of budgets for Proprietary, Trust and Agency Funds or Debt Service Funds.
- (8) Appropriations for the Board lapse at the close of each fiscal year.
- (9) Formal budgetary integration is used as a management control device for all governmental funds of the Board.
- (10) Supplemental Appropriations - In certain instances the County may advertise and hold public hearings in order to supplement the appropriations in a fund due to unexpected high levels of receipts or under estimation of carry forward balances. They may also supplement appropriations by resolution due to unanticipated or designated receipts. In fiscal year 2002 supplemental appropriations were approved by resolution in accordance with County policy as follows:

Major Funds:

|                             |             |
|-----------------------------|-------------|
| General Fund                | \$8,116,191 |
| County Transportation Trust | 684,023     |

Non-Major Governmental Funds:

|                          |         |
|--------------------------|---------|
| Law Enforcement Trust    | 28,896  |
| State Housing Initiative | 125,260 |
| Mental Health            | 90,000  |
| Fire Service             | 176,382 |
| Specialty License Plates | 6,446   |

Major Enterprise Funds:

|             |        |
|-------------|--------|
| Utility     | 27,300 |
| Solid Waste | 6,000  |

Non-Major Enterprise Funds

|              |       |
|--------------|-------|
| Amphitheater | 2,533 |
|--------------|-------|

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Q. Reclassification

Certain amounts in the separately issued financial statements of component units have been reclassified to conform to the presentation of the primary government.

### R. New Accounting Standards

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish new financial reporting standards for state and local governments throughout the United States. They establish that the basic financial statements, for general-purpose governments, should consist of: management's discussion and analysis, basic financial statements, and required supplementary information. The County adopted Statement No. 34, as amended, effective October 1, 2001.

In March 2000, the GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This Interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The County adopted Interpretation No. 6 in conjunction with GASB Statement No. 34.

Fund balances reported at September 30, 2001 do not include certain assets and liabilities required to report financial position. The necessary changes in fund balances to present net assets at September 30, 2001 are presented below:

|                                                        |                     |
|--------------------------------------------------------|---------------------|
| Fund Balances, September 30, 2001                      | \$51,456,437        |
| Expendable trust funds reclassified from Fiduciary     |                     |
| Fund to Special Revenue Fund and added to governmental | 253,019             |
| Fund Balances, September 30, 2001, as restated         | <u>51,709,456</u>   |
| Amounts not included in fund balances:                 |                     |
| Capital assets, net of accumulated depreciation        | 78,908,330          |
| Bonds and Notes payable                                | (31,289,308)        |
| Compensated absences payable                           | (3,838,929)         |
| Interest payable on long term debt                     | (20,474)            |
| Internal service funds                                 | 433,351             |
| County-Wide Net Asset Balances at September 30, 2001   | <u>\$95,902,426</u> |

### S. Use of Estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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### 3. CASH AND INVESTMENTS

#### A. Cash and Cash Equivalents

The County, for accounting and investment purposes, maintains pooled cash and cash equivalent accounts for all County funds, except for monies that are legally restricted to separate administration. This gives the County the ability to invest large amounts of idle cash for short periods of time and to maximize earning potential. The "Equity in pooled cash and cash equivalents" represents the amount allocated to each fund.

At September 30, 2002, the County's cash on deposit in bank accounts was \$14,889,445, all of which was insured by federal deposit insurance or collateralized pursuant to Chapter 280, Florida Statutes. All collateralized deposits are insured. The related carrying amount was \$12,521,934. Monies, which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposits accounts and certificates of deposit, are defined as public deposits. All the County's public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, "Florida Security for Public Deposits Act."

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association designated by the State Treasurer as authorized to receive deposits in the state and meeting collateral requirements. The required collateral of a qualified public depository is any eligible collateral (including federal, federally-guaranteed, state and local government obligations and corporate bonds) having a market value of at least 50 percent of the public deposits in excess of any applicable deposit insurance. The collateral is held by the State Treasury, a bank or savings association. If circumstances warrant, the State Treasurer may increase the required collateral to 125 percent of a public depository's public deposits. Section 280.08(3), Florida Statutes, provides that if the loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other qualified public depositories of the same type as the depository in default.

**Component Units** - At September 30, 2002, the Housing Finance Authority and Industrial Development Authority's cash on deposit in bank accounts and the related carrying amounts were \$158,857 and \$156,613 respectively, all of which was insured by federal deposit insurance or collateralized pursuant to Chapter 280, Florida Statutes.

#### B. Investments

The County's investment practices are governed by Chapter 219, Florida Statutes, and various legal covenants related to outstanding bond issues. The County is authorized to invest in certificates of deposit, the Local Government Surplus Funds Trust Fund (the "Trust Fund") administered by the State Board of Administration, repurchase agreements, money market funds, commercial paper and certain instruments of the U.S. Treasury. The fair value of the investment in the Local Government Surplus Funds Trust Fund is the same as the value of the pool shares held at September 30, 2002.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**3. CASH AND INVESTMENTS (continued)**

Under Section 215.47, Florida Statutes, investments held by the State Board of Administration are entirely collateralized and insured by the State. The State Board of Administration is authorized to invest in certificates of deposit, money market certificates, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase and reverse repurchase agreements collateralized by U.S. securities.

At September 30, 2002, the Tax Collector had investments in overnight repurchase agreements in the amount of \$ -0-. During the year, the amounts the Tax Collector invested in overnight repurchase agreements were significantly higher (up to \$75,000,000) than the balance at September 30, 2002. Fluctuations in these investments are caused by higher cash flows at certain times during the year. The overnight repurchase agreements are classified as Category 1 credit risk.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the County's investments are categorized as follows to give an indication of the level of credit risk assumed by the County at September 30, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which securities are held by a counterparty, or by its trust department or agent, but not in the County's name.

At September 30, 2002, the County's cash and cash equivalent and investment balances were as follows:

|                                          | <u>1</u> | Category<br><u>2</u> | <u>3</u> | Fair<br><u>Value</u> |
|------------------------------------------|----------|----------------------|----------|----------------------|
| Agency Notes                             |          | \$56,448,831         |          | \$56,448,831         |
| Cash and cash equivalents                |          |                      |          |                      |
| not categorized:                         |          |                      |          |                      |
| Investment in Local Government           |          |                      |          |                      |
| Surplus Funds Trust Fund                 |          |                      |          | 59,402,298           |
| Florida Tax Collector's Investment Trust |          |                      |          | 250,000              |
| Money Market Fund                        |          |                      |          | 384,675              |
| Cash in banks                            |          |                      |          | 12,521,928           |
| Total                                    |          |                      |          | <u>\$129,007,732</u> |

ST. JOHNS COUNTY, FLORIDA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**3. CASH AND INVESTMENTS (continued)**

**C. Restricted Cash and Cash Equivalents**

**Component Units** - In 1989, the HFA implemented its 1989 Credit Enhanced Single Family Mortgage Loan Program (also known as the Collier Heights Program) (the "Program").

In connection with the Program, the HFA agreed to guarantee up to 25% of the original amount of the Credit Enhanced Loans originated for this program by the lender. The maximum amount of Credit Enhanced Loans allowed in this program was \$1,000,000. The HFA initiated the program by placing \$250,000 in escrow with the lender for the purpose of guaranteeing the Credit Enhanced Loans.

Upon expiration of the Loan Origination Period on October 27, 1991, the lender had originated \$350,200 of Credit Enhanced Loans of which \$87,550 was guaranteed by the HFA. The remaining \$162,450 of the original escrow deposit was returned to the HFA. At September 30, 2002, the principal amount of Credit Enhanced Loans outstanding was approximately \$71,558.

The escrow balance of \$17,889 is reported as restricted cash and cash equivalents at September 30, 2002 on the separately issued HFA statements.

**4. ACCOUNTS AND NOTES RECEIVABLE**

Accounts receivable of the General Fund consist primarily of ambulance service accounts and are reported net of an allowance for doubtful accounts of \$560,228 at September 30, 2002. The allowance represents 50% of the gross ambulance service accounts receivable at September 30, 2002. The balance of the receivable consists of miscellaneous service fees.

Accounts receivable of the Non-Major Governmental Funds consist primarily of Mental Health Medicare/Medicaid receivables, utility regulation assessments and other miscellaneous fees. An allowance for doubtful accounts is not considered necessary.

Accounts receivable of the Enterprise Funds consist of the following receivables and their related allowance for doubtful accounts at September 30, 2002:

|                   | <u>Balance</u>     | <u>Allowance</u> | <u>Net</u>         |
|-------------------|--------------------|------------------|--------------------|
| Utility Fund      | \$979,261          | \$39,462         | \$939,799          |
| Solid Waste Fund  | 613,227            | 1,000            | 612,227            |
| Golf Course Fund  | 3,053              |                  | 3,053              |
| Convention Center | 14,637             |                  | 14,637             |
| Amphitheater      | 16                 |                  | 16                 |
|                   | <u>\$1,610,194</u> | <u>\$40,462</u>  | <u>\$1,569,732</u> |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**4. ACCOUNTS AND NOTES RECEIVABLE (continued)**

Included in accounts and notes receivable on the combined balance sheet for the Enterprise Funds is \$319,668 of unit connection fee notes receivable. Water and sewer unit connection fees are non-refundable fees charged to new customers of the utility system as a capacity charge. The related notes receivable bear interest from 5.00 % to 7.25 % and are generally due in annual or monthly installments of principal and interest, with maturities of ten or twenty years. The notes are collateralized by a lien on the property subject to the fee. At September 30, 2002, an allowance for doubtful accounts was not considered necessary.

**5. PROPERTY TAX**

**A. Real Property Taxes** were levied on November 1, 2001.

**B. The Property Tax Calendar** and pertinent assessment/lien information is as follows:

- (1) July 1 - Property Appraiser completes assessment and certifies the taxable value to the County.
- (2) August 1 - The County certifies the amount of taxes they intended to levy for both operations and debt service to the property appraiser.
- (3) September 1-30 - The County holds its final budget hearings and adopts the tax levy for the ensuing tax year.
- (4) November 1 - Taxes due and payable.
- (5) April 1 - All unpaid taxes become delinquent and constitute a recorded lien effective the preceding January 2.
- (6) June 1 - Tax Collector sells tax certificates on all delinquent parcels.
- (7) July (third Monday) - The Tax Collector disburses proceeds of tax certificate sales to the taxing agencies.

**C. Delinquent Tax Process**

- (1) April 1 - Unpaid taxes become delinquent.
- (2) May 1-31 - Owner can pay tax due plus accrued interest at 18 percent per annum.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**5. PROPERTY TAX (continued)**

- (3) June 1 - If the owner has not paid the tax, the Tax Collector sells a tax certificate on the parcels. As a result of this, there were no receivable balances at the end of the fiscal year. (Tax Certificates are sold for the amount of tax due on the property plus the interest due St. Johns County. The tax certificate holder then charges the property owner that amount plus additional interest.)
- (4) Proceeds of the tax certificate sale are distributed to St. Johns County by the third Monday in July.

**D. Other Information Regarding Sales of Tax Certificates**

- (1) St. Johns County will hold any unsold certificates for later sale.
- (2) Property owners redeem certificates by paying St. Johns County the tax certificate amount. St. Johns County then pays the certificate holder.
- (3) After two years, holders of unredeemed certificates may apply for a tax deed. In order to obtain a tax deed the property is offered at public auction with the minimum bid being the amount of the outstanding taxes and certificates on the property. Any excess over this amount is applied against any other liens and then given to the property owner.
- (4) Any unsold lands after seven years escheal to the State of Florida.

**E. Property Tax Payment and Distribution**

Discounts for early payment of property tax are allowed in the following manner:

4% for November payments  
3% for December payments  
2% for January payments  
1% for February payments

The Tax Collector distributes tax proceeds to St. Johns County quickly in order to provide cash for operations. Distributions are made as follows:

November - 4 distributions  
December - 4 distributions  
All other months - 1 distribution each month



ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**6. CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended September 30, 2002, was as follows:

| <b>Primary Government</b>                    | <b>Restated<br/>Beginning Balance<br/>September 30, 2001</b> | <b>Additions</b> | <b>Dispositions<br/>Reclassifications</b> | <b>Ending<br/>Balance<br/>September 30, 2002</b> |
|----------------------------------------------|--------------------------------------------------------------|------------------|-------------------------------------------|--------------------------------------------------|
| <b>Governmental activities:</b>              |                                                              |                  |                                           |                                                  |
| Capital assets not being depreciated:        |                                                              |                  |                                           |                                                  |
| Land                                         | \$10,937,870                                                 | \$9,813,401      | (\$70,164)                                | \$20,821,435                                     |
| Construction in progress                     | 5,262,248                                                    | 10,070,771       | 1,079,575                                 | 14,253,444                                       |
| Total capital assets not being depreciated   | 16,200,118                                                   | 19,884,172       | 1,009,411                                 | 35,074,879                                       |
| Capital assets being depreciated:            |                                                              |                  |                                           |                                                  |
| Buildings & other improvements               | 68,323,605                                                   | 3,527,518        | 358,600                                   | 71,492,523                                       |
| Equipment                                    | 36,697,558                                                   | 5,798,349        | 3,867,945                                 | 38,627,962                                       |
| Infrastructure                               |                                                              | 38,431,366       |                                           | 38,431,366                                       |
| Total assets being depreciated               | 105,021,163                                                  | 47,757,233       | 4,226,545                                 | 148,551,851                                      |
| Less accumulated depreciation                | 42,312,951                                                   | 6,734,652        | 3,796,967                                 | 45,250,636                                       |
| Total capital assets being depreciated, net  | 62,708,212                                                   | 41,022,581       | 429,578                                   | 103,301,215                                      |
| Governmental activities capital assets, net  | \$78,908,330                                                 | \$60,906,753     | \$1,438,989                               | \$138,376,094                                    |
|                                              | <b>Beginning Balance<br/>September 30, 2001</b>              | <b>Additions</b> | <b>Dispositions<br/>Reclassifications</b> | <b>Ending<br/>Balance<br/>September 30, 2002</b> |
| <b>Business-type activities:</b>             |                                                              |                  |                                           |                                                  |
| Capital assets not being depreciated:        |                                                              |                  |                                           |                                                  |
| Land                                         | \$4,732,245                                                  | \$1,491,723      |                                           | \$6,223,968                                      |
| Land improvements-golf course                | 1,099,199                                                    | 2,487,926        |                                           | 3,587,125                                        |
| Construction in progress                     | 3,418,897                                                    | 3,403,273        | 3,032,004                                 | 3,790,166                                        |
| Total capital assets not being depreciated   | 9,250,341                                                    | 7,382,922        | 3,032,004                                 | 13,601,259                                       |
| Capital assets being depreciated:            |                                                              |                  |                                           |                                                  |
| Buildings & other improvements               | 14,426,454                                                   | 176,048          | 268,862                                   | 14,333,640                                       |
| Equipment                                    | 4,357,638                                                    | 726,131          | 498,564                                   | 4,585,205                                        |
| Golf course improvements                     | 1,253,315                                                    |                  | 8,630                                     | 1,244,685                                        |
| Water and sewer system                       | 68,535,535                                                   | 18,154,295       | 210,793                                   | 86,479,037                                       |
| Total assets being depreciated               | 88,572,942                                                   | 19,056,474       | 986,849                                   | 106,642,567                                      |
| Less accumulated depreciation                | 19,355,641                                                   | 2,458,704        | 663,374                                   | 21,150,971                                       |
| Total capital assets being depreciated, net  | 69,217,301                                                   | 16,597,770       | 323,475                                   | 85,491,596                                       |
| Business-type activities capital assets, net | \$78,467,642                                                 | \$23,980,692     | \$3,355,479                               | \$99,092,855                                     |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**6. CAPITAL ASSET ACTIVITY (continued)**

Depreciation expense was charged to the functions of the primary government as follows:

**Governmental activities:**

|                                                      |                     |
|------------------------------------------------------|---------------------|
| General government                                   | \$ 1,856,890        |
| Public safety                                        | 3,013,736           |
| Physical environment                                 | 39,201              |
| Transportation                                       | 889,299             |
| Economic environment                                 | 897                 |
| Human services                                       | 384,637             |
| Culture and recreation                               | 549,992             |
| Total depreciation expense - Governmental activities | <u>\$ 6,734,652</u> |

**Business-type activities:**

|                                                       |                     |
|-------------------------------------------------------|---------------------|
| Utility                                               | \$ 1,863,440        |
| Solid Waste                                           | 116,028             |
| Golf Course                                           | 250,969             |
| Convention Center                                     | 220,000             |
| Amphitheater                                          | 8,267               |
| Total depreciation expense - Business-type activities | <u>\$ 2,458,704</u> |

General Fixed Asset balances reported in the prior year have been restated as follows:

|                                                           |                      |
|-----------------------------------------------------------|----------------------|
| Balance at September 30, 2001                             | \$ 121,221,281       |
| Less: Accumulated Depreciation at September 30, 2001      | <u>(42,312,951)</u>  |
| Governmental Activities Capital Assets at October 1, 2001 | <u>\$ 78,908,330</u> |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**7. LONG-TERM OBLIGATIONS**

A. Long-term obligations at September 30, 2002 are comprised of the following:

**General Long-Term Obligations**

Revenue Bonds:

\$10,750,000 1998 Sales Tax Revenue Refunding Bonds; secured by a lien upon and pledge of local government half-cent sales tax revenues; due in annual installments of \$25,000 to \$1,525,000 through October 1, 2019; interest at 4.40% to 5.00%, payable semiannually \$10,655,000

\$11,640,000 1994 Sales Tax Revenue Refunding Bonds; secured by a lien upon and pledge of local government half-cent sales tax revenues; due in annual installments of \$655,000 to \$990,000 through October 1, 2011; interest at 5.00% to 5.625%, payable semiannually 7,275,000

\$12,185,000 1992 Transportation Improvement Revenue Refunding Bonds; secured by a lien upon and pledge of local option gas tax; due in annual installments of \$905,000 to \$1,135,000 through October 1, 2007; interest at 5.70% to 6.00%, payable semiannually 5,075,000

Total Revenue Bonds Payable 23,005,000

General Long-Term Obligation Bonds:

\$11,155,000 1994 Limited Ad Valorem Tax Refunding Bonds; due in an annual installment of \$1,475,000 through September 1, 2003; interest at 5.00%, payable semiannually 1,475,000

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**7. LONG-TERM OBLIGATIONS (continued)**

Special Assessment Debt with Governmental  
Commitment:

\$5,190,000 Pooled commercial paper  
loan with a governmental commitment due in  
quarterly installments of \$498,750 through  
March 2, 2004; at variable rate of interest  
based on the actual rate, respective to  
the series of commercial paper notes  
from which the loan amount is derived,  
payable monthly. 3,555,000

Obligations under Capital Leases 1,760,512

Accrued compensated absences 4,063,269

**Total General Long-Term Obligations** **\$33,858,781**

**Proprietary Fund Long-Term Obligations**

Revenue Bonds:

\$10,430,000 1989 Water and Sewer Revenue  
Bonds; secured by a lien upon and a pledge  
of County water and sewer revenues; due in  
annual installments of \$645,000 to \$865,000  
through June 1, 2009; interest at 5.00%,  
payable semiannually (less  
unamortized discount of \$331,389) \$4,933,611

\$14,680,398 1991A Water and Sewer Revenue  
Bonds; secured by a lien upon and pledge  
of County water and sewer revenues; due in  
annual installments of \$460,629 to \$868,006  
through June 1, 2021; interest at 7.00% to  
7.05%, payable annually for capital appreciation  
bonds where interest is due at maturity (including  
accrued interest on capital appreciation bonds of  
\$7,441,627; less unamortized discount of  
\$71,219) 13,820,806

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**7. LONG-TERM OBLIGATIONS (continued)**

|                                                                                                                                                                                                                                                                                                                                                                                             |                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| \$19,990,000 1996 Water and Sewer Revenue and Refunding Bonds; secured by a lien upon and pledge of County water and sewer revenues; due in annual installments of \$810,000 to \$1,315,000 through June 1, 2026; interest at 4.60% to 5.50%, payable semiannually (less unamortized discount of \$316,856 and unrecognized loss on refunding of \$696,147)                                 | 14,456,997        |
| \$16,990,000 1996 Taxable Convention Center Revenue Bonds; secured by a lien upon and pledge of certain fees and payments from the World Golf Village Complex; due in annual installments of \$260,000 to \$1,445,000 through January 1, 2026; interest at 7.25% to 8.00%, payable semiannually (less unamortized discount of \$356,980)                                                    | 16,168,020        |
| \$2,225,000 1998 Water and Sewer Revenue Bonds; secured by a lien upon and pledge of County water and sewer revenues; due in annual installments of \$65,000 to \$155,000 through June 1, 2021; interest at 4.10% to 5.00%, payable semiannually (less unamortized discount of \$34,948 and unrecognized loss on refunding of \$4,798)                                                      | 1,950,254         |
| \$3,120,000 1998 Capital Improvement Revenue Bonds; secured by a lien upon and pledge of net revenues of the Golf Course and appropriations of the County; due in annual installments of \$255,000 to \$330,000 through July 1, 2010; interest at 3.60% to 4.20%, payable semiannually (less unamortized discount of \$5,692)                                                               | 2,299,308         |
| \$14,260,000 1999A (non-taxable) and 1999B (taxable) Water and Sewer Revenue Refunding Bonds; secured by a lien upon and pledge of County water and sewer revenues; due in annual installments of \$1,025,000 to \$2,335,000 through June 1, 2011; interest at 4.00% to 6.30%, payable semiannually (less unamortized discount of \$57,020 and unrecognized loss on refunding of \$403,939) | <u>12,574,041</u> |
| Total Revenue Bonds Payable                                                                                                                                                                                                                                                                                                                                                                 | <u>66,203,037</u> |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**7. LONG-TERM OBLIGATIONS (continued)**

|                                                                                                                                                            |                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Obligations under State Revolving Loan<br>Trust Fund due in semiannual installments<br>of \$42,388 to \$60,772; interest at 2.59%,<br>payable semiannually | 1,480,419                  |
| Obligations under Capital Lease                                                                                                                            | 108,060                    |
| Accrued Compensated Absences                                                                                                                               | <u>385,958</u>             |
| <b>Total Proprietary Fund Long-Term Obligations</b>                                                                                                        | <b><u>\$68,177,474</u></b> |

- B. Debt service requirements to maturity on the County's Long-Term Obligations at September 30, 2002 are as follows:

| Year<br>Ending<br>Sept. 30 | General<br>Long-Term<br>Obligations |                     | Proprietary<br>Fund<br>Long-Term<br>Obligations |                     | Total<br>Long-Term<br>Obligations |                     |
|----------------------------|-------------------------------------|---------------------|-------------------------------------------------|---------------------|-----------------------------------|---------------------|
|                            | Interest                            | Principal           | Interest                                        | Principal           | Interest                          | Principal           |
| 2003                       | 1,351,654                           | 5,055,000           | 3,071,623                                       | 3,145,325           | 4,423,277                         | 8,200,325           |
| 2004                       | 1,161,564                           | 3,230,000           | 2,903,514                                       | 3,297,549           | 4,065,078                         | 6,527,549           |
| 2005                       | 1,044,528                           | 1,765,000           | 2,723,736                                       | 3,479,831           | 3,768,264                         | 5,244,831           |
| 2006                       | 945,633                             | 1,860,000           | 2,538,151                                       | 3,667,173           | 3,483,784                         | 5,527,173           |
| 2007                       | 839,833                             | 1,965,000           | 2,356,340                                       | 3,844,575           | 3,196,173                         | 5,809,575           |
| 2008-12                    | 3,124,349                           | 4,885,000           | 10,765,853                                      | 19,378,973          | 13,890,202                        | 24,263,973          |
| 2013-17                    | 1,718,860                           | 6,295,000           | 16,517,254                                      | 8,911,910           | \$18,236,114                      | 15,206,910          |
| 2018-22                    | 225,250                             | 2,980,000           | 13,853,842                                      | 9,400,481           | 14,079,092                        | 12,380,481          |
| 2023-26                    |                                     |                     | 936,575                                         | 7,395,000           | 936,575                           | 7,395,000           |
|                            | <u>\$10,411,671</u>                 | <u>\$28,035,000</u> | <u>\$55,666,868</u>                             | <u>\$62,520,817</u> | <u>\$66,078,559</u>               | <u>\$90,555,817</u> |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**7. LONG-TERM OBLIGATIONS (continued)**

C. Long-term debt transactions of the County for the year ended September 30, 2002 are summarized below:

GENERAL LONG-TERM OBLIGATIONS

|                                                                    | Balance<br>October 1,<br>2001 | Increases    | Decreases    | Balance<br>September 30,<br>2002 | Due within<br>one year |
|--------------------------------------------------------------------|-------------------------------|--------------|--------------|----------------------------------|------------------------|
| Sales tax revenue refunding bonds,<br>Series 1998                  | \$ 10,680,000                 |              | \$ 25,000    | \$ 10,655,000                    | \$ 25,000              |
| Sales tax revenue refunding bonds,<br>Series 1994                  | 7,900,000                     |              | 625,000      | 7,275,000                        | 655,000                |
| Transportation improvement revenue<br>refunding bonds, Series 1992 | 5,930,000                     |              | 855,000      | 5,075,000                        | 905,000                |
| Total Revenue Bonds                                                | 24,510,000                    | -            | 1,505,000    | 23,005,000                       | 1,585,000              |
| Limited ad valorem tax refunding<br>bonds, Series 1994             | 2,880,000                     |              | 1,405,000    | 1,475,000                        | 1,475,000              |
| Total General Obligation Bonds                                     | 2,880,000                     | -            | 1,405,000    | 1,475,000                        | 1,475,000              |
| Special Assessment Debt with<br>Governmental Commitment            | 87,000                        |              | 87,000       | -                                | -                      |
| Obligations under capital leases                                   | 1,637,308                     | \$ 1,239,643 | 1,116,439    | 1,760,512                        | 913,725                |
| \$10 million Commercial Paper Program                              | 2,175,000                     | 2,800,000    | 1,420,000    | 3,555,000                        | 1,995,000              |
| Accrued compensated absences                                       | 3,838,929                     | 224,340      |              | 4,063,269                        | 796,223                |
| Total General Long-Term Obligations                                | \$ 35,128,237                 | \$ 4,263,983 | \$ 5,533,439 | \$ 33,858,781                    | \$ 6,764,948           |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**7. LONG-TERM OBLIGATIONS** (continued)

PROPRIETARY FUND LONG-TERM OBLIGATIONS

|                                                        | October 1,<br>2001 | Increases    | Decreases    | September 30,<br>2002 | Due within<br>one year |
|--------------------------------------------------------|--------------------|--------------|--------------|-----------------------|------------------------|
| Water and sewer revenue bonds                          |                    |              |              |                       |                        |
| Series 1989                                            | \$ 5,880,000       |              | \$ 615,000   | \$ 5,265,000          | \$ 645,000             |
| Series 1991                                            | 6,450,398          |              |              | 6,450,398             |                        |
| Series 1996                                            | 16,240,000         |              | 770,000      | 15,470,000            | 810,000                |
| Series 1998                                            | 2,055,000          |              | 65,000       | 1,990,000             | 65,000                 |
| Series 1999                                            | 14,000,000         |              | 965,000      | 13,035,000            | 1,025,000              |
| Capital improvement revenue bonds,<br>Series 1998      | 2,550,000          |              | 245,000      | 2,305,000             | 255,000                |
| Convention Center revenue bonds,<br>Series 1996        | 16,765,000         |              | 240,000      | 16,525,000            | 260,000                |
|                                                        | 63,940,398         | -            | 2,900,000    | 61,040,398            | 3,060,000              |
| Add accreted interest on capital<br>appreciation bonds | 6,514,751          | \$ 926,876   |              | 7,441,627             | 993,168                |
| Less unrecognized loss on refunding                    | 1,204,402          |              | 99,519       | 1,104,883             |                        |
| Less original issue discount                           | 1,263,238          |              | 89,132       | 1,174,106             |                        |
| Total Revenue Bonds                                    | 67,987,509         | 926,876      | 2,711,349    | 66,203,036            | 4,053,168              |
| Obligations under State Revolving<br>Loan              | 1,563,576          |              | 83,157       | 1,480,419             | 85,325                 |
| Obligations under capital lease                        | 174,541            |              | 66,481       | 108,060               | 66,850                 |
| Accrued compensated absences                           | 270,165            | 115,793      |              | 385,958               | 27,477                 |
| Total Proprietary Fund Long-Term<br>Obligations        | \$ 69,995,791      | \$ 1,042,669 | \$ 2,860,987 | \$ 68,177,473         | \$ 4,232,820           |



ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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7. LONG-TERM OBLIGATIONS (continued)

- D. The County is obligated under the terms of leases for vehicles, computers, golf carts and other equipment. The annual requirements under these capital lease obligations as of September 30, 2002 are as follows:

| Year Ending<br>September 30,            | Governmental<br>Activities | Golf<br>Course |
|-----------------------------------------|----------------------------|----------------|
| 2003                                    | \$ 970,268                 | \$ 74,580      |
| 2004                                    | 651,453                    | 44,168         |
| 2005                                    | 219,070                    |                |
| Total minimum lease payments            | 1,840,791                  | 118,748        |
| Less amount representing interest       | (80,279)                   | (10,688)       |
| Present value of minimum lease payments | \$ 1,760,512               | \$ 108,060     |

- E. In prior years, the County defeased certain general obligation and other bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As of September 30, 2002, \$10,290,000 of bonds outstanding are considered defeased. The amounts in escrow total \$10,155,117 and are sufficient to retire all outstanding bonds and interest. Since these bonds are legally defeased, they are not included in the financial statements.

- F. Demand Bonds - The County has no demand bonds.

- G. Conduit Debt Obligations

**Component Units** - The Industrial Development Authority has from time to time issued Industrial Development Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance.

Neither the Authority, the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly the bonds are not reported as liabilities in the accompanying financial statements.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**7. LONG-TERM OBLIGATIONS (continued)**

As of September 30, 2002, there were twenty-two series of Industrial Development Revenue Bonds outstanding. The aggregate principal amount payable at September 30, 2002 for eleven series issued after July 1, 1995 was \$231.4 million, including the following four major issues:

| <u>Company and Series</u>                                                                           | <u>Maturity</u>                        | <u>Outstanding<br/>Principal Amount</u> |
|-----------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|
| Flagler Hospital, Inc.<br>Hospital Revenue Bonds,<br>Series 1996A and 1996B                         | Serially in varying<br>Amounts to 2026 | \$56,000,000                            |
| Professional Golf Hall of Fame,<br>Industrial Development Revenue<br>Bonds, Series 1996             | Serially in varying<br>Amounts to 2026 | 26,300,000                              |
| Glenmoore at St. Johns Project,<br>Series 1999                                                      | Serially in varying<br>Amounts to 2030 | 75,980,000                              |
| Professional Golf Hall of Fame,<br>Industrial Development Authority<br>Refunding Bonds, Series 2002 | Serially in varying<br>Amounts to 2023 | 26,455,000                              |

The aggregate principal amount payable at September 30, 2002, for the eleven series issued prior to July 1, 1995, could not be determined; however, their original issue amounts aggregated \$79.6 million, including the following three major issues:

| <u>Company and Series</u>                                                | <u>Maturity</u>                        | <u>Outstanding<br/>Principal Amount</u> |
|--------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|
| Flagler Hospital Revenue<br>Bonds, Series 1992                           | Serially in varying<br>Amounts to 2022 | \$26,285,000                            |
| Vicar's Landing Industrial<br>Development Revenue Bonds,<br>Series 1993A | Serially in varying<br>Amounts to 2012 | 22,685,000                              |
| Vicar's Landing Industrial<br>Development Revenue Bonds,<br>Series 1993B | Serially in varying<br>Amounts to 2030 | 12,140,000                              |

The Housing Finance Authority has issued Housing Revenue Bonds to private-sector entities for the acquisition and construction of housing developments and Single Family Mortgage Revenue Bonds to provide low-interest mortgages to first-time buyers of single family homes. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Housing Revenue Bonds, ownership of the multi-family housing developments transfers to the private sector entity served by the bond issuance.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**7. LONG-TERM OBLIGATIONS (continued)**

Neither the Housing Finance Authority, the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2002, there were nine series of Housing Revenue Bonds outstanding. The aggregate principal amount payable at September 30, 2002, for these series issued after July 1, 1995 was \$162.8 million, including the following two major issues:

| <u>Company and Series</u>                                                                        | <u>Maturity</u>                        | <u>Outstanding<br/>Principal Amount</u> |
|--------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|
| Housing Finance Authority of Clay<br>County Single Family Mortgage<br>Revenue Bonds, Series 1999 | Serially in varying<br>Amounts to 2029 | \$75,000,000                            |
| Housing Finance Authority of Clay<br>County Single Family Mortgage<br>Revenue Bonds, Series 2000 | Serially in varying<br>Amounts to 2030 | 50,000,000                              |

The aggregate principal amount payable for the four series issued prior to July 1, 1995, could not be determined; however, their original issue amounts aggregated \$45.5 million, including the following three major issues:

| <u>Company and Series</u>                                                                          | <u>Maturity</u>                        | <u>Outstanding<br/>Principal Amount</u> |
|----------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|
| Barnett-Range Corporation<br>Adjustable Rate Demand<br>Multifamily<br>Housing Revenue Bonds        | Serially in varying<br>Amounts to 2006 | \$7,250,000                             |
| Developers Three, Inc. and<br>R.I. Johnson Construction Project<br>Housing Revenue Bonds, Series A | Serially in varying<br>Amounts to 2004 | 5,700,000                               |
| Housing Finance Authority of Clay<br>County Single Family Mortgage<br>Revenue Bonds, Series 1995   | Serially in varying<br>Amounts to 2028 | 30,300,000                              |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**8. INTERFUND RECEIVABLES, PAYMENTS AND TRANSFERS**

A. At September 30, 2002, interfund payments and transfers are as follows:

| <u>Fund Type/Fund</u>                                  | <u>Operating<br/>transfers-in</u> | <u>Operating<br/>transfers-out</u> |
|--------------------------------------------------------|-----------------------------------|------------------------------------|
| <b>MAJOR GOVERNMENTAL FUNDS:</b>                       |                                   |                                    |
| General Fund                                           | 310,061                           | 4,159,302                          |
| County Transportation Trust                            | 504,990                           | 550,000                            |
| <b>NON-MAJOR GOVERNMENTAL FUNDS:</b>                   |                                   |                                    |
| <b>SPECIAL REVENUE FUNDS:</b>                          |                                   |                                    |
| County Health Department                               | 4,000                             |                                    |
| Building Services                                      | 49,736                            |                                    |
| Housing Abatement                                      | 100,000                           |                                    |
| Mental Health                                          | 1,388,826                         |                                    |
| Beach                                                  | 20,000                            |                                    |
| Touris Development Tax                                 |                                   | 704,920                            |
| Galimore Center                                        | 83,258                            |                                    |
| Public Building Impact Fees                            |                                   | 517,434                            |
| Road Impact Fees                                       | 498,807                           | 2,319,636                          |
| Park Impact Fees                                       |                                   | 200,742                            |
| Fire District                                          |                                   | 233,329                            |
| Executive Cove Road MSBU                               | 249,616                           | 261,372                            |
| Thompson Bailey Road MSBU                              | 176,339                           | 195,708                            |
| Treasure Beach MSBU                                    | 28,631                            |                                    |
| Private Roads MSBU                                     |                                   | 5,380                              |
| <b>DEBT SERVICE FUNDS:</b>                             |                                   |                                    |
| \$10 million FLGFC Pooled Commercial Paper Loan Progra | 1,594,056                         |                                    |
| <b>CAPITAL PROJECTS FUNDS:</b>                         |                                   |                                    |
| Library Building                                       | 772,434                           |                                    |
| Judicial Master Plan                                   |                                   | 42,016                             |
| Palm Valley Bridge                                     | 1,820,829                         |                                    |
| Davis Park Project                                     | 330,742                           |                                    |
| Beach Re-nourishment                                   | 303,000                           |                                    |
| Holmes Boulevard                                       | 550,000                           |                                    |
| Northwest Government Center                            | 37,310                            |                                    |
| <b>INTERNAL SERVICE:</b>                               |                                   |                                    |
| Worker's Compensation Insurance                        |                                   | 34,716                             |
| <b>PROPRIETARY FUNDS:</b>                              |                                   |                                    |
| Convention Center                                      | 181,920                           |                                    |
| Amphitheater                                           | 220,000                           |                                    |
|                                                        | <u>\$ 9,224,555</u>               | <u>\$ 9,224,555</u>                |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

**8. INTERFUND RECEIVABLES, PAYMENTS AND TRANSFERS** (continued)

B. At September 30, 2002, interfund receivables are as follows:

| <u>Fund Type/Fund</u>                               | <u>Due to</u>     | <u>Due from</u>   |
|-----------------------------------------------------|-------------------|-------------------|
| <b>MAJOR GOVERNMENTAL FUNDS:</b>                    |                   |                   |
| General Fund                                        |                   | \$ 561,554        |
| County Transportation Trust                         | \$ 7,168          | 74,177            |
| <b>NON-MAJOR GOVERNMENTAL FUNDS:</b>                |                   |                   |
| <b>SPECIAL REVENUE FUNDS:</b>                       |                   |                   |
| County Health Department                            |                   | 4,458             |
| Building Services                                   | 74                | 787               |
| Law Enforcement Trust                               |                   | 9,962             |
| Utility Regulation                                  | 166,567           |                   |
| Additional Court Costs                              | 122               |                   |
| E911 Communications                                 | 237,196           |                   |
| Fire District                                       | 737               | 15,156            |
| Vilano Street Lighting                              |                   | 131               |
| St. Augustine South Street Lighting                 |                   | 313               |
| Elkton Drainage                                     |                   | 119               |
| Thompson Bailey Road MSBU                           | 4                 |                   |
| Private Roads MSBU                                  | 109,152           | 169               |
| Law Enforcement Education                           |                   | 48,038            |
| <b>DEBT SERVICE FUNDS</b>                           |                   |                   |
| Limited Ad Valorem Tax Refunding Bonds, Series 1994 |                   | 5,080             |
| <b>INTERNAL SERVICE FUNDS:</b>                      |                   |                   |
| Worker's Compensation Insurance                     |                   | 286               |
| Health Insurance                                    |                   | 11,206            |
| <b>PROPRIETARY FUNDS</b>                            |                   |                   |
| Utilities                                           | 70                |                   |
| Solid Waste                                         | 93                | 59,784            |
| Golf Course                                         | 270,000           |                   |
| Amphitheater                                        | 37                |                   |
|                                                     | <u>\$ 791,220</u> | <u>\$ 791,220</u> |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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9. EMPLOYEE BENEFITS

A. Retirement Plan

*Plan Description* -St. Johns County participates in the Florida Retirement System (the "FRS"), a cost-sharing multiple-employer public employee retirement system administered by the State of Florida, Department of Management Services, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida Department of Management Services, Division of Retirement, Bureau of Research, Education and Policy, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1650 or by calling (850) 488-5540.

Effective July 1, 1998, the Legislature established a Deferred Retirement Option Program ("DROP"). This program allows eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

*Funding Policy* - The Board is required to pay all contributions for full-time and part-time employees. Generally, employee participation in FRS is compulsory. The contribution rates are as follows (including a health insurance subsidy of 1.11%, 1.1 % and .94% for the years ended September 30, 2002, 2001, and 2000, respectively):

|                                        | July 1, 1999<br>Through<br><u>June 30, 2000</u> | July 1, 2000<br>Through<br><u>June 30, 2001</u> | July 1, 2001<br>Through<br><u>June 30, 2002</u> | July 1, 2002<br>Through<br><u>Sept 30, 2002</u> |
|----------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Elected County Officials               | 17.99%                                          | 16.99%                                          | 15.14%                                          | 11.86%                                          |
| Senior management service              | 12.13%                                          | 11.13%                                          | 9.28%                                           | 6.06%                                           |
| Regular employees                      | 10.15%                                          | 9.15%                                           | 7.30%                                           | 5.76%                                           |
| Special risk administrative<br>support | 12.47%                                          | 11.68%                                          | 9.83%                                           | 6.56%                                           |
| DROP participants                      | 12.50%                                          | 12.50%                                          | 12.67%                                          | 9.11%                                           |

The County's contributions to the FRS amounted to approximately \$4,957,000, \$5,209,374, \$4,908,000 for the years ended September 30, 2002, 2001 and 2000 respectively. The County contributed 100% of the required contributions for each of the years ended September 30, 2002, 2001 and 2000.

B. Other Post-employment Benefits

In 1987, the Florida Legislature established through Section 112.363, Florida Statutes, the Retiree Health Insurance Subsidy ("HIS") to assist retirees of all state-administered retirement systems in paying health insurance costs. For the period from October 1, 2001, through September 30, 2002, eligible retirees and beneficiaries received as much as \$5 per month for each year of creditable service completed at the time of retirement.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**9. EMPLOYEE BENEFITS (continued)**

The payments to individual retirees or beneficiaries at each year-end were at least \$50 but not more than \$150 per month.

To be eligible to receive HIS, a retiree under any state-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

HIS is funded by required contributions from FRS' participating employers. The contribution rate is 1.11% of payroll for all active employees covered by the FRS. This contribution was added to the amount submitted for retirement contributions and was deposited in a separate trust fund from which HIS payments are authorized. If these contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

In addition to the HIS, Chapter 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs. Premiums are paid by the retiree.

**C. Deferred Compensation Plan**

The County offers its employees a deferred compensation plan (the "Plan") created in accordance with Section 457 of the Internal Revenue Code. This Plan (refer to Section 112.215, Florida Statutes), available to all regular payroll County employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (notwithstanding the mandates of 26 U.S.C. s. 457 (b) (6)), all of the assets specified in subparagraph 1) held in trust for the exclusive benefit of participants and their beneficiaries as mandated by 26 U.S.C. s. 457 (g) (1).

The County does not contribute to the Plan. Participation under the Plan is solely at the discretion of the employee. The County has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary and prudent investor. During the 1997 fiscal year Chapter 97-8 of the Laws of Florida amended section 112.215, Florida Statutes, by creating the Deferred Compensation Trust Fund, which is an expendable trust fund, in the State Treasury.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**9. EMPLOYEE BENEFITS (continued)**

**D. Accrued Compensated Absences**

County employees are entitled to accrue sick and vacation time in accordance with the employer's personnel regulations or a collective bargaining agreement. Upon termination an employee may be paid for some or all of accrued vacation time. All County employees, except employees of the Tax Collector with ten years credited service can be paid for a portion of accrued sick leave. Accrued compensated absences are based on the following guidelines:

| <u>EMPLOYER</u>               | <u>VACATION</u> | <u>SICK</u>    |
|-------------------------------|-----------------|----------------|
|                               | <u>ACCRUAL</u>  | <u>LEAVE</u>   |
|                               | <u>MAXIMUM</u>  | <u>ACCRUAL</u> |
|                               | <u>HOURS</u>    | <u>MAXIMUM</u> |
| Board of County Commissioners | 240             | 1,200          |
| Clerk of the Circuit Court    | 240             | 1,200          |
| Property Appraiser            | 240             | 1,200          |
| Tax Collector                 | 240             | 960            |
| Supervisor of Elections       | 240             | 1,200          |
| Sheriff                       | 240             | unlimited      |

**10. RISK MANAGEMENT**

**A. Public Entity Risk Pool**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County belongs to the Florida Association of Counties Trust (the "Trust"), a public entity risk pool currently operating as a common risk management and insurance program for twenty-seven member counties. The County pays an annual premium to the Trust for its coverage. The premiums are designed to fund the liability risks assumed by the Trust and are based on certain actual exposures of each member. There were no claims paid which exceeded coverage during the last three fiscal years.

**B. Self Insurance**

St. Johns County provides health, life and accidental death and dismemberment insurance for its employees via a Self Insurance Internal Service Fund to account for and finance its self insured risks of loss. Under this program, the Health Insurance Internal Service Fund provides coverages up to a maximum of \$4,346,600. The Board purchases commercial insurance for claims in excess of coverage provided by the Fund.



ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**10. RISK MANAGEMENT (continued)**

Additionally, as of October 1, 2001, the Board obtained worker's compensation coverage with Bituminous Insurance. The Board believes it is more economical to manage its risks internally and set aside assets for claim settlement in the Worker's Compensation Internal Service Fund. The Worker's Compensation Internal Service Fund services all claims for risk of worker's compensation loss to which the Board is exposed under the previous risk pool, and the monthly premiums payable under the current policy. The balance of the self-insured loss exposure under the previous plan is \$77,904.

All funds and constitutional officers of the County participate in both programs. The cost of providing claims servicing and claims payment is allocated by charging a "premium" to each fund and Officer based on a percentage of each organization's estimated current-year payroll. This charge considers recent trends in actual claims experience of the County as a whole and makes provision for catastrophe losses.

The September 30, 2002 claims liability of \$711,142 and \$77,904 reported in the Health Insurance and Worker's Compensation Funds, respectively, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of loss can be reasonably estimated, including an estimate for liabilities incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The claims liability at fiscal year end is shown at current dollar value.

Changes in the Health Insurance Fund's claims liability amount was as follows:

| <u>Fiscal Year</u> | <u>Balance October 1</u> | <u>Current Year Claims/Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance September 30</u> |
|--------------------|--------------------------|-------------------------------------------------|-----------------------|-----------------------------|
| 1999/2000          | \$650,782                | \$3,201,783                                     | \$3,297,734           | \$554,831                   |
| 2000/2001          | \$554,831                | \$4,055,239                                     | \$3,956,298           | \$653,772                   |
| 2001/2002          | \$653,772                | \$5,157,595                                     | \$5,100,225           | \$711,142                   |

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**10. RISK MANAGEMENT (continued)**

Changes in the Workers' Compensation Fund's claims liability amount was as follows:

| <u>Fiscal Year</u> | <u>Balance October 1</u> | <u>Current Year Claims/Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance September 30</u> |
|--------------------|--------------------------|-------------------------------------------------|-----------------------|-----------------------------|
| 1999/2000          | \$ 522,444               | \$1,318,981                                     | \$ 580,794            | \$1,260,631                 |
| 2000/2001          | \$1,260,631              | \$1,208,380                                     | \$1,832,514           | \$ 636,497                  |
| 2001/2002          | \$ 636,497               | \$1,113,568                                     | \$1,672,161           | \$ 77,904                   |

**C. Conventionally Insured Claims and Losses**

The County retains conventional insurance coverage on all other types of insurable risks. Settled claims resulting from these risks have not exceeded conventional insurance coverage in any of the past three fiscal years.

**11. DEFICIT BALANCE - INDIVIDUAL FUNDS**

At September 30, 2002 the following funds had deficit balances in the amounts shown:

|                               |                    |
|-------------------------------|--------------------|
| Non-Major Governmental Funds: |                    |
| Utility Regulation            | \$117,128          |
| Private Road MSBU             | 108,983            |
| Major Proprietary Funds:      |                    |
| Convention Center             | <u>2,927,307</u>   |
|                               | <u>\$3,153,418</u> |

Deficits will be corrected by operating adjustments in fees charged to departments, future expected operating revenues, or operating transfers.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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**12. OTHER REQUIRED INDIVIDUAL FUND AND COMPLIANCE DISCLOSURES**

**A. Excess of Expenditures Over Appropriations**

Expenditures exceeded appropriations in the following funds:

|                           | <u>Excess of Expenditures<br/>Over Appropriations</u> |
|---------------------------|-------------------------------------------------------|
| Executive Cove MSBU       | \$ 249,951                                            |
| Thompson Bailey Road MSBU | 176,734                                               |
| Palm Valley Bridge        | 4,475                                                 |
| Beach Re-nourishment      | 438,636                                               |

**B. Accrual for Landfill Closure and Post-Closure Costs**

State and Federal laws and regulations require the County to place a final cover on its Tillman Ridge Phase II landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$7,834,593 reported as landfill closure and post-closure care liability at September 30, 2002, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of Phase II of the landfill (approximately \$5,609,581) and the remaining liability for the Tillman Ridge Phase I Landfill closure and post-closure care cost (approximately \$2,225,012 ).

These amounts are estimated based on what it would cost to perform all closure and post-closure care in 2002. The County finished closing Phase II of the landfill during this year. Actual cost may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to provide proof of financial responsibility for closure and post-closure care. The County's method, which is established by State law, relies on various financial tests to provide this proof. The County is in compliance with these requirements at September 30, 2002.

ST. JOHNS COUNTY, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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### 13. COMMITMENTS AND CONTINGENCIES

#### A. Commitments

At September 30, 2002 the County had outstanding commitments relating to construction contracts of approximately \$11,136,162.

The Sheriff and Tax Collector are leasing various pieces of equipment under operating leases. During the fiscal year ended September 30, 2002 the lease payments on all operating leases amounted to \$6,099 and \$197,000 respectively.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2002:

| Year Ending<br>September 30        |                 |
|------------------------------------|-----------------|
| 2003                               | \$25,465        |
| 2004                               | 8,597           |
| 2005                               | 6,612           |
| 2006                               | <u>1,653</u>    |
| Total minimum<br>payments required | <u>\$42,327</u> |

#### B. Contingencies

##### Pending Litigation

The County is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of County management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the County.

However, on October 2, 2002, the courts approved the settlement agreement and final judgment involving the Minnis class action lawsuit. The settlement required the payments in excess of approximately one million dollars to the various plaintiffs. These accruals, based on the likelihood of the proposed agreements have been accrued during this fiscal year.

### 14. SUBSEQUENT EVENT.

Subsequent to the end of the year, the County refunded three bond issues by issuing \$17,790,000 in additional revenue refunding bonds. The combined present value savings for the issues was \$1,321,184 of the refunded debt.

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# HARTMAN & ASSOCIATES, INC.

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## OFFICERS:

Gerald C. Hartman, PE., DEE  
Harold E. Schmidt, Jr., PE., DEE  
James E. Christopher, PE.  
Charles W. Drake, P.G.  
Mark A. Rynning, PE., M.B.A.  
William D. Musser, PE., P.H.  
Michael B. Bomar, PE.  
Lawrence E. Jenkins, P.S.M.

## SENIOR ASSOCIATES:

Marco H. Rocca, C.M.C.  
Roderick K. Cashe, PE.  
Douglas P. Dufresne, P.G.  
Jon D. Fox, PE.  
Troy E. Layton, PE., DEE

engineers, hydrogeologists, surveyors & management consultants  
A Tetra Tech Company

January 5, 2004

HAI # 99.0555.015

## ASSOCIATES:

James E. Golden, P.G.  
Andrew T. Woodcock, PE., M.D.A.  
John P. Toomey, PE.  
Jennifer L. Woodall, PE.  
L. Todd Shaw, PE.  
Rafael A. Terrero, PE., DEE  
Jill M. Hudkins, PE.  
Daniel M. Nelson, PE.  
Valerie C. Davis, P.G.  
Charles M. Shultz, PE.  
Sean M. Parks, AICP, QEP  
C. Michelle Gaylord  
Tara L. Hollis, C.P.A., M.B.A.  
W. Bruce Lafrenz, P.G.  
Alexis K. Stewart, PE.  
Ada R. Terrero

County Commissioners  
St. Johns County  
4020 Lewis Speedway  
St. Augustine, FL 32085

**Subject: Consulting Engineer's Report  
Water and Sewer Revenue Bonds, Series 2004**

Ladies and Gentlemen:

Hartman & Associates, Inc. (HAI) is pleased to present herein our Consulting Engineer's Report (the "Report") for inclusion in the Official Statement related to the Water and Sewer Revenue Bonds, Series 2004 (the "Series 2004 Bonds"). The Report summarizes HAI's analysis and studies with regard to the proposal by St. Johns County (the "County") to issue the Series 2004 Bonds in an amount not to exceed \$30,000,000. The primary purpose for the issuance of the Series 2004 Bonds is to fund the construction of certain additional water, wastewater and reuse improvements; fund debt service reserve requirements related to the Series 2004 Bonds; and pay certain costs associated with the issuance of the Series 2004 Bonds.

The Report provides discussions of the County's existing water, wastewater and reuse systems (collectively referred to as the "System"), service areas, historical and future water, wastewater and reuse demands and the County's capital improvement program related to the System. Also included are projections of operations, financial operating results, operating and capital budgets, and the ability of the County to meet the rate covenant requirements of the County Resolution No. 89-84 adopted on April 25, 1989, as amended and supplemented (the "Bond Resolution").

The estimates, projections, assumptions and conclusions in this Report reflect expectations as to future activities and events. The expectations are based on our understanding of the County, information provided by other sources, and our experience with this and similar utilities. Some of the assumptions inevitably will not materialize and unanticipated events may occur which could significantly change the results described herein.

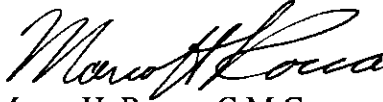
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County Commissioners  
St. Johns County  
January 5, 2004  
Page 2

Included in this Report is a delineation of HAI's opinions and conclusions regarding the water, wastewater and reuse systems. Such opinions are subject to the assumptions reflected in the Report. Therefore, the Report should be read in its entirety and must be qualified as provided herein.

Very truly yours,

**Hartman & Associates, Inc.**



Marco H. Rocca, C.M.C.  
Senior Associate



Jon D. Fox, P.E.  
Senior Associate

MHR/jev/99.0555.015/Reports/R-1/Cvr Ltr

**ST. JOHNS COUNTY**  
**CONSULTING ENGINEER'S REPORT**  
**WATER, WASTEWATER, AND REUSE SYSTEM**

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## INTRODUCTION

Presented herein is the Consulting Engineer's Report (the "Report") as prepared by Hartman & Associates, Inc. (HAI) for St. Johns County, Florida (the "County"). This report provides a summary of the reviews and analyses performed in conjunction with the issuance of the St. Johns, Florida Water and Sewer Revenue Bonds, Series 2004 (the "Series 2004 Bonds"). The Series 2004 Bonds are being issued pursuant to the authority of the County Resolution No. 89-84, adopted on April 25, 1989 as amended and supplemented, including as anticipated to be amended by a resolution to be adopted by the County relating specifically to the Series 2004 Bonds (collectively, the "Bond Resolution"). The Series 2004 Bonds, together with other funds, will provide proceeds to: (i) construct additional water, wastewater and reuse water system improvements; (ii) fund necessary bond insurance and debt service reserve requirements associated with the Series 2004 Bonds; and (iii) pay certain costs of issuance associated with the Series 2004 Bonds.

HAI has been retained by the County as the Consulting Engineer to: (i) provide descriptions of the existing water, wastewater and reuse systems (collectively referred to as the "System") and projects to be funded from a portion of the proceeds of the Series 2004 Bonds; (ii) present the historical operating results of the System and projections of the estimated operating results of the System; and (iii) provide conclusions relative to the findings of the Report.

In preparing the Report, HAI has relied upon financial, statistical, engineering, and operational data pertaining to the System derived from operating reports and records prepared by the County as well as information reflected in the County's audited financial statements or obtained from the County's Finance and Utility Departments. In addition, certain information, assumptions and projections were provided by entities other than the County. While it is believed that such information is reasonable for the purpose of this Report, no assurances are offered with respect thereto. Actual results realized during the projection period may vary materially from those projected. As such, the projections provided in this Report are subject to adjustment and HAI can give no assurances that such projections will be realized.

The Report contained herein summarizes the findings and results as of the date of the Report. Prospective purchasers of the Series 2004 Bonds should not rely upon the information contained in this Report for a description of any matters set forth herein as of any date subsequent to the

date of the Report. Changing conditions occurring or becoming known after such date could materially affect the conclusions contained herein.

It should be noted that the Series 2004 Bonds represent a single component of an aggregate capital funding program (the "Program") prepared for the County by HAI. The Program provides for a combination of financial resources to address projected capital improvement program (CIP) needs. The financial resources available to the County for the Program consist of existing and future: (i) Unit Connection Fees (UCFs); (ii) unrestricted operating reserves; and (iii) proceeds from both parity and subordinated long-term debt. The Program, as summarized in the discussions of Principal Considerations and Assumptions, identified the primary source of subordinate debt as being from the Florida Department of Environmental Protection State Revolving Loan Program (SRF) and the primary source of parity debt as bonds issued pursuant to and in accordance with the Bond Resolution. It should be further noted that the Program was developed on the basis of being managed on a continuing basis and without the use of user rate adjustments. Should the need arise however, rate adjustments may be required to address unanticipated future needs and/or events.

## GENERAL

The County, created in 1832 and occupying an area of approximately 608 square miles, is situated on the northeastern coast of the state of Florida, as illustrated in Figure 1, the location map at the end of this Report. Based on information contained in the St. Johns County Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002, the County had an estimated population of 123,000. The County's service area consists of all areas not franchised or served by another utility. The areas currently served by the County's existing facilities, together with the service areas of other utilities are illustrated in Figure 2.

### System Operations and Management

The System is operated as a separate water, wastewater and reuse utilities department of the County (the "Utility Department"). The Utility Department is operated under the direction of the Utility Director, who is directly responsible to the County Administrator. The County Administrator reports directly to the Board of County Commissioners.

### Utility Administration

This division consists of 32 personnel and covers Utility Administration, Design Engineering, Construction Management, Geographic Information System (GIS), Meter Reading and Customer Service, as well as certain financial activities involved with the System. These personnel administer and coordinate utility status management reporting, review engineering drawings, manage construction and perform inspections and surveys for new utility construction. The division serves as a principal contact for developers, consultants, engineers and contractors and processes all regulatory permit applications. This division performs the meter reading and customer service functions of the Utility Department including billing, collection and accounting of funds. The division is also responsible for developing and implementing the Utility's GIS.

#### Water and Wastewater Treatment Plant Operations Divisions

These two divisions consist of a Water Operations Superintendent, a Wastewater Supervisor, 17 state certified water and wastewater treatment plant operators and four operator trainees. The water plant operation division oversees the supply, treatment and storage of potable water and maintenance of over 1,200 fire hydrants throughout the System. In addition, the staff associated with water plant operations is also responsible for providing customers with a safe and reliable supply of drinking water which meets all local, state and federal standards for potable water quality.

The wastewater treatment plant operators are responsible for the operation, maintenance and regulatory reporting of such operations of the wastewater treatment facilities. This division is also responsible for the operation and maintenance of the effluent disposal facilities and wastewater reuse systems as well as maintaining an active Industrial Pre-Treatment and Oil and Grease Management program.

#### Water and Wastewater Maintenance Divisions

These divisions consists of a Utility Superintendent, Foreman, two Supervisors, eight service technicians and 12 maintenance workers who are responsible for maintaining the water and transmission mains, distribution water lines as well as the gravity sewers, force mains and lift stations throughout the System. These divisions provide prompt repair of leaks and major line breaks, new main installation, lift station repairs, correction of wastewater backups and general preventative maintenance at the water and wastewater treatment plants.

## Environmental Laboratory

The laboratory is a full service environmental laboratory that maintains three chemists and an Environmental Coordinator who oversees the lab. Each of the chemists have attended both microbiology and field sampling school, while Stacy Kowlsen, the Environmental Coordinator, has a Bachelor's degree in chemistry, a "B" wastewater certification, and a "C" pre-treatment certification, as well as being a certified NPDES stormwater inspector. This division provides quality analytical data and quality service for both its in-house analysis and field collections. The Laboratory is currently a National Environmental Laboratory Accreditation Certified (NELAC) laboratory that meets all of the NELAC requirements for the analysis of nutrients, metals, microbiology and other wet chemistry parameters.

## Utility Management

The Utility Department has an existing staff consisting of a Director and managers who have experience in utility management, engineering, financing and operations. The personnel strategically involved in the management of the System include the following:

Mr. William G. Young was first hired in 1985 as a Water Treatment Plant Operator. In 1995 he was promoted to Assistant Utility Director and in 1999 he was named Utility Director. He has a Masters Degree in Public Administration and is a member of the Florida Water Environment Association, Florida Water Pollution Control Operators Association and a Board member of the American Water Works Association – Florida Section, St. Augustine Rotary, Association of Retarded Citizens and the St. Augustine YMCA. Mr. Young is a native of St. Johns County.

Mr. Ram "Neal" Shinkre joined the Utility Department in 2000 as Engineering Manager. He has a Masters Degree in Civil Engineering and Business Administration and is a Professional Engineer in the States of Florida and Georgia. He has several years of experience with private engineering consulting firms where he primarily performed treatment plant, lift station and system design. Mr. Shinkre is a member of the American Water Works Association and the Florida Engineering Society.

Mr. Gerald Solana has worked for the Utility Department for 20 years. Most of the time he has served as Superintendent of Utilities and was promoted to Operations Manager in 2001. He holds a State of Florida "A" certification in Wastewater Treatment Operations and a "C"



certification in Water Treatment Operations as well as a “C” certification in Reuse, Collection, Distribution and Stormwater Management. He has a certificate in Reverse Osmosis Treatment from David H. Paul and is working on his Associate of Science Degree in Industrial Technology in Reverse Osmosis Treatment. Mr. Solana has 10 years of experience with other municipally-owned utilities and is a native of St. Johns County. He is a retired Florida National Guard member with 20 years as an Environmental Non-Commissioned Officer. He is also a member of the American Water Works Association and the Florida Water Pollution Control Operators Association.

Mr. Frank Kenton has been with the Utility Department since 1999 when he was hired as the Administrative Manager. He has a Bachelor’s Degree in Finance and a Masters Degree in Public Administration. He has several years of experience with other municipally and privately owned utility companies. Mr. Kenton is a native of St. Johns County and a member of the American Water Works Association and the Florida Water Pollution Control Operators Association.

## THE SYSTEM

### Water System

#### General

The County’s overall water system is comprised of water supply (wells), treatment facilities, transmission and localized distribution pipelines, and remote storage and pumping facilities. The location of the major existing water facilities providing service to the approximately 42 square mile service area are illustrated in Figure 3 at the end of this Report. The County’s water system collectively consists of eleven raw water supply wells, three water treatment plants (WTPs) with a combined permitted capacity of approximately 8.46 million gallons per day (MGD), five remote storage and pumping stations, and two elevated steel water storage tanks. Additionally, there are approximately 18,460 feet of raw water supply mains ranging in size from 6 to 24-inches in diameter and approximately 355 miles of water transmission and localized distribution pipelines ranging in size from 1 to 24-inches in diameter currently in service. A portion of the County’s water system is served by the City of St. Augustine (City) and JEA (formerly known as Jacksonville Electric Authority) pursuant to separate interlocal agreements. The County’s water system is governed by the Florida Department of Environmental Protection (FDEP) as well as the St. Johns River Water Management District (SJRWMD).

## Raw Water Supply Facilities

The primary sources of water supply to the water system are the surficial and Floridan aquifers. The wellfields which draw from these aquifers consist of seven surficial wells and four Floridan wells which have been in service since 1991. The County Road 214 (CR 214) Water Treatment Plant (WTP) is served by two Floridan aquifer wells and seven surficial aquifer wells having a total combined installed pumping capacity of approximately 6.93 MGD and 3.0 MGD, respectively. The County has recently completed construction of a third Floridan aquifer well to support the CR 214 WTP, which is anticipated to have a pumping capacity identical to the existing wells. Raw water from each aquifer source is blended prior to treatment at the CR 214 WTP. The remaining two Floridan wells serve the Northwest (NW) WTP and have a total installed pumping capacity of approximately 4.3 MGD. The Harmony Village WTP is served by a single small capacity well.

The raw water supply for the water system is regulated by the SJRWMD, a governmental agency created by the Florida Legislature, which has the responsibility of managing the water resources within its boundary (i.e. northeast central Florida). The SJRWMD authorizes the use of groundwater by the County from the surficial and Floridan aquifers pursuant to Consumptive Use Permit (CUP) numbers 2-109-1028NGM issued on September 12, 1989 and 2-109-0270N issued on August 11, 1992 and transferred to the County on March 8, 1995. CUP number 2-109-1028NGM for the CR 214 WTP wellfields authorizes a maximum annual groundwater withdrawal of 1,088.4 MG and a corresponding maximum daily withdrawal of 3.73 MGD from Floridan and surficial aquifer sources in 1996. CUP number 2-109-0270N for the NW WTP wellfields authorizes a maximum annual groundwater withdrawal of 332.7 MG and a corresponding maximum daily withdrawal of 1.37 MGD from Floridan and surficial aquifer sources in 1999. Due to the small capacity of the well which serves the Harmony Village WTP, no CUP is required for this facility. The location of the County's major existing water facilities is illustrated in Figure 3. The raw water supply wells are located in the vicinity of their associated treatment facilities. A list of the permitted versus actual raw water withdrawal volumes for the past five years is given below as Table 1.

**Table 1**  
**Permitted and Actual Raw Water Withdrawal**

| <u>Year</u> | <u>Permitted<br/>Maximum Annual<br/>Withdrawal<br/>(MGD)</u> | <u>Permitted<br/>Maximum Daily<br/>Withdrawal<br/>(MGD)</u> | <u>Average<br/>Annual<br/>Withdrawal<br/>(MGD)</u> | <u>Maximum<br/>Daily<br/>Withdrawal<br/>(MGD)</u> |
|-------------|--------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|
| 1999        | 3.89                                                         | 5.1                                                         | 3.69                                               | 6.02                                              |
| 2000        | 3.89                                                         | 5.1                                                         | 3.75                                               | 5.93                                              |
| 2001        | 3.89                                                         | 5.1                                                         | 3.42                                               | 5.86                                              |
| 2002        | 3.89                                                         | 5.1                                                         | 3.48                                               | 5.97                                              |
| 2003        | 3.89                                                         | 5.1                                                         | 4.11                                               | 5.72                                              |

The County's existing CUPs for the CR 214 and NW WTPs expired in 1996 and 1999, respectively, prior to which time application for renewal was submitted to the SJRWMD. From discussion with the SJRWMD, the County's CUP renewal application to cover all sources of groundwater withdrawal is nearing completion and is anticipated to be issued within the next five to six months pending final hydrogeologic modeling utilizing the SJRWMD's northeast regional model. It is anticipated that the County's renewal CUP will have a duration between 10 and 20 years, with issuance in early 2004. Additionally, the County anticipates the renewal CUP to authorize the withdrawal of an annual average of approximately 14.64 MGD, which would far exceed both current and projected demands. Since the time of the renewal application the County has been operating within limits acceptable to the SJRWMD, and will continue such operation until such time as a renewal permit is issued. It should be noted that the CUP is considered current because the County applied for a renewal permit prior to the expiration date and has responded in a timely manner to all related requests for information from SJRWMD. A main issue involved in the review included minimizing wetland impacts and use of the surficial aquifer wells. Due to this issue, the County reworked its water supply plan, moving toward increasing the use of the upper Floridan aquifer system rather than the surficial aquifer. No impact to the County's ability to provide raw water supply is anticipated as a result of the change of sources. Overall, the SJRWMD has indicated that they are pleased with the efforts of the County with respect to the "alternative source" and their efforts to avoid wetlands impacts.

Raw Water Transmission Facilities

Raw water is transmitted from each of the County’s raw water supply field wells via dedicated raw water transmission mains to the associated treatment facilities. The transmission system consists of approximately 3.5 miles (approximately 18,460 feet) of pipelines ranging in size from 6 to 24-inches in diameter. The pipelines are constructed of either ductile iron (DI) or polyvinyl chloride (PVC) and were installed up to 13 years ago coincident with the construction of the water treatment facilities they serve.

Water Treatment Facilities

The County’s CR 214 and NW WTPs provide service to unincorporated areas within the County and have permitted maximum daily demand capacities of 7.0 MGD and 1.44 MGD, respectively. Additionally, the County is responsible for the Harmony Village WTP which is a minor facility with a permitted capacity of 0.024 MGD. Table 2 provides a summary of the WTPs’ capacities in comparison with current System demands for recent 12-month periods ending in 2003. The location and service areas of these facilities is illustrated in Figure 3.

**Table 2**  
**Current Water Demands and Treatment Plant Capacities**

| Service areas   | Average Daily Demand, MGD | Maximum Daily Demand, MGD | Permitted Capacity, <sup>(1)</sup> MGD |
|-----------------|---------------------------|---------------------------|----------------------------------------|
| CR 214          | 3.58                      | 4.26                      | 7.00                                   |
| Northwest (NW)  | 0.25                      | 0.42                      | 1.44                                   |
| Harmony Village | 0.005                     | 0.0295                    | 0.024                                  |
| Total Demand    | 3.835                     | 4.71                      | 8.464                                  |

(1) On a maximum daily demand basis.

County Road 214 WTP

The CR 214 WTP is located approximately one mile northwest of the intersection of Interstate 95 (I-95) and County Road 214, at 2150 Water Plant Road, St. Augustine, Florida. This facility is a lime softening WTP which was originally placed into service in 1991. The facility has a

permitted maximum daily demand capacity of 7.0 MGD in accordance with FDEP construction permit number WC55-171111.

Current blending of the surficial and Floridan aquifer supply sources allows production of high quality water. The treatment process at this facility includes cascade tray aeration, lime softening, clarification, recarbonation, dual media filtration, and disinfection. Finished water from the treatment process is stored on-site in a 1.5 MG prestressed concrete ground storage reservoir (GSR) and subsequently pumped to the water distribution system. Finished water production at this facility is currently limited from a supply standpoint. Due to adverse impacts to surrounding wetlands caused by pumping from the associated surficial aquifers, the County plans to abandon the surficial aquifer source in favor of additional supply from the Floridan aquifer. The County also plans to change the treatment process at this facility to reverse osmosis (RO) in order to handle the high chloride content common to the Floridan source. The plant is equipped with a diesel fuel emergency power generator to maintain system operation in the event of an unplanned power outage. The lime sludge produced as a byproduct of the lime softening process is dewatered and hauled off-site for disposal. The facility is staffed and operated 24 hours per day in accordance with Chapter 62-602 of the Florida Administrative Code (FAC). The plant produced an average of 3.58 MGD for the 12-month period ended September 2003, with a maximum day demand of 4.26 MGD during the same time period.

#### Northwest WTP

The NW WTP is located just south of the World Golf Village along International Golf Parkway. The street address of this plant is 3390 International Golf Parkway, St. Augustine, Florida. The CUP for this facility was acquired during construction by World Golf Village who subsequently transferred ownership to the County prior to the end of construction. The facility was placed into operation in 1996. The facility has a permitted capacity of 1.44 MGD in accordance with FDEP construction permit number WC-55-220232.

The treatment process at this facility includes cascade tray aeration and disinfection. The facility includes an on-site 0.7 MG finished water prestressed concrete GSR, high service pumping, and an diesel fuel emergency power generator to maintain system operation in the event of a power outage. Staffing of the facility requires only daily inspection in accordance with Chapter 62-602 FAC, but is continually monitored through telemetry at the CR 214 WTP. The plant produced an average of 0.25 MGD for the 12-month period ended September 2003, with a maximum day demand of 0.42 MGD during the same time period.

### Harmony Village WTP

The Harmony Village WTP is located in the far northwest portion of the County, along the St. Johns River. The street address of this plant is 788 Harmony Village Drive, St. Augustine, Florida. This facility serves approximately 45 connections and was acquired by the County in 1989. The facility has a permitted capacity of 0.024 MGD in accordance with Florida Department of Environmental Regulation (FDER) construction permit number DO-55-182240.

The treatment process at the Harmony Village WTP consists of disinfection. The facility also includes an on-site 1,000 gallon steel hydropneumatic storage tank and high service pumping. Staffing of the facility requires 0.5-hour daily inspections with one weekend visit in accordance with Chapter 62-602 FAC. The plant produced an average of approximately 0.005 MGD for the 12-month period ended October 2003, with a maximum day demand of approximately 0.0295 MGD during the same time period. The County is currently responsible for this minor facility but anticipates decommissioning and/or transferring the operation in the future.

### Water Transmission and Localized Distribution Facilities

The water transmission and localized distribution facilities are comprised of approximately 355 miles (1,876,289 feet) of water pipelines and range in size from 1 to 24-inches in diameter. The mains are constructed of DI, PVC, high density polyethylene (HDPE), or asbestos cement (AC) and were installed up to 25 years ago coincident with the growth and development of the system. These facilities are generally thought to be in good repair with approximately 55% of the lines having been constructed during, or after, 1990. Based on current operating records and studies performed by the County, these facilities have a line loss of less than 10% which is well within industry standards. As a general rule transmission facilities are considered to be pipelines greater than 8-inches in diameter. A list of the attributes of the water transmission and distribution system is given below as Table 3.

**Table 3**  
**Water Transmission and Localized Distribution System Pipelines**

| <u>Pipe Size (Diameter)</u> | <u>Length (Linear Feet)</u> |
|-----------------------------|-----------------------------|
| 24-inch                     | 1,862                       |
| 20-inch                     | 1,1985                      |
| 18-inch                     | 2,145                       |
| 16-inch                     | 127,876                     |
| 12-inch                     | 182,799                     |
| 10-inch                     | 172,208                     |
| 8-inch                      | 356,857                     |
| 6-inch                      | 546,117                     |
| 4-inch                      | 215,969                     |
| 3-inch                      | 7,165                       |
| 2-inch                      | 215,656                     |
| 1-inch                      | 17,884                      |
| Various                     | 17,766                      |
| Total                       | 1,876,289                   |

The water transmission system is well looped with small diameter (8-inches and less) localized distribution facilities within the serviced development units. The large diameter transmission mains are used along the major roadways to serve existing customers and provide for future service to platted areas adjacent to these mains which presently do not have service available. The pressure in the localized distribution system is generally maintained between 65 and 75 pounds per square inch (psi) which meets the fire flow requirements of the County. The distribution system is equipped with isolation valves that allow for repairs and maintenance without the need for shutting down a significant portion of the water flow at once. The localized distribution system also includes over 1,200 fire hydrants to provide fire protection to the County's service area.

#### Remote Storage and Booster Pumping Facilities

In addition to the storage and high service pumping facilities at each WTP, the County operates five remote storage and booster pumping facilities. Additionally, the County operates two steel elevated storage tanks. The combination of these facilities are used to pressurize the water

transmission system. The remote storage facilities and elevated storage tanks have a total combined storage capacity of 5.95 MG with the addition of storage provided at each WTP equates to a total water system storage capacity of 8.20 MG. Each storage and booster pumping station generally is equipped with onsite storage, high service pumps, rechlorination facilities, standby power and are remotely monitored via telemetry at the CR 214 WTP.

#### Bulk Water Service

Under separate agreements with the City of St. Augustine and JEA water services are provided to additional portions of the unincorporated area of the County. The water system receives a portion of its water supply from the City and JEA pursuant to interlocal agreements with each entity. Water from the City and JEA is purchased at a discounted (wholesale) rate. The interlocal agreement with the City is dated August 1999 and provides that for a period of five years for the City to sell and deliver to the County 1.0 MGD of water on an average basis. This agreement also states for the City to serve the Eagle Creek subdivision for an indefinite time period. As the County has sufficient water supply to satisfy existing and projected demand, they plan to phase out dependence on City water supply for all areas, with the exception of Eagle Creek. Existing interconnects with the City's system will remain as an emergency supply source.

Likewise the County in 1999 also entered into a 12-year bulk purchase agreement with JEA to serve growth in the County's US 1 North Corridor, and in 2001 the County and JEA extended the terms of this agreement to 30 years. The agreement requires JEA to provide 1.5 MGD of water on an average basis.

#### Condition of the Water System

Based upon the intended use of the facilities, general field observations by HAI, interviews with County staff, and review of water permits and system reports, the water supply and treatment facilities appear to be in good condition, as summarized in Table 4. Assuming the County continues to perform rehabilitation, replacement and appropriate capital improvements, it can be reasonably expected that the facilities will meet the capacity requirement for the forecast period reflected in this Report. It is anticipated that the County's renewed CUP will have a duration between 10 and 20 years, with issuance in early 2004.



**Table 4**  
**Water System Condition**

| Facility                             | Age (years) | Condition <sup>(1)</sup> |
|--------------------------------------|-------------|--------------------------|
| <b>Raw Water System</b>              |             |                          |
| Surficial Aquifer Wells              | 5 - 17      | Average                  |
| Floridan Aquifer Wells               | 1-20        | Good                     |
| Raw Water Transmission Mains         | 5- 10       | Good                     |
| <b>Water Treatment Plants</b>        |             |                          |
| CR 214 Plant                         | 12          | Good                     |
| NW Plant                             | 7           | Good                     |
| Harmony Village Plant                | 29          | Average                  |
| <b>Storage and Pumping</b>           |             |                          |
| Shores Drive                         | 22          | Average                  |
| 16 <sup>th</sup> Street              | 17          | Good                     |
| South Ground and SR A1A              | 24          | Good                     |
| Domenico Circle                      | 22          | Average                  |
| Northeast Booster Station            | 2           | Excellent                |
| I-95 / SR 16 Interchange (Elevated)  | 12          | Good                     |
| Wildwood / U.S. 1 (Elevated)         | 24          | Average                  |
| Transmission and Distribution System | 1 - 25      | Good                     |

- (1)    Excellent -        Facilities are in proper working order, well maintained, and no deferred maintenance.
- Good -            Facilities are in proper working order and well-maintained with only minor deferred maintenance identified.
- Average -        Facilities are in proper working order, maintained at industry standards with some deficiencies and deferred maintenance identified.
- Fair -              Facilities may not be in proper working order and are not maintained to industry standards, with significant deficiencies and deferred maintenance.
- Poor -              Facilities cannot properly function due to excessive deficiencies and deferred maintenance.

## Wastewater System

### General

The County's overall wastewater system is comprised of localized collection, transmission, treatment, and effluent disposal facilities. The location of the major existing wastewater facilities providing service to the approximately 27 square mile service area are illustrated in Figure 4 at the end of this Report. The County's wastewater system collectively consists of five wastewater treatment plants (WWTPs), approximately 110 miles of gravity sewers, approximately 170 wastewater lift stations, and approximately 118 miles of wastewater force mains. A portion of the collected wastewater is transferred to the City and JEA for treatment and effluent disposal per interlocal agreements. The County's wastewater system is governed by the FDEP.

### Localized Wastewater Collection and Transmission Facilities

Wastewater collection and transmission services have been provided to residents by the County for approximately 25 years. The collection and transmission facilities are generally thought to be in good repair with approximately 65% of all the system having been constructed during, or after, 1990. Based upon current operating records and studies performed by the County, these facilities have minimal infiltration flow but do exhibit a tendency to develop inflow coincident with large rain flow events. The County plans to conduct studies to locate major inflow sources in order to develop a strategy for elimination of excess inflow. These localized facilities consists of approximately 229 miles of gravity sewers and sewer force mains ranging in size from 1 to 27-inches in diameter located throughout the service area, as summarized below in Table 5. The materials of construction of the localized facilities consist of PVC, vitrified clay pipe (VCP), cast iron (CI), DI and HDPE. The collection system also includes approximately 2,732 manholes for maintenance and operation access as well as approximately 170 wastewater lift stations, each of which is typically a duplex station ranging in size from 2 to 10 horsepower. Of the total number of wastewater lift stations, 11 are considered master lift stations which receive flow from smaller stations for repumping to the treatment facilities. The overall service areas are subdivided such that smaller lift stations boost flows to the larger master lift stations which then boost flow on to the WWTPs. In general the localized collection facilities include all gravity sewers, manholes, lift stations, and force mains 6-inches and greater in diameter.

**Table 5**  
**Localized Wastewater Collection and Transmission System**  
**Force Mains and Gravity Sewers**

| Pipe Size (Diameter) | Length (Feet) |              |
|----------------------|---------------|--------------|
|                      | Pressure Flow | Gravity Flow |
| 27-inch              | ---           | 3,034        |
| 20-inch              | 151           | ---          |
| 18-inch              | 853           | ---          |
| 16-inch              | 38,558        | 134          |
| 15-inch              | 270           | 2,696        |
| 14-inch              | 11,763        | ---          |
| 12-inch              | 135,674       | 516          |
| 10-inch              | 115,092       | 38,562       |
| 8-inch               | 73,500        | 496,348      |
| 6-inch               | 125,262       | 10,401       |
| 4-inch               | 102,803       | 946          |
| 3-inch               | 3,825         | ---          |
| 2-inch               | 10,117        | ---          |
| 1-inch               | 5,291         | ---          |
| Various              | 833           | 32,683       |
| Total                | 623,992       | 585,320      |

#### Wastewater Treatment Facilities

The wastewater treatment facilities owned and operated by the County consist of the Anastasia Island (AI), State Road 207 (SR 207) and State Road 16 (SR 16) WWTPs. In addition to these major facilities, the County is currently responsible for the Harmony Village and Moultrie WWTPs. Both of these facilities are considered minor and are anticipated to be decommissioned when a cost effective opportunity arises in the near future. These facilities have a total combined permitted capacity of approximately 5.59 MGD. Of this total permitted capacity, approximately 2.37 MGD is permitted as reclaimed (reuse) and is supplied to golf courses or wetlands. Effluent disposal for these facilities include surface water discharge, rapid rate land application, and/or non-restricted public access reuse. The County regularly applies for renewal permits and

anticipates no problems with the continued issuance of permits for all facilities. A summary of the wastewater flows for recent 12 month periods ending in 2003 and permitted capacities are given below as Table 6.

**Table 6**  
**Current Wastewater Flow and Treatment Plant Capacities**

| Service Area          | Average<br>Daily Flow,<br>MGD | Permitted<br>Capacity, <sup>(1)</sup><br>MGD | Permitted Reuse<br>Capacity, <sup>(1)</sup><br>MGD |
|-----------------------|-------------------------------|----------------------------------------------|----------------------------------------------------|
| Anastasia Island (AI) | 1.44                          | 4.00                                         | 0.80                                               |
| SR 207                | 0.08                          | 0.25                                         | 0.25                                               |
| SR 16                 | 0.41                          | 1.32                                         | 1.32                                               |
| Harmony Village       | 0.004                         | 0.0075                                       | 0.00                                               |
| Moultrie              | 0.004                         | 0.010                                        | 0.00                                               |
| Total                 | 1.938                         | 5.5875                                       | 2.37                                               |

(1) Average Daily Flow Basis.

#### Anastasia Island WWTP

The Anastasia Island WWTP is located on Anastasia Island west of US Highway A1A at 860 W. 16<sup>th</sup> Street, St. Augustine, Florida. This facility is a complete mixed activated sludge wastewater treatment facility, originally placed into service in 1985. This facility has a permitted annual average daily capacity of 4.0 MGD in accordance with FDEP permit number FL0038831, issued on July 14, 2003 and expiring in July 13, 2008. The permit includes the provision for 0.8 MGD of reclaimed water discharge to the Marsh Creek Country Club Golf Course for non-restricted public access reuse. The permit also includes the provision for the full 4.0 MGD capacity treatment and discharge of effluent to the Mantanzas River in the event of wet weather during which time land application of the effluent is undesirable.

This facility serves approximately 17 square miles of the County, with the ability to receive flows from the SR 207 WWTP area located on the mainland. The plant currently consists of an aerated grit chamber, aeration basins, secondary clarifiers, chlorine contact chamber, and residual management facilities. Reclaimed water is treated in a shallow bed filters and rechlorinated before being discharged to the golf course storage ponds. The AI WWTP was

originally placed into service in 1985 and expanded to 4.0 MGD in 1991 with the addition of aerators, clarifiers, an influent structure and influent master pump station, belt press, gravity thickeners, filters, and a reuse system. Much of the original equipment is currently being completely refurbished. The facility includes an emergency power generator which can supply power to the facility in the event of an outage. The facility is staffed 16 hours per day, and operates 24 hours per day. The plant produced an average of 1.44 MGD for the 12-month period ended September 2003.

This facility is also permitted as a dewatering facility in accordance with FDEP permit number FLA017086-002 issued June 15, 1999 and expiring June 14, 2004. It should be noted that the County does not anticipate any issues with either meeting the renewal application deadline or obtaining a renewal permit. The facility acts as a central handling facility for the residual biosolids transferred from the SR 207, SR 16, Moultrie and Harmony Village WWTPs. Residual biosolids are thickened and treated in an aerobic digester prior to belt press dewatering. The dewatered biosolids are hauled to Florida Environmental Residual Management for stabilization and subsequent final disposal.

#### State Road 207 WWTP

The SR 207 WWTP is located southwest of the intersection of I-95 and SR 207, at 4428 Golfridge Drive, Elkton, Florida. This facility provides extended aeration treatment and was placed into service in 1989. This facility has a permitted annual average daily capacity of 0.25 MGD in accordance with FDEP permit number FL0117471, issued on February 8, 2002 and expiring on February 7, 2007. The permit includes the provision for full capacity reuse discharge to the 40-acre St. Johns County Golf Course. During wet weather conditions the plant is permitted to discharge into Moultrie Creek and Cowan Swamp for an alternate disposal.

This facility serves an approximately 3 square mile area along the SR 207 corridor. The plant includes a manually cleaned bar rack, aeration basin, secondary clarifier, chlorine contact chamber, filters and a 1.0 MG open top concrete storage tank which is divided into a 0.75 MG area designated to reclaimed water and 0.25 MG area for the storage of substandard effluent. Biosolid residuals produced at this facility are transported to the AI WWTP for dewatering and disposal. The facility includes an emergency power generator which can supply power to the facility in the event of an outage. The facility is staffed 8 hours per day, and operates 24 hours per day. The plant produced an average of approximately 0.08 MGD for the 12-month period ended September 2003.

#### State Road 16 WWTP

The SR 16 WWTP is located southeast of the intersection of I-95 and SR 16, at 3000 Industry Center Drive, St. Augustine, Florida. This facility provides conventional activated sludge wastewater treatment, and was initially placed into service in 1991. This facility currently has a permitted annual average daily capacity of 1.32 MGD in accordance with FDEP permit number FL0043109-001-DW1P, issued on June 15, 1999 and expiring on June 14, 2004. It should be noted that the County does not anticipate any issues with either meeting the renewal application deadline or obtaining a renewal permit. The permit includes the provision for full capacity reuse discharge to the PGA Tour World Village Golf Course or land application to a 66-acre on-site wetland system.

The SR 16 WWTP serves an approximate 6.5 square mile area. In July 2000 the facility was expanded to the current treatment capacity of 1.5 MGD, and the treatment process was changed from extended aeration to conventional activated sludge. The facility consists of influent screening, grit removal, aeration basins, secondary clarifiers, sand filtration basins, chlorine contact chambers, a reclaimed water pump station, and a substandard water holding pond. Biosolid residuals produced at this facility are transported to the AI WWTP for dewatering and disposal. The facility includes an emergency power generator which can supply power to the facility in the event of an outage. The facility is staffed 8 hours per day, and operates 24 hours per day. The plant produced an average of 0.41 MGD for the 12-month period ended October 2003.

#### Harmony Village WWTP

The Harmony Village WWTP is located at 788 Harmony Village Drive, Jacksonville, Florida. This facility provides extended aeration treatment for the domestic wastewater from approximately 45 households in the Harmony Village subdivision. The facility was taken over by the County in 1989 and has a permitted annual average daily capacity of 0.0075 MGD in accordance with FDEP permit number FLA011786 issued on May 7, 2001. The effluent disposal facilities consist of two (2) percolation ponds.

The Harmony Village WWTP is a prefabricated modular concrete package plant and consists of aeration basins, secondary clarifier, chlorine contact chamber, and an aerobic digester. Biosolid residuals generated at this facility are transported to the AI WWTP for treatment and disposal. The facility is staffed 0.5 hours per weekday, and operates 24 hours per day. The plant produced an average of 0.004 MGD for the 12-month period ended October 2003. The County is currently

responsible for this minor facility but anticipates decommissioning and/or transferring the operations in the future.

#### Moultrie WWTP

The Moultrie WWTP is located at Brinkoff Road, St. Augustine, Florida. This facility provides an extended aeration treatment for the domestic wastewater from connections to an apartment complex and a County park in the nearby area of the County. The facility was constructed in 1984, and has a permitted annual average daily capacity of 0.010 MGD in accordance with FDEP permit number FLA011769 issued on June 27, 2003 and expiring on June 26, 2008. The WWTP is permitted for effluent discharge to two percolation ponds. Although the WWTP has an operational capacity of 0.025 MGD the permitted capacity has been reduced to 0.010 MGD for staffing purposes.

The plant is a prefabricated package plant and consists of aeration basins, secondary clarifier, chlorine contact chamber, and an aerobic digester. Biosolid residuals generated at this facility are transported to the AI WWTP for further treatment and disposal. The facility is staffed 0.5 hours per weekday, operates 24 hours per day, and requires one weekend inspection every week. The plant produced an average of 0.004 MGD for the 12-month period ended November 2003. The plant is located adjacent to a parcel of land under consideration for a residential development. The County intends to decommission this facility in the near future when timing of private development construction allows this to be cost effective.

#### Bulk Wastewater Service

Similar to the potable water bulk purchase arrangements, the County has entered into agreements with JEA and the City to treat and dispose of wastewater from areas the County is currently unable to collect and treat.

The County entered into a 30-year bulk service agreement with JEA to provide wastewater service for the County's U.S. Highway 1 North Corridor. Sewage flow from the north corridor is pumped north, from the northeast master lift station, along U.S. Highway 1 into Duval County where it is treated and disposed of by JEA. JEA is currently treating approximately 0.167 MGD of wastewater from the County and services an area of approximately 7.05 square miles within the County. The agreement requires JEA to provide up to 1.5 MGD of wastewater treatment and disposal capacity, on an average basis.

Additionally, the County has a contract with the City for the bulk treatment of wastewater from the Eagle Creek subdivision. This agreement includes treatment of wastewater from the subdivision for an indefinite time period at the County's request. Due to the proximal location of the Eagle Creek subdivision to major JEA and City facilities, the County also has an opportunity to negotiate future service with both entities.

Condition of the Wastewater System

Based upon the intended use of the facilities, general field observations by HAI, interviews with County staff, and review of wastewater permits and wastewater system reports, the wastewater collection, transmission, treatment and effluent disposal facilities appear to be in good condition. It can be reasonably expected that the facilities will meet capacity requirements for the forecast period assuming the County continues to perform appropriate rehabilitation, replacement, and capital improvements upon the wastewater system. A summary of the condition of the wastewater facilities is given below as Table 7.

**Table 7**  
**Wastewater System Condition**

| Facility                     | Age (years) | Condition <sup>(1)</sup> |
|------------------------------|-------------|--------------------------|
| Wastewater Collection System |             |                          |
| Pipes                        | 1 - 30      | Good                     |
| Lift Stations                | 1 - 30      | Average - Good           |
| WWTPs                        |             |                          |
| Anastasia Island             | 18          | Good                     |
| SR 16                        | 14          | Excellent                |
| SR 207                       | 14          | Good                     |
| Harmony Village              | 29          | Average                  |
| Moultrie                     | 19          | Average                  |

(1)   Excellent -       Facilities are in proper working order, well maintained, and no deferred maintenance.  
          Good -         Facilities are in proper working order and well-maintained with only minor deferred maintenance identified.  
          Average -     Facilities are in proper working order, maintained at industry standards with some deficiencies and deferred maintenance identified.  
          Fair -        Facilities may not be in proper working order and are not maintained to industry standards, with significant deficiencies and deferred maintenance.  
          Poor -       Facilities cannot properly function due to excessive deficiencies and deferred maintenance.



The County has worked to maintain the reliability of the AI WWTP and to upgrade or replace equipment whenever necessary. The County is currently refurbishing the original clarifiers, digesters, sludge feed pumps, and adding a second digester. Another anticipated upgrade is the replacement of existing air piping with stainless steel piping. The SR 207 WWTP appears to be in good working order. The County has taken many steps to upgrade and refurbish any unsound equipment or structures at the SR 207 WWTP, including a complete rehabilitation of this facility performed by the County during 2002 and 2003. The SR 16 WWTP was just recently improved and expanded and is in excellent physical and operational condition.

#### THE PROJECT – SERIES 2004 BONDS

The County has developed a comprehensive Program to expand, upgrade and refurbish the System providing for continued high quality service to their existing and future customers. The Program consists of over \$71 million of water, wastewater, and reuse system improvements as summarized later in this Report. A portion of the anticipated improvements to be funded from the proceeds of the Series 2004 Bonds (the “Project”) have commenced through advance funding from existing reserves, some of which will be reimbursed pursuant to the reimbursement resolutions adopted by the County on March 18, 2003 (the “Reimbursement Resolution”). The Project has been separated into the three major project categories of upgrade, renewal and replacement (R&R), and expansion. Additionally, the Project can be subdivided as water related, wastewater related, general, or encompassing elements of both water and wastewater (combined). Aside from the construction of the CR 214 WTP modifications and associated wellfield, the balance of the planned Project, other than a concentrate disposal main is not required to meet any mandated federal, state, or local requirements, and is intended primarily to address future needs within the System. The County has budgeted approximately \$100,000 and is currently conducting a study to determine what facilities will be required for the concentrate disposal. It should be noted that in the event the concentrate disposal main is required, the County has sufficient existing reserves to address this improvement. The County also intends to pursue State Revolving Fund (SRF) loans for which most wastewater related improvements are believed eligible, and currently does not anticipate funding of any material wastewater improvements through parity bond proceeds other than those listed herein. Specific wastewater related projects identified as part of the Project are included due to the desire to construct them on a near term basis for which insufficient time is available to pursue SRF loans. The portions of the Project to be funded in part or wholly from the proceeds of the Series 2004 Bonds are shown below in Table 8 and discussed thereafter. The improvements listed in Table 8 are

descriptive of general categories within the Project and are subject to adjustments, modifications and changes, including substitution of similar improvements, pursuant to actual future events and permitting requirements.

**Table 8**  
**The Project**

| No.                     | Description                                         | Improvement Category | Service Category | Total Project Cost, (\$) |
|-------------------------|-----------------------------------------------------|----------------------|------------------|--------------------------|
| 1                       | Administrative Building Improvements                | Upgrade, Expansion   | General          | 450,000                  |
| 2                       | Expansion of Billing and Administration Building    | Upgrade, Expansion   | General          | 2,350,000                |
| 3                       | Telemetry System Improvements <sup>(1)</sup>        | Upgrade, Expansion   | Combination      | 350,000                  |
| 4                       | Water Transmission Mains <sup>(1)</sup>             | Upgrade, Expansion   | Water            | 7,440,000                |
| 5                       | CR 214 WTP Well Field                               | Expansion            | Water            | 1,200,000                |
| 6                       | CR 214 WTP Improvements                             | R&R, Expansion       | Water            | 9,200,000                |
| 7                       | Meter Change Out Program                            | Upgrade              | Water            | 1,500,000                |
| 8                       | Wastewater Lift Station Improvements <sup>(1)</sup> | Upgrade, Expansion   | Wastewater       | 1,316,000                |
| 9                       | Wastewater Transmission Mains <sup>(1)</sup>        | Expansion            | Wastewater       | 1,155,000                |
| 10                      | Anastasia Island WWTP Improvements <sup>(1)</sup>   | R&R, Expansion       | Wastewater       | 1,900,000                |
| Combined Project Cost = |                                                     |                      |                  | 26,861,000               |

(1) Advance funded from existing reserves subject to reimbursement from proceeds of the Series 2004 Bonds in accordance with the Reimbursement Resolutions.

## General Improvements

### Administrative Building Improvements

The project includes design, permitting and construction of a warehouse and a maintenance facility. The maintenance facility will house the utility transmission and distribution maintenance personnel working areas, record storage, and related equipment. The warehouse will store various items including trucks, construction vehicles, pumps, valves, and pipes that are currently being stored in the open environment. The probable cost for the administrative building improvements is approximately \$450,000. Design and construction of this facility is expected to begin in 2004.

#### Expansion of Billing and Administration Building

The project includes the design, permitting and construction of a new administrative and billing office. The building shall encompass approximately 15,000 square feet and will accommodate general administration, engineering, construction management, GIS, operations management and billing functions for the Utility Department. The expansion is proposed to accommodate the Utility Department's required future additional work and storage space. The location of the building is not currently established; however, it is planned to construct a new building at a more central location closer to the County Administration and Public Works Departments. Costs for property acquisition as well as for planning, design and construction have been considered in the development of the probable cost for the expansion of billing and administration building which is approximately \$2,350,000. Design and construction of this facility is expected to begin in 2004.

#### Telemetry System Improvements

The project involves updating and installation of new telemetry systems at remote facilities. The telemetry system is a countywide system which utilizes radio signals to control and monitor important utility functions and facilities such as water storage tanks and wastewater lift stations. Remote monitoring and control of utility systems that will reduce travel time for operating personnel and may avoid or mitigate emergency situations. Initial upgrade of the telemetry system will involve the conversion of the existing system to a web based system, which will provide a significant savings in down time, future upgrade, and maintenance due to its reliability and open infrastructure. Aside from upgrading the existing system to a web based system, the project includes installation of new telemetry at well fields, pump stations, system pressure points, and treatment facilities. The total probable project cost for the telemetry system improvements is anticipated to be approximately \$350,000. It is anticipated that this project, as funded by the proceeds of the Series 2004 Bonds, will continue through the end of 2005.

## Water System Improvements

The primary goal of the water system improvements at the CR 214 WTP is to construct facilities to provide for the future service demands and address the CUP renewal. Other water related improvement projects are intended solely to support future growth by the County. Desired upgrades and expansions to many of the existing facilities will depend on future growth, development, and revenue generation by the County. All projects are consistent with the comprehensive plan as meeting or exceeding potable water requirements set by the Florida Department of Health and Rehabilitative Services pursuant to Chapters 10D-6 and 10D-4 of the FAC.

### Water Transmission Mains

The project is intended to provide additional areas within the County with water services and improved hydraulic distribution. This project will provide water services to rapidly growing areas and will enhance future growth of the County. The project will also provide fire flow in many areas throughout the County. Installation of water transmission and distribution mains on I-95 (CR 214 - 206), SR 206 West, US 1 South, International Golf Parkway, CR 210 West, SR 16, A1A Emergency Backup (Flagler County), CR 208, Coquina Gables, Gene Johnson Road, Menendez Park, South Mantanzas Inlet, East A1A Boulevard, El Granada, Sunset Park, Treasure Beach, Crescent Beach, Wind Swept Acres, Versagii, and Surdwind are anticipated as part of the overall County improvement program. Due to the large quantity of transmission lines and high total program cost anticipated, the County will use proceeds of the Series 2004 Bonds as well as additional parity bonds to be issued in the future in accordance with the Bond Resolution to fund and fully complete sub-projects within the overall CIP. The total probable program cost for the water transmission mains is anticipated to be approximately \$10,600,000. Of the total program cost, approximately \$7,440,000 will be funded from the proceeds of the Series 2004 Bond, with the balance to be funded from other sources as needed in the future. It is anticipated that construction and upgrades will continue through the end of 2006.

### CR 214 WTP Well Field Improvements

The existing well field has a combination of Floridan and surficial aquifer wells. Due to the impact of drawdown upon the surrounding ecosystem created by the surficial wells, these wells will be abandoned. New Floridan wells, pumps, motors, pump house, piping, electrical instrumentation and SCADA to increase yield the CR 214 well field will be installed to add to the flow produced by the two existing and one planned Floridan wells, and to meet future

demand increases. The existing raw water manifold system will be modified and upgraded to transmit water from wells to the plant. It is anticipated that the project will require four new wells by the year 2006, though based upon the transmissivity of the aquifer, only three new wells might be required. When this project is fully completed in 2006, the CR 214 well field will have a capacity of over 8.0 MGD with a total of six Floridan wells. The probable cost for the CR 214 WTP well field improvements is approximately \$2,100,000. Of this total program cost, approximately \$1,200,000 will be funded through the Series 2004 Bonds, with the balance to be funded from other sources as needed in the future.

#### CR 214 WTP Improvements

The lime softening treatment at this plant will be changed to low pressure reverse osmosis (LPRO) type treatment. The brackish water supplied by the existing and proposed Floridan wells will require a higher form of treatment. The Utility has chosen reverse osmosis (RO) technology as an alternative means of treatment. The project will involve a pilot analysis of water quality, a preliminary design report of LPRO, and the construction of a new LPRO WTP facility. Construction is estimated to commence in 2004 and be completed by September 2006. Buildings and piping will be sized for a 14.0 MGD ultimate buildout, however only 4.0 MGD of LPRO treatment will be installed initially. The plant will blend treated finished water and raw water for a total capacity of 8.0 MGD. The upgraded plant capacity will accommodate expected future growth. The existing filter press will be relocated to the County's AI WWTP, and installation of handrails at four associated ground storage reservoirs is anticipated. Water availability and quality requirements as well as flow demands will dictate expansion of this water treatment plant. All surficial wells will be abandoned due to adverse wetland impacts. The probable cost for the CR 214 WTP improvements is approximately \$9,780,000. Of this total program cost, approximately \$9,200,000 will be funded through the Series 2004 Bonds, with the balance to be funded from other sources as needed in the future.

#### Meter Change Out Program

This project involves the replacement of existing old water meters where accuracy of meter is very low and loss of revenue is high. Upgrading meters will increase the County's revenue base and allow the County to meet current AWWA standards. By adding a MXU (radio read) device at the same time the meters are replaced, the County will reduce the overall cost of installation and improve the reading system. MXU radio read devices will also be installed on meters which are still fully functional and comply with current AWWA standards. By installing MXU devices, the County will eliminate the need for new staff, trucks, equipment and will improve

read time by approximately 80%. The project will begin with the oldest meters located on Anastasia Island then will move to the County mainland and the St. Augustine Shores subdivision service areas. The total probable project cost for the meter change out program is approximately \$1,500,000. It is anticipated that this project will continue through the end of 2007.

#### Wastewater System Improvements

The primary goal of the wastewater system improvements is to upgrade existing facilities and expand service into portions of the County not currently served. Expansion will support future growth by the County, while the desired upgrades have been determined to be vital to the continued operation of the System. Although the County intends to pursue SRF loans for the majority of its wastewater related projects, a few key improvements included in the project have been identified as requiring completion on a near term basis for which SRF loans will be unattainable. All projects are consistent with the Comprehensive Plan as meeting or exceeding wastewater flow requirements set by the Florida Department of Health and Rehabilitative Services pursuant to Chapters 10D-4 and 10D-6 of the FAC.

#### Wastewater Lift Station Improvements

This project involves the upgrade of wastewater lift stations throughout the County. The wastewater collection lift stations within the St. Augustine Shores subdivision and overall Anastasia Island service areas are among the oldest and require modifications, replacements, increased capacities, and upgrades of motors, pumps, and control equipment to meet FDEP requirements. The upgrade and rehabilitation of these lift stations will also reduce operating costs. The project will also include improvements to several lift stations to increase capacities of wells and replace electrical equipment. The overall program will include improving approximately 10-15 lift stations per year. This project also includes the construction of two new regional master lift stations and upgrade of existing three regional lift stations. The County has already acquired the property for the construction of the two new master lift stations. The total probable program cost for all wastewater lift stations has been estimated at approximately \$6,700,000. The probable project cost for the wastewater lift station improvements to be funded from the proceeds of the Series 2004 Bonds is anticipated to be approximately \$1,316,000, with the balance to be funded from other sources as needed in the future. It is anticipated that this project, as funded from the proceeds of the Series 2004 Bonds, will continue through the end of 2005.

### Wastewater Transmission Mains

This project involves the construction of new wastewater transmission mains to allow the County to expand service. Construction of new 4 and 12-inch diameter PVC wastewater force mains will be completed along Dobbs Road from Kings Estate to SR 312 to allow new customers to be served by the County. Sewer improvements along International Golf Parkway, in the vicinity of its intersection with US 1, will involve the construction of approximately 4,500 linear feet of 8-inch diameter HDPE sewer main. Existing wastewater transmission lines in SR 207 will be relocated to accommodate roadway widening efforts. Additionally, approximately 7,600 linear feet of 16-inch diameter wastewater force main will be constructed along International Golf Parkway, approximately one mile west of I-95, to allow planned development wastewater flows to be routed to a master lift station for eventual treatment at the County's SR 16 WWTP. The total probable project cost for the wastewater transmission main improvements is anticipated to be approximately \$1,155,000. It is anticipated that all portions this project will be constructed by the end of 2006.

### Anastasia Island WWTP Improvements

This project involves the rehabilitation of the Anastasia Island Wastewater Treatment Plant. Construction of improvements are required in order to meet FDEP permit conditions and Marsh Creek reuse flow contract requirements. The project will include construction of a reuse pump station, installation of a clarifier drive and walkway installation to address safety issue requirements, and rehabilitation of the existing effluent discharge pipe to the Matanzas River. The project is also anticipated to include rehabilitation and upgrade of the existing plant including reuse, clarification, digester and air piping, rehabilitation and upgrade of the existing influent lift station including telemetry and the addition of variable frequency drives (VFDs), upgrade of the existing plant including aeration and clarification, and rehabilitation of the existing influent structure and grit chamber. The total probable project cost for the AI WWTP improvements is anticipated to be approximately \$1,900,000. It is anticipated that this project will be completed prior to the end of 2005.

## CUSTOMER AND USAGE STATISTICS

This section of the Report provides the recent trends in customer growth and usage characteristics associated with each customer class. The growth trends are based on available historical data provided by the County that includes, but is not limited to certificate of occupancy

reports, monthly billing records, connections and comprehensive customer listings in the County's billing software.

A review of the data indicated that the System provides water and wastewater service to both residential and non-residential customers. Residential customers, consisting of single and multi-family connections, receive services to dwellings such as single-family homes, apartment complexes and condominiums. Non-residential customers include all other customers and can be further segregated pursuant to the following categories: (i) commercial; (ii) government; (iii) industrial; (iv) hydrants; and (v) combination. Those customers served by the County's reuse system are classified as either general service or bulk users. The bulk user customer class is further categorized as either pressurized or non-pressurized customers. Each of these customer classes and subclasses have common characteristics that provide the basis for the development of budgets and equitable distribution and recovery of costs. It should be noted that for the purpose of this Report, no increase is expected with regard to the number of reuse customers.

Detailed customer and monthly billing information for the 12-month period ended September 30, 2003 was reviewed and analyzed for the purpose of identifying the existing customers and basis for the projection of future events. Based upon this analysis, it is anticipated that the System will provide water, wastewater and reuse services to an average of approximately 25,184, 17,548 and 3,100 Equivalent Residential Units (ERU)/Reuse Equivalent Connections (REC) respectively for fiscal year 2003/04. The equivalency of each residential customer is based on the number of dwelling unit(s) per connection. Whereas, the equivalency for non-residential customers is based on a standard using the American Water Works Association (AWWA) meter equivalency factors, as contained in the Florida Administrative Code, used by the Florida Public Service Commission and adopted by many Florida local governments. Similarly, a REC represents the relationship between the demand anticipated from a given customer and the demand anticipated from the irrigable area of a typical quarter acre single-family parcel, or 500 gallons per day. Table 9 illustrates the historic growth in ERUs for water and wastewater, as well as those for fiscal year 2003/04. The trends observed for the water and wastewater systems results in an average annual growth rate of 7.15 and 8.49 percent, respectively, for the fiscal years 1998/99 through 2003/04.



**Table 9**  
**Historical and Projected Fiscal Year 2003/04 ERUs**

| <b>Fiscal Year</b>     | <b>Water</b> | <b>Annual</b>       |                    | <b>Wastewater</b> | <b>Annual</b>       |                    |
|------------------------|--------------|---------------------|--------------------|-------------------|---------------------|--------------------|
|                        |              | <b>Increase (%)</b> | <b>Average (%)</b> |                   | <b>Increase (%)</b> | <b>Average (%)</b> |
| 1998/99                | 17,859       | N/A                 | N/A                | 11,722            | N/A                 | N/A                |
| 1999/00                | 18,908       | 5.87                | 5.87               | 12,335            | 5.23                | 5.23               |
| 2000/01                | 20,040       | 5.99                | 5.93               | 12,939            | 4.90                | 5.06               |
| 2001/02                | 20,859       | 4.09                | 5.32               | 13,687            | 5.78                | 5.30               |
| 2002/03                | 22,591       | 8.30                | 6.06               | 15,122            | 10.48               | 6.60               |
| 2003/04 <sup>(1)</sup> | 25,184       | 11.48               | 7.15               | 17,548            | 16.04               | 8.49               |

(1) Projected.

The historic customer data utilized in the projection of customers and corresponding ERUs also served as the basis for identifying the anticipated billable flow for each customer class as it relates to monthly user fee revenues. For water and reuse customers, billable flow represents the level of service realized by each customer pursuant to monthly metering activities. As a result of not having separate wastewater meters, billable wastewater flow corresponds with metered water flow for non-residential customers. Similarly, billable wastewater flow for residential customers is derived from monthly metering activities together with maximum billing thresholds. Summarized below in Table 10 are the historic billable flows for the water and wastewater systems as well as projected billable flow for fiscal year 2003/04. Similar to ERU growth trends previously observed, billable flows have experienced a average annual growth rate of 2.30 and 2.54 percent for water and wastewater, respectively for water and wastewater.

**Table 10**  
**Historic and Projected Fiscal Year 2003/04 Billable Flow <sup>(1)</sup>**

| <b>Fiscal Year</b>     | <b>Water</b> | <b>Annual</b>       |                    | <b>Wastewater</b> | <b>Annual</b>       |                    |
|------------------------|--------------|---------------------|--------------------|-------------------|---------------------|--------------------|
|                        |              | <b>Increase (%)</b> | <b>Average (%)</b> |                   | <b>Increase (%)</b> | <b>Average (%)</b> |
| 1998/99                | 1,154,451    |                     |                    | 726,086           |                     |                    |
| 1999/00                | 1,161,712    | 0.63                | 0.63               | 750,463           | 3.36                | 3.36               |
| 2000/01                | 1,231,249    | 5.99                | 3.31               | 854,005           | 13.80               | 8.58               |
| 2001/02                | 1,370,420    | 11.30               | 5.97               | 963,823           | 12.86               | 10.00              |
| 2002/03                | 1,218,973    | (11.05)             | 1.72               | 756,728           | (21.49)             | 2.13               |
| 2003/04 <sup>(2)</sup> | 1,275,558    | 4.64                | 2.30               | 788,164           | 4.15                | 2.54               |

(1) Flow shown in thousands (000s) of gallons.

(2) Projected.

The differences in growth rate and trends exhibited between Table 9 and 10 are not unusual for utilities such as the County's. The primary reasons for these differences consist of both weather conditions and regulatory conservation, which materially affect the customer water usage also resulting in similar impacts on wastewater billable flows.

#### Customer Growth Projections

Customer growth projections were developed using available historical growth trend, input from the County's staff, and information on facility extension programs. Although an increase is expected for all services and customer classes, it is anticipated that the single-family residential class will account for the most significant growth. Pursuant to previous discussions, no increases are included for the reuse system.

The growth estimates shown reflect the number of ERUs anticipated on an average monthly basis. It should be further noted that projected user fee revenues are computed based on the average number of ERUs in each respective fiscal year, whereas income derived annually from Unit Connection Fees are predicated on the incremental number of ERUs absorbed by the System in a given year. Table 11 provides the average number of ERUs and annual billable flows for the projected period including fiscal year 2003/04.

**Table 11**  
**Projected ERUs and Billable Flow**

|                              | Fiscal Year |           |           |          |           |           |
|------------------------------|-------------|-----------|-----------|----------|-----------|-----------|
|                              | 2003/04     | 2004/05   | 2005/06   | 2006/07  | 2007/08   | 2008/09   |
| <b>Water:</b>                |             |           |           |          |           |           |
| ERUs                         |             |           |           |          |           |           |
| Annual Total <sup>(1)</sup>  | 25,148      | 26,314    | 27,510    | 28,776   | 30,116    | 31,534    |
| Annual Increase              |             | 1,130     | 1,196     | 1,266    | 1,340     | 1,418     |
| Annual Increase (%)          |             | 4.49 %    | 4.55 %    | 4.60 %   | 4.66 %    | 4.71 %    |
| Billable Flow <sup>(2)</sup> | 1,275,558   | 1,335,441 | 1,398,859 | 1,466,02 | 1,537,079 | 1,612,335 |
| Annual Increase              |             | 4.69 %    | 4.75 %    | 4.80 %   | 4.85 %    | 4.90 %    |
| <b>Wastewater:</b>           |             |           |           |          |           |           |
| ERUs                         |             |           |           |          |           |           |
| Annual Total <sup>(1)</sup>  | 17,548      | 18,334    | 19,170    | 20,061   | 21,010    | 22,020    |
| Annual Increase              |             | 786       | 836       | 891      | 949       | 1,010     |
| Annual Increase (%)          |             | 4.48 %    | 4.56 %    | 4.65 %   | 4.73 %    | 4.81 %    |
| Billable Flow <sup>(2)</sup> | 788,164     | 821,611   | 857,155   | 895,000  | 935,273   | 978,061   |
| Annual Increase              |             | 4.24 %    | 4.33 %    | 4.42 %   | 4.50 %    | 4.57 %    |

(1) Monthly average.

(2) Annual billable flow presented in thousands (000s) of gallons.

#### HISTORICAL OPERATING RESULTS

The historical revenues and expenses of the System for fiscal years 1998/99 through 2001/02 as well as unaudited results for fiscal year 2002/03, which ended September 30, 2003 are shown on Table 12. Operating results are based on audited information contained in the CAFR and exclude all non-cash items such as amortization and depreciation. Also shown below, the annual debt service requirements represent principal and interest payments due on existing senior indebtedness. It should be noted that the reduction in revenues observed between fiscal years 1999/00 and 2000/01 (approximately 4.8 percent) can be attributed to rate structure modifications implemented subsequent to the completion of a rate study conducted for the County by HAI.

**Table 12**  
**Water and Wastewater System**  
**Historical Net Revenues and Debt Service Coverage**

|                                         | Fiscal Year  |              |              |              |                        |
|-----------------------------------------|--------------|--------------|--------------|--------------|------------------------|
|                                         | 1998/99      | 1999/00      | 2000/01      | 2001/02      | 2002/03 <sup>(1)</sup> |
| Operating Revenue                       |              |              |              |              |                        |
| Charges for Services                    | \$11,080,912 | \$11,993,628 | \$11,415,211 | \$11,770,874 | \$12,471,907           |
| Miscellaneous Revenue                   | 808,486      | 816,360      | 873,106      | 978,165      | 1,012,476              |
| Total Operating Revenue                 | \$11,889,398 | \$12,809,988 | \$12,288,317 | \$12,749,039 | \$13,484,383           |
| Operating Expenses                      | (5,324,259)  | (6,290,172)  | (6,968,822)  | (6,982,022)  | (7,614,709)            |
| Operating Income                        | \$6,565,139  | \$6,519,816  | \$5,319,495  | \$5,767,017  | \$5,869,674            |
| Interest Income                         | 1,110,025    | 1,558,755    | 1,863,116    | 934,462      | 646,081                |
| Net Revenue                             | \$7,675,164  | \$8,078,571  | \$7,182,611  | \$6,701,479  | \$6,515,755            |
| Pledged UCFs                            | 2,514,324    | 2,633,288    | 2,641,469    | 2,638,047    | 2,419,227              |
| Net Revenue + UCFs                      | \$10,189,488 | \$10,711,859 | \$9,824,080  | \$9,339,526  | \$8,934,982            |
| Debt Service Requirement <sup>(2)</sup> | \$4,083,350  | \$4,280,602  | \$4,295,913  | \$4,292,454  | \$3,969,775            |
| Coverage                                |              |              |              |              |                        |
| Net Revenue (1.10 x Req.)               | 1.88         | 1.89         | 1.67         | 1.56         | 1.64                   |
| Net Revenue + UCFs (1.20 x Req.)        | 2.50         | 2.50         | 2.29         | 2.18         | 2.25                   |
| Revenue Net of Bonds                    | \$3,591,814  | \$3,797,969  | \$2,886,698  | \$2,409,025  | \$2,480,764            |
| SRF Requirement <sup>(3)</sup>          | \$122,454    | \$121,737    | \$122,069    | \$123,118    | \$123,118              |
| Coverage                                |              |              |              |              |                        |
| Net Revenue (1.15 x Req.)               | 29.33        | 31.20        | 23.65        | 19.57        | 20.68                  |

(1) Unaudited results.

(2) Series' 1991, 1996, 1998, 1999 and 2002.

(3) Florida Department of Environmental Protection State Revolving Fund Loan (SRF).

#### TEN LARGEST CUSTOMERS

A query by the County of the billing data for the fiscal year ending September 30, 2003 identified the ten largest customers in terms of revenue contribution for the water and wastewater systems on a combined basis. Summarized in Table 13 is the results of the customer queries including annual usage and corresponding revenues. It should be noted that the reuse system currently provides effluent for non-potable purposes to only 3 customers. As shown below, the 10 largest customers represent approximately 3.49 percent of the total revenue earned.

**Table 13**  
**Ten Largest Customers**

| Rank  | Customer                           | Class        | Annual Water<br>Flow (gallons) | Annual Water<br>& Wastewater<br>Revenue | Percent of<br>Total <sup>(1)</sup> |
|-------|------------------------------------|--------------|--------------------------------|-----------------------------------------|------------------------------------|
| 1     | Ocean Gallery                      | Multi-Family | 22,780,000                     | \$ 221,876                              | 1.78%                              |
| 2     | St. Augustine Ocean & Racquet Club | Multi-Family | 12,420,000                     | 128,069                                 | 1.03%                              |
| 3     | World Golf Resort Hotel            | Commercial   | 11,825,000                     | 126,211                                 | 1.01%                              |
| 4     | VAW of America                     | Industrial   | 28,551,000                     | 123,107                                 | 0.99%                              |
| 5     | Florida Apartment Club             | Multi-Family | 8,580,000                      | 100,280                                 | 0.80%                              |
| 6     | Glenmoore                          | Commercial   | 7,179,000                      | 78,603                                  | 0.63%                              |
| 7     | Ponce Harbor Partners              | Multi-Family | 7,867,000                      | 76,293                                  | 0.61%                              |
| 8     | CFJ Properties, Inc.               | Commercial   | 6,419,000                      | 70,201                                  | 0.56%                              |
| 9     | The Greens of St. Augustine        | Multi-Family | 5,764,000                      | 66,162                                  | 0.53%                              |
| 10    | Beachers Lodge                     | Commercial   | 3,000,000                      | 31,160                                  | 0.25%                              |
| Total |                                    |              |                                | \$ 1,021,962                            | 8.19%                              |

(1) Based on annual revenue of \$12,471,907.

## RATES, FEES AND CHARGES

The County has established a schedule of user rates and charges, miscellaneous service charges, and unit connection fees (UCFs). The UCFs are identified as “Connection Charges” in Bond Resolution. The water and wastewater user rates and charges were reviewed and adjusted pursuant to a December 2000 comprehensive rate study to provide for the equitable recovery of appropriate costs, revenue sufficiency and stability, administrative compatibility and public understandability, as well as the encouragement of SJRWMD’s conservation initiatives. These rates, charges and fees, established by County Ordinance 2001-25 passed on March 20, 2001 and effective on March 29, 2001, as amended (the “Rate Ordinance”), were last adjusted on October 1, 2003 pursuant to annual indexing activities based on the Consumer Price Index (CPI). The user rates and charges recover the cost incurred by the County in the provision of water, wastewater and reuse services as well as other budgeted revenue requirements of the System.

### Existing Water, Wastewater and Reuse Rate Structure and Monthly Rates

The County’s existing water rate structure provides for: 1) a minimum monthly charge assessed per ERU regardless of the level of usage; and 2) inclining block (conservation) gallonage rates based on monthly metering activities, assessed in thousands of gallons. The determination of the

number of ERUs for multi-family customers is derived from the number of dwelling units served, whereas ERU determination for all non-residential customers is predicated on meter size. Additionally, for rate purposes, each single-family residential customer represents 1 ERU. The current gallonage rates associated with the generation of monthly water service revenues utilize an inclining (conservation) block rate structure and as such, as consumption increases beyond predetermined levels, the incremental cost per thousand gallons also increases, thus encouraging water conservation.

Similarly, the wastewater rate structure utilized by the County incorporates a minimum monthly charge based on the number of ERUs and a gallonage rate assessed per thousand gallons. The single and multi-family residential classes are subject to a maximum monthly billing threshold, 10,000 gallons per month per ERU, for gallonage rates.

Existing reuse rates consist of a single component, a uniform gallonage rate, charge per 1,000 gallons of metered flow for all customers. The County’s existing user rates and charges are summarized below in Table 14.

**Table 14**  
**Existing Water, Wastewater and Reuse Rates**  
**Fiscal Year 2003/04**

|                                          | <u>Amount</u> |                   |
|------------------------------------------|---------------|-------------------|
| Water                                    |               |                   |
| Minimum Monthly Charge                   | \$ 9.52       | Per ERU           |
| Gallonage Rates                          |               |                   |
| Block 1 (0 – 4,000 gallons per ERU)      | \$ 3.05       | Per 1,000 gallons |
| Block 2 (4,001 – 8,000 gallons per ERU)  | \$ 4.21       | Per 1,000 gallons |
| Block 3 (8,001 – 15,000 gallons Per ERU) | \$ 5.67       | Per 1,000 gallons |
| Block 4 (Above 15,000 gallons per ERU)   | \$ 7.65       | Per 1,000 gallons |
| Wastewater                               |               |                   |
| Minimum Monthly Charge                   | \$ 9.13       | Per ERU           |
| Gallonage Rates <sup>(1)</sup>           |               |                   |
| Residential                              | \$ 3.28       | Per 1,000 gallons |
| Commercial                               | \$ 3.93       | Per 1,000 gallons |
| Reuse                                    |               |                   |
| Gallonage Rates                          | \$ 0.16       | Per 1,000 gallons |

(1) Residential customers capped at 10,000 gallons per month per ERU.

Existing Water and Wastewater Unit Connection Fees (Impact Fees)

In addition to the monthly water, wastewater, and reuse rates that serve as the primary source of revenue, the County also imposes UCFs on all new customers. UCFs were established to provide for cost recovery of treatment and transmission facilities that directly benefit new customers. UCFs are payable upon the initial request for service pursuant to a capacity related cost per unit (gallon) basis. Funds generated from UCFs are restricted in their use generally limited for expansion related costs and/or debt service. The County’s existing UCFs for water and wastewater are summarized in Table 15 below.

**Table 15**  
**Existing Unit Connection Fees (UCFs)**  
**Fiscal Year 2003/04**

|            | <u>Amount</u> |         |
|------------|---------------|---------|
| Water      | \$ 1,519.82   | Per ERU |
| Wastewater | \$ 1,924.19   | Per ERU |

Existing Miscellaneous Service Charges

In addition to the rates and charges previously described, the County has implemented a series of miscellaneous charges to be paid for certain specifically requested customer needs or services. Such fees and charges are typically applied pursuant to specific actions and generally occur at the request of a customer. Examples of these miscellaneous service charges include meter installation charges and meter testing fees. Despite being a secondary source of revenue these charges tend to reduce the level of expenditures funded from monthly user rates and recover costs of such services from those specifically benefited. The County’s existing miscellaneous service charges are listed below in Table 16.

**Table 16**  
**Miscellaneous Service Charges**

| Description                                | Amount      |                  |
|--------------------------------------------|-------------|------------------|
| Water and Reuse Tapping Fee <sup>(1)</sup> |             |                  |
| 3/4" Meter                                 | \$ 450.00   | per occurrence   |
| 1.0" Meter                                 | \$ 525.00   | per occurrence   |
| 1.5" Meter                                 | \$ 1,200.00 | per occurrence   |
| 2.0" Meter                                 | \$ 1,800.00 | per occurrence   |
| 3.0" Meter                                 | \$ 3,750.00 | per occurrence   |
| 4.0" Meter                                 | \$ 6,000.00 | per occurrence   |
| 6.0" Meter                                 | \$ 9,750.00 | per occurrence   |
| Locate / Right of Way Fee                  | \$ 75.00    | per occurrence   |
| Meter Test Fee                             |             |                  |
| 3/4" Meter                                 | \$ 25.00    | per occurrence   |
| 1.0", 1.5" & 2.0" Meters                   | \$ 50.00    | per occurrence   |
| 3.0" Meter                                 | \$ 100.00   | per occurrence   |
| 4.0", 6.0", 8.0" & 10.0" Meters            | \$ 250.00   | per occurrence   |
| Meter Reread Fee                           | \$ 20.00    | per occurrence   |
| Meter Replacement Fee                      | \$ 20.00    | per occurrence   |
| Account Transfer Fee                       | \$ 20.00    | per occurrence   |
| Site Visit Fee                             | \$ 20.00    | per occurrence   |
| Temporary Service Fee <sup>(2)</sup>       | \$ 36.00    | per 7 day period |
| Late Fee <sup>(3)</sup>                    | \$ 5.00     | per occurrence   |

(1) 8.0" meter and larger – cost of labor, equipment and materials plus 25%.

(2) In addition to gallonage rates.

(3) Or 1.5% of outstanding balance (whichever is greater).

#### RATE AND CHARGE COMPARISON

A comparison was performed showing the revenues generated by providing 7,000 gallons of monthly water and wastewater service to a single-family residential customer. The rates used in the calculation of bills issued by neighboring utilities were current as of October 1, 2003 and are exclusive of local taxes, franchise fees or other rate adjustments unless otherwise noted. As



shown in Table 17, the application of the County's water and wastewater user rates result in monthly bills that are reasonably comparable to those of other utilities.

**Table 17**  
**Monthly Rate Comparison with Neighboring Communities <sup>(1)</sup>**  
**Single-Family Residential Customer**  
**7,000 Gallons**

|                                               | <u>Water</u>    | <u>Wastewater</u> | <u>Combined</u> |
|-----------------------------------------------|-----------------|-------------------|-----------------|
| <b>St. Johns County</b>                       | <b>\$ 34.35</b> | <b>\$ 32.09</b>   | <b>\$ 66.44</b> |
| <b>Neighboring Communities</b>                |                 |                   |                 |
| Atlantic Beach                                | \$ 13.31        | \$ 27.01          | \$ 40.32        |
| Baldwin                                       | 12.00           | 23.00             | 35.00           |
| Clay County Utility Authority (Kingsley)      | 12.28           | 26.21             | 38.49           |
| Clay County Utility Authority (McRae Landing) | 14.27           | 33.02             | 47.28           |
| Clay County Utility Authority (Mid-Clay)      | 15.38           | 31.68             | 47.06           |
| Flagler Beach                                 | 28.90           | 34.10             | 63.00           |
| Green Cove Springs                            | 17.06           | 25.50             | 42.56           |
| Jacksonville Beach                            | 22.15           | 34.18             | 56.33           |
| JEA                                           | 13.88           | 30.54             | 44.42           |
| Palatka (Inside City)                         | 11.88           | 16.96             | 28.84           |
| Palatka (Outside City)                        | 14.85           | 21.20             | 36.05           |
| St. Augustine (Inside City)                   | 29.25           | 38.64             | 67.89           |
| St. Augustine (Outside City)                  | 36.56           | 48.30             | 84.86           |
| <b>Average of Neighboring Communities</b>     | <b>\$ 18.60</b> | <b>\$ 30.03</b>   | <b>\$ 48.62</b> |

(1) Based on current rates as of October 1, 2003; exclusive of taxes, surcharges, etc., unless otherwise noted.

In addition to the comparison of recurring monthly charges for water and wastewater service presented above, Table 18 below compares the County's existing water and wastewater UCFs (impact fees) to those charges imposed by neighboring communities. Like Table 17 above, the fees detailed below are current as of October 1, 2003 and are exclusive of local taxes, franchise fees and the like unless otherwise noted.

**Table 18**  
**UCF Comparison with Neighboring Communities <sup>(1)</sup>**  
**Single Family Residential Customer**

|                                              | <u>Water</u>       | <u>Wastewater</u>  | <u>Combined</u>    |
|----------------------------------------------|--------------------|--------------------|--------------------|
| <b>St. Johns County</b>                      | <b>\$ 1,519.82</b> | <b>\$ 1,924.19</b> | <b>\$ 3,444.01</b> |
| <b>Neighboring Communities</b>               |                    |                    |                    |
| Atlantic Beach                               | \$ 325.00          | \$ 1,250.00        | \$ 1,575.00        |
| Baldwin                                      | 420.00             | 1,035.00           | 1,455.00           |
| Clay County Utility Authority <sup>(2)</sup> | 235.00             | 1,010.00           | 1,245.00           |
| Flagler Beach                                | 1,476.00           | 1,813.98           | 3,289.98           |
| Green Cove Springs                           | 235.00             | 1,151.50           | 1,386.50           |
| Jacksonville Beach                           | 325.00             | 1,300.00           | 1,625.00           |
| JEA                                          | 140.00             | 1,025.00           | 1,165.00           |
| Palatka                                      | 250.00             | 250.00             | 500.00             |
| St. Augustine                                | 504.00             | 815.50             | 1,319.50           |
| <b>Average of Neighboring Communities</b>    | <b>\$ 434.44</b>   | <b>\$ 1,072.33</b> | <b>\$ 1,506.77</b> |

(1) Based on current rates as of October 1, 2003; exclusive of taxes, surcharges, etc., unless otherwise noted.

(2) All Clay County systems.

#### PROJECTION OF OPERATING REQUIREMENTS AND REVENUES

The operating requirements of the System as shown and projected herein consist of those expenditures, necessary to provide, maintain, and perpetuate quality water, wastewater and reuse services that meet the goals and objectives of the County with respect to the provision of these services. The operating requirements shown herein are cash requirements, which include operating and maintenance (O&M) expenses, debt service obligations, capital outlay from rates, R&R and all other appropriate requirements. The County prepares and adopts, prior to the beginning of each fiscal year, an annual budget in accordance with applicable law. The budget is comprehensive and provides for all areas necessary for the complete operation of the System.

The projected operating requirements for fiscal years 2003/04 through 2008/09 were developed based on historical cost, the fiscal year 2003/04 budget, escalations for customer growth and inflation, and existing and projected debt service. The projected combined operating

requirements for fiscal years 2003/04 through 2008/09 are shown below in Table 19, as detailed in Schedules 1, 2 and 3 for water, wastewater and reuse, respectively. It should be noted that the operating requirements shown below are exclusive of any additional debt anticipated subsequent to the issue of the Series 2004 Bonds.

**Table 19**  
**Projected Operating Requirements**

| <b>Fiscal Year</b> | <b>Water</b> | <b>Wastewater</b> | <b>Reuse</b> | <b>Total</b>  |
|--------------------|--------------|-------------------|--------------|---------------|
| 2003/04            | \$ 8,328,700 | \$ 5,309,900      | \$ 174,500   | \$ 13,813,100 |
| 2004/05            | 8,825,000    | 5,473,700         | 182,700      | 14,481,400    |
| 2005/06            | 9,003,600    | 5,615,400         | 189,500      | 14,808,500    |
| 2006/07            | 9,198,500    | 5,765,800         | 196,400      | 15,160,700    |
| 2007/08            | 9,399,200    | 5,924,900         | 203,700      | 15,527,800    |
| 2008/09            | 9,592,200    | 6,095,000         | 211,300      | 15,898,500    |

The projection of operating revenue is based on the existing user rates and charges to projected number of ERUs/RECs and associated projected billable flows as developed herein. The projected operating revenues derived from monthly utility activities of the System for fiscal years 2003/04 through 2008/09 are summarized below in Table 20.

**Table 20**  
**Projected Operating Revenues**

| <b>Fiscal Year</b> | <b>Water</b> | <b>Wastewater</b> | <b>Reuse</b> | <b>Total</b>  |
|--------------------|--------------|-------------------|--------------|---------------|
| 2003/04            | \$ 9,033,800 | \$ 5,149,400      | \$ 36,100    | \$ 14,219,300 |
| 2004/05            | 9,184,700    | 5,225,300         | 36,100       | 14,446,100    |
| 2005/06            | 9,486,400    | 5,343,400         | 36,100       | 14,865,900    |
| 2006/07            | 9,900,000    | 5,565,200         | 36,100       | 15,501,300    |
| 2007/08            | 10,338,400   | 5,801,300         | 36,100       | 16,175,800    |
| 2008/09            | 10,802,000   | 6,052,400         | 36,100       | 16,890,500    |

In addition to revenues derived from operations, the System recovers certain capital costs from the UCFs imposed on all new water and wastewater customers. Projections, as shown below in Table 21, are based on the existing UCFs and anticipated incremental growth in ERUs.

**Table 21**  
**Projected Unit Connection Fees**

|            | <b>Fiscal Year</b>            |                |                |                |                |                |
|------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|
|            | <b>2003/04 <sup>(1)</sup></b> | <b>2004/05</b> | <b>2005/06</b> | <b>2006/07</b> | <b>2007/08</b> | <b>2008/09</b> |
| Water      | \$1,300,000                   | \$1,682,073    | \$1,780,318    | \$1,884,517    | \$1,994,670    | \$2,110,778    |
| Wastewater | 1,500,000                     | 1,481,303      | 1,575,534      | 1,679,188      | 1,788,495      | 1,903,456      |
| Total      | \$2,800,000                   | \$3,163,376    | \$3,355,852    | \$3,563,704    | \$3,783,165    | \$4,014,234    |

(1) Budgeted.

#### PROFORMA OPERATING RESULTS

Presented below in Table 22, and detailed in Schedule 4 individually for water, wastewater and reuse and combined at the end of this Report, are the proforma operating financial results of the System for fiscal years 2003/04 through 2008/09 including debt service for the proposed Series 2004 Bonds. The results demonstrate the consistent ability of the existing and future rates, fees and charges together with other revenues to provide for the projected fiscal requirements of the System. Included within the cash flows are provisions to use UCFs to assist with the payment of a portion of the expansion related debt service allowed by Bond Resolution. As amended and supplemented and structured through the last rate study. Although the use of UCF is limited to the expansion percentage provision in the Bond Resolution the amounts projected to be used are materially less than what is permitted. Additionally, as illustrated in Table 22, the use of UCF are anticipated to reduce in future years pursuant to the needs of the existing and proposed Series 2004 Bonds debt service.

**Table 22**  
**Proforma Operating Results**  
**Combined Operations**

|                              | Fiscal Year   |               |               |               |               |               |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                              | 2003/04       | 2004/05       | 2005/06       | 2006/07       | 2007/08       | 2008/09       |
| Operating Revenue            |               |               |               |               |               |               |
| Charges for Services         | \$ 2,708,100  | \$ 13,174,900 | \$ 13,774,700 | \$ 14,410,100 | \$ 15,084,600 | \$ 15,799,300 |
| Other Revenue <sup>(1)</sup> | 1,511,200     | 1,271,200     | 1,091,200     | 1,091,200     | 1,091,200     | 1,091,200     |
| Total Revenue                | \$ 14,219,300 | \$ 14,446,100 | \$ 14,865,900 | \$ 15,501,300 | \$ 16,175,800 | \$ 16,890,500 |
| O&M Expenses <sup>(2)</sup>  | 7,764,200     | 8,055,200     | 8,359,700     | 8,677,800     | 9,011,300     | 9,359,900     |
| Net Revenue                  | \$ 6,455,100  | \$ 6,390,900  | \$ 6,506,200  | \$ 6,823,500  | \$ 7,164,500  | \$ 7,530,600  |
| Unit Connection Fees         | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 800,000       |
| Net Revenues & UCFs          | \$ 7,455,100  | \$ 7,390,900  | \$ 7,506,200  | \$ 7,823,500  | \$ 8,164,500  | \$ 8,330,600  |
| Debt Service                 |               |               |               |               |               |               |
| Existing                     | \$ 4,289,600  | \$ 4,289,400  | \$ 4,293,600  | \$ 4,294,100  | \$ 4,288,500  | \$ 4,294,500  |
| Proposed <sup>(3)</sup>      | 539,900       | 808,400       | 805,600       | 808,100       | 805,300       | 777,200       |
| Total Debt Service           | \$ 4,829,600  | \$ 5,097,800  | \$ 5,099,200  | \$ 5,102,200  | \$ 5,093,800  | \$ 5,071,700  |
| Operating Balance            | \$ 2,625,600  | \$ 2,293,100  | \$ 2,407,000  | \$ 2,721,300  | \$ 3,070,700  | \$ 3,258,900  |
| Non-Operating Expenses:      |               |               |               |               |               |               |
| R&R                          | \$ 611,600    | \$ 711,000    | \$ 722,300    | \$ 743,300    | \$ 775,100    | \$ 808,800    |
| SRF Debt                     | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       |
| Capital From Rates           | 484,700       | 494,300       | 504,200       | 514,300       | 524,500       | 535,000       |
| Net Balance                  | \$ 1,406,200  | \$ 964,700    | \$ 1,057,400  | \$ 1,340,600  | \$ 1,648,000  | \$ 1,792,000  |
| Rate Adjustment              |               |               |               |               |               |               |
| Inflationary Index           | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        |
| Other                        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        |
| Total Adjustment             | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        | 0.00 %        |

(1) Includes miscellaneous service and unrestricted interest earnings.  
(2) Excludes non-cash items.  
(3) Limited to Series 2004 Bonds only.

## DEBT SERVICE COMPLIANCE

Pursuant to the Bond Resolution, the rate covenant requires that in each fiscal year:

- (I) Net Revenues in any period from October 1 to September 30 or such other period as prescribed by law (the “fiscal year”), together with any Connection Charges, referred to as Unit Connection Fees (UCFs) in the Ordinance, actually on deposit in the Current Account at the beginning of such fiscal year, equal to at least 120% of the debt service requirement for the bond year ending in such fiscal year and at least 100% of any amounts required by the terms of the Bond Resolution to be deposited in the Reserve Account or the Renewal & Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such fiscal year; and
- (II) Net Revenues in such fiscal year, not taking into account Connection Charges, referred to as Unit Connection Fees in the Ordinance, equal to at least 110% of the debt service requirement for the bond year ending in such fiscal year and at least 100% of any amounts required by the terms of the Bond Resolution to be deposited in the Reserve Account or in the Renewal & Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such fiscal year.

Demonstrated below in Table 23 is the ability of Net Revenues and other pledged monies (including UCFs) to provide for the existing parity bonds and proposed Series 2004 Bonds debt service obligations, including coverage requirements, for fiscal years 2003/04 through 2008/09.

**Table 23**  
**Projected Debt Service Coverage**

|                                         | Fiscal Year |              |             |             |              |              |
|-----------------------------------------|-------------|--------------|-------------|-------------|--------------|--------------|
|                                         | 2003/04     | 2004/05      | 2005/06     | 2006/07     | 2007/08      | 2008/09      |
| Net Revenues                            | \$6,445,100 | \$ 6,390,900 | \$6,506,200 | \$6,823,500 | \$7,164,500  | \$ 7,530,600 |
| Pledged UCFs                            | 2,748,468   | 2,901,158    | 2,901,955   | 2,903,662   | 2,898,882    | 2,886,304    |
| Net Revenues + UCFs                     | \$9,203,568 | \$ 9,292,058 | \$9,408,155 | \$9,727,162 | \$10,063,382 | \$10,416,904 |
| Debt Service Requirement <sup>(1)</sup> | \$4,829,500 | \$ 5,097,800 | \$5,099,200 | \$5,102,200 | \$5,093,800  | \$ 5,071,700 |
| Coverage:                               |             |              |             |             |              |              |
| Net Revenue (1.10 x Req.)               | 1.34        | 1.25         | 1.28        | 1.34        | 1.41         | 1.48         |
| Net Revenue + UCFs (1.20 x Req.)        | 1.91        | 1.82         | 1.85        | 1.91        | 1.98         | 2.05         |
| Revenue Net of Bonds                    | \$1,625,600 | \$ 1,293,100 | \$1,407,000 | \$1,721,300 | \$2,070,700  | \$ 2,458,900 |
| SRF Requirement                         | \$ 123,100  | \$ 123,100   | \$ 123,100  | \$ 123,100  | \$ 123,100   | \$ 123,100   |
| SRF Coverage <sup>(2)</sup> :           |             |              |             |             |              |              |
| Net Revenue (1.15 x Req.)               | 13.21       | 10.50        | 11.43       | 13.98       | 16.82        | 19.97        |

(1) Existing and proposed 2004 Bonds.  
(2) Revenue net of bonds.

**PRINCIPAL CONSIDERATIONS AND ASSUMPTIONS**

In the preparation of this Report, certain assumptions were made with respect to conditions anticipated to occur in the future. While these assumptions are considered to be reasonable, they are essentially dependent on future events, and as such, actual conditions may differ from those presented herein. In addition, certain information and assumptions have been relied upon which were provided by others, including: (i) data provided by County staff regarding recent historical financial and customer information; and (ii) recent information provided by the County's Financial Advisor with regard to the issuance of additional debt. While the use of such information is believed to be reasonable for the purposes of this Report, no further assurances are offered with respect thereto, other than for the purposes of this Report. To the extent that actual

conditions differ from those assumed herein, the actual results would vary from those estimated and projected. Such projections are therefore subject to change and there are no assurances that these projections will be realized.

The Principal Considerations and Assumptions used in projecting future operating results include the following:

- 1. Probable Project costs of \$26,814,000, which includes allowances for professional fees, engineering and contingencies as shown on Table 8 are based on preliminary engineering estimates of which some are prior to actual design, permitting and contractor bid solicitations. Proceeds to fully fund or complete the Project are anticipated to be obtained from the Series 2004 Bonds as summarized below in Table 24 pursuant to information provided by the County’s financial advisor.

**Table 24**  
**Sources and Uses of Funds**  
**Series 2004 Bonds**

|                                              |                         |
|----------------------------------------------|-------------------------|
| Sources:                                     |                         |
| Bond Proceeds                                | <u>\$ 27,616,898.15</u> |
| Uses:                                        |                         |
| Project Fund                                 | \$ 26,861,414.62        |
| Costs of Issuance and Underwriter’s Discount | 370,935.19              |
| Insurance & Reserve Fund Surety              | <u>384,548.34</u>       |
| Total Uses                                   | <u>\$ 27,616,898.15</u> |

Annual debt service for the Series 2004 Bonds for fiscal years 2003/04 through 2008/09 are shown below in Table 25 as obtained from the County’s financial advisor. Dated date and delivery date for the Series 2004 Bonds are assumed to be February 4, 2004 and the aggregate par amount of the Series 2004 Bonds is assumed to be \$27,616,898.15.



**Table 25**  
**Anticipated Annual Debt Service**  
**Series 2004 Bonds**

| <b>Fiscal Year</b> | <b>Amount</b> |
|--------------------|---------------|
| 2003/04            | \$ 539,900    |
| 2004/05            | \$ 808,353    |
| 2005/06            | \$ 805,616    |
| 2006/07            | \$ 808,105    |
| 2007/08            | \$ 805,297    |
| 2008/09            | \$ 777,176    |

2. The projected operating requirements for fiscal years 2004/05 through 2008/09 utilize the fiscal year 2003/04 budget as a basis. Projections are further adjusted and escalated annually for needs, growth and inflation, as detailed in Schedules 1, 2 and 3 for water, wastewater and reuse respectively. The projected requirements are prepared on a cash basis. As such, the projections do not include an allowance for depreciation and amortization. However, accruals for the debt service payments due at the immediate beginning of each fiscal year are reflected in the prior year (the year in which interest and principal are accrued).
3. Projected operating revenues and UCFs of the System are based on rates and charges in effect as of October 1, 2003. The County has the authority to advance, postpone and resize rate adjustments based on System growth, performance and other budgetary considerations.
4. The expansion percentage associated with the use of UCFs for coverage purposes is projected at 56.91 percent.
5. Other operating revenue is generated from services other than user rates including bulk service agreements, miscellaneous charges and interest earnings. Payments associated with contribution of capital, including UCFs, are not forecasted to materially change due to anticipated decreases in interest earnings resulting from the use of existing reserves for Program funding needs.

6. Annual transfers in the amount of 5.0 percent of the previous year's gross revenues are provided for as consideration for renewal and replacement (R&R) activities that support current facilities as well as additional increases for future rehabilitation initiatives.
7. Funding for the Program is anticipated from long-term debt, interest earnings and the use of restricted and unrestricted revenues generated by the System. Table 26 provides the Program's updated anticipated cash flows associated with the capital funding program use to commence activities pursuant to the Series 2004 Bonds. The purpose of the Program cash flows in Table 26 is to illustrate the feasibility of using existing reserves, future surpluses and debt proceed resources to accomplish the improvement goals of the System.

**Table 26**  
**Anticipated Program Funding**

|                                   | <u>Six-Yr Total</u> | <u>2002/03</u> | <u>2003/04</u> | <u>2004/05</u> | <u>2005/06</u> | <u>2006/07</u> | <u>2007/08</u> |
|-----------------------------------|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Beginning Balance                 |                     | \$ -           | \$ 2,251,100   | \$ 19,985,900  | \$ 6,482,800   | \$ 6,387,600   | \$ 6,219,700   |
| Sources                           |                     |                |                |                |                |                |                |
| Operations:                       |                     |                |                |                |                |                |                |
| a. Unrestricted Reserves          | \$ 15,713,300       | \$ 14,078,400  | \$ 759,400     | \$ 293,000     | 115,000        | 150,700        | 316,800        |
| b. Unit Connection Fees           | 7,691,700           | 2,691,700      | 1,000,000      | 1,000,000      | 1,000,000      | 1,000,000      | 1,000,000      |
| c. Renewal & Replacement          | 2,142,400           | 374,100        | 374,100        | 305,800        | 355,500        | 361,200        | 371,700        |
| Parity Bond Construction Proceeds | 26,861,400          | -              | 26,861,400     | -              | -              | -              | -              |
| SRF Construction Proceeds         | 18,854,000          | -              | -              | 7,500,000      | 7,500,000      | 3,854,000      | -              |
| Grants                            | -                   | -              | -              | -              | -              | -              | -              |
| Other                             | -                   | -              | -              | -              | -              | -              | -              |
| Total Sources                     | \$ 71,262,800       | \$ 17,144,200  | \$ 31,246,000  | \$ 29,084,700  | \$ 15,453,300  | \$ 11,753,500  | \$ 7,908,200   |
| Uses:                             |                     |                |                |                |                |                |                |
| Water Projects                    |                     |                |                |                |                |                |                |
| Expansion                         | \$ 18,358,100       | \$ 3,582,400   | \$ 2,563,800   | \$ 5,468,900   | \$ 3,400,500   | \$ 1,530,100   | \$ 1,812,400   |
| Renewal & Replacement             | 3,025,000           | 150,000        | 725,000        | 925,000        | 475,000        | 375,000        | 375,000        |
| Upgrade                           | 20,455,400          | 2,322,900      | 1,496,300      | 12,588,000     | 1,947,700      | 1,067,200      | 1,033,300      |
| Other                             | 1,275,000           | 250,000        | 1,025,000      | -              | -              | -              | -              |
| Total Water Projects              | \$ 43,113,500       | \$ 6,305,300   | \$ 5,810,100   | \$ 18,981,900  | \$ 5,823,200   | \$ 2,972,300   | \$ 3,220,700   |
| Wastewater Projects               |                     |                |                |                |                |                |                |
| Expansion                         | \$ 14,528,600       | \$ 4,642,100   | \$ 2,962,500   | \$ 2,195,000   | \$ 2,255,000   | \$ 1,574,000   | \$ 900,000     |
| Renewal & Replacement             | 6,259,500           | 2,059,500      | 800,000        | 850,000        | 850,000        | 850,000        | 850,000        |
| Upgrade                           | 6,086,200           | 1,636,200      | 662,500        | 575,000        | 137,500        | 137,500        | 2,937,500      |
| Other                             | 1,275,000           | 250,000        | 1,025,000      | -              | -              | -              | -              |
| Total Wastewater Projects         | \$ 28,149,300       | \$ 8,587,800   | \$ 5,450,000   | \$ 3,620,000   | \$ 3,242,500   | \$ 2,561,500   | \$ 4,687,500   |
| Total Uses                        | \$ 71,262,800       | \$ 14,893,100  | \$ 11,260,100  | \$ 22,601,900  | \$ 9,065,700   | \$ 5,533,800   | \$ 7,908,200   |
| Ending Balance                    |                     | \$ 2,251,100   | \$ 19,985,900  | \$ 6,482,800   | \$ 6,387,600   | \$ 6,219,700   | \$ -           |

To further illustrate the feasibility of both the Project and the Program, operating information on a combined basis reflecting the Series 2004 Bonds as well as anticipated parity and subordinate debt are summarized on Table 27. The assumptions associated with Table 27 are similar to those used for the Proforma Operating Results in Table 22, however, to be conservative the use of UCFs is materially reduced commencing in fiscal year 2008/09 until fiscal year 2013/14 wherein no UCFs are utilized for debt service purposes.

In the event that SRF loans are not available for part or all of the intended improvement activities, the Capital Funding Program can utilize either the anticipated operating cash flows or reserves to provide for the difference between the projected SRF debt service and the then-required alternative. Such resources may include, but are not limited to, restricted and unrestricted savings as well as monies derived from operations that were previously assumed to service future debt obligations associated with said funding sources.

**Table 27**  
**Proforma Operating Results**  
**Combined Operations**  
**Aggregate Program Funding**

|                                              | 2003/04       | 2004/05       | 2005/06       | 2006/07       | 2007/08       | 2008/09       |
|----------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Charges for Service                          | \$ 12,708,100 | \$ 13,174,900 | \$ 13,774,700 | \$ 14,410,100 | \$ 15,084,600 | \$ 15,799,300 |
| Other Revenue <sup>(1)</sup>                 | 1,511,200     | 1,271,200     | 1,091,200     | 1,091,200     | 1,091,200     | 1,091,200     |
| Total Revenue                                | \$ 14,219,300 | \$ 14,446,100 | \$ 14,359,700 | \$ 15,501,300 | \$ 16,175,800 | \$ 16,890,500 |
| O&M Expenses <sup>(2)</sup>                  | 7,764,200     | 8,055,200     | 8,359,700     | 8,677,800     | 9,011,300     | 9,359,900     |
| Net Revenue                                  | \$ 6,455,100  | \$ 6,390,900  | \$ 6,506,200  | \$ 6,823,500  | \$ 7,164,500  | \$ 7,530,600  |
| Unit Connection Fees                         | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 800,000       |
| Net Revenue & UCFs                           | \$ 7,455,100  | \$ 7,390,900  | \$ 7,506,200  | \$ 7,823,500  | \$ 8,164,500  | \$ 8,330,600  |
| Debt Service                                 |               |               |               |               |               |               |
| Existing                                     | \$ 4,289,600  | \$ 4,289,400  | \$ 4,293,600  | \$ 4,294,100  | \$ 4,288,500  | \$ 4,294,500  |
| Proposed <sup>(3)</sup>                      | 539,900       | 808,400       | 805,600       | 808,100       | 805,300       | 777,200       |
| Total Debt Service                           | \$ 4,829,500  | \$ 5,097,800  | \$ 5,099,200  | \$ 5,102,200  | \$ 5,093,800  | \$ 5,071,700  |
| Operating Balance                            | \$ 2,625,600  | \$ 2,293,100  | \$ 2,407,000  | \$ 2,721,300  | \$ 3,070,700  | \$ 3,258,900  |
| Non-Operating Expenses                       |               |               |               |               |               |               |
| R&R                                          | \$ 611,600    | \$ 711,000    | \$ 722,300    | \$ 743,300    | \$ 775,100    | \$ 808,800    |
| Existing SRF Debt                            | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       |
| Proposed SRF Debt <sup>(4)</sup>             | -             | 422,200       | 844,500       | 1,061,500     | 1,061,500     | 1,061,500     |
| Capital From Rates                           | 484,700       | 494,300       | 504,200       | 514,300       | 524,500       | 535,000       |
| Total Non-Operating Expenses                 | \$ 1,219,400  | \$ 1,750,600  | \$ 2,194,100  | \$ 2,442,200  | \$ 2,484,200  | \$ 2,528,400  |
| Net Balance                                  | \$ 1,406,200  | \$ 542,500    | \$ 212,900    | \$ 279,100    | \$ 586,500    | \$ 730,500    |
| Debt Service Coverage:                       |               |               |               |               |               |               |
| Parity Bonds                                 |               |               |               |               |               |               |
| Net Revenue (1.10 Req.)                      | 1.34          | 1.25          | 1.28          | 1.34          | 1.41          | 1.48          |
| Net Revenue + UCF (1.20 Req.) <sup>(5)</sup> | 1.84          | 1.73          | 1.83          | 1.90          | 1.97          | 2.05          |
| SRF                                          |               |               |               |               |               |               |
| Net Revenues after Bonds (1.15 req.)         | 13.21         | 2.37          | 1.45          | 1.45          | 1.75          | 2.08          |

**Table 27 (continued)**  
**Proforma Operating Results**  
**Combined Operations**  
**Aggregate Program Funding**

|                                              | 2009/10       | 2010/11       | 2011/12       | 2012/13       | 2013/14       |
|----------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Charges for Service                          | \$ 16,557,800 | \$ 17,362,300 | \$ 18,216,300 | \$ 19,123,200 | \$ 20,086,000 |
| Other Revenue <sup>(1)</sup>                 | 1,091,200     | 1,091,200     | 1,091,200     | 1,091,200     | 1,091,200     |
| Total Revenue                                | \$ 17,649,000 | \$ 18,453,500 | \$ 19,307,500 | \$ 20,214,400 | \$ 21,177,200 |
| O&M Expenses <sup>(2)</sup>                  | 9,724,700     | 10,106,700    | 10,507,200    | 10,926,700    | 11,366,600    |
| Revenue                                      | \$ 7,924,300  | \$ 8,346,800  | \$ 8,800,300  | \$ 9,287,700  | \$ 9,810,600  |
| Unit Connection Fees                         | 600,000       | 400,000       | 200,000       | -             | -             |
| Net Revenue & UCFs                           | \$ 8,524,300  | \$ 8,746,800  | \$ 9,000,300  | \$ 9,287,700  | \$ 9,810,600  |
| Debt Service                                 | \$ 5,092,800  | \$ 5,044,100  | \$ 5,104,500  | \$ 5,100,400  | \$ 5,099,200  |
| Existing                                     | \$ 4,334,900  | \$ 4,346,700  | \$ 4,429,300  | \$ 4,423,300  | \$ 4,421,600  |
| Proposed <sup>(3)</sup>                      | 757,900       | 697,400       | 675,200       | 677,100       | 677,600       |
| Total Debt Service                           | \$ 5,092,800  | \$ 5,044,100  | \$ 5,104,500  | \$ 5,100,400  | \$ 5,099,200  |
| Operating Balance                            | \$ 3,431,500  | \$ 3,702,700  | \$ 3,895,800  | \$ 4,187,300  | \$ 4,711,400  |
| Non-Operating Expenses                       |               |               |               |               |               |
| R&R                                          | \$ 844,500    | \$ 882,500    | \$ 922,600    | \$ 965,400    | \$ 1,010,700  |
| Existing SRF Debt                            | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       |
| Proposed SRF Debt <sup>(4)</sup>             | 1,061,500     | 1,061,500     | 1,061,500     | 1,061,500     | 1,061,500     |
| Capital From Rates                           | 545,600       | 556,500       | 567,600       | 578,900       | 590,400       |
| Total Non-Operating Expenses                 | \$ 2,574,700  | \$ 2,623,600  | \$ 2,674,800  | \$ 2,728,900  | \$ 2,785,700  |
| Net Balance                                  | \$ 856,800    | \$ 1,079,100  | \$ 1,221,000  | \$ 1,458,400  | \$ 1,925,700  |
| Debt Service Coverage:                       |               |               |               |               |               |
| Parity Bonds                                 |               |               |               |               |               |
| Net Revenue (1.10 Req.)                      | 1.56          | 1.65          | 1.72          | 1.82          | 1.92          |
| Net Revenue + UCF (1.20 Req.) <sup>(5)</sup> | 2.12          | 2.22          | 2.28          | 2.38          | 2.48          |
| SRF                                          |               |               |               |               |               |
| Net Revenues after Bonds (1.15 req.)         | 2.39          | 2.79          | 3.12          | 3.53          | 3.98          |

(1) Includes miscellaneous service and unrestricted interest earnings.

(2) Excludes non-cash items.

(3) Includes Series 2004 Bonds, anticipated Program Completion Bonds in F.Y. 2007/08.

(4) Includes anticipated approximate \$7.5 SRF loans each in fiscal years 2004/05, 2005/06, and 2006/07.

## CONCLUSION

Based on the principal considerations and assumptions and the results of the study conducted, as summarized herein, which should be read in its entirety in conjunction with the following, we are of the opinion that:

1. The Utility Department has historically provided for adequate operation of the System by employing personnel capable of operating, maintaining and expanding the water, wastewater and reuse systems as necessary.
2. The County has the authority to provide water, wastewater and reuse services to all properties considered in the preparation of the forecasts presented herein.
3. The estimated average service life of the System's assets with proper maintenance and refurbishment, including the Project, exceeds the estimated average life of the Series 2004 Bonds.
4. The probable costs associated with the Project are reasonable and comparable to current industry costs for similar construction.
5. The System has the regulatory permits necessary for the operation of the facilities and is expected to receive all permits necessary for the continued operation of the System as needed.
6. All permits necessary for the construction and operation of the Project are anticipated to be timely obtained from the appropriate regulatory agencies and the Project is anticipated to be implemented without undo delay or costs pursuant to current conditions.
7. The projected customer and ERU/REC growth are reasonable based on recent historical trends and discussions with the County's staff.
8. Historical operating revenues and O&M expenses reflect adequate results and the System has a history of meeting its fiscal requirements.

9. The existing user fees and charges for services are reasonable, appropriate and provide water conservation initiatives as promoted by the SJRWMD.
10. The Unit Connection Fees for water and wastewater appear to be reasonable and appropriate.
11. The existing and projected revenues and expenses are reasonable based on the historical results, the existing rate structure, the capital improvement program and input from the County's staff.
12. The projected revenues for the System (on a combined basis) for fiscal years 2003/04 through 2008/09 based on the existing rates, fees and charges, will be sufficient to: (i) pay all projected O&M expenses; (ii) pay projected debt service requirements (inclusive of the anticipated debt service associated with the Series 2004 Bonds); (iii) make projected deposits to the R&R funds; and (iv) meet the rate covenant requirements as defined in the Bond Resolution. It is also believed that the revenues will be sufficient to address anticipated funding for the balance of the Program.
13. The System maintains adequate unrestricted and restricted reserves to address working capital, R&R, expansion and other fiscal needs.
14. The Board of County Commissioners have the authority to adjust and/or modify the rates and charges to address revenue sufficiency in the event of any unanticipated occurrence.
15. The projected debt service coverage of the System is in compliance with the covenants contained in the Bond Resolution.
16. The Project and Program can be adjusted, modified and/or rescheduled without any material effect on the continued operation of the System provided that proper maintenance and R&R activities continue.



17. Nothing came to our attention which would adversely affect the continued operating and financial condition of the System including, but not limited to, compliance with regulatory agencies.

**Schedule 1**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Water System**

| Description                 | Escalation<br>Factor | Test<br>Year | Fiscal Year  |              |              |              |              |
|-----------------------------|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                             |                      |              | 2004/05      | 2005/06      | 2006/07      | 2007/08      | 2008/09      |
| Personnel Costs             |                      |              |              |              |              |              |              |
| Regular Salaries            | 3                    | \$ 1,283,200 | \$ 1,321,700 | \$ 1,361,400 | \$ 1,402,200 | \$ 1,444,300 | \$ 1,487,600 |
| FICA/Medicare Taxes         | 3                    | 98,200       | 101,100      | 104,100      | 107,200      | 110,400      | 113,700      |
| Employers Ret Contribution  | 3                    | 109,700      | 113,000      | 116,400      | 119,900      | 123,500      | 127,200      |
| Life & Health Insurance     | 3                    | 185,100      | 190,700      | 196,400      | 202,300      | 208,400      | 214,700      |
| Worker's Compensation       | 3                    | 44,500       | 45,800       | 47,200       | 48,600       | 50,100       | 51,600       |
| New Expenses (CIP)          | 3                    | -            | -            | -            | -            | -            | -            |
| Total Personnel Costs       |                      | \$ 1,720,700 | \$ 1,772,300 | \$ 1,825,500 | \$ 1,880,200 | \$ 1,936,700 | \$ 1,994,800 |
| Operating Costs             |                      |              |              |              |              |              |              |
| Professional Fees           | 2                    | \$ 85,500    | \$ 87,200    | \$ 88,900    | \$ 90,700    | \$ 92,500    | \$ 94,400    |
| Deposit Interest Expense    | 2                    | 32,500       | 33,200       | 33,900       | 34,600       | 35,300       | 36,000       |
| Contractual Services        | 2                    | 533,300      | 544,000      | 554,900      | 566,000      | 577,300      | 588,800      |
| Service Charges             | 2                    | 24,400       | 24,900       | 25,400       | 25,900       | 26,400       | 26,900       |
| Refuse                      | 5                    | 800          | 900          | 1,000        | 1,100        | 1,200        | 1,300        |
| Indirect Admin Cost         | 5                    | 385,600      | 410,700      | 437,500      | 466,000      | 496,400      | 528,800      |
| Travel & Per Diem           | 2                    | 22,700       | 23,200       | 23,700       | 24,200       | 24,700       | 25,200       |
| Communications              | 2                    | 40,100       | 40,900       | 41,700       | 42,500       | 43,400       | 44,300       |
| Utilities                   | 5                    | 304,500      | 324,300      | 345,400      | 367,900      | 391,900      | 417,400      |
| Lease/Rental of Equipment   | 2                    | 30,800       | 31,400       | 32,000       | 32,600       | 33,300       | 34,000       |
| Insurance                   | 2                    | 103,500      | 105,600      | 107,700      | 109,900      | 112,100      | 114,300      |
| Building Maintenance        | 6                    | 9,000        | 9,400        | 9,800        | 10,200       | 10,600       | 11,000       |
| Equipment Maintenance       | 6                    | 9,300        | 9,700        | 10,100       | 10,500       | 10,900       | 11,300       |
| Vehicle Maintenance         | 6                    | 52,600       | 54,700       | 56,900       | 59,200       | 61,600       | 64,100       |
| Other Maintenance           | 6                    | 88,000       | 91,500       | 95,200       | 99,000       | 103,000      | 107,100      |
| Advertising                 | 2                    | 1,300        | 1,300        | 1,300        | 1,300        | 1,300        | 1,300        |
| Office Supplies             | 5                    | 29,300       | 31,200       | 33,200       | 35,400       | 37,700       | 40,200       |
| Software                    | 2                    | 7,200        | 7,300        | 7,400        | 7,500        | 7,700        | 7,900        |
| Operating Supplies          | 5                    | 515,100      | 548,700      | 584,500      | 622,600      | 663,200      | 706,400      |
| Gas, Oil, & Lubricants      | 5                    | 46,100       | 49,100       | 52,300       | 55,700       | 59,300       | 63,200       |
| Tools & Small Implements    | 6                    | 5,100        | 5,300        | 5,500        | 5,700        | 5,900        | 6,100        |
| Training                    | 2                    | 1,300        | 1,300        | 1,300        | 1,300        | 1,300        | 1,300        |
| Dues & Memberships          | 2                    | 6,100        | 6,200        | 6,300        | 6,400        | 6,500        | 6,600        |
| Agent Fees                  | 1                    | 4,800        | 4,800        | 4,800        | 4,800        | 4,800        | 4,800        |
| New Expenses (CIP)          | 0                    | -            | -            | -            | -            | -            | -            |
| Total Operating Costs       |                      | \$ 2,338,900 | \$ 2,446,800 | \$ 2,560,700 | \$ 2,681,000 | \$ 2,808,300 | \$ 2,942,700 |
| Total O&M                   |                      | \$ 4,059,600 | \$ 4,219,100 | \$ 4,386,200 | \$ 4,561,200 | \$ 4,745,000 | \$ 4,937,500 |
| Existing Debt Service       |                      |              |              |              |              |              |              |
| Principal - 1999            | Input                | \$ 1,030,800 | \$ 1,087,800 | \$ 1,159,000 | \$ 1,211,300 | \$ 1,263,500 | \$ 1,311,000 |
| Interest - 1999             | Input                | 535,700      | 472,800      | 405,400      | 352,600      | 302,900      | 249,800      |
| Principal - 1998            | Input                | 70,000       | 75,000       | 80,000       | 80,000       | 80,000       | 85,000       |
| Interest - 1998             | Input                | 93,900       | 90,900       | 87,600       | 84,000       | 80,500       | 77,000       |
| Principal - 1996            | Input                | 672,000      | 708,000      | 740,000      | 780,000      | 816,000      | 864,000      |
| Interest - 1996             | Input                | 617,300      | 585,700      | 551,700      | 514,700      | 475,700      | 434,900      |
| Principal - 2002            | Input                | 147,000      | 151,000      | 155,000      | 159,000      | 163,000      | 168,000      |
| Interest - 2002             | Input                | 26,000       | 21,700       | 17,900       | 14,100       | 9,900        | 5,200        |
| Total Existing Debt Service |                      | \$ 3,192,700 | \$ 3,192,900 | \$ 3,196,600 | \$ 3,195,700 | \$ 3,191,500 | \$ 3,194,900 |
| Proposed Debt Service       |                      |              |              |              |              |              |              |
| Series 2004                 | Input                | \$ 539,900   | \$ 808,400   | \$ 805,600   | \$ 808,100   | \$ 805,300   | \$ 777,200   |
| Grand Total Debt Service    |                      | \$ 3,732,600 | \$ 4,001,300 | \$ 4,002,200 | \$ 4,003,800 | \$ 3,996,800 | \$ 3,972,100 |

**Schedule 1**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Water System**

| Description                       | Escalation Factor | Test Year           | Fiscal Year         |                     |                     |                     |                     |
|-----------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                   |                   |                     | 2004/05             | 2005/06             | 2006/07             | 2007/08             | 2008/09             |
| Non-Operating & Transfers         |                   |                     |                     |                     |                     |                     |                     |
| Renewal & Replacement             | Input             | \$ 386,600          | \$ 451,700          | \$ 459,200          | \$ 474,300          | \$ 495,000          | \$ 516,900          |
| SRF Debt Service - Existing       | Input             | -                   | -                   | -                   | -                   | -                   | -                   |
| Other                             | 1                 | -                   | -                   | -                   | -                   | -                   | -                   |
| Total Non-Operating & Transfers   |                   | \$ 386,600          | \$ 451,700          | \$ 459,200          | \$ 474,300          | \$ 495,000          | \$ 516,900          |
| Capital From Rates                |                   |                     |                     |                     |                     |                     |                     |
| Equipment                         | 2                 | \$ 146,700          | \$ 149,600          | \$ 152,600          | \$ 155,700          | \$ 158,800          | \$ 162,000          |
| Computer Equipment                | 2                 | 3,200               | 3,300               | 3,400               | 3,500               | 3,600               | 3,700               |
| Total Capital From Rates          |                   | \$ 149,900          | \$ 152,900          | \$ 156,000          | \$ 159,200          | \$ 162,400          | \$ 165,700          |
| <b>Total</b>                      |                   | <b>\$ 8,328,700</b> | <b>\$ 8,825,000</b> | <b>\$ 9,003,600</b> | <b>\$ 9,198,500</b> | <b>\$ 9,399,200</b> | <b>\$ 9,592,200</b> |
| Other Revenue Sources             |                   |                     |                     |                     |                     |                     |                     |
| Sale of Copies                    | 1                 | \$ 1,300            | \$ 1,300            | \$ 1,300            | \$ 1,300            | \$ 1,300            | \$ 1,300            |
| Service Fees                      | 1                 | 95,600              | 95,600              | 95,600              | 95,600              | 95,600              | 95,600              |
| Meter Installations               | 1                 | 303,300             | 303,300             | 303,300             | 303,300             | 303,300             | 303,300             |
| Filing/Application Fees           | 1                 | 5,000               | 5,000               | 5,000               | 5,000               | 5,000               | 5,000               |
| Telemetry Fees                    | 1                 | 65,000              | 65,000              | 65,000              | 65,000              | 65,000              | 65,000              |
| Return Check Charges              | 1                 | 2,500               | 2,500               | 2,500               | 2,500               | 2,500               | 2,500               |
| Interest Earnings                 | 1                 | 300                 | 300                 | 300                 | 300                 | 300                 | 300                 |
| Interest Earnings - SBA           | 1                 | 87,500              | 87,500              | 87,500              | 87,500              | 87,500              | 87,500              |
| Interest Earnings - Surplus Funds | 7                 | 300,000             | 180,000             | 90,000              | 90,000              | 90,000              | 90,000              |
| Tower Lease                       | 1                 | 9,000               | 9,000               | 9,000               | 9,000               | 9,000               | 9,000               |
| Total Other Revenue Sources       |                   | \$ 869,500          | \$ 749,500          | \$ 659,500          | \$ 659,500          | \$ 659,500          | \$ 659,500          |
| Net Fiscal Requirement            |                   | \$ 7,459,200        | \$ 8,075,500        | \$ 8,344,100        | \$ 8,539,000        | \$ 8,739,700        | \$ 8,932,700        |

Escalation Factors

|                             |   |        |        |        |        |        |
|-----------------------------|---|--------|--------|--------|--------|--------|
| Zero                        | 0 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Constant                    | 1 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Inflation                   | 2 | 1.0200 | 1.0200 | 1.0200 | 1.0200 | 1.0200 |
| Personnel                   | 3 | 1.0300 | 1.0300 | 1.0300 | 1.0300 | 1.0300 |
| Customer Growth             | 4 | 1.0443 | 1.0449 | 1.0455 | 1.0460 | 1.0466 |
| Customer Growth * Inflation | 5 | 1.0652 | 1.0652 | 1.0652 | 1.0652 | 1.0652 |
| Repairs & Maintenance       | 6 | 1.0400 | 1.0400 | 1.0400 | 1.0400 | 1.0400 |
| Interest Earnings           | 7 | 0.6000 | 0.5000 | 1.0000 | 1.0000 | 1.0000 |
|                             | 8 |        |        |        |        |        |
|                             | 9 |        |        |        |        |        |
| Rounding                    |   | -2     | -2     | -2     | -2     | -2     |

**Schedule 2**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Wastewater System**

| Description                 | Escalation<br>Factor | Test<br>Year | Fiscal Year  |              |              |              |              |
|-----------------------------|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                             |                      |              | 2004/05      | 2005/06      | 2006/07      | 2007/08      | 2008/09      |
| Personnel Costs             |                      |              |              |              |              |              |              |
| Regular Salaries            | 3                    | \$ 1,181,800 | \$ 1,217,300 | \$ 1,253,800 | \$ 1,291,400 | \$ 1,330,100 | \$ 1,370,000 |
| FICA/Medicare Taxes         | 3                    | 90,400       | 93,100       | 95,900       | 98,800       | 101,800      | 104,900      |
| Employers Ret Contribution  | 3                    | 100,100      | 103,100      | 106,200      | 109,400      | 112,700      | 116,100      |
| Life & Health Insurance     | 3                    | 174,800      | 180,000      | 185,400      | 191,000      | 196,700      | 202,600      |
| Worker's Compensation       | 3                    | 50,500       | 52,000       | 53,600       | 55,200       | 56,900       | 58,600       |
| New Expenses (CIP)          | 3                    | -            | -            | -            | -            | -            | -            |
| Total Personnel Costs       |                      | \$ 1,597,600 | \$ 1,645,500 | \$ 1,694,900 | \$ 1,745,800 | \$ 1,798,200 | \$ 1,852,200 |
| Operating Costs             |                      |              |              |              |              |              |              |
| Professional Fees           | 2                    | \$ 73,800    | \$ 75,300    | \$ 76,800    | \$ 78,300    | \$ 79,900    | \$ 81,500    |
| Deposit Interest Expense    | 2                    | 17,500       | 17,900       | 18,300       | 18,700       | 19,100       | 19,500       |
| Contractual Services        | 2                    | 729,800      | 744,400      | 759,300      | 774,500      | 790,000      | 805,800      |
| Service Charges             | 2                    | 13,100       | 13,400       | 13,700       | 14,000       | 14,300       | 14,600       |
| Refuse                      | 5                    | 11,900       | 12,700       | 13,500       | 14,400       | 15,300       | 16,300       |
| Indirect Admin Cost         | 5                    | 201,700      | 214,800      | 228,800      | 243,700      | 259,600      | 276,500      |
| Travel & Per Diem           | 2                    | 19,100       | 19,500       | 19,900       | 20,300       | 20,700       | 21,100       |
| Communications              | 2                    | 27,500       | 28,100       | 28,700       | 29,300       | 29,900       | 30,500       |
| Utilities                   | 5                    | 285,700      | 304,300      | 324,100      | 345,200      | 367,700      | 391,700      |
| Lease/Rental of Equipment   | 2                    | 17,500       | 17,900       | 18,300       | 18,700       | 19,100       | 19,500       |
| Insurance                   | 2                    | 88,300       | 90,100       | 91,900       | 93,700       | 95,600       | 97,500       |
| Building Maintenance        | 6                    | 13,600       | 14,100       | 14,700       | 15,300       | 15,900       | 16,500       |
| Equipment Maintenance       | 6                    | 5,700        | 5,900        | 6,100        | 6,300        | 6,600        | 6,900        |
| Vehicle Maintenance         | 6                    | 52,700       | 54,800       | 57,000       | 59,300       | 61,700       | 64,200       |
| Other Maintenance           | 6                    | 75,600       | 78,600       | 81,700       | 85,000       | 88,400       | 91,900       |
| Advertising                 | 2                    | 700          | 700          | 700          | 700          | 700          | 700          |
| Office Supplies             | 5                    | 17,200       | 18,300       | 19,500       | 20,800       | 22,200       | 23,600       |
| Software                    | 2                    | 3,900        | 4,000        | 4,100        | 4,200        | 4,300        | 4,400        |
| Operating Supplies          | 5                    | 230,600      | 245,600      | 261,600      | 278,600      | 296,800      | 316,100      |
| Gas, Oil, & Lubricants      | 5                    | 37,100       | 39,500       | 42,100       | 44,800       | 47,700       | 50,800       |
| Tools & Small Implements    | 6                    | 3,400        | 3,500        | 3,600        | 3,700        | 3,800        | 4,000        |
| Training                    | 2                    | 2,700        | 2,800        | 2,900        | 3,000        | 3,100        | 3,200        |
| Dues & Memberships          | 2                    | 3,500        | 3,600        | 3,700        | 3,800        | 3,900        | 4,000        |
| Agent Fees                  | 1                    | 1,000        | 1,000        | 1,000        | 1,000        | 1,000        | 1,000        |
| New Expenses (CIP)          | 0                    | -            | -            | -            | -            | -            | -            |
| Total Operating Costs       |                      | \$ 1,933,600 | \$ 2,010,800 | \$ 2,092,000 | \$ 2,177,300 | \$ 2,267,300 | \$ 2,361,800 |
| Total O&M                   |                      | \$ 3,531,200 | \$ 3,656,300 | \$ 3,786,900 | \$ 3,923,100 | \$ 4,065,500 | \$ 4,214,000 |
| Existing Debt Service       |                      |              |              |              |              |              |              |
| Principal - 1999            | Input                | \$ 54,300    | \$ 57,300    | \$ 61,000    | \$ 63,800    | \$ 66,500    | \$ 69,000    |
| Interest - 1999             | Input                | 28,200       | 24,900       | 21,300       | 18,600       | 15,900       | 13,100       |
| Principal - 1998            | Input                | -            | -            | -            | -            | -            | -            |
| Interest - 1998             | Input                | -            | -            | -            | -            | -            | -            |
| Principal - 1996            | Input                | 168,000      | 177,000      | 185,000      | 195,000      | 204,000      | 216,000      |
| Interest - 1996             | Input                | 154,300      | 146,400      | 137,900      | 128,700      | 118,900      | 108,700      |
| Principal - 1991 CABS       | Input                | -            | -            | -            | -            | -            | -            |
| Principal - 2002            | Input                | 588,000      | 604,000      | 620,000      | 636,000      | 652,000      | 672,000      |
| Interest - 2002             | Input                | 104,100      | 86,900       | 71,800       | 56,300       | 39,700       | 20,800       |
| Total Existing Debt Service |                      | \$ 1,096,900 | \$ 1,096,500 | \$ 1,097,000 | \$ 1,098,400 | \$ 1,097,000 | \$ 1,099,600 |
| Proposed Debt Service       |                      |              |              |              |              |              |              |
| Series 2004                 | Input                | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Total Proposed Debt Service |                      | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Grand Total Debt Service    |                      | \$ 1,096,900 | \$ 1,096,500 | \$ 1,097,000 | \$ 1,098,400 | \$ 1,097,000 | \$ 1,099,600 |
| Non-Operating & Transfers   |                      |              |              |              |              |              |              |
| Renewal & Replacement       | Input                | \$ 225,000   | \$ 257,500   | \$ 261,300   | \$ 267,200   | \$ 278,300   | \$ 290,100   |
| SRF Debt Service - Existing | Input                | 123,100      | 123,100      | 123,100      | 123,100      | 123,100      | 123,100      |
| Other                       | 1                    | -            | -            | -            | -            | -            | -            |

**Schedule 2**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Wastewater System**

| Description                       | Escalation Factor | Test Year    | Fiscal Year  |              |              |              |              |
|-----------------------------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   |                   |              | 2004/05      | 2005/06      | 2006/07      | 2007/08      | 2008/09      |
| Total Non-Operating & Transfers   |                   | \$ 348,100   | \$ 380,600   | \$ 384,400   | \$ 390,300   | \$ 401,400   | \$ 413,200   |
| Capital From Rates                |                   |              |              |              |              |              |              |
| Equipment                         | 2                 | \$ 332,000   | \$ 338,600   | \$ 345,400   | \$ 352,300   | \$ 359,300   | \$ 366,500   |
| Computer Equipment                | 2                 | 1,700        | 1,700        | 1,700        | 1,700        | 1,700        | 1,700        |
| Total Capital From Rates          |                   | \$ 333,700   | \$ 340,300   | \$ 347,100   | \$ 354,000   | \$ 361,000   | \$ 368,200   |
| <b>Total</b>                      |                   | \$ 5,309,900 | \$ 5,473,700 | \$ 5,615,400 | \$ 5,765,800 | \$ 5,924,900 | \$ 6,095,000 |
| Other Revenue Sources             |                   |              |              |              |              |              |              |
| Sale of Copies                    | 1                 | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     |
| Service Fees                      | 1                 | 95,600       | 95,600       | 95,600       | 95,600       | 95,600       | 95,600       |
| Leachate Treatment                | 1                 | 40,000       | 40,000       | 40,000       | 40,000       | 40,000       | 40,000       |
| Interdepartment Lab Fees          | 1                 | 30,000       | 30,000       | 30,000       | 30,000       | 30,000       | 30,000       |
| Filing/Application Fees           | 1                 | 5,000        | 5,000        | 5,000        | 5,000        | 5,000        | 5,000        |
| Pretreatment Permit Fees          | 1                 | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        |
| Telemetry Fees                    | 1                 | 65,000       | 65,000       | 65,000       | 65,000       | 65,000       | 65,000       |
| Return Check Charges              | 1                 | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        |
| Interest Earnings                 | 1                 | 300          | 300          | 300          | 300          | 300          | 300          |
| Interest Earnings - SBA           | 1                 | 87,500       | 87,500       | 87,500       | 87,500       | 87,500       | 87,500       |
| Interest Earnings - UCFs          | 1                 | 3,000        | 3,000        | 3,000        | 3,000        | 3,000        | 3,000        |
| Interest Earnings - Surplus Funds | 7                 | 300,000      | 180,000      | 90,000       | 90,000       | 90,000       | 90,000       |
| Tower Lease                       | 1                 | 9,000        | 9,000        | 9,000        | 9,000        | 9,000        | 9,000        |
| Total Other Revenue Sources       |                   | \$ 641,700   | \$ 521,700   | \$ 431,700   | \$ 431,700   | \$ 431,700   | \$ 431,700   |
| Net Fiscal Requirement            |                   | \$ 4,668,200 | \$ 4,952,000 | \$ 5,183,700 | \$ 5,334,100 | \$ 5,493,200 | \$ 5,663,300 |

| Escalation Factors          |   |  |        |        |        |        |        |
|-----------------------------|---|--|--------|--------|--------|--------|--------|
| Zero                        | 0 |  | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Constant                    | 1 |  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Inflation                   | 2 |  | 1.0200 | 1.0200 | 1.0200 | 1.0200 | 1.0200 |
| Personnel                   | 3 |  | 1.0300 | 1.0300 | 1.0300 | 1.0300 | 1.0300 |
| Customer Growth             | 4 |  | 1.0439 | 1.0448 | 1.0456 | 1.0465 | 1.0473 |
| Customer Growth * Inflation | 5 |  | 1.0652 | 1.0652 | 1.0652 | 1.0652 | 1.0652 |
| Repairs & Maintenance       | 6 |  | 1.0400 | 1.0400 | 1.0400 | 1.0400 | 1.0400 |
| Interest Earnings           | 7 |  | 0.6000 | 0.5000 | 1.0000 | 1.0000 | 1.0000 |
|                             | 8 |  |        |        |        |        |        |
|                             | 9 |  |        |        |        |        |        |
| Rounding                    |   |  | -2     | -2     | -2     | -2     | -2     |

**Schedule 3**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Reuse System**

| Description                     | Escalation | Test       | Fiscal Year |            |            |            |            |
|---------------------------------|------------|------------|-------------|------------|------------|------------|------------|
|                                 | Factor     | Year       | 2004/05     | 2005/06    | 2006/07    | 2007/08    | 2008/09    |
| Personnel Costs                 |            |            |             |            |            |            |            |
| Regular Salaries                | 3          | \$ 64,400  | \$ 66,300   | \$ 68,300  | \$ 70,300  | \$ 72,400  | \$ 74,600  |
| FICA/Medicare Taxes             | 3          | 4,900      | 5,000       | 5,200      | 5,400      | 5,600      | 5,800      |
| Employers Ret Contribution      | 3          | 5,400      | 5,600       | 5,800      | 6,000      | 6,200      | 6,400      |
| Life & Health Insurance         | 3          | 9,800      | 10,100      | 10,400     | 10,700     | 11,000     | 11,300     |
| Worker's Compensation           | 3          | 2,900      | 3,000       | 3,100      | 3,200      | 3,300      | 3,400      |
| New Expenses (CIP)              | 3          | -          | -           | -          | -          | -          | -          |
| Total Personnel Costs           |            | \$ 87,400  | \$ 90,000   | \$ 92,800  | \$ 95,600  | \$ 98,500  | \$ 101,500 |
| Operating Costs                 |            |            |             |            |            |            |            |
| Professional Fees               | 2          | \$ 14,200  | \$ 14,500   | \$ 14,800  | \$ 15,100  | \$ 15,400  | \$ 15,700  |
| Deposit Interest Expense        | 2          | -          | -           | -          | -          | -          | -          |
| Contractual Services            | 2          | 18,700     | 19,100      | 19,500     | 19,900     | 20,300     | 20,700     |
| Service Charges                 | 2          | -          | -           | -          | -          | -          | -          |
| Refuse                          | 5          | 200        | 200         | 200        | 200        | 200        | 200        |
| Indirect Admin Cost             | 5          | 5,900      | 6,300       | 6,700      | 7,100      | 7,600      | 8,100      |
| Travel & Per Diem               | 2          | 1,200      | 1,200       | 1,200      | 1,200      | 1,200      | 1,200      |
| Communications                  | 2          | 1,100      | 1,100       | 1,100      | 1,100      | 1,100      | 1,100      |
| Utilities                       | 5          | 9,500      | 10,100      | 10,800     | 11,500     | 12,200     | 13,000     |
| Lease/Rental of Equipment       | 2          | 100        | 100         | 100        | 100        | 100        | 100        |
| Insurance                       | 2          | 1,300      | 1,300       | 1,300      | 1,300      | 1,300      | 1,300      |
| Building Maintenance            | 6          | 200        | 200         | 200        | 200        | 200        | 200        |
| Equipment Maintenance           | 6          | 200        | 200         | 200        | 200        | 200        | 200        |
| Vehicle Maintenance             | 6          | 1,300      | 1,400       | 1,500      | 1,600      | 1,700      | 1,800      |
| Other Maintenance               | 6          | 3,000      | 3,100       | 3,200      | 3,300      | 3,400      | 3,500      |
| Advertising                     | 2          | -          | -           | -          | -          | -          | -          |
| Office Supplies                 | 5          | 100        | 100         | 100        | 100        | 100        | 100        |
| Software                        | 2          | -          | -           | -          | -          | -          | -          |
| Operating Supplies              | 5          | 27,600     | 29,400      | 31,300     | 33,300     | 35,500     | 37,800     |
| Gas, Oil, & Lubricants          | 5          | 1,200      | 1,300       | 1,400      | 1,500      | 1,600      | 1,700      |
| Tools & Small Implements        | 6          | 100        | 100         | 100        | 100        | 100        | 100        |
| Training                        | 2          | -          | -           | -          | -          | -          | -          |
| Dues & Memberships              | 2          | 100        | 100         | 100        | 100        | 100        | 100        |
| Agent Fees                      | 1          | -          | -           | -          | -          | -          | -          |
| New Expenses (CIP)              | 0          | -          | -           | -          | -          | -          | -          |
| Total Operating Costs           |            | \$ 86,000  | \$ 89,800   | \$ 93,800  | \$ 97,900  | \$ 102,300 | \$ 106,900 |
| Total O&M                       |            | \$ 173,400 | \$ 179,800  | \$ 186,600 | \$ 193,500 | \$ 200,800 | \$ 208,400 |
| Existing Debt Service           |            |            |             |            |            |            |            |
| Principal - 1999                | Input      | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Interest - 1999                 | Input      | -          | -           | -          | -          | -          | -          |
| Principal - 1998                | Input      | -          | -           | -          | -          | -          | -          |
| Interest - 1998                 | Input      | -          | -           | -          | -          | -          | -          |
| Principal - 1996                | Input      | -          | -           | -          | -          | -          | -          |
| Interest - 1996                 | Input      | -          | -           | -          | -          | -          | -          |
| Principal - 1991 CABS           | Input      | -          | -           | -          | -          | -          | -          |
| Principal - 2002                | Input      | -          | -           | -          | -          | -          | -          |
| Interest - 2002                 | Input      | -          | -           | -          | -          | -          | -          |
| Total Existing Debt Service     |            | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Proposed Debt Service           |            |            |             |            |            |            |            |
| Series 2004                     | Input      | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Total Proposed Debt Service     |            | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Grand Total Debt Service        |            | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Non-Operating & Transfers       |            |            |             |            |            |            |            |
| Renewal & Replacement           | Input      | \$ -       | \$ 1,800    | \$ 1,800   | \$ 1,800   | \$ 1,800   | \$ 1,800   |
| SRF Debt Service - Existing     | Input      | -          | -           | -          | -          | -          | -          |
| Other                           | 1          | -          | -           | -          | -          | -          | -          |
| Total Non-Operating & Transfers |            | \$ -       | \$ 1,800    | \$ 1,800   | \$ 1,800   | \$ 1,800   | \$ 1,800   |
| Capital From Rates              |            |            |             |            |            |            |            |

**Schedule 3**  
**St. Johns County Utility Department**  
**Projection of Net Fiscal Requirement**  
**Reuse System**

| Description                       | Escalation Factor | Test Year  | Fiscal Year |            |            |            |            |
|-----------------------------------|-------------------|------------|-------------|------------|------------|------------|------------|
|                                   |                   |            | 2004/05     | 2005/06    | 2006/07    | 2007/08    | 2008/09    |
| Equipment                         | 2                 | \$ 1,100   | \$ 1,100    | \$ 1,100   | \$ 1,100   | \$ 1,100   | \$ 1,100   |
| Computer Equipment                | 2                 | -          | -           | -          | -          | -          | -          |
| Total Capital From Rates          |                   | \$ 1,100   | \$ 1,100    | \$ 1,100   | \$ 1,100   | \$ 1,100   | \$ 1,100   |
| <b>Total</b>                      |                   | \$ 174,500 | \$ 182,700  | \$ 189,500 | \$ 196,400 | \$ 203,700 | \$ 211,300 |
| Other Revenue Sources             |                   |            |             |            |            |            |            |
| Sale of Copies                    | 1                 | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Water Sales                       | 1                 | -          | -           | -          | -          | -          | -          |
| Service Fees                      | 1                 | -          | -           | -          | -          | -          | -          |
| Meter Installations               | 1                 | -          | -           | -          | -          | -          | -          |
| UCFs - Water                      | 1                 | -          | -           | -          | -          | -          | -          |
| Sewer Fees                        | 1                 | -          | -           | -          | -          | -          | -          |
| UCFs - Wastewater                 | 1                 | -          | -           | -          | -          | -          | -          |
| Leachate Treatment                | 1                 | -          | -           | -          | -          | -          | -          |
| Interdepartment Lab Fees          | 1                 | -          | -           | -          | -          | -          | -          |
| Filing/Application Fees           | 1                 | -          | -           | -          | -          | -          | -          |
| Pretreatment Permit Fees          | 1                 | -          | -           | -          | -          | -          | -          |
| Telemetry Fees                    | 1                 | -          | -           | -          | -          | -          | -          |
| Return Check Charges              | 1                 | -          | -           | -          | -          | -          | -          |
| Interest Earnings                 | 1                 | -          | -           | -          | -          | -          | -          |
| Interest Earnings - SBA           | 1                 | -          | -           | -          | -          | -          | -          |
| Interest Earnings - UCFs          | 1                 | -          | -           | -          | -          | -          | -          |
| Interest Earnings - Surplus Funds | 7                 | -          | -           | -          | -          | -          | -          |
| Tower Lease                       | 1                 | -          | -           | -          | -          | -          | -          |
| Total Other Revenue Sources       |                   | \$ -       | \$ -        | \$ -       | \$ -       | \$ -       | \$ -       |
| Net Fiscal Requirement            |                   | \$ 174,500 | \$ 182,700  | \$ 189,500 | \$ 196,400 | \$ 203,700 | \$ 211,300 |

| Escalation Factors          |   |  |        |        |        |        |        |
|-----------------------------|---|--|--------|--------|--------|--------|--------|
| Zero                        | 0 |  | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Constant                    | 1 |  | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Inflation                   | 2 |  | 1.0200 | 1.0200 | 1.0200 | 1.0200 | 1.0200 |
| Personnel                   | 3 |  | 1.0300 | 1.0300 | 1.0300 | 1.0300 | 1.0300 |
| Customer Growth             | 4 |  | 1.0443 | 1.0449 | 1.0455 | 1.0460 | 1.0466 |
| Customer Growth * Inflation | 5 |  | 1.0652 | 1.0652 | 1.0652 | 1.0652 | 1.0652 |
| Repairs & Maintenance       | 6 |  | 1.0400 | 1.0400 | 1.0400 | 1.0400 | 1.0400 |
| Interest Earnings           | 7 |  | 0.6000 | 0.5000 | 1.0000 | 1.0000 | 1.0000 |
|                             | 8 |  |        |        |        |        |        |
|                             | 9 |  |        |        |        |        |        |
| Rounding                    |   |  | -2     | -2     | -2     | -2     | -2     |

**Schedule 4**  
**St. Johns County Utility Department**  
**Proforma Operating Statement**  
**Water System**

|                                   | Test<br>Year | Fiscal Year  |              |              |               |               |
|-----------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|
|                                   |              | 2004/05      | 2005/06      | 2006/07      | 2007/08       | 2008/09       |
| Revenues                          |              |              |              |              |               |               |
| Charges For Service               |              |              |              |              |               |               |
| Minimum                           | \$ 2,877,000 | \$ 3,006,100 | \$ 3,142,800 | \$ 3,287,300 | \$ 3,440,400  | \$ 3,602,400  |
| Gallorage                         | 5,287,300    | 5,429,100    | 5,684,100    | 5,953,200    | 6,238,500     | 6,540,100     |
| Total Charges For Service         | \$ 8,164,300 | \$ 8,435,200 | \$ 8,826,900 | \$ 9,240,500 | \$ 9,678,900  | \$ 10,142,500 |
|                                   |              |              |              |              |               |               |
| Other Revenue                     |              |              |              |              |               |               |
| Sale of Copies                    | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300      | \$ 1,300      |
| Water Sales                       | -            | -            | -            | -            | -             | -             |
| Service Fees                      | 95,600       | 95,600       | 95,600       | 95,600       | 95,600        | 95,600        |
| Meter Installations               | 303,300      | 303,300      | 303,300      | 303,300      | 303,300       | 303,300       |
| UCFs - Water                      | -            | -            | -            | -            | -             | -             |
| Sewer Fees                        | -            | -            | -            | -            | -             | -             |
| UCFs - Wastewater                 | -            | -            | -            | -            | -             | -             |
| Leachate Treatment                | -            | -            | -            | -            | -             | -             |
| Interdepartment Lab Fees          | -            | -            | -            | -            | -             | -             |
| Filing/Application Fees           | 5,000        | 5,000        | 5,000        | 5,000        | 5,000         | 5,000         |
| Pretreatment Permit Fees          | -            | -            | -            | -            | -             | -             |
| Telemetry Fees                    | 65,000       | 65,000       | 65,000       | 65,000       | 65,000        | 65,000        |
| Return Check Charges              | 2,500        | 2,500        | 2,500        | 2,500        | 2,500         | 2,500         |
| Interest Earnings                 | 300          | 300          | 300          | 300          | 300           | 300           |
| Interest Earnings - SBA           | 87,500       | 87,500       | 87,500       | 87,500       | 87,500        | 87,500        |
| Interest Earnings - UCFs          | -            | -            | -            | -            | -             | -             |
| Interest Earnings - Surplus Funds | 300,000      | 180,000      | 90,000       | 90,000       | 90,000        | 90,000        |
| Tower Lease                       | 9,000        | 9,000        | 9,000        | 9,000        | 9,000         | 9,000         |
| Sale of Surplus Property          | -            | -            | -            | -            | -             | -             |
| Total Other Revenue               | \$ 869,500   | \$ 749,500   | \$ 659,500   | \$ 659,500   | \$ 659,500    | \$ 659,500    |
|                                   |              |              |              |              |               |               |
| Total Revenue                     | \$ 9,033,800 | \$ 9,184,700 | \$ 9,486,400 | \$ 9,900,000 | \$ 10,338,400 | \$ 10,802,000 |
|                                   |              |              |              |              |               |               |
| O&M Expenses                      | \$ 4,059,600 | \$ 4,219,100 | \$ 4,386,200 | \$ 4,561,200 | \$ 4,745,000  | \$ 4,937,500  |
|                                   |              |              |              |              |               |               |
| Net Revenue                       | \$ 4,974,200 | \$ 4,965,600 | \$ 5,100,200 | \$ 5,338,800 | \$ 5,593,400  | \$ 5,864,500  |
|                                   |              |              |              |              |               |               |
| Unit Connection Fees              | 635,300      | 635,800      | 638,100      | 638,700      | 639,100       | 511,600       |
|                                   |              |              |              |              |               |               |
| Net Revenue + UCFs                | \$ 5,609,500 | \$ 5,601,400 | \$ 5,738,300 | \$ 5,977,500 | \$ 6,232,500  | \$ 6,376,100  |
|                                   |              |              |              |              |               |               |
| Senior Debt Service               |              |              |              |              |               |               |
| Existing                          | \$ 3,192,700 | \$ 3,192,900 | \$ 3,196,600 | \$ 3,195,700 | \$ 3,191,500  | \$ 3,194,900  |
| Proposed '04                      | 539,900      | 808,400      | 805,600      | 808,100      | 805,300       | 777,200       |
|                                   |              |              |              |              |               |               |
| Total Debt Service                | \$ 3,732,600 | \$ 4,001,300 | \$ 4,002,200 | \$ 4,003,800 | \$ 3,996,800  | \$ 3,972,100  |
|                                   |              |              |              |              |               |               |
| Operating Balance                 | \$ 1,876,900 | \$ 1,600,100 | \$ 1,736,100 | \$ 1,973,700 | \$ 2,235,700  | \$ 2,404,000  |
|                                   |              |              |              |              |               |               |
| Non-Operating & Transfers         |              |              |              |              |               |               |
| Renewal & Replacement             | \$ 386,600   | \$ 451,700   | \$ 459,200   | \$ 474,300   | \$ 495,000    | \$ 516,900    |
| SRF Debt Service - Existing       | -            | -            | -            | -            | -             | -             |
| SRF Debt Service - Proposed       | -            | -            | -            | -            | -             | -             |
| Other                             | -            | -            | -            | -            | -             | -             |
| Capital From Rates                | 149,900      | 152,900      | 156,000      | 159,200      | 162,400       | 165,700       |
| Rate Stabilization (Prior Yrs.)   | -            | -            | -            | -            | -             | -             |
| Total Non-Operating & Transfers   | \$ 536,500   | \$ 604,600   | \$ 615,200   | \$ 633,500   | \$ 657,400    | \$ 682,600    |
|                                   |              |              |              |              |               |               |
| Net Balance                       | \$ 1,340,400 | \$ 995,500   | \$ 1,120,900 | \$ 1,340,200 | \$ 1,578,300  | \$ 1,721,400  |



**Schedule 4**  
**St. Johns County Utility Department**  
**Proforma Operating Statement**  
**Wastewater System**

|                                   | Test<br>Year | Fiscal Year |              |              |              |              |              |
|-----------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
|                                   |              | 2004/05     | 2005/06      | 2006/07      | 2007/08      | 2008/09      |              |
| Revenues                          |              |             |              |              |              |              |              |
| Charges For Service               |              |             |              |              |              |              |              |
| Minimum                           | \$           | 1,922,500   | \$ 2,008,600 | \$ 2,100,200 | \$ 2,197,800 | \$ 2,301,900 | \$ 2,412,500 |
| Gallonge                          |              | 2,585,200   | 2,695,000    | 2,811,500    | 2,935,700    | 3,067,700    | 3,208,200    |
| Total Charges For Service         | \$           | 4,507,700   | \$ 4,703,600 | \$ 4,911,700 | \$ 5,133,500 | \$ 5,369,600 | \$ 5,620,700 |
|                                   |              |             |              |              |              |              |              |
| Other Revenue                     |              |             |              |              |              |              |              |
| Sale of Copies                    | \$           | 1,300       | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     | \$ 1,300     |
| Water Sales                       |              | -           | -            | -            | -            | -            | -            |
| Service Fees                      |              | 95,600      | 95,600       | 95,600       | 95,600       | 95,600       | 95,600       |
| Meter Installations               |              | -           | -            | -            | -            | -            | -            |
| UCFs - Water                      |              | -           | -            | -            | -            | -            | -            |
| Sewer Fees                        |              | -           | -            | -            | -            | -            | -            |
| UCFs - Wastewater                 |              | -           | -            | -            | -            | -            | -            |
| Leachate Treatment                |              | 40,000      | 40,000       | 40,000       | 40,000       | 40,000       | 40,000       |
| Interdepartment Lab Fees          |              | 30,000      | 30,000       | 30,000       | 30,000       | 30,000       | 30,000       |
| Filing/Application Fees           |              | 5,000       | 5,000        | 5,000        | 5,000        | 5,000        | 5,000        |
| Pretreatment Permit Fees          |              | 2,500       | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        |
| Telemetry Fees                    |              | 65,000      | 65,000       | 65,000       | 65,000       | 65,000       | 65,000       |
| Return Check Charges              |              | 2,500       | 2,500        | 2,500        | 2,500        | 2,500        | 2,500        |
| Interest Earnings                 |              | 300         | 300          | 300          | 300          | 300          | 300          |
| Interest Earnings - SBA           |              | 87,500      | 87,500       | 87,500       | 87,500       | 87,500       | 87,500       |
| Interest Earnings - UCFs          |              | 3,000       | 3,000        | 3,000        | 3,000        | 3,000        | 3,000        |
| Interest Earnings - Surplus Funds |              | 300,000     | 180,000      | 90,000       | 90,000       | 90,000       | 90,000       |
| Tower Lease                       |              | 9,000       | 9,000        | 9,000        | 9,000        | 9,000        | 9,000        |
| Sale of Surplus Property          |              | -           | -            | -            | -            | -            | -            |
| Total Other Revenue               | \$           | 641,700     | \$ 521,700   | \$ 431,700   | \$ 431,700   | \$ 431,700   | \$ 431,700   |
|                                   |              |             |              |              |              |              |              |
| Total Revenue                     | \$           | 5,149,400   | \$ 5,225,300 | \$ 5,343,400 | \$ 5,565,200 | \$ 5,801,300 | \$ 6,052,400 |
|                                   |              |             |              |              |              |              |              |
| O&M Expenses                      | \$           | 3,531,200   | \$ 3,656,300 | \$ 3,786,900 | \$ 3,923,100 | \$ 4,065,500 | \$ 4,214,000 |
|                                   |              |             |              |              |              |              |              |
| Net Revenue                       | \$           | 1,618,200   | \$ 1,569,000 | \$ 1,556,500 | \$ 1,642,100 | \$ 1,735,800 | \$ 1,838,400 |
|                                   |              |             |              |              |              |              |              |
| Unit Connection Fees              |              | 362,100     | 361,700      | 359,400      | 359,000      | 358,600      | 286,700      |
|                                   |              |             |              |              |              |              |              |
| Net Revenue + UCFs                | \$           | 1,980,300   | \$ 1,930,700 | \$ 1,915,900 | \$ 2,001,100 | \$ 2,094,400 | \$ 2,125,100 |
|                                   |              |             |              |              |              |              |              |
| Senior Debt Service               |              |             |              |              |              |              |              |
| Existing                          | \$           | 1,096,900   | \$ 1,096,500 | \$ 1,097,000 | \$ 1,098,400 | \$ 1,097,000 | \$ 1,099,600 |
| Proposed '04                      |              | -           | -            | -            | -            | -            | -            |
| Total Debt Service                | \$           | 1,096,900   | \$ 1,096,500 | \$ 1,097,000 | \$ 1,098,400 | \$ 1,097,000 | \$ 1,099,600 |
|                                   |              |             |              |              |              |              |              |
| Operating Balance                 | \$           | 883,400     | \$ 834,200   | \$ 818,900   | \$ 902,700   | \$ 997,400   | \$ 1,025,500 |
|                                   |              |             |              |              |              |              |              |
| Non-Operating & Transfers         |              |             |              |              |              |              |              |
| Renewal & Replacement             | \$           | 225,000     | \$ 257,500   | \$ 261,300   | \$ 267,200   | \$ 278,300   | \$ 290,100   |
| SRF Debt Service - Existing       |              | 123,100     | 123,100      | 123,100      | 123,100      | 123,100      | 123,100      |
| SRF Debt Service - Proposed       |              | -           | -            | -            | -            | -            | -            |
| Other                             |              | -           | -            | -            | -            | -            | -            |
| Capital From Rates                |              | 333,700     | 340,300      | 347,100      | 354,000      | 361,000      | 368,200      |
| Rate Stabilization (Prior Yrs.)   |              | -           | -            | -            | -            | -            | -            |
| Total Non-Operating & Transfers   | \$           | 681,800     | \$ 720,900   | \$ 731,500   | \$ 744,300   | \$ 762,400   | \$ 781,400   |
|                                   |              |             |              |              |              |              |              |
| Net Balance                       | \$           | 201,600     | \$ 113,300   | \$ 87,400    | \$ 158,400   | \$ 235,000   | \$ 244,100   |

**Schedule 4**  
**St. Johns County Utility Department**  
**Proforma Operating Statement**  
**Reuse System**

|                                   | Test<br>Year | Fiscal Year  |              |              |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   |              | 2004/05      | 2005/06      | 2006/07      | 2007/08      | 2008/09      |
| <b>Revenues</b>                   |              |              |              |              |              |              |
| Charges For Service               |              |              |              |              |              |              |
| Minimum                           | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Gallorage                         | 36,100       | 36,100       | 36,100       | 36,100       | 36,100       | 36,100       |
| Total Charges For Service         | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    |
| Other Revenue                     |              |              |              |              |              |              |
| Sale of Copies                    | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Water Sales                       | -            | -            | -            | -            | -            | -            |
| Service Fees                      | -            | -            | -            | -            | -            | -            |
| Meter Installations               | -            | -            | -            | -            | -            | -            |
| UCFs - Water                      | -            | -            | -            | -            | -            | -            |
| Sewer Fees                        | -            | -            | -            | -            | -            | -            |
| UCFs - Wastewater                 | -            | -            | -            | -            | -            | -            |
| Leachate Treatment                | -            | -            | -            | -            | -            | -            |
| Interdepartment Lab Fees          | -            | -            | -            | -            | -            | -            |
| Filing/Application Fees           | -            | -            | -            | -            | -            | -            |
| Pretreatment Permit Fees          | -            | -            | -            | -            | -            | -            |
| Telemetry Fees                    | -            | -            | -            | -            | -            | -            |
| Return Check Charges              | -            | -            | -            | -            | -            | -            |
| Interest Earnings                 | -            | -            | -            | -            | -            | -            |
| Interest Earnings - SBA           | -            | -            | -            | -            | -            | -            |
| Interest Earnings - UCFs          | -            | -            | -            | -            | -            | -            |
| Interest Earnings - Surplus Funds | -            | -            | -            | -            | -            | -            |
| Tower Lease                       | -            | -            | -            | -            | -            | -            |
| Sale of Surplus Property          | -            | -            | -            | -            | -            | -            |
| Total Other Revenue               | -            | -            | -            | -            | -            | -            |
| Total Revenue                     | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    | \$ 36,100    |
| O&M Expenses                      | \$ 173,400   | \$ 179,800   | \$ 186,600   | \$ 193,500   | \$ 200,800   | \$ 208,400   |
| Net Revenue                       | \$ (137,300) | \$ (143,700) | \$ (150,500) | \$ (157,400) | \$ (164,700) | \$ (172,300) |
| Unit Connection Fees              | 2,600        | 2,500        | 2,500        | 2,300        | 2,300        | 1,700        |
| Net Revenue + UCFs                | \$ (134,700) | \$ (141,200) | \$ (148,000) | \$ (155,100) | \$ (162,400) | \$ (170,600) |
| Senior Debt Service               |              |              |              |              |              |              |
| Existing                          | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Proposed '04                      | -            | -            | -            | -            | -            | -            |
| Total Debt Service                | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Operating Balance                 | \$ (134,700) | \$ (141,200) | \$ (148,000) | \$ (155,100) | \$ (162,400) | \$ (170,600) |
| Non-Operating & Transfers         |              |              |              |              |              |              |
| Renewal & Replacement             | \$ -         | \$ 1,800     | \$ 1,800     | \$ 1,800     | \$ 1,800     | \$ 1,800     |
| SRF Debt Service - Existing       | -            | -            | -            | -            | -            | -            |
| SRF Debt Service - Proposed       | -            | -            | -            | -            | -            | -            |
| Other                             | -            | -            | -            | -            | -            | -            |
| Capital From Rates                | 1,100        | 1,100        | 1,100        | 1,100        | 1,100        | 1,100        |
| Rate Stabilization (Prior Yrs.)   | -            | -            | -            | -            | -            | -            |
| Total Non-Operating & Transfers   | \$ 1,100     | \$ 2,900     | \$ 2,900     | \$ 2,900     | \$ 2,900     | \$ 2,900     |
| Net Balance                       | \$ (135,800) | \$ (144,100) | \$ (150,900) | \$ (158,000) | \$ (165,300) | \$ (173,500) |

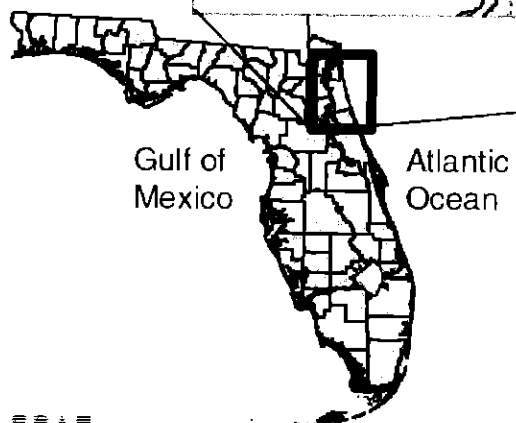
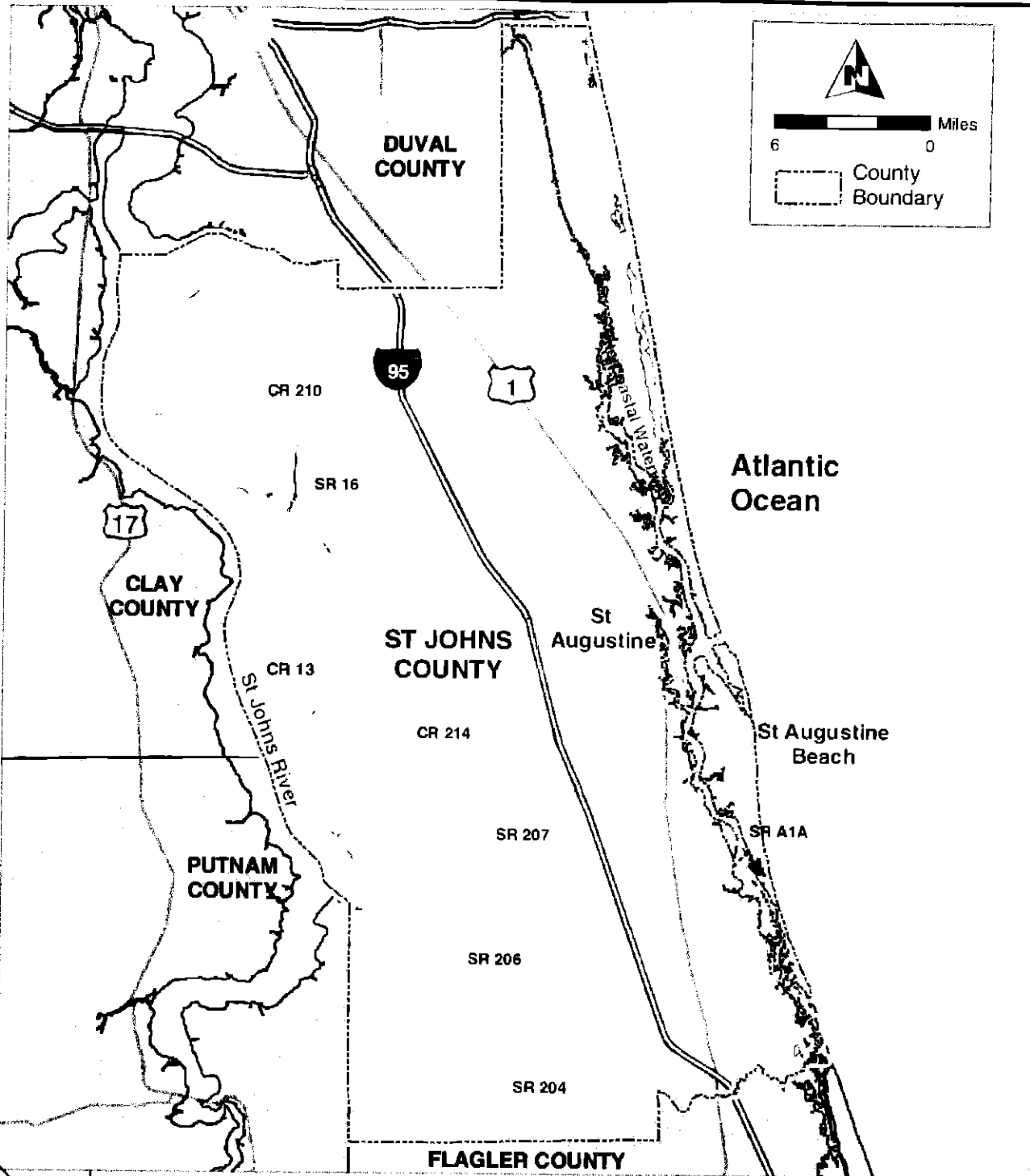
# Schedule 4

## St. Johns County Utility Department

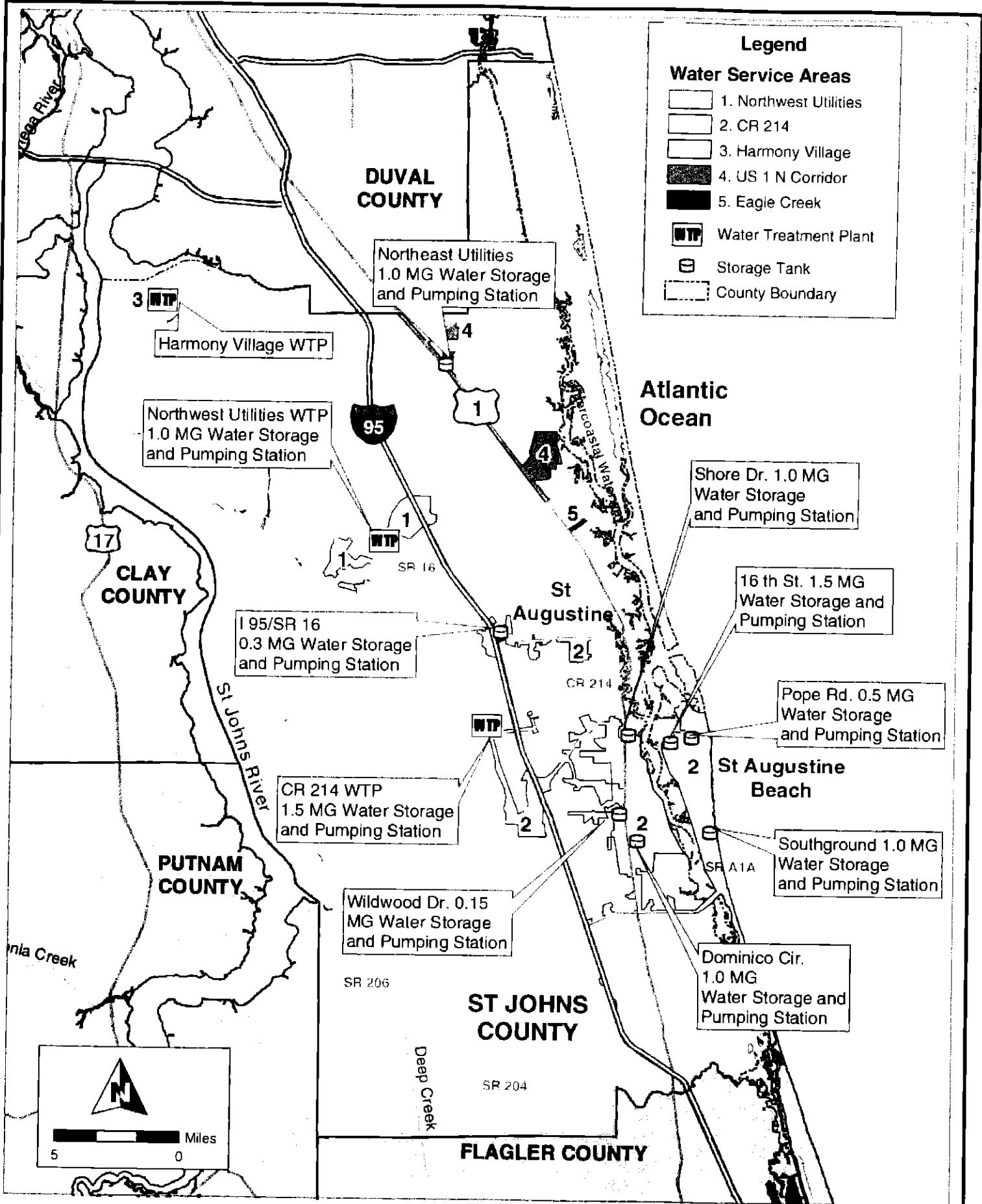
### Proforma Operating Statement

#### Combined Systems

|                                      | Test<br>Year  | Fiscal Year   |               |               |               |               |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                      |               | 2004/05       | 2005/06       | 2006/07       | 2007/08       | 2008/09       |
| <b>Revenues</b>                      |               |               |               |               |               |               |
| Charges For Service                  |               |               |               |               |               |               |
| Minimum                              | \$ 4,799,500  | \$ 5,014,700  | \$ 5,243,000  | \$ 5,485,100  | \$ 5,742,300  | \$ 6,014,900  |
| Gallage                              | 7,908,600     | 8,160,200     | 8,531,700     | 8,925,000     | 9,342,300     | 9,784,400     |
| Total Charges For Service            | \$ 12,708,100 | \$ 13,174,900 | \$ 13,774,700 | \$ 14,410,100 | \$ 15,084,600 | \$ 15,799,300 |
| Other Revenue                        |               |               |               |               |               |               |
| Sale of Copies                       | \$ 2,600      | \$ 2,600      | \$ 2,600      | \$ 2,600      | \$ 2,600      | \$ 2,600      |
| Water Sales                          | -             | -             | -             | -             | -             | -             |
| Service Fees                         | 191,200       | 191,200       | 191,200       | 191,200       | 191,200       | 191,200       |
| Meter Installations                  | 303,300       | 303,300       | 303,300       | 303,300       | 303,300       | 303,300       |
| UCFs - Water                         | -             | -             | -             | -             | -             | -             |
| Sewer Fees                           | -             | -             | -             | -             | -             | -             |
| UCFs - Wastewater                    | -             | -             | -             | -             | -             | -             |
| Leachate Treatment                   | 40,000        | 40,000        | 40,000        | 40,000        | 40,000        | 40,000        |
| Interdepartment Lab Fees             | 30,000        | 30,000        | 30,000        | 30,000        | 30,000        | 30,000        |
| Filing/Application Fees              | 10,000        | 10,000        | 10,000        | 10,000        | 10,000        | 10,000        |
| Pretreatment Permit Fees             | 2,500         | 2,500         | 2,500         | 2,500         | 2,500         | 2,500         |
| Telemetry Fees                       | 130,000       | 130,000       | 130,000       | 130,000       | 130,000       | 130,000       |
| Return Check Charges                 | 5,000         | 5,000         | 5,000         | 5,000         | 5,000         | 5,000         |
| Interest Earnings                    | 600           | 600           | 600           | 600           | 600           | 600           |
| Interest Earnings - SBA              | 175,000       | 175,000       | 175,000       | 175,000       | 175,000       | 175,000       |
| Interest Earnings - UCFs             | 3,000         | 3,000         | 3,000         | 3,000         | 3,000         | 3,000         |
| Interest Earnings - Surplus Funds    | 600,000       | 360,000       | 180,000       | 180,000       | 180,000       | 180,000       |
| Tower Lease                          | 18,000        | 18,000        | 18,000        | 18,000        | 18,000        | 18,000        |
| Sale of Surplus Property             | -             | -             | -             | -             | -             | -             |
| Total Other Revenue                  | \$ 1,511,200  | \$ 1,271,200  | \$ 1,091,200  | \$ 1,091,200  | \$ 1,091,200  | \$ 1,091,200  |
| <b>Total Revenue</b>                 | \$ 14,219,300 | \$ 14,446,100 | \$ 14,865,900 | \$ 15,501,300 | \$ 16,175,800 | \$ 16,890,500 |
| <b>O&amp;M Expenses</b>              | \$ 7,764,200  | \$ 8,055,200  | \$ 8,359,700  | \$ 8,677,800  | \$ 9,011,300  | \$ 9,359,900  |
| <b>Net Revenue</b>                   | \$ 6,455,100  | \$ 6,390,900  | \$ 6,506,200  | \$ 6,823,500  | \$ 7,164,500  | \$ 7,530,600  |
| <b>Unit Connection Fees</b>          | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     | 800,000       |
| <b>Net Revenue + UCFs</b>            | \$ 7,455,100  | \$ 7,390,900  | \$ 7,506,200  | \$ 7,823,500  | \$ 8,164,500  | \$ 8,330,600  |
| <b>Senior Debt Service</b>           |               |               |               |               |               |               |
| Existing                             | \$ 4,289,600  | \$ 4,289,400  | \$ 4,293,600  | \$ 4,294,100  | \$ 4,288,500  | \$ 4,294,500  |
| Proposed '04                         | 539,900       | 808,400       | 805,600       | 808,100       | 805,300       | 777,200       |
| Total Debt Service                   | \$ 4,829,500  | \$ 5,097,800  | \$ 5,099,200  | \$ 5,102,200  | \$ 5,093,800  | \$ 5,071,700  |
| <b>Operating Balance</b>             | \$ 2,625,600  | \$ 2,293,100  | \$ 2,407,000  | \$ 2,721,300  | \$ 3,070,700  | \$ 3,258,900  |
| <b>Non-Operating &amp; Transfers</b> |               |               |               |               |               |               |
| Renewal & Replacement                | \$ 611,600    | \$ 711,000    | \$ 722,300    | \$ 743,300    | \$ 775,100    | \$ 808,800    |
| SRF Debt Service - Existing          | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       | 123,100       |
| SRF Debt Service - Proposed          | -             | -             | -             | -             | -             | -             |
| Other                                | -             | -             | -             | -             | -             | -             |
| Capital From Rates                   | 484,700       | 494,300       | 504,200       | 514,300       | 524,500       | 535,000       |
| Rate Stabilization (Prior Yrs.)      | -             | -             | -             | -             | -             | -             |
| Total Non-Operating & Transfers      | \$ 1,219,400  | \$ 1,328,400  | \$ 1,349,600  | \$ 1,380,700  | \$ 1,422,700  | \$ 1,466,900  |
| <b>Net Balance</b>                   | \$ 1,406,200  | \$ 964,700    | \$ 1,057,400  | \$ 1,340,600  | \$ 1,648,000  | \$ 1,792,000  |









## **APPENDIX D**

### **THE RESOLUTION**

Resolution No. 89-84, as amended and supplemented by Resolution 89-189,  
Resolution No. 90-61, Resolution No. 90-208,  
Resolution No. 91-113, Resolution No. 95-87, Resolution No. 96-34  
Resolution No. 98-99, Resolution No. 99-72,  
Resolution No. 2002-239 and Resolution No. 2004-\_\_

RESOLUTION PROVIDING FOR THE ACQUISITION, CONSTRUCTION AND ERECTION OF ADDITIONS, EXTENSIONS AND IMPROVEMENTS TO THE WATER DISTRIBUTION FACILITIES OF ST. JOHNS COUNTY, AND OF NEW SEWAGE COLLECTION AND TREATMENT FACILITIES TO BE OPERATED BY THE COUNTY IN COMBINATION WITH SUCH WATER FACILITIES AS A SINGLE WATER AND SEWER SYSTEM; AUTHORIZING THE ISSUANCE BY THE COUNTY OF NOT EXCEEDING \$10,430,000 PRINCIPAL AMOUNT OF WATER AND SEWER REVENUE BONDS, SERIES 1989, TO FINANCE THE COST THEREOF AND THE COST OF REFUNDING THE COUNTY'S OUTSTANDING WATER REVENUE BONDS; PROVIDING FOR THE REFUNDING OF SAID OUTSTANDING BONDS; PLEDGING TO SECURE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID SERIES 1989 BONDS CERTAIN PLEDGED FUNDS INCLUDING THE NET REVENUES OF SAID SYSTEM AND CERTAIN LAWFULLY AVAILABLE CONNECTION CHARGES, ALL MONEYS ON DEPOSIT IN AND INVESTMENTS HELD FOR THE CREDIT OF CERTAIN FUNDS CREATED HEREUNDER AND THE EARNINGS ON SUCH INVESTMENTS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID SERIES 1989 BONDS; MAKING CERTAIN COVENANTS AND AGREEMENTS WITH THE HOLDERS OF SAID SERIES 1989 BONDS; REPEALING THE COUNTY'S RESOLUTION NO. 88-241 AND RESOLUTION NO. 88-253; AND PROVIDING AN EFFECTIVE DATE.



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BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF ST. JOHNS  
COUNTY, FLORIDA:

ARTICLE I

GENERAL

SECTION 1.01. Definitions. When used in this Resolution, the following terms shall have the following meanings, unless the context clearly otherwise requires:

"Accreted Value" shall mean, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond (the principal amount at its initial offering) plus the interest accrued on such Capital Appreciation Bond from the date of delivery to the original purchasers thereof to the Interest Date next preceding the date of computation or the date of computation if an Interest Date, such interest to accrue at a rate not exceeding the legal rate, compounded semiannually, plus, with respect to matters related to the payment upon redemption or acceleration of the Capital Appreciation Bonds, if such date of computation shall not be an Interest Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Date and the Accreted Value as of the immediately succeeding Interest Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a 360-day year.

"Act" shall mean Chapter 125, Part I, Florida Statutes, as amended, St. Johns County Ordinance No.86-89 and other applicable provisions of law.

"Additional Bonds" shall mean the obligations issued at any time under the provisions of Section 5.02 hereof on a parity with the Series 1989 Bonds.

"Additional Project" shall mean the acquisition, construction, erection, renovation or reconstruction of capital improvements and additions to the System and shall include all property rights, appurtenances, easements, rights of way, franchises and equipment relating thereto and deemed necessary or convenient for the acquisition, construction, erection, renovation, reconstruction, or the operation thereof, which shall be financed in whole or in part with the proceeds of Additional Bonds.

"Amortization Installment" shall mean a mandatory redemption amount designated as such by Supplemental Resolution and established with respect to any Term Bonds.

"Annual Audit" shall mean the annual audit prepared pursuant to the requirements of Section 5.10 hereof.

"Annual Budget" shall mean the annual budget prepared pursuant to the requirements of Section 5.06 hereof.

"Assessments" shall mean the proceeds to be derived by the Issuer from any non-ad valorem special assessments which shall be levied by the Issuer, on its own behalf or as the governing body of a municipal service benefit unit, against Some or all of the parcels of real

property to be specially benefitted by the services and facilities of any Additional Project or by any portion thereof, and which shall be expressly declared by one or more resolutions of the Governing Body to be Assessments, as hereby defined, and which shall be expressly pledged by said resolution(s), including interest on such non-ad valorem special assessments and any penalties thereon and moneys received upon the foreclosure of the liens thereof and, by reason of such non-ad valorem special assessments, upon the sale of tax certificates, to the payment of the principal of and premium, if any, and interest on the Bonds or one or more Series of Bonds. The Issuer shall have the right to levy and collect non-ad valorem special assessments upon some or all of the parcels of real property specially benefitted by any Additional Project or by any portion thereof without declaring that such assessments shall be Assessments, as herein defined, and to provide for the application of such assessments to any lawful public purpose, including provision for the application of such assessments to the payment of the principal of or Redemption Price, if applicable, and interest on any particular Series of Bonds or Subordinated Indebtedness or any other obligations of the Issuer.

“Assessments Fund” shall mean the St. Johns County Water and Sewer Assessments Fund established pursuant to Section 4.06(A)(7) hereof.

“Assessments Redemption Bonds” shall mean the particular Bonds designated as such by resolution of the Governing Body, which shall be term or serial Bonds amortizing corresponding to the Issuer’s receipt of the installments of the Assessments which shall be pledged to their payment, and which shall be subject to mandatory redemption by operation of the Assessments Fund pursuant to Section 4.06(A)(7) hereof. The final maturity of every Series of Assessment Redemption Bonds shall not be later than one year after the due date of the final installment of the Assessments which shall be pledged to their payment. Assessments Redemption Bonds shall not be issued in any principal amount which will cause the aggregate principal amount of all Assessments Redemption Bonds Outstanding to exceed 25% of the par value of all Bonds then Outstanding, unless all Bonds shall be insured and the Insurer shall consent to the issuance of any amount of Assessments Redemption Bonds which shall result in an aggregate principal amount of Assessments Redemption Bonds Outstanding in an amount greater than 25% of the par value of all Bonds Outstanding.

“Authorized Depository” shall mean the State Board of Administration of Florida or a bank or trust company in the State which is eligible under the laws of the State to receive funds of the Issuer.

“Authorized Investments” shall mean any of the following which shall be authorized from time to time by applicable laws of the State for deposit or purchase by the Issuer for the investment of its funds:

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

(2) Bonds, debentures or notes or other evidences of indebtedness payable in cash issued by any one or a combination of any of the following federal agencies whose obligations

represent full faith and credit of the United States of America: Export Import Bank of the United States, Federal Financing Bank, Farmers Home Administration, Federal Housing Administration, Maritime Administration, Public Housing Authority and Government National Mortgage Association.

(3) Certificates of deposit properly secured at all times by collateral security described in either or both of paragraphs (1) and (2) of this definition or in the collateral provisions of Chapter 280, Florida Statutes, as amended, and issued by commercial banks, savings and loan associations or mutual savings banks chartered by the State or the United States of America, and bank trust receipts issued by commercial banks or trust companies chartered by the State or the United States of America upon any securities described in paragraph (1) of this definition.

(4) The following investments fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation: (A) certificates of deposit, (B) savings accounts, (C) deposit accounts, or (D) depository receipts of a bank, savings and loan association or mutual savings bank.

(5) Commercial paper rated in one of the two highest rating categories by at least two nationally recognized rating agencies or commercial paper backed by a letter of credit or line of credit rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's Corporation.

(6) Written repurchase agreements with any bank, savings institution or trust company which is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or with any broker-dealer with retail customers which falls under Securities Investors Protection Corporation protection, provided that such repurchase agreements are fully secured by collateral described in (1) above or obligations of any agency or instrumentality of the United States of America, and provided further that (A) such collateral is held by a bank or trust company chosen by the Issuer which has no interest in the repurchase agreement during the term of such repurchase agreement, (B) such collateral is not subject to liens or claims of third parties, (C) such collateral has a market value (determined at least once every 30 days) at least equal to the amount invested in the repurchase agreement, (D) the entity holding the collateral has a perfected first security interest in the collateral for the benefit of the Bondholders, (E) the agreement shall be for a term not longer than 270 days and (F) the failure to maintain such collateral at the level required in (C) above will require the entity holding the collateral to liquidate the collateral.

(7) Money market funds rated in the highest rating category by Moody's Investors Service and Standard & Poor's Corporation.

(8) Units of participation in the Local Government Surplus Funds Trust Fund established pursuant to Part IV, Chapter 218, Florida Statutes, as amended, or any similar common trust fund which is established pursuant to State law as a legal depository of public moneys.

(9) Obligations of state or local government municipal bond issuers that are rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's Corporation.

(10) Such other obligations as shall be permitted to be legal investments of the Issuer by the laws of the State.

Rating categories when referred to herein shall be without regard to gradations within such categories, such as "plus" or "minus."

"Authorized Issuer Officer" for the performance on the behalf of the Issuer of any act of the Issuer or the execution of any instrument on behalf of the Issuer shall mean any person authorized by resolution of the Issuer or appointed by certificate of the Chairman to perform such act or sign such document.

"Bond Amortization Account" shall mean the separate account of that name in the Debt Service Fund established pursuant to Section 4.05 hereof.

"Bond Counsel" shall mean any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on obligations issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Insurance Policy" shall mean the municipal bond new issue insurance policy or policies issued by an Insurer guaranteeing the payment of the principal of and interest on any portion of the Bonds, including the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of the principal of and interest on the Series 1989 Bonds and the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of the principal of and interest on the Series 1990A Bonds.

"Bond Service Requirement" for any Bond Year, as applied to the Bonds of any Series, shall mean (1) as of the date of delivery of such Series of Bonds, the sum of the Debt Service Requirement on such Series of Bonds and all other payments required by this Resolution to be paid in such Bond Year with respect to such Series of Bonds, and (2) as of any particular date of calculation thereafter with respect to such Series of Bonds, the sums of (a) the portion of the Debt Service Requirement and all other payments required by this Resolution that have been paid in such Bond Year plus (b) the portion of the Debt Service Requirement and all other payments required by this Resolution that have yet to be paid in such Bond Year. For purposes of this definition, "all other payments required by this Resolution" shall mean, with respect to any Series of Bonds, the pro rata deposits to the Reserve Account and the Renewal and Replacement Fund in such Bond Year, and redemption premiums, if any, payable in such Bond Year.

"Bond Year" pertaining to any Series shall mean the period commencing on June 2 of each year and continuing through the next succeeding June 1. Each Bond Year shall be designated with the number of the calendar year in which such Bond Year ends.

“Bondholder” or “Holder” or “holder” shall mean any Person who shall be the registered owner of any Outstanding Bond or Bonds according to the registration books of the Issuer.

“Bonds” shall mean the Series 1989 Bonds, together with any Additional Bonds and any Subordinated Indebtedness which accedes to the status of Bonds pursuant to Section 5.04 hereof.

“Capital Appreciation Bonds” shall mean those Bonds so designated by Supplemental Resolution, which may be either Serial Bonds or Term Bonds and which shall bear interest payable at maturity or redemption. In the case of Capital Appreciation Bonds that are convertible to Bonds with interest payable prior to maturity or prior to redemption of such Bonds, such Bonds shall be considered Capital Appreciation Bonds only during the period of time prior to such conversion.

“Chairman” shall mean the Chairman of the Governing Body or such other person as may be duly authorized by the Issuer to act on his or her behalf.

“Clerk” shall mean the Clerk of the Circuit Court for St. Johns County and ex officio Clerk of the Governing Body or such other person as may be duly authorized by the Clerk to act on his or her behalf.

“Code” shall mean the United States Internal Revenue Code of 1986, as the same may be amended from time to time, and the regulations thereunder, whether proposed, temporary or final, promulgated by the Department of the Treasury, Internal Revenue Service, and all other promulgations of said service pertaining thereto.

“Connection Charges” shall mean all non-refundable (except at the option of the Issuer) “water unit connection fees,” “sewer unit connection fees, impact fees, capital expansion fees, utility improvement fees or other similar fees and charges, whether payable in full prior to connection with the System or to initiation of any service afforded by System facilities or payable in installments over any period of time, separately imposed from time to time by the Issuer upon new customers of the System as a nonuser capacity charge for a proportionate share of the cost of the acquisition or construction of Expansion Facilities, which are imposed by the Issuer for the purpose of allocating to each such customer a proportionate share of the cost of the additional System capacity made necessary by the inclusion or expected inclusion of System services to such new customers, but only to the extent that any such fee or charge has been lawfully levied and collected by the Issuer and may under applicable law be used for the acquisition or construction of the Expansion Facilities or for Connection Charges Debt Service Components, and any income from the investment of moneys on deposit in the Connection Charges Fund or any other moneys transferred to the Connection Charges Fund pursuant to the provisions of this Resolution. Connection Charges shall not include Assessments.

“Connection Charges Debt Service Component” for any Bond Year, as applied to the Bonds of any Series, shall mean the component of the Debt Service Requirement for such Series of Bonds, initially set forth in the Project Certificate and thereafter, from time to time as necessary, as determined by the Issuer, which shall be determined by multiplying the Bond Service Requirement for such Series of Bonds by the Expansion Percentage.



"Connection Charges Fund" shall mean the St. Johns County Water and Sewer System Connection Charges Fund established pursuant to Section 4.05 hereof.

"Construction Account" shall mean the special account for the payment of the cost of Project 1990A, established in the Construction Fund in accordance with the provisions hereof and Section 3.04 of Resolution No. 90-61 adopted by the Governing Body on March 27, 1990.

"Construction Fund" shall mean the Construction Fund established pursuant to Section 4.04 hereof.

"Consulting Engineers" shall mean the firm of engineers licensed as professional engineers in the State and retained by the Issuer to perform the duties of the Consulting Engineers under the provisions of this Resolution.

"Cost" when used in connection with a Project, shall mean (1) the Issuer's cost of physical construction; (2) costs of acquisition by or for the Issuer of such Project; (3) costs of land and interests therein and the cost of the Issuer incidental to such acquisition; (4) the cost of any indemnity and surety bonds and premiums for insurance during construction; (5) all interest due to be paid on the Bonds and other obligations relating to the Project during the construction period of such Project and for a reasonable period thereafter; (6) engineering, legal and other consultant fees and expenses; (7) costs and expenses incidental to the issuance of the Bonds including bond insurance premiums, rating agency fees and the fees and expenses of any auditors, Paying Agent, Registrar, Credit Bank or, depository; (8) payments, when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the Issuer (other than the Bonds) incurred for such Project; (9) costs of machinery or equipment required by the Issuer for the commencement of operation of such Project; and (10) any other costs properly attributable to the issuance of the Bonds, and such construction or acquisition, as determined by generally accepted accounting principles and shall include reimbursement to the Issuer for any such items of Cost heretofore paid by the Issuer. Any Supplemental Resolution may provide for additional items to be included in the aforesaid Costs.

"Costs of Issuance Account" shall mean the St. Johns County Water and Sewer Revenue Bonds Costs of Issuance Account established pursuant to Section 2.03(C) hereof.

"Coupon Bonds" shall mean any Bonds the interest payable on which shall be represented by bearer coupons attached thereto, and the interest on which Bonds shall be payable only upon the presentation and surrender of such coupons to the Paying Agent as they severally fall due.

"Credit Bank" shall mean as to any particular Series of Bonds, the Person (other than an Insurer) providing a letter of credit, a line of credit or another credit or liquidity enhancement facility, as designated in the Supplemental Resolution providing for the issuance of such Bonds.

"Credit Facility" shall mean as to any particular Series of Bonds, a letter of credit, a line of credit or another credit or liquidity enhancement facility (other than an insurance policy issued by an Insurer), as approved in the Supplemental Resolution providing for the issuance of such Bonds.

“Current Account” shall mean the separate account in the Connection Charges Fund established pursuant to Section 4.05 hereof.

“Debt Service Fund” shall mean the St. Johns County Water and Sewer Revenue Bonds Debt Service Fund established pursuant to Section 4.05 hereof.

“Debt Service Requirement” for any Bond Year shall mean the sum of:

(1) The aggregate amount required to pay the interest becoming due on the Bonds, other than Capital Appreciation Bonds, during such Bond Year, except to the extent that such interest shall have been provided by payments into the Interest Account out of Bond proceeds or other sources for a specific period of time. For purposes of this definition, any Variable Rate Bonds shall be assumed to bear interest at the rate of 9.20% per annum.

(2) The aggregate amount required to pay the principal becoming due on the Bonds, other than Capital Appreciation Bonds, for such Bond Year. For purposes of this definition: (a) the stated maturity date of any Term Bonds shall be disregarded and the principal of such Term Bonds shall be deemed to be due in the Bond Years and in the amounts of the Amortization Installments applicable to such Term Bonds; and (b) the principal amount of any single maturity of Term Bonds for which the Issuer shall have established no Amortization Installments shall be deemed to be due in the Bond Years and in such amounts as shall provide for the amortization of such principal amount over a term equal to the number of years such Term Bonds shall be Outstanding to such maturity and in equal annual installments of combined principal and interest; provided, however, that if the Issuer has employed a Credit Facility in connection with any such Term Bonds having no Amortization Installments the amortization of such Term Bonds shall be deemed to correspond to the applicable terms of such Credit Facility.

(3) The aggregate amount required to pay the Accreted Value due on any Capital Appreciation Bonds maturing in such Bond Year.

“Expansion Facilities” shall mean improvements, extensions and additions to the System, together with all lands or interest therein, including plants, buildings, machinery, franchises, pipes, mains, fixtures, equipment and all property, real or personal, tangible or intangible, heretofore or hereafter constructed or acquired in order to meet the increased demand upon the System, whether actual or anticipated, created by new users connecting to the System.

“Expansion Percentage” as applied to each Series of Bonds, shall mean a fraction having a numerator equal to that portion of the total original principal amount of all Bonds of such Series that are attributable to Expansion Facilities, if any, as shall be determined by the Qualified Independent Consultant and set forth in the Project Certificate relating to such Series, and a denominator equal to the total original principal amount of all Bonds of such Series. However, if amounts on deposit in the Stabilization Account are, pursuant to Section 4.06(A) hereof, withdrawn therefrom and applied to the purchase or redemption of Bonds of such Series prior to the maturity date of such Bonds, then the numerator of the foregoing fraction shall be reduced by the amounts so withdrawn and the denominator shall be reduced by the total principal amount of the Bonds of such Series so purchased or redeemed. For purposes of the preceding sentence,

Term Bonds redeemed from amounts on deposit in the Bond Amortization Account shall not be considered to have been redeemed prior to their maturity date.

"Federal Securities" shall mean direct obligations of the United States of America and obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, none of which permit redemption prior to maturity at the option of the obligor. Federal Securities shall include any certificates or any other evidences of an ownership interest in the aforementioned obligations or in specified portions thereof (which may consist of specified portions of the interest thereon).

"Fiscal Year" shall mean the period commencing on October 1 of each year and continuing through the next succeeding September 30, or such other period as may be prescribed by law.

"Governing Body" shall mean the Board of County Commissioners of the Issuer or its successor in function.

"Gross Revenues" shall mean all income and moneys received by the Issuer from the Rates, and all earnings and income derived from the investment of moneys under the provisions of this Resolution which are transferred to the Revenue Fund or the Interest Account as herein provided, but excluding (i) Connection Charges and (ii) non-ad valorem special assessments, including the Assessments.

"Initial Project" shall mean the acquisition, construction and erection of additions, extensions and improvements to the water distribution facilities of the Issuer, and of new sewage collection and treatment facilities to be operated in combination with such water facilities as a single water and sewer system, as more particularly described in and in accordance with certain plans on file or to be on file with the Issuer, with such changes, deletions, additions or modifications to the enumerated improvements, equipment and facilities, or such other improvements as shall be designated and approved by resolution of the Governing Body in accordance with the Act. The Initial Project shall also mean the County Laboratory of St. Johns County, Florida. [Resolution 95-87, Section 4]

"Insurer" shall mean such Person as shall be in the business of insuring or guaranteeing the payment of principal of and interest on municipal securities and whose credit is such that, at the time of any action or consent required or permitted by the Insurer pursuant to the terms of this Resolution, all municipal securities insured or guaranteed by it are then rated, because of such insurance or guarantee, in one of the two most secure grades by either Moody's Investors Service or Standard and Poor's Corporation, and with respect to any Series of Bonds, the Insurer which shall have insured or guaranteed payment of the principal of or interest on such Bonds.

"Interest Account" shall mean the separate account of that name in the Debt Service Fund established pursuant to Section 4.05 hereof.

"Interest Date" shall be such date or dates for the payment of interest on a Series of Bonds as shall be provided by Supplemental Resolution.

"Issuer" shall mean St. Johns County, Florida.

“Maximum Debt Service Requirement” shall mean, as of any particular date of calculation, the greatest annual Debt Service Requirement for the Bonds for the then current or any future Bond Year.

“Maximum Interest Rate” shall mean, with respect to any particular Variable Rate Bonds, a numerical rate of interest, which shall be set forth in the Supplemental Resolution delineating the details of such Bonds, that shall be the maximum rate of interest such Bonds may at any time bear in the future in accordance with the terms of such Supplemental Resolution.

“Moody’s Investors Service” shall mean Moody’s Investors Service, the nationally recognized securities rating firm, and any successor or successors thereto; and if such corporation shall be dissolved or liquidated or shall no longer perform securities rating functions, shall mean any other nationally recognized securities rating firm designated by the Issuer and approved by the Insurer and/or the Credit Bank, as applicable.

“Net Revenues” shall mean Gross Revenues less Operating Expenses.

“Operation and Maintenance Fund” shall mean the Operation and Maintenance Fund created pursuant to Section 4.05 hereof.

“Operating Expenses” shall mean the Issuer’s expenses for operation, maintenance, repairs and replacements with respect to the System and shall include, without limiting the generality of the foregoing, administration expenses, insurance and surety bond premiums, the fees to the provider of a Reserve Account Insurance Policy or Reserve Account Letter of Credit (but excluding any expenses or reimbursement obligations for draws made thereunder), the fees of any rebate compliance service or of Bond Counsel relating to compliance with the provisions of Section 148 of the Code, legal and engineering expenses, ordinary and current rentals of equipment or other property, refunds of moneys lawfully due to others, payments to pension, retirement, health and hospitalization funds, and any other expenses required to be paid for or with respect to proper operation or maintenance of the System, all to the extent properly attributable to the System, in accordance with generally accepted accounting principles employed in respect of activities such as those involved in the operation of public water and sewer facilities similar to the System, and disbursements for the expenses, liabilities and compensation of any Paying Agent or Registrar under this Resolution, but does not include any costs or expenses in respect of original construction or improvement other than expenditures necessary to prevent an interruption or continuance of an interruption of the Gross Revenues or minor capital expenditures necessary for the proper and economical operation or maintenance of the System, or any provision for interest, depreciation, amortization or similar charges.

“Outstanding” shall mean all Bonds theretofore and thereupon being authenticated and delivered except, (1) any Bond in lieu of which another Bond or other Bonds have been issued under, an agreement to replace lost, mutilated or destroyed Bonds, (2) any Bond surrendered by the Holder thereof in exchange for another Bond or other Bonds under Sections 2.06 and 2.08 hereof, (3) Bonds deemed to have been paid pursuant to Section 8.01 hereof, and (4) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity.

"Paying Agent" shall mean any paying agent for Bonds appointed by or pursuant to resolution of the Governing Body and its successors or assigns, and any other Person which may at any time be substituted in its place pursuant to resolution of the Governing Body.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or governmental entity.

"Pledged Funds" shall mean the Net Revenues, any Connection Charges on deposit in the Current Account and, until applied in accordance with the provisions of this Resolution, the proceeds of the Bonds and all moneys, including investments thereof, in the Revenue Fund and the Debt Service Fund. Pledged Funds shall not include Net Revenues on deposit in the Rebate Fund or Connection Charges on deposit in the Stabilization Account.

"Prerefunded Obligations" shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (1) which are (a) not callable prior to maturity or (b) as to which irrevocable instructions have been given to the fiduciary for such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, and as to which the obligor has reserved no right to call such bonds prior to such redemption date, (2) which are fully secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or Federal Securities, secured in the manner set forth in Section 8.01 hereof, which fund may be applied only to the payment of such principal of, redemption premium, if any, and interest on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as the case may be, (3) as to which the principal of and interest on the Federal Securities deposited in such fund with any cash on deposit in such fund, are sufficient, as verified by an independent certified public accountant, to pay principal of, redemption premium, if any, and interest on the bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in such irrevocable instructions, and (4) which are rated in the highest rating category of Standard & Poor's Corporation and of Moody's Investors Service.

"Principal Account" shall mean the separate account of that name in the Debt Service Fund established pursuant to Section 4.05 hereof.

"Project" shall mean the Initial Project, Project 1990A, Project 1990B and any Additional Project.

"Project 1990A" shall mean the acquisition, construction and erection of additions and extensions to the System to be made by the Issuer in the vicinity of State Road 16, as more particularly described in and in accordance with certain plans on file or to be on file with the Issuer, with such changes, deletions, additions or modifications to the enumerated improvements, equipment and facilities, or such other improvements, equipment and facilities, as shall be designated and approved by resolution of the Governing Body in accordance with applicable law. Project 1990A shall be an Additional Project.

"Project 1990B" shall mean the acquisition, construction and erection of the additions and extensions to the System described in Section 1.04(A) of Resolution No. 90-208 adopted by

the Governing Body on November 14, 1990, and in accordance with the certain plans and specifications therefor on file or to be on file with the Issuer, with such changes, deletions, additions or modifications to the enumerated improvements, equipment and facilities, or such other improvements, equipment and facilities, as shall be designated and approved by resolution of the Governing Body in accordance with applicable law. Project 1990B shall be an Additional Project.

“Project Certificate” shall mean that certificate of the Qualified Independent Consultant filed with the Issuer at or prior to the delivery of any Series setting forth the estimated total cost of the Project, the estimated cost of the Expansion Facilities portion of the Project or the Additional Project which shall be financed with the proceeds of such Series, the Expansion Percentage and the Connection Charges Debt Service Component.

“Qualified Independent Consultant” shall mean one or more qualified and recognized independent consultants, having favorable repute, skill and experience with respect to the acts and duties required of a qualified independent consultant to be provided to the Issuer, as shall from time to time be retained by the Issuer to perform the acts and carry out the duties herein provided for such consultants. The Qualified Independent Consultant may also be the Consulting Engineers.

“Rates” shall mean the fees and charges which shall be made and collected by the Issuer for the use of the services or facilities of the System. Rates shall be deemed to exclude (i) Connection Charges and (ii) non-ad valorem special assessments, including the Assessments.

“Rebate Fund” shall mean the Rebate Fund established pursuant to Section 4.05 hereof.

“Redemption Price” shall mean, with respect to any Bond or portion thereof, the principal amount or portion thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or Supplemental Resolution.

“Refinanced Bonds” shall mean the Issuer’s outstanding Water Revenue Bond dated June 15, 1981.

“Registrar” shall mean any registrar for the Bonds appointed by or pursuant to resolution of the Governing Body and its successors and assigns, and any other Person which may at any time be substituted in its place pursuant to resolution of the Governing Body.

“Renewal and Replacement Fund” shall mean the Renewal and Replacement Fund established pursuant to Section 4.05 hereof.

“Renewal and Replacement Fund Requirement” shall mean, as of any date of calculation, an amount of money equal to five percent (5%) of the Gross Revenues received by the Issuer in the immediately preceding Fiscal Year or such other greater or lesser sum as shall be recommended to the Issuer by the Qualified Independent Consultant and approved by the Governing Body as a sum appropriate for the Renewal and Replacement Fund considering the purposes therefor as prescribed by this Resolution, the past performance and existing condition of the System and the probable future System usage requirements of the Issuer, in keeping with sound management practices.

“Reserve Account” shall mean the separate account of that name in the Debt Service Fund established pursuant to Section 4.05 hereof.

“Reserve Account Insurance Policy” shall mean the insurance policy deposited in the Reserve Account in lieu of or in partial substitution for cash on deposit therein pursuant to Section 4.06(A)(2)(d).

“Reserve Account Letter of Credit” shall mean a Credit Facility (other than a Reserve Account Insurance Policy) issued by any bank or national banking association, insurance company or other financial institution and then on deposit in the Reserve Account in lieu of or in partial substitution for cash on deposit therein pursuant to Section 4.06(A)(2)(d) hereof.

“Reserve Account Requirement” shall mean, as of any date of calculation, an amount of money equal to the lesser of (1) the Maximum Debt Service Requirement, (2) 125% of the average annual Debt Service Requirement, or (3) 10% of the initial proceeds of all Bonds. In computing the Reserve Account Requirement, the interest rate on Variable Rate Bonds shall be assumed to be 9.20% per annum.

“Resolution” and “this Resolution” shall mean this instrument, as the same may from time to time be amended, modified or supplemented by any and all Supplemental Resolutions.

“Revenue Fund” shall mean the Revenue Fund established pursuant to Section 4.05 hereof.

“Securities” shall mean Federal Securities and Prerefunded Obligations.

“Serial Bonds” shall mean all of the Bonds other than the Term Bonds.

“Series” shall mean all the Bonds delivered on original issuance in a simultaneous transaction and identified pursuant to Sections 2.01 and 2.02 hereof or in a Supplemental Resolution authorizing the issuance by the Issuer of such Bonds as a separate Series, regardless of variations in maturity, interest rate, Amortization Installments or other provisions.

“Series 1989 Bonds” shall mean the Issuer’s Water and Sewer Revenue Bonds, Series 1989, authorized pursuant to Section 2.02 hereof.

“Stabilization Account” shall mean the separate account in the Connection Charges Fund established pursuant to Section 4.05 hereof.

“Standard and Poor’s Corporation” shall mean Standard and Poor’s Corporation, the nationally recognized securities rating firm, and any successor and successors thereto; and if such corporation shall be dissolved or liquidated or shall no longer perform securities rating functions, shall mean any other nationally recognized securities rating firm designated by the Issuer and approved by the Insurer and/or the Credit Bank, as applicable.

“State” shall mean the State of Florida.

"Subordinated Indebtedness" shall mean that indebtedness of the Issuer, subordinate and junior to the Bonds, issued in accordance with the provisions of Section 5.01 hereof and any Variable Rate Bonds which become Subordinate Indebtedness in accordance with Section 5.02(F) hereof.

"Supplemental Resolution" shall mean any resolution of the Issuer amending or supplementing this Resolution, adopted and becoming effective prior to the issuance of the Series 1989 Bonds or in accordance with the terms of Sections 4.03, 7.01, 7.02 and 7.03 hereof.

"System" shall mean the complete water facilities now owned, operated and maintained by the Issuer, the Initial Project, every Additional Project and any and all other water and sewer facilities hereafter acquired and operated by the Issuer which shall be expressly declared by resolution of the Governing Body to be part of the System, which System shall also include any and all improvements, extensions and additions to the foregoing which shall be hereafter constructed or acquired, whether the same shall be financed from the proceeds of Bonds or from any other funds or sources, together with all property, real or personal, tangible or intangible, now or hereafter owned or used in connection therewith. The System includes also the water and sewer facilities of the Anastasia Sanitary District, which facilities were vested in the Issuer by Chapter 90-498, Laws of Florida, Special Acts of 1990.

"Taxable Bond" shall mean any Bond which states, in the body thereof, that the interest income thereon is includable in the gross income of the Holder thereof for federal income taxation purposes or that such interest is subject to federal income taxation.

"Term Bonds" shall mean those Bonds which shall be designated as Term Bonds hereby or by Supplemental Resolution and which are subject to mandatory redemption by Amortization Installments.

"Variable Rate Bonds" shall mean Bonds issued with a variable, adjustable, convertible or other interest rate which at the date of issue is not fixed as one or more stated percentages for the entire term of such Bonds.

The terms "herein," "hereunder," "hereby," "hereto," "hereof," and any similar terms, shall refer to this Resolution; the term "heretofore" shall mean before the date of adoption of this Resolution; and the term "hereafter" shall mean after the date of adoption of this Resolution.

Words importing the singular number include the plural number, and vice versa.

SECTION 1.02. Authority for Resolution. This Resolution is adopted pursuant to the provisions of the Act.

SECTION 1.03. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any or all of the Bonds by those who shall hold the same from time to time, the provisions of this Resolution shall be deemed to be and shall constitute a contract between the Issuer and the Holders from time to time of the Bonds and shall be a part of the contract of the Issuer with any Credit Bank and any Insurer. The pledge made in this Resolution and the provisions, covenants and agreements herein act forth to be performed by or on behalf of the Issuer shall be for the equal benefit, protection and security of the Holders of any and all of the



Bonds and for the benefit, protection and security of any Credit Bank and any Insurer. All of the Bonds, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or pursuant to this Resolution.

SECTION 1.04. Findings. It is hereby ascertained, determined and declared as follows:

(A) The Issuer deems it necessary, desirable and in the best interests of the Issuer that the Initial Project be acquired and constructed and that the Refunded Bonds be refunded, all in the manner hereinafter provided.

(B) The Cost of the Initial Project shall be financed with the proceeds of the Series 1989 Bonds, and the cost of such refunding shall be financed with the proceeds of the Series 1989 Bonds.

(C) The Issuer deems it necessary, desirable and in the best interest of the Issuer that the Pledged Funds be pledged to the payment of the principal of and interest on the Bonds. No part of the Pledged Funds has been pledged or encumbered in any manner, except that certain of the Pledged Funds have been pledged as security for the Refunded Bonds; and such pledge in favor of the Refunded Bonds shall be extinguished simultaneously with the issuance of the Series 1989 Bonds.

(D) No Bondholder shall ever be entitled to compel the payment of the principal of and interest on the Bonds or any other payments provided for in this Resolution from any funds or revenues of the Issuer other than the sources herein provided in accordance with the terms hereof; nor will any Bondholder or any Credit Bank or any Insurer have the right to compel the exercise of the ad valorem taxing power of the Issuer to pay the principal of or interest on the Bonds or to make any other payments provided for in this Resolution, and the Bonds shall not constitute a lien upon the System or any other property of the Issuer or situated within its territorial limits, except the Pledged Funds.

(E) The Issuer presently levies and collects from each new customer of the System, with respect to additions to the System, at the time such customer requests utilities services, Connection Charges in order to defray the costs of Expansion Facilities. The Issuer deems it necessary, desirable and in the best interest of the Issuer that the Connection Charges be pledged for the payment of the principal of and interest on the Bonds to the extent herein provided.

(F) The Issuer has heretofore, by the adoption of Resolution No. 88-241 and Resolution No. 88-253, authorized the issuance of two issues of bonds to finance the acquisition and construction of the same facilities constituting the Initial Project, with the intent that such bonds be sold and delivered to the United States of America, U.S. Department of Agriculture, Farmers Home Administration. It is in the best interest of the finances and economy of the Issuer that the Initial Project be financed instead in the manner herein provided and, accordingly, it is appropriate that the Issuer repeal said Resolution No. 88-241 and said Resolution No. 88-253.

SECTION 1.05. Initial Project Authorized. The acquisition and construction of the Initial Project in the manner herein provided is hereby authorized.

SECTION 1.06. Refunding Authorized. The refunding of the Refunded Bonds in the manner herein provided is hereby authorized.

## ARTICLE II

### AUTHORIZATION, TERMS, EXECUTION AND REGISTRATION OF BONDS

SECTION 2.01. Authorization of Bonds. The Issuer hereby authorizes the issuance of Bonds of the Issuer to be designated as "St. Johns County, Florida, Water and Sewer Revenue Bonds," which may be issued in one or more Series as hereinafter provided. The aggregate principal amount of the Bonds which may be executed and delivered under this Resolution is not limited except as may hereafter be provided by Supplemental Resolution or as limited by the Act or by other applicable law.

The Bonds may, if and when authorized by the Issuer pursuant to this Resolution or Supplemental Resolution, be issued in one or more Series, with such further appropriate particular designations added to or incorporated in such title for the Bonds of any particular Series as the Issuer may determine and as may be necessary to distinguish such Bonds from the Bonds of any other Series. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

The Bonds shall be payable in lawful money of the United States of America and shall be issued for such purpose or purposes and bear interest at such rate or rates not exceeding the maximum rate permitted by law as shall be determined by this Resolution or by Supplemental Resolution. From and after any maturity date of any of the Bonds (deposit of moneys and/or Securities for the payment of the principal and interest on such Bonds having been made by the Issuer with the Paying Agents), notwithstanding that any of such Bonds shall not have been surrendered for cancellation, no further interest shall accrue upon the principal or upon the interest which shall have accrued and shall then be due on such date, and such Bonds shall cease to be entitled to any lien, benefit or security under this Resolution, and the Holders shall have no rights in respect of such Bonds except to receive payment of such principal and unpaid interest accrued to the maturity date.

The Bonds shall be issued in such denomination or denominations and such form, whether coupon or registered; shall be dated such date or dates; shall bear such numbers; shall be payable at such place or places; shall contain such redemption provisions; shall have such Paying Agents and Registrars; shall mature on June 1 or December 1 in such years and amounts; and the proceeds shall be used in such manner all as determined by this Resolution or by Supplemental Resolution. The Issuer may issue Bonds which may be secured by a Credit Facility or by an insurance policy of an Insurer all as shall be determined by this Resolution or by Supplemental Resolution.

SECTION 2.02. Authorization and Description of Series 1989 Bonds. A Series of Bonds entitled to the benefit, protection and security of this Resolution is hereby authorized to be issued by the Issuer in an aggregate principal amount not to exceed \$10,430,000 for the principal purposes of financing a part of the cost of refunding the Refunded Bonds and acquiring and

constructing the Initial Project, funding the Reserve Account and paying a part of the costs of issuance incurred with respect to such Series. Such Series shall be designated as, and shall be distinguished from the Bonds of all other Series by the title, "St. Johns County, Florida, Water and Sewer Revenue Bonds, Series 1989."

The Series 1989 Bond shall be dated as of the first day of the month in which occurs the delivery of the Series 1989 Bonds to the purchaser or purchasers thereof or such other date as may be set forth by Supplemental Resolution of the Issuer; shall be issued as fully registered Bonds; and shall be numbered consecutively from one upward in order of maturity preceded by the letter "R;" shall be in such denominations and shall bear interest at a rate or rates not exceeding the maximum rate permitted by law (calculated on the basis of a 360-day year of twelve 30-day months), payable in such manner and on June 1 and December 1 in each year; shall consist of such amounts of Serial Bonds, Term Bonds, Variable Rate Bonds and Capital Appreciation Bonds, maturing in such amounts and on June 1 or December 1 in such years not exceeding forty (40) years from their date; shall be payable in such place or places; shall have such Paying Agents and Registrars; and shall contain such redemption provisions; all as the Issuer shall hereafter provide by Supplemental Resolution.

The principal of or Redemption Price, if applicable, of the Series 1989 Bonds are payable upon presentation and surrender of the Series 1989 Bonds at the office of the Paying Agent. Interest payable on any Series 1989 Bond on any Interest Date will (except for the final payment of interest which will be paid only upon presentation and surrender of such Series 1989 Bond at the office of the Paying Agent) be paid by check or draft of the Paying Agent to the Holder in whose name such Bond shall be registered at the close of business on the date which shall be the fifteenth day (whether or not a business day) of the calendar month next preceding such Interest Date, or, unless otherwise provided by Supplemental Resolution, at the option of the Paying Agent, and at the request and expense of such Holder, by bank wire transfer for the account of such Holder. In the event the interest payable on any Series 1989 Bond is not punctually paid or duly provided for by the Issuer on such Interest Date, such defaulted interest will be paid to the Holder in whose name such Bond shall be registered at the close of business on a special record date for the payment of such defaulted interest as established by notice to such Holder, not less than ten (10) days preceding such special record date. All payments of principal of or Redemption Price, if applicable, and interest on the Series 1989 Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

SECTION 2.03. Application of Series 1989 Bond Proceeds. Except as otherwise provided by Supplemental Resolution, the proceeds derived from the sale of the Series 1989 Bonds, including accrued interest and premium, if any, shall, simultaneously with the delivery of the Series 1989 Bonds to the purchaser or purchasers thereof, be applied by the Issuer as follows:

(A) Accrued and capitalized interest shall be deposited in the Interest Account.

(B) An amount shall be deposited in the Reserve Account which, together with any moneys and securities on deposit therein and any Reserve Account Insurance Policy and/or Reserve Account Letter of Credit obtained in accordance with Section 4.06(A)(2)(d) hereof, shall equal the Reserve Account Requirement.

(C) The Issuer covenants and agrees to establish a separate account with an Authorized Depository to be known as the "St. Johns County Water and Sewer Revenue Bonds Costs of Issuance Account," which shall be used only for payment of the costs and expenses described in this subsection. A sum sufficient to pay all costs and expenses in connection with the preparation, issuance and sale of the Series 1989 Bonds, including fees of financial advisors, engineering and other consulting fees, legal fees, bond insurance premiums, printing fees, rating agency fees and all other similar costs shall be deposited to the credit of the Costs of Issuance Account, and all such costs and expenses shall be promptly paid by the Issuer to the persons respectively entitled to receive the same. When all moneys on deposit to the credit of the Costs of Issuance Account shall have been disbursed by the Issuer for the payment of such costs and expenses, the Costs of Issuance Account shall be closed; provided, however, that if any balance shall remain in the Costs of Issuance Account six months after issuance of the Series 1989 Bonds, such moneys shall be transferred by the Issuer to the Construction Fund and the Costs of Issuance Account shall be closed. After the Costs of Issuance Account shall be closed, the Issuer may pay from the Construction Fund any unpaid issuance expenses.

(D) The remaining proceeds of the Series 1989 Bonds which, together with the moneys held by the Issuer for the payment of the principal of and interest on the Refunded Bonds and a reserve therefor and interest earnings thereon, shall be sufficient to pay in full the principal of the Refunded Bonds, interest to accrue thereon to the date of maturity or redemption and any premium payable upon redemption shall be paid by the Issuer to the owners and holders of the Refunded Bonds or deposited with a bank or trust company and held for the benefit of such owners and holders pursuant to an escrow deposit agreement to be executed by the Issuer in favor of such bank or trust company and hereafter provided for by Supplemental Resolution.

(E) The balance of the Series 1989 Bond proceeds shall be deposited in the Construction Fund.

SECTION 2.04. Execution of Bonds. The Bonds shall be executed in the name of the Issuer with the manual or facsimile signature of the Chairman and the official seal of the Issuer shall be imprinted thereon, attested and countersigned with the manual or facsimile signature of the Clerk. In case any one or more of the officers who shall have signed or sealed any of the Bonds or whose facsimile signature shall appear thereon shall cease to be such officer of the Issuer before the Bonds so signed and sealed have been actually sold and delivered such Bonds may nevertheless be sold and delivered as herein provided and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office. Any Bond may be signed and sealed on behalf of the Issuer by such person who at the actual time of the execution of such Bond shall hold the proper office of the Issuer, although at the date of such Bond such person may not have held such office or may not have been so authorized. The Issuer may adopt and use for such purposes the facsimile signatures of any such persons who shall have held such offices at any time after the date of the adoption of this Resolution, notwithstanding that either or both shall have ceased to hold such office at the time the Bonds shall be actually sold and delivered.

SECTION 2.05. Authentication. No Bond of any Series shall be secured hereunder or entitled to the benefit hereof or shall be valid or obligatory for any purpose unless there shall be manually endorsed on such Bond a certificate of authentication by the Registrar or such other

entity as may be approved by the Issuer for such purpose. Such certificate on any Bond shall be conclusive evidence that such Bond has been duly authenticated and delivered under this Resolution. The form of such certificate shall be substantially in the form provided in Section 2.10 hereof.

SECTION 2.06. Temporary Bonds. Until the definitive Bonds of any Series are prepared, the Issuer may execute, in the same manner as is provided in Section 2.04, and deliver, upon authentication by the Registrar pursuant to Section 2.05 hereof, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof, one or more temporary Bonds substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in denominations authorized by the Issuer by resolution of the Governing Body, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The Issuer, at its own expense, shall prepare and execute definitive Bonds, which shall be authenticated by the Registrar. Upon the surrender of such temporary Bonds for exchange, the Registrar, without charge to the Holder thereof, shall deliver in exchange therefor definitive Bonds, of the same aggregate principal amount and Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution. All temporary Bonds surrendered in exchange for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith canceled by the Registrar.

SECTION 2.07. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated, or be destroyed, stolen or lost, the Issuer may, in its discretion, issue and deliver, and the Registrar shall authenticate, a new Bond of like tenor as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, and upon the Holder furnishing the Issuer and the Registrar proof of such Holder's ownership thereof and satisfactory indemnity and complying with such other reasonable regulations and conditions as the Issuer or the Registrar may prescribe and paying such expenses as the Issuer and the Registrar may incur. All Bonds so surrendered or otherwise substituted shall be canceled by the Registrar. If any of the Bonds shall have matured or be about to mature, instead of issuing a substitute Bond, the Issuer may pay the same or cause the Bond to be paid, upon being indemnified as aforesaid, and if such Bonds be lost, stolen or destroyed, without surrender thereof.

Any such duplicate Bonds issued pursuant to this Section 2.07 shall constitute original, additional contractual obligations on the part of the Issuer whether or not the lost, stolen or destroyed Bond be at any time found by anyone, and such duplicate Bond shall be entitled to equal and proportionate benefits and rights as to lien on the Pledged Funds to the same extent as all other Bonds issued hereunder and shall be entitled to the same benefits and security as the Bond so lost, stolen or destroyed.

SECTION 2.08. Interchangeability, Negotiability and Transfer. Bonds, upon surrender thereof at the office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Holder thereof or such Holder's attorney duly authorized in writing, may, at the option of the Holder thereof, be exchanged for an equal aggregate principal

amount of registered Bonds of the same Series and maturity of any other authorized denominations.

The Bonds issued under this Resolution shall be and have all the qualities and incidents of negotiable instruments under the laws of the State of Florida, subject to the provisions for registration and transfer contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Issuer shall maintain and keep, at the office of the Registrar, books for the registration and transfer of the Bonds.

Each Bond shall be transferable only upon the books of the Issuer, at the office of the Registrar, under such reasonable regulations as the Issuer may prescribe, by the Holder thereof in person or by such Holder's attorney duly authorized in writing upon surrender thereof together with a written instrument of transfer satisfactory to the Registrar duly executed and guaranteed by the Holder or such Holder's duly authorized attorney. Upon the transfer of any such Bond, the Issuer shall issue, and cause to be authenticated, in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series and maturity as the surrendered Bond. The Issuer, the Registrar and any Paying Agent or fiduciary of the Issuer may deem and treat the Person in whose name any Outstanding Bond shall be registered upon the books of the Issuer as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if applicable, and interest on such Bond and for all other purposes, and all such payments so made to any such Holder or upon such Holder's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid and neither the Issuer nor the Registrar nor any Paying Agent or other fiduciary of the Issuer shall be affected by any notice to the contrary.

The Registrar, in any case where it is not also the Paying Agent in respect to any Series of Bonds, shall forthwith (a) following the fifteenth day of the calendar month next preceding an interest payment date for such Series, (b) following the fifteenth day next preceding the date of first mailing of notice of redemption of any Bonds of such Series, and (c) at any other time as reasonably requested by the Paying Agent of such Series, certify and furnish to such Paying Agent the names, addresses and holdings of Bondholders and any other relevant information reflected in the registration books. Any Paying Agent of any fully registered Bond shall effect payment of interest on such Bonds by mailing a check or draft to the Holder entitled thereto or may, in lieu thereof, upon the request and at the expense of such Holder, transmit such payment by bank wire transfer for the account of such Holder.

In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Issuer shall execute and the Registrar shall authenticate and deliver such Bonds in accordance with the provisions of this Resolution. Execution of Bonds by the Chairman and the Clerk for purposes of exchanging, replacing or transferring Bonds may occur at the time of the original delivery of the Series of which such Bonds are a part. All Bonds surrendered in any such exchanges or transfers shall be canceled by the Registrar. For every such exchange or transfer of Bonds, the Issuer or the Registrar may make a charge sufficient to reimburse it for any tax, fee, expense or other governmental charge required to be paid with respect to such exchange or transfer. The Issuer and the Registrar shall not be obligated to make any such exchange or transfer of any Bonds which shall have been selected for redemption or of Bonds of any Series

during the fifteen (15) days next preceding an Interest Date on the Bonds of such Series (other than Capital Appreciation Bonds and Variable Rate Bonds), or, in the case of any proposed redemption of Bonds, during the fifteen (15) days next preceding the date of selection of Bonds to be redeemed.

The Issuer may elect to issue any Bonds as uncertificated registered public obligations (not represented by instruments), commonly known as book-entry obligations, provided it shall establish a system of registration therefor by resolution of the Governing Body.

Upon the occurrence of an Event of Default which would require Financial Guaranty, as defined in Section 5.16 hereof, to make payments under its Bond Insurance Policy, Financial Guaranty and its designated agent shall be provided with access to the registration books of the Issuer.

SECTION 2.09. Coupon Bonds. The Issuer, at its discretion, may by Supplemental Resolution authorize the issuance of Coupon Bonds, registrable as to principal only or as to both principal and interest. Such Supplemental Resolution shall provide for the negotiability, transfer, interchangeability, denominations and form of such Bonds and coupons appertaining thereto. Coupon Bonds (other than Taxable Bonds) shall only be issued if an opinion of Bond Counsel is received to the effect that issuance of such Coupon Bonds will not adversely affect the exclusion of the interest payable on such Bonds from gross income for federal income tax purposes.

SECTION 2.10. Form of Bonds. Except as otherwise provided pursuant to Section 2.09 hereof and except for Capital Appreciation Bonds and Variable Rate Bonds, the form of which shall be provided by Supplemental Resolution, the Bonds shall be in substantially the following form with such omissions, insertions and variations as may be necessary and/or desirable and approved by the Chairman or the Clerk prior, to the issuance thereof (which necessity and/or desirability and approval shall be evidenced conclusively by the Issuer's delivery of the Bonds to the purchaser or purchasers thereof):

[FORM OF BONDS INTENTIONALLY OMITTED]

### ARTICLE III

#### REDEMPTION OF BONDS

SECTION 3.01. Privilege of Redemption. The terms of this Article III shall apply to redemption of Bonds other than Capital Appreciation Bonds or Variable Rate Bonds. The terms and provisions relating to redemption of Capital Appreciation Bonds and Variable Rate Bonds shall be provided by Supplemental Resolution.

SECTION 3.02. Selection of Bonds to be Redeemed. The Bonds shall be redeemed only in the principal amount of \$5,000 each and integral multiples thereof. The Issuer shall, at least sixty (60) days prior to the redemption date (unless a shorter time period shall be satisfactory to the Registrar) notify the Registrar of such redemption date and of the principal amount of Bonds to be redeemed. For purposes of any redemption of less than all of the Outstanding Bonds of a single maturity, the particular Bonds or portions of Bonds to be redeemed shall be selected not more than forty-five (45) days prior to the redemption date by the Registrar from the Outstanding

Bonds of the maturity or maturities designated by the Issuer by such method as the Registrar shall deem fair and appropriate and which may provide for the selection for redemption of Bonds or portions of Bonds in principal amounts of \$5,000 and integral multiples thereof.

If less than all of the Outstanding Bonds of a single maturity are to be redeemed, the Registrar shall promptly notify the Issuer and Paying Agent (if the Registrar is not the Paying Agent for such Bonds) in writing of the Bonds or portions of Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

SECTION 3.03. Notice of Redemption. Unless waived by any Holder of Bonds to be redeemed, notice of any redemption made pursuant to this section shall be given by the Registrar on behalf of the Issuer by mailing a copy of an official redemption notice by registered or certified mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to each Holder of Bonds to be redeemed at the address of such Holder shown on the registration books maintained by the Registrar or at such other address as shall be furnished in writing by such Holder to the Registrar; provided, however, that no defect in any notice given pursuant to this section to any Holder of Bonds to be redeemed nor failure to give such notice shall in any manner defeat the effectiveness of a call for redemption as to all other Holders of Bonds to be redeemed.

Every official notice of redemption shall be dated and shall state:

- (1) the redemption date,
- (2) the Redemption Price,
- (3) if less than all outstanding Bonds are to be redeemed, the number (and, in the case of a partial redemption of any Bond, the principal amount) of each Bond to be redeemed,
- (4) that on the redemption date the Redemption Price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (5) that such Bonds to be redeemed, whether as a whole or in part, are to be surrendered for payment of the Redemption Price plus accrued interest at the office of the Paying Agent.

Prior to any redemption date, the Issuer shall deposit with the Paying Agent an amount of money sufficient to pay the Redemption Price of and accrued interest on all the Bonds or portions of Bonds which are to be redeemed on that date; provided, however, that redemption of Bonds, other than mandatory sinking fund redemptions and other than pursuant to the application of refunding bond proceeds, shall be made only from and to the extent of funds on deposit with the Paying Agent, or other paying agent with respect to such Bonds, and available for such purpose on the date the official notice of redemption is mailed.

In addition to the foregoing notice, further notice shall be given by the Issuer as set out below, but no defect in said further notice nor any failure to give all or any portion of such



further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

(1) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (a) the CUSIP numbers of all Bonds being redeemed; (b) the date of issue of the Bonds as originally issued; (c) the rate of interest borne by each Bond being redeemed; (d) the maturity date of each Bond being redeemed; and (e) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each further notice of redemption shall be sent at least thirty-five (35) days before the redemption date by registered or certified mail or overnight delivery service to any Insurer which shall have insured, or any Credit Bank which shall have provided a Credit Facility for, any of the Bonds being redeemed and to all registered securities depositories then in the business of holding substantial amounts of obligations of types similar to the type of which the Bonds consist (such depositories now being Depository Trust Company of New York, New York, Midwest Securities Trust Company of Chicago, Illinois, Pacific Securities Depository Trust Company of San Francisco, California, and Philadelphia Depository Trust Company of Philadelphia, Pennsylvania) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

(3) Each such further notice shall be published one time in the Bond Buyer of New York, New York or, if such publication is impractical or unlikely to reach a substantial number of the Holders of the Bonds, in some other financial newspaper or journal which regularly carries notices of redemption of obligations similar to the Bonds, such publication to be made at least 30 days prior to the date fixed for redemption.

SECTION 3.04. Redemption of Portions of Bonds. Any Bond which is to be redeemed only in part shall be surrendered at any place of payment specified in the notice of redemption (with due endorsement by, or written instrument of transfer in form satisfactory to the Registrar duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Issuer shall execute and the Registrar shall authenticate and deliver to the Holder of such Bond, without service charge, a new Bond or Bonds, of the same interest rate and maturity, and of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bonds so surrendered.

SECTION 3.05. Payment of Redeemed Bonds. Official notice of redemption having been given substantially as aforesaid, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Issuer shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar and/or Paying Agent at the appropriate Redemption Price, plus accrued interest. Each check or other transfer of funds issued by the Registrar and/or Paying Agent for the purpose of the payment of the Redemption Price of Bonds being redeemed shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer. Installments of interest due on or prior to the Redemption Date shall be payable as herein

provided for payment of interest. All Bonds which have been redeemed shall be canceled by the Registrar and shall not be reissued.

#### ARTICLE IV

##### SECURITY, SPECIAL FUNDS AND APPLICATION THEREOF

SECTION 4.01. Bonds not to be Indebtedness of Issuer. The Bonds shall not be or constitute general obligations or indebtedness of the Issuer as "bonds" within the meaning of any constitutional or statutory provision, but shall be special obligations of the Issuer, payable solely from and secured by a lien upon and pledge of the Pledged Funds in accordance with the terms of this Resolution. No Holder of any Bond or any Credit Bank or any Insurer shall ever have the right to compel the exercise of the ad valorem taxing power of the Issuer to pay such Bond or be entitled to payment of such Bond from any moneys of the Issuer except the Pledged Funds, in the manner provided herein.

SECTION 4.02. Security for Bonds. The payment of the principal of or Redemption Price, if applicable, and interest on the Bonds shall be secured forthwith equally and ratably by a pledge of and lien upon the Pledged Funds. The Pledged Funds shall be subject to the lien of this pledge immediately upon the issuance and delivery of the Series 1989 Bonds, without any physical delivery by the Issuer of the Pledged Funds or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind against the Issuer, in tort, contract or otherwise. The Issuer does hereby irrevocably pledge the Pledged Funds in the manner provided in this Resolution to the payment of the principal of or Redemption Price, if applicable, and interest on the Bonds.

SECTION 4.03. Additional Security. Anything herein to the contrary notwithstanding, however, the Issuer may cause any Series of Bonds to be payable from and secured by a Credit Facility or an insurance policy of an Insurer not applicable to any one or more other Series of Bonds, as shall be provided by Supplemental Resolution, in addition to the security of the Pledged Funds provided herein.

SECTION 4.04. Construction Fund. The Issuer covenants and agrees to establish a separate fund with an Authorized Depository to be known as the "St. Johns County Water and Sewer System Construction Fund," which shall be used only for payment of the Costs of Projects. Moneys in the Construction Fund, until applied in payment of any item of the Cost of a Project in the manner hereinafter provided, shall be held in trust by the Issuer and shall be subject to a lien and charge in favor of the Holders of the Bonds and for the further security of such Holders.

There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this Resolution or Supplemental Resolution, and there may be paid into the Construction Fund, at the option of the Issuer, any moneys received for or in connection with a Project by the Issuer from any other source.

The Issuer shall establish within the Construction Fund a separate account for the Initial Project and each Additional Project, the Cost of which is to be paid in whole or in part out of the Construction Fund.

The proceeds of insurance maintained pursuant to this Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto pertaining to the period of construction thereof, shall be deposited into the appropriate account of the Construction Fund.

The Issuer covenants that the acquisition and construction of each Project will be completed without delay and in accordance with sound engineering practices. The Issuer shall make disbursements or payments from the Construction Fund to pay the Cost of a Project upon the filing with the Clerk of documents and/or certificates signed by an Authorized Issuer Officer stating with respect to each disbursement or payment to be made: (1) the item number of the payment, (2) the name and address of the Person to whom payment is due, (3) the amount to be paid, (4) the Construction Fund account from which payment is to be made, (5) the purpose, by general classification, for which payment is to be made, and (6) that (A) each obligation, item of cost or expense mentioned therein has been properly incurred, is in payment of a part of the Cost of a Project and is a proper charge against the account of the Construction Fund from which payment is to be made and has not been the basis of any previous disbursement or payment, or (B) each obligation, item of cost or expense mentioned therein has been paid by the Issuer, is a reimbursement of a part of the Cost of a Project, is a proper charge against the account of the Construction Fund from which payment is to be made, has not been theretofore reimbursed to the Issuer or otherwise been the basis of any previous disbursement or payment and the Issuer is entitled to reimbursement thereof. The Clerk shall retain all such documents and/or certificates of the Authorized Issuer Officers for seven (7) years from the dates of such documents and/or certificates. The Clerk shall make available the documents and/or certificates at all reasonable times for inspection by any Holder of any of the Bonds or the agent or representative of any Holder of any of the Bonds.

The date of completion of a Project shall be determined by the Authorized Issuer Officer who shall certify such fact in writing to the Governing Body. Promptly after the date of the completion of a Project, and after paying or making provisions for the payment of all unpaid items of the Cost of such Project, the Issuer shall deposit in the following order of priority any balance of moneys remaining in the Construction Fund in (1) another account of the Construction Fund for which the Authorized Issuer Officer has stated that there are insufficient moneys present to pay the Cost of the related Project, (2) the Reserve Account, to the extent of a deficiency therein, (3) the Debt Service Fund, and (4) such other fund or account of the Issuer, including those established hereunder, as shall be determined by the Governing Body, provided the Issuer has received an opinion of Bond Counsel to the effect that such transfer shall not adversely affect the exclusion, if any, of interest on the Bonds from gross income for federal income tax purposes.

SECTION 4.05. Funds and Accounts. The Issuer covenants and agrees to establish with one or more Authorized Depositories separate funds to be known as the "St. Johns County Water and Sewer System Revenue Fund," the "St. Johns County Water and Sewer System Connection Charges Fund," the "St. Johns County Water and Sewer System Operation and Maintenance

Fund," the "St. Johns County Water and Sewer Revenue Bonds Debt Service Fund," the "St. Johns County Water and Sewer System Renewal and Replacement Fund," and the "St. Johns County Water and Sewer Revenue Bonds Rebate Fund." The Issuer shall maintain in the Debt Service Fund four accounts: the "Interest Account," the "Principal Account," the "Bond Amortization Account," and the "Reserve Account." Moneys in the Debt Service Fund, until applied in accordance with the provisions hereof, shall be subject to a lien and charge in favor of the Holders and for the further security of the Holders. The Issuer shall maintain in the Connection Charges Fund two accounts: the "Current Account" and the "Stabilization Account."

The Issuer shall at any time and from time to time appoint one or more Authorized Depositories to hold, for the benefit of the Issuer and/or the Bondholders, any one or more of the funds and accounts established hereby. Such depository or depositories shall perform at the direction of the Issuer the duties of the Issuer in depositing, transferring and disbursing moneys to and from each of such funds and accounts as herein set forth, and all records of such depository in performing such duties shall be open at all reasonable times to inspection by the Issuer and its agent and employees.

#### SECTION 4.06. Flow of Funds.

(A) Gross Revenues and Connection Charges. The Issuer shall deposit the Connection Charges into the Current Account, promptly upon the receipt thereof, until an amount equal to the Connection Charges Debt Service Components for the then current Bond Year shall have been deposited into the Current Account in such Bond Year. After an amount equal to such Connection Charges Debt Service Components shall have been deposited into the Current Account in such Bond Year, the Issuer shall deposit additional Connection Charges received in such Bond Year into the Stabilization Account.

On or before the last day of each month, commencing with the month in which delivery of the Series 1989 Bonds shall be made to the purchasers thereof, all or any portion of the moneys in the Current Account may, at the option of the Issuer, be deposited or credited to the Debt Service Fund in the manner described in part (2) hereof, provided, however, that such moneys shall be deposited or credited to the Debt Service Fund in the manner described in part (2) hereof in the event that moneys in the Revenue Fund are insufficient or unavailable to make all of the deposits into the Debt Service Fund required by part (2) hereof. The balance of any moneys remaining in the Current Account after such deposits, if any, shall be transferred to the Stabilization Account.

Moneys in the Stabilization Account may, to the extent such moneys are lawfully available for such purpose, be applied only (i) to the Current Account in an amount which shall not exceed the Connection Charges Debt Service Components for the then current Bond Year, less amounts previously transferred from the Current Account to the Debt Service Fund during such Bond Year, (ii) to the purchase or redemption of Bonds or (iii) to the Issuer, from time to time, for the acquisition and construction of Expansion Facilities.

Notwithstanding anything to the contrary contained in this Resolution, the aggregate amount of Connection Charges applied and allocated to the aggregate Debt Service

Requirements for the Bonds shall never exceed the aggregate Connection Charges Debt Service Components for the Bonds.

The Issuer shall deposit all Gross Revenues into the Revenue Fund, promptly upon the receipt thereof. On or before the last day of each month, commencing with the month in which delivery of the Bonds shall be made to the purchasers thereof, the moneys in the Revenue Fund shall be deposited or credited in the following manner and in the following order of priority:

(1) Operation and Maintenance Fund. The Issuer shall deposit into or credit to the Operation and Maintenance Fund such sum as shall be necessary to cause the moneys in the Operation and Maintenance Fund to be sufficient to pay Operating Expenses for the next succeeding month according to the Annual Budget; provided, however, that subject always to the provisions of Section 5.06 hereof, the Issuer shall transfer moneys from the Revenue Fund to the Operation and Maintenance Fund at any time to pay Operating Expenses to the extent there shall be a deficiency in the moneys in the Operation and Maintenance Fund for such purpose. Moneys in the Operation and Maintenance Fund shall be paid out from time to time by the Issuer to pay reasonable and necessary Operating Expenses as and when the same shall be incurred.

(2) Debt Service Fund. Next, the Issuer shall deposit into or credit to the Debt Service Fund, from moneys in the Revenue Fund and/or the Current Account, such sums which, together with the moneys deposited into or credited to the Debt Service Fund from the Assessment Fund pursuant to the provisions of part (7) of this subsection (A), shall be sufficient to make all of the deposits, transfers and payments described in this part (2). The moneys on deposit in the Debt Service Fund shall be applied by the Issuer in the manner provided herein solely for the payment of the principal of or Redemption Price, if applicable, and interest on the Bonds, including Assessments Redemption Bonds, and for the purchase of, and reinstatement of the maximum limits of, any Reserve Account Insurance Policy and/or Reserve Account Letter of Credit, and shall not be available for any other purpose. The moneys transferred to the Debt Service Fund from the Assessments Fund, the Revenue Fund and the Current Account shall be deposited or credited in the following manner and in the following order of priority:

(a) Interest Account. The Issuer shall deposit into or credit to the Interest Account the sum which, together with the surplus moneys in the Interest Account not theretofore allocated to supplement any previous monthly deposit to the credit of the Interest Account, will be sufficient to pay one-sixth ( $1/6$ ) of all interest coming due on the Bonds on the next Interest Date, plus the full balance of any continuing deficiencies in prior deposits to the Interest Account. Moneys in the Interest Account shall be applied by the Issuer to pay interest on the Bonds as and when the same become due, whether by redemption or otherwise, and for no other purpose. The Issuer shall adjust the amount of the deposit into the Interest Account not later than the month immediately preceding any Interest Date so as to provide sufficient moneys in the Interest Account to pay the interest on the Bonds coming due on such Interest Date.

(b) Principal Account. Next, the Issuer shall deposit into or credit to the Principal Account the sum which, together with the surplus moneys in the Principal Account not theretofore allocated to supplement any previous monthly deposit to the credit of the Principal Account, will be sufficient to pay (i) the principal amount of all Outstanding Bonds other than Term Bonds due and unpaid and (ii) one-twelfth ( $1/12$ ) of the principal amount of the Bonds

other than Term Bonds which shall thereafter mature during the then current Bond Year. Serial Capital Appreciation Bonds (including their respective interest components) shall be payable entirely from moneys in the Principal Account on their respective maturity dates, and deposits or credits to the Principal Account to provide funds for such purpose shall commence in the month which is one year prior to each such maturity date. Moneys in the Principal Account shall be applied by the Issuer to pay the principal of the Bonds other than Term Bonds as and when the same shall mature, and for no other purpose.

(c) **Bond Amortization Account.** Payments to the Bond Amortization Account shall be on a parity with payments to the Principal Account. Commencing in the month which is one year prior to the due date of each Amortization Installment, the Issuer shall deposit into or credit to the Bond Amortization Account the sum which, together with the balance in said account held for the credit of such Amortization Installment and all Outstanding Term Bonds due and unpaid and not theretofore allocated to supplement any previous monthly deposit, will be sufficient to pay (i) one-twelfth (1/12) of such Amortization Installments and (ii) the full balance of any continuing deficiencies in prior deposits to the Bond Amortization Account for such Amortization Installment and the principal amount of all such Outstanding Term Bonds due and unpaid. Term Capital Appreciation Bonds (including their respective interest components) shall be payable entirely from moneys in the Bond Amortization Account on the respective due dates of the Amortization Installments applicable thereto, and deposits or credits to the Bond Amortization Account to provide funds for such purpose shall commence in the month which is one year prior to each such Amortization Installment due date. Moneys in the Bond Amortization Account shall be applied by the Issuer to purchase or redeem Term Bonds in the manner herein provided, and for no other purpose.

Amounts accumulated in the Bond Amortization Account with respect to any Amortization Installment may be applied by the Issuer, on or prior, to the sixtieth (60th) day preceding the due date of such Amortization Installment (i) to the purchase of Term Bonds of the Series and maturity for which such Amortization Installment was established, at a price not greater than the Redemption Price at which such Term Bonds may be redeemed on the first date thereafter on which such Term Bonds shall be subject to redemption, or (ii) to the redemption at the applicable Redemption Price of such Term Bonds. The applicable Redemption Price (or principal amount of maturing Term Bonds) of any Term Bonds so purchased or redeemed shall be deemed to constitute part of the Bond Amortization Account until such Amortization Installment date, for the purposes of calculating the amount of such Account. As soon as practicable after the sixtieth (60th) day preceding the due date of any such Amortization Installment, the Issuer shall proceed to call for redemption on such due date, by causing notice to be given as provided in Section 3.03 hereof, Term Bonds of the Series and maturity for which such Amortization Installment was established (except in the case of Term Bonds maturing on an Amortization Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Amortization Installment. The Issuer shall pay out of the Bond Amortization Account and the Interest Account to the respective Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption (or for the payment of such Term Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Term Bonds shall be paid by the Issuer from the Revenue Fund.

(d) Reserve Account. Next, the Issuer shall deposit into or credit to the Reserve Account such sum, if any, as will be necessary to immediately restore the funds on deposit therein to an amount equal to the Reserve Account Requirement including the reinstatement of any Reserve Account Insurance Policy or Reserve Account Letter of Credit on deposit therein or the cash replacement thereof. On or prior to each Interest Date and each maturity or redemption date for the payment of any principal of the Bonds, moneys in the Reserve Account shall be applied by the Issuer to the payment of the principal of or Redemption Price, if applicable, and interest on the Bonds to the extent moneys in the Interest Account, the Principal Account and the Bond Amortization Account shall be insufficient for such purpose. Whenever there shall be surplus moneys in the Reserve Account by reason of a decrease in the Reserve Account Requirement or as a result of a deposit therein of a Reserve Account Insurance Policy and/or a Reserve Account Letter of Credit, such surplus moneys shall be deposited by the Issuer into the Principal Account or such other appropriate fund or account of the Issuer, provided such deposit to such other fund or account will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Upon the issuance of any Series of Bonds, under the terms, limitations and conditions as herein provided, the Issuer shall provide for the funding of the Reserve Account in an amount equal to the Reserve Account Requirement. Such required amount may be paid in full or in part from the proceeds of such Series of Bonds.

Whenever moneys on deposit in the Reserve Account, together with the other available amounts in the Debt Service Fund, are sufficient to fully pay all Outstanding Bonds (including principal and interest thereon) in accordance with their terms, the funds on deposit in the Reserve Account shall be applied to the payment of Bonds.

Notwithstanding the foregoing provisions, in lieu of the required deposits into the Reserve Account, the Issuer may, at its sole option and discretion, cause to be deposited a Reserve Account Insurance Policy and/or Reserve Account Letter of Credit in an amount equal to the difference between the Reserve Account Requirement applicable thereto and the sums, if any, remaining on deposit in the Reserve Account after the deposit of such Reserve Account Insurance Policy and/or Reserve Account Letter of Credit. Such Reserve Account Insurance Policy and/or Reserve Account Letter of Credit shall be payable to the Paying Agent for such Series (upon the giving of notice as required thereunder) on any interest payment or redemption date on which a deficiency exists which cannot be cured by funds in any other fund or account held pursuant to this Resolution and available for such purpose. The issuer providing such Reserve Account Insurance Policy and/or Reserve Account Letter of Credit shall be either (a) an insurer (i) whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in one of the two highest rating categories (without regard to gradations, such as "plus" or "minus" of such categories) by either Standard & Poor's Corporation or Moody's Investors Service, or (ii) who holds one of the two highest policyholder ratings accorded insurers by A. M. Best & Company, or any comparable service, or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have, or whose obligation to pay is guaranteed by a commercial bank, insurance company or other financial institution which has, been assigned a rating by either Moody's Investors Service or Standard & Poor's Corporation in

one of the two highest rating categories (without regard to gradations, such as "plus" or "minus" of such categories).

If fifteen (15) days prior to an Interest Date, a principal maturity date or a mandatory redemption date, the Issuer shall determine that a deficiency exists in the amount of moneys available to pay in accordance with the terms hereof interest and/or principal due on Bonds on such date, the Issuer shall immediately notify (a) the issuer of the applicable Reserve Account Insurance Policy and/or the issuer of the Reserve Account Letter of Credit, and (b) the Insurer, if any, of the amount of such deficiency and the date on which such payment is due, and shall take all action to cause such issuer or Insurer to provide moneys which, together with the sum then on deposit in the Reserve Account, are sufficient to pay all amounts due on such interest payment or redemption date.

If a disbursement is made from a Reserve Account Insurance Policy and/or Reserve Account Letter of Credit provided pursuant to this Section 4.06(A)(2)(d), the Issuer shall reinstate the maximum limits of such Reserve Account Insurance Policy and/or Reserve Account Letter of Credit immediately following such disbursement as soon as moneys are available in the Reserve Account in accordance with the provisions of the first paragraph of this Section 4.06(A)(2)(d), by depositing funds in the amount of the disbursement made under such instrument, with the issuer thereof, together with interest thereon to the date of reimbursement at the rate set forth in such Reserve Account Insurance Policy or such Reserve Account Letter of Credit, but in no case greater than the maximum rate of interest permitted by law. In addition, and in the same manner, the Issuer shall reimburse the issuer of the Reserve Account Insurance Policy and/or the issuer of the Reserve Account Letter of Credit for all reasonable expenses incurred by such issuer in connection with the draw on such Reserve Account Insurance Policy or the Reserve Account Letter of Credit, as the case may be.

The Issuer may evidence its obligation to reimburse the issuer of any Reserve Account Letter of Credit or Reserve Account Insurance Policy by executing and delivering to such issuer a promissory note therefor and/or an agreement relating thereto, which shall be approved by Supplemental Resolution, provided, however, any such promissory note and any payment obligations of the Issuer under such agreement (i) shall not be a general obligation of the Issuer the payment of which is secured by the full faith and credit or taxing power of the Issuer, and (ii) shall be payable solely from the moneys available in the Reserve Account in accordance with the provisions of the first paragraph of this Section 4.06(A)(2)(d). All of the provisions of such promissory note and such agreement, when executed and delivered by the Issuer, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

To the extent the Issuer causes to be deposited into the Reserve Account, a Reserve Account Insurance Policy and/or a Reserve Account Letter of Credit for a term of years shorter than the life of the Series of Bonds so insured or secured, then the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit shall provide, among other things, that the issuer thereof shall provide the Issuer with notice as of each anniversary of the date of the issuance of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit of the intention of the issuer thereof to either (i) extend the term of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit beyond the expiration dates thereof, or (ii)



terminate the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit on the initial expiration dates thereof or such other future date as the issuer thereof shall have established. If the issuer of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit notifies the Issuer pursuant to clause (ii) of the immediately preceding sentence or if the Issuer terminates the Reserve Account Letter of Credit and/or Reserve Account Insurance Policy, then the Issuer shall deposit into the Reserve Account pursuant to the first sentence of this Section 4.06(A)(2)(d), during the first full calendar month following the date on which such notice of intent to terminate is received by the Issuer and in each succeeding month, such sums as shall be sufficient to pay each month an amount equal to a fraction, the numerator of which is one (1) and the denominator of which is equal to the number of months remaining in the term of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit, of the portion of the Reserve Account Requirement covered by the Reserve Account Letter of Credit and/or the Reserve Account Insurance Policy on the date such notice was received, until the sum on deposit in the Reserve Account, and no later than the expiration of such Reserve Account Insurance Policy and/or such Reserve Account Letter of Credit, shall be equal to the Reserve Account Requirement.

If any Reserve Account Letter of Credit or Reserve Account Insurance Policy shall terminate prior to the stated expiration date thereof, the Issuer agrees that it shall fund the Reserve Account pursuant to the first sentence of this Section 4.06(A)(2)(d), during a period not to exceed twelve (12) months when it shall make consecutive equal monthly payments in order that the amount on deposit in such account at the end of such period shall be equal to the Reserve Account Requirement; provided, the Issuer may at its sole option and discretion, with the prior written consent of the Insurer, if any, obtain a new Reserve Account Letter of Credit or a new Reserve Account Insurance Policy in lieu of making the payments required by this paragraph.

Prior to deposit in the Reserve Account, any Reserve Account Letter of Credit or Reserve Account Insurance Policy shall be approved in writing by any Insurer or Credit Bank and shall conform to such additional or different restrictions as such Insurer or Credit Bank shall reasonably require.

(3) Subordinated Indebtedness. Next, the Issuer shall apply available moneys in the Revenue Fund to the payment of the debt service for any Subordinated Indebtedness.

(4) Renewal and Replacement Fund. Next, whenever the balance on deposit in the Renewal and Replacement Fund shall be less than the Renewal and Replacement Fund Requirement, the Issuer shall deposit into or credit to the Renewal and Replacement Fund the balance of all moneys remaining in the Revenue Fund to the extent necessary to cause the moneys in the Renewal and Replacement Fund to equal the Renewal and Replacement Fund Requirement. If at anytime the balance on deposit in the Renewal and Replacement Fund shall exceed the Renewal and Replacement Fund Requirement, such excess shall be withdrawn by the Issuer from the Renewal and Replacement Fund and deposited into the Revenue Fund. The moneys in the Renewal and Replacement Fund shall be applied by the Issuer to the payment of the cost of extensions, improvements and additions to, or renewals and replacements of the capital assets of, the System, or extraordinary repairs of the System; provided, however, that whenever moneys in the Debt Service Fund shall be insufficient to pay all or any part of the principal of, Redemption Price or interest on any of the Bonds, moneys in the Renewal and

Replacement Fund shall first be used to supplement the Debt Service Fund to the extent necessary to prevent a default on the Bonds.

(5) Rebate Fund. Next, the Issuer may, at its option, deposit into or credit to the Rebate Fund the amount described in Section 4.07(A) hereof.

(6) Excess Revenues. Finally, the Issuer may withdraw the balance of all moneys remaining on deposit to the credit of the Revenue Fund and apply the same to any lawful county purpose.

(7) Assessments. The Issuer covenants and agrees to establish with one or more Authorized Depositories a separate fund to be known as the "St. Johns County Water and Sewer Assessments Fund." The Assessments Fund shall be used only for the purposes hereinafter provided. All Assessments shall be deposited by the Issuer into the Assessments Fund promptly upon receipt thereof. As a first charge against moneys at any time on deposit to the credit of the Assessments Fund, the Issuer shall reimburse itself for all expenses incurred by the Issuer in connection with its conduct of the proceedings necessary for the imposition, levy and collection of the Assessments in accordance with applicable law. On or before the last day of each month in every Bond Year, all moneys in the Assessments Fund shall be deposited or credited to the Debt Service Fund until the aggregate amount of all such deposits therein during such Bond Year shall equal all of the installments of the Assessments scheduled to be paid to the Issuer during such Bond Year, and all such moneys thus deposited to the Debt Service Fund shall be applied by the Issuer in the same manner as other moneys therein are applied pursuant to the provisions of part (2) of this subsection (A). On each April 1 and October 1, moneys in the Assessments Fund in excess of the aggregate installments of Assessments scheduled to be paid to the Issuer in the current Bond Year shall be applied by the Issuer, promptly thereafter, to the purchase of Assessments Redemption Bonds, at a price not greater than the Redemption Price at which such Assessments Redemption Bonds may be redeemed on the next succeeding Interest Date (or the principal amount of any such Assessments Redemption Bonds which shall be about to mature on the next succeeding June 1), and/or shall be exhausted by the Issuer, to the maximum extent possible, on such next succeeding Interest Date, by application thereof by the Issuer to the mandatory redemption of Assessments Redemption Bonds. The Issuer shall call for redemption the Assessments Redemption Bonds to be redeemed by causing notice to be given as provided in Section 3.03 hereof. The Issuer shall pay out of the Assessments Fund to the Paying Agent for the Assessments Redemption Bonds to be redeemed (or paid at maturity), on or before the day preceding the redemption date (or maturity date) the amount required to pay the principal of or Redemption Price, if applicable, and interest on the Assessments Redemption Bonds to be redeemed (or then maturing), and such amount shall be applied by the Paying Agent to such redemption (or payment). All expenses in connection with the purchase, redemption or payment of Assessments Redemption Bonds shall be paid by the Issuer from the Revenue Fund.

Nothing in this part (7) contained shall be construed to limit the source of payment of the principal of or Redemption Price, if applicable, or interest on the Assessments Redemption Bonds to moneys on deposit in the Assessments Fund, the Assessments Redemption Bonds being secured and payable in the same manner as all other Bonds as provided in part (2) of this subsection (A). After all of the Assessments Redemption Bonds of any Series shall have been retired, whether from moneys of the Debt Service Fund or moneys of the Assessments Fund or

both, all funds remaining on deposit to the credit of the account for such Series in the Assessments Fund and all Assessments collected by the Issuer for such Series shall be promptly deposited in the Revenue Fund.

The Assessments Fund shall be continuously secured in the manner by which the deposit of public funds are authorized to be secured by the laws of the State. Moneys on deposit in the Assessments Fund may be invested and reinvested in Authorized Investments maturing not later than thirty (30) days from the date of acquisition thereof. Any and all income received by the Issuer from the investment of moneys in the Assessments Fund shall be deposited in the Interest Account.

In the event that Assessments are hereafter pledged to the payment of the principal of or Redemption Price, if applicable, and interest on the Bonds or one or more Series of Bonds, the Issuer covenants that it will forthwith, whenever it shall first be timely, adopt all resolutions, hold all hearings and perform all acts which are conditions precedent to and are necessary for the lawful levy and collection of the Assessments. The Issuer covenants that if any Assessment shall be either in whole or in part annulled, vacated or set aside by the judgment of any court, or if the Issuer shall be satisfied that any Assessment is so irregular or defective that the same cannot be enforced or collected, or if the Issuer shall have failed to assess any particular parcel of property which should have been assessed within an area designated by the Issuer for such Assessments, the Issuer shall take all steps necessary to cause a new and valid non-ad valorem special assessment to be made against such property; and in any case any such second assessment, or an initial assessment for one that shall have been omitted, shall be either in whole or in part annulled, vacated or set aside or be unenforceable or uncollectible by reason of defect or irregularity, the Issuer shall obtain and make other non-ad valorem special assessments until a valid assessment shall be made.

(B) Discretionary Purchase or Redemption. The Issuer, in its discretion, may use moneys in the Principal Account and the Interest Account to purchase or redeem Bonds coming due on the next principal payment date, provided such purchase or redemption does not adversely affect the Issuer's ability to pay the principal or interest coming due on such principal payment date on the Bonds not so purchased or redeemed.

(C) Deposit with Paying Agent. At least one (1) business day prior to the date established for payment of any principal of or Redemption Price, if applicable, or interest on the Bonds, the Issuer shall withdraw from the Debt Service Fund sufficient moneys to pay such principal or Redemption Price, if applicable, or interest and deposit such moneys with the Paying Agent for the Bonds to be paid.

(D) Reimbursement of Credit Bank. In the case of Bonds secured by a Credit Facility, amounts on deposit in any funds or accounts established for such Bonds may be applied as provided in the applicable Supplemental Resolution to reimburse the Credit Bank for amounts drawn under such Credit Facility to pay the principal of or Redemption Price, if applicable, and interest on such Bonds or to pay the purchase price of any such Bonds which are tendered by the Holders thereof for payment.

SECTION 4.07. Rebate Fund. Amounts on deposit in the Rebate Fund shall be held in trust by the Issuer and used solely to make required rebates to the United States Treasury (except to the extent the same may be transferred to the Revenue Fund) and the Bondholders shall have no right to have the same applied for debt service on the Bonds. The Issuer agrees to undertake all actions required of it in its arbitrage certificate, relating to the Bonds, and other instructions from Bond Counsel, delivered in connection with or subsequent to the issuance of the Bonds, including, but not limited to:

(A) making a determination in accordance with the Code of the amount required to be deposited in the Rebate Fund;

(B) depositing from moneys in the Revenue Fund or from other moneys of the Issuer derived from sources other than ad valorem taxation and legally available for such purpose the amount determined in clause (A) above into the Rebate Fund;

(C) paying on the dates and in the manner required by the Code to the United States Treasury from the Rebate Fund and any other legally available moneys of the Issuer derived from sources other than ad valorem taxation such amounts as shall be required by the Code to be rebated to the United States Treasury; and

(D) keeping such records of the determinations made pursuant to this Section 4.07 as shall be required by the Code, as well as evidence of the fair market value of any investments purchased with proceeds of the Bonds of the Series of which such accounts were created.

The provisions of the above-described instructions of Bond Counsel may be amended from time to time as shall be necessary, in the opinion of Bond Counsel, to comply with the provisions of the Code.

Public Financial Management, Inc., Philadelphia, Pennsylvania, is hereby appointed to serve as rebate administrator hereunder with respect to every Series of the Bonds until the Issuer shall by resolution appoint as successor rebate administrator any Bond Counsel or any certified public accountant, bank or trust company, or other agent of the Issuer who shall be qualified to assure compliance by the Issuer with the requirements of this section. The rebate administrator is hereby authorized to hire counsel, accountants, and other experts which the rebate administrator may, in its sole discretion, determine advisable for the purpose of obtaining the required calculations of the rebate amounts and determinations as to the due dates for the rebate thereof and other matters necessary for compliance with Section 148(f) of the Code as the same relates to the Bonds. The rebate administrator will not be liable for any loss occasioned by its reliance upon the instructions of such experts or upon the Issuer's certification of the amounts earned on nonpurpose investments, as such term is defined in Section 148(b)(2) of the Code, in which gross proceeds of the Bonds shall be invested. The duties and responsibilities of the rebate administrator may be performed by more than one Person.

SECTION 4.08. Investments. The Construction Fund, the Revenue Fund, the Connection Charges Fund, the Debt Service Fund and the Renewal and Replacement Fund shall be continuously secured in the manner by which the deposit of public funds are authorized to be secured by the laws of the State. Moneys on deposit in the Construction Fund, the Revenue

Fund, the Connection Charges Fund, the Operation and Maintenance Fund, the Rebate Fund, the Renewal and Replacement Fund and the Debt Service Fund, other than the Reserve Account, may be invested and reinvested in Authorized Investments maturing not later than the date on which the moneys therein will be needed. Moneys on deposit in the Reserve Account may be invested or reinvested in Authorized Investments which shall mature no later than five (5) years from the date of acquisition thereof.

Any and all income received by the Issuer from the investment of moneys in the Construction Fund, in the Rebate Fund, in the Revenue Fund and in the Reserve Account in the Debt Service Fund (to the extent the amount therein is less than the Reserve Account Requirement) shall be retained in such respective fund or account unless otherwise required by applicable law.

Any and all income received by the Issuer from the investment of moneys in the Interest Account, the Principal Account and the Bond Amortization Account in the Debt Service Fund, in the Current Account and in the Stabilization Account in the Connection Charges Fund, in the Operation and Maintenance Fund and in the Renewal and Replacement Fund shall be deposited in the Revenue Fund.

Any and all income received by the Issuer from the investment of moneys in the Reserve Account in the Debt Service Fund (to the extent the amount therein is greater than the Reserve Account Requirement) shall be deposited in the Interest Account.

All investments shall be valued at cost. Nothing contained in this Resolution shall prevent any Authorized Investments acquired as investments of or security for funds held under this Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

SECTION 4.09. Separate Accounts. The moneys required to be accounted for in each of the foregoing funds and accounts established herein may be deposited in a single bank account, and funds allocated to the various funds and accounts established herein may be invested in a common investment pool, provided that adequate accounting records are maintained to reflect and control the restricted allocation of the moneys on deposit therein and such investments for the various purposes of such funds and accounts as herein provided.

The designation and establishment of the various funds and accounts in and by this Resolution shall not be construed to require the establishment of any completely independent, self-balancing funds as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain revenues for certain purposes and to establish certain priorities for application of such revenues as herein provided.

## ARTICLE V

### SUBORDINATED INDEBTEDNESS ADDITIONAL BONDS, AND COVENANTS OF ISSUER

SECTION 5.01. Subordinated Indebtedness. The Issuer will not issue any other obligations, except under the conditions and in the manner provided herein, payable from the

Pledged Funds or voluntarily create or cause to be created any debt, lien, pledge, assignment, encumbrance or other charge having priority to or being on a parity with the lien thereon in favor of the Bonds and the interest thereon. The Issuer may at any time or from time to time issue evidences of indebtedness that are not Additional Bonds and that are payable in whole or in part out of the Pledged Funds and which may be secured by a pledge of the Pledged Funds; provided, however, that such pledge shall be, and shall be expressed to be, subordinated in all respects to the pledge of the Pledged Funds created by this Resolution. The Issuer shall have the right to covenant with the holders from time to time of any Subordinated Indebtedness to add to the conditions, limitations and restrictions under which any Additional Bonds may be issued pursuant to Section 5.02 hereof.

SECTION 5.02. Issuance of Additional Bonds. No Additional Bonds, payable from the Pledged Funds on a parity with the Bonds then Outstanding pursuant to this Resolution, shall be issued except upon the conditions and in the manner herein provided. The Issuer may issue one or more Series of Additional Bonds for any one or more of the following purposes: financing the Cost of an Additional Project, or the completion thereof or of the Initial Project, or refunding any or all Outstanding Bonds or of any Subordinated Indebtedness of the Issuer.

No such Additional Bonds shall be issued unless the following conditions are complied with:

(A) The Issuer shall certify that it is current in all deposits into the various funds and accounts established hereby and all payments theretofore required to have been deposited or made by it under the provisions of this Resolution and has complied with the covenants and agreements of this Resolution.

(B) There shall have been obtained and filed with the Issuer a certificate of an independent certified public accountant: (1) stating that he has examined the books and records of the Issuer relating to the collection and receipt of the Gross Revenues, the Connection Charges and the Assessments; (2) stating for the immediately preceding Fiscal Year or any twelve (12) consecutive months selected by the Issuer of the twenty-four (24) months immediately preceding the issuance of such Additional Bonds the amount of the Net Revenues, the amount of the Connection Charges deposited into the Current Account and, as to each separate lot of Assessments which shall have been levied for a Project or a part of a Project, the dollar amount of the Assessments deposited into the Assessments Fund, and stating, for each separate lot of Assessments which shall have been levied for a Project or a part of a Project, the dollar amount of the portion of such lot of Assessments to become due and payable to the Issuer during the first full Fiscal Year after the issuance of such Additional Bonds in which installments of such lot of Assessments shall be payable; (3) if no Assessments shall be pledged to the Outstanding Bonds or such Additional Bonds then proposed to be issued, stating that (a) such Net Revenues and such Connection Charges, each adjusted as provided in Section 5.02(E) hereof, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, and (b) such Net Revenues, adjusted as provided in Section 5.02(E) hereof, not taking into account Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued; (4) if Assessments shall be pledged to the Outstanding Bonds or such Additional Bonds then proposed to be issued,

stating that (a) such Net Revenues, adjusted as provided in Section 5.02(E) hereof, together with the dollar amount of the portion of each lot of Assessments to become due and payable during the first full Fiscal Year after the issuance of such Additional Bonds in which installments of such lot of Assessments shall be payable, but (except for the first Fiscal Year in which such lot of Assessments shall be billed) not exceeding the dollar amount of the portion of such lot of Assessments deposited in the Assessments Fund as stated pursuant to clause (2) of this paragraph, and such Connection Charges, adjusted as provided in Section 5.02(E) hereof, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, (b) such Net Revenues, adjusted as provided in Section 5.02(E) hereof, and the amount of the Assessments allowed under clause (4)(a) of this paragraph, without taking into account Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, (c) such Net Revenues and such Connection Charges, each adjusted as provided in Section 5.02(E) hereof, without taking into account Assessments, equal at least one hundred twenty percent (120%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, excluding all Outstanding and proposed Assessments Redemption Bonds, and (d) such Net Revenues, adjusted as provided in Section 5.02(2) hereof, not taking into account Assessments or Connection Charges, equal at least one hundred ten percent (110%) of the Maximum Debt Service Requirement for all Outstanding Bonds and such Additional Bonds then proposed to be issued, excluding all Outstanding and proposed Assessments Redemption Bonds; and (5) stating that no Event of Default was disclosed in the report of the most recent Annual Audit, or if such Event of Default was so disclosed, that it shall have been cured.

(C) In computing Maximum Debt Service Requirement for purposes of this Section 5.02, the interest rate on outstanding Variable Rate Bonds, and on additional parity Variable Rate Bonds then proposed to be issued, shall be deemed to be the Maximum Interest Rate applicable thereto.

(D) For the purpose of this Section 5.02, the phrase "immediately preceding Fiscal Year or any twelve (12) consecutive months selected by the Issuer of the twenty-four (24) months immediately preceding the issuance of such Additional Bonds" shall be sometimes referred to as "twelve consecutive months."

(E) The Net Revenues and the Connection Charges deposited into the Current Account may be adjusted by the independent certified public accountant, at the option of the Issuer, as follows:

(1) If the Issuer, prior to the issuance of the proposed Additional Bonds but not prior to the beginning of such twelve consecutive months, shall have increased the Rates and/or shall have begun to derive revenues from newly constructed or acquired facilities of the System or from a new contract with any public or private entity for residential and/or business use of the facilities and services of the System, which contract shall have a duration not less than the final maturity of such Additional Bonds ("capacity agreement"), the Net Revenues for the twelve consecutive months shall be adjusted to show the Net Revenues which would have been derived in such twelve consecutive months if such increased Rates had been in effect and/or such new

facilities and/or such capacity agreement had produced revenues during all of such twelve consecutive months.

(2) In the event the Issuer shall have completed additions, extensions or improvements to the System prior to the issuance of the proposed Additional Bonds but not prior to the beginning of such twelve consecutive months and/or shall be constructing or acquiring additions, extensions or improvements to the System to be financed wholly or in part from the proceeds of such Additional Bonds or from any other source, and/or shall have entered into a capacity agreement, from which capacity agreement and/or from which Project or Projects the Issuer expects to derive revenues within three (3) years after issuance of such Additional Bonds, such Net Revenues may be adjusted by adding thereto the net revenues estimated by the Consulting Engineers to be derived by reason of such capacity agreement during the first twelve (12) months the Issuer shall receive income thereunder and/or to be derived from existing occupied residential and business development during the first twelve (12) months of operation of such Project or Projects after completion of the construction or acquisition thereof.

(3) If the Issuer, in connection with the issuance of Additional Bonds, shall enter into a capacity agreement, then the Net Revenues of the System during the twelve (12) consecutive months shall be increased by the least amount to be paid to the Issuer in any one year thereunder, after deducting therefrom the proportion of operating expenses and repair, renewal and replacement cost attributable in such year to such capacity agreement.

(4) In the event the Issuer shall be constructing or acquiring additions, extensions or improvements to the System from the proceeds of such Additional Bonds and shall have entered into any capacity agreement and/or established fees, rates or charges to be charged and collected from users of such facilities when service is rendered, such Net Revenues and such Connection Charges may be adjusted by adding thereto the Net Revenues and the Connection Charges (in an amount not exceeding the Connection Charges Debt Service Component for the proposed Additional Bonds for the first Bond Year commencing after completion of the construction or acquisition of said additions, extensions and improvements) estimated by the Consulting Engineers to be derived during the first twelve (12) months of operation after completion of the construction or acquisition of said additions, extensions and improvements pursuant to such capacity agreement and/or from existing residential and business users of the facilities to be financed by such Additional Bonds together with other funds on hand or lawfully obtained for such purpose.

(F) Additional Bonds shall be deemed to have been issued pursuant to this Resolution the same as the Outstanding Bonds, and all of the other covenants and other provisions of this Resolution (except as to details of such Additional Bonds inconsistent therewith) shall be for the equal benefit, protection and security of the Holders of all Bonds issued pursuant to this Resolution; provided, however, any Supplemental Resolution authorizing the issuance of Additional Bonds may provide that any of the covenants herein contained will not be applicable to such Additional Bonds, provided that such provision shall not, in the opinion of Bond Counsel, adversely affect the rights of any Bonds which shall then be Outstanding. Except as provided in Sections 4.02 and 4.06 hereof, all Bonds, regardless of the time or times of their issuance, shall rank equally with respect to their lien on the Pledged Funds and their sources and security for payment therefrom without preference of any Bonds over any other; provided,



however, that the Issuer shall include a provision in any Supplemental Resolution authorizing the issuance of Variable Rate Bonds pursuant to this Section 5.02 that in the event the principal thereof is accelerated due to such Bonds being held by the issuer of a Credit Facility, the lien of such Bonds on the Pledged Funds shall be subordinate in all respects to the pledge of the Pledged Funds created by this Resolution.

(G) In the event any Additional Bonds are issued for the purpose of refunding any Bonds then Outstanding, the conditions of this Section 5.02 shall not apply, provided that the issuance of such Additional Bonds shall not result in an increase in the aggregate amount of principal of and interest on the Outstanding Bonds becoming due in the current Fiscal Year and all subsequent Fiscal Years. The conditions of Section 5.02(B) hereof shall apply to Additional Bonds issued to refund Subordinated Indebtedness and to Additional Bonds issued for refunding purposes which cannot meet the conditions of this paragraph.

(H) In the event that the total amount of the Bonds herein authorized to be issued are not issued simultaneously, such Bonds which are subsequently issued shall be subject to the conditions of Section 5.02(B) hereof.

(I) In addition to all of the other requirements specified in this Section 5.02, the Issuer must comply with any applicable provisions of any financing documents relating to outstanding Subordinated Indebtedness to the extent such provisions impact on the ability of the Issuer to issue Additional Bonds.

SECTIONS 5.03. Bond Anticipation Notes. The Issuer may issue notes in anticipation of the issuance of Bonds which shall have such terms and details and be secured in such manner, not inconsistent with this Resolution, as shall be provided by resolution of the Issuer.

SECTION 5.03. Accession of Subordinated Indebtedness to Parity Status with Bonds. The Issuer may provide for the accession of Subordinated Indebtedness to the status of complete parity with the Bonds, if (A) the Issuer shall meet all the requirements imposed upon the issuance of Additional Bonds by Section 5.02 hereof, assuming, for purposes of said requirements, that such Subordinated Indebtedness shall be Additional Bonds, and (B) the Issuer shall provide for the funding of the Reserve Account, upon such accession, in an amount equal to the increase in the amount of the Reserve Account Requirement occasioned by such accession in accordance with Section 4.06(A)(2)(d) hereof. If the aforementioned conditions are satisfied, the Subordinated Indebtedness shall be deemed to have been issued pursuant to this Resolution the same as the Outstanding Bonds, and such Subordinated Indebtedness shall be considered Bonds for all purposes provided in this Resolution.

SECTION 5.04. Operation and Maintenance. The Issuer will maintain or cause to be maintained the System and all portions thereof in good condition and will operate or cause to be operated the same in an efficient and economical manner, making or causing to be made such expenditures for equipment and for renewals, repairs and replacements as may be proper for the economical operation and maintenance thereof. The Issuer will obtain and renew to the full extent required by applicable law all permits for acquisition, construction and operation of the System.

SECTION 5.05. Annual Budget. The Issuer shall annually prepare and adopt, prior to the beginning of each Fiscal Year, an Annual Budget in accordance with applicable law. No expenditure for Operating Expenses shall be made in any Fiscal Year in excess of the amount provided therefor in the Annual Budget, (A) without a written finding and recommendation by an Authorized Issuer Officer, which finding and recommendation shall state in detail the purpose of and necessity for such increased expenditures, and (B) until the Governing Body shall have approved such finding and recommendation by resolution.

If for any reason the Issuer shall not have adopted the Annual Budget before the first day of any Fiscal Year, other than the first Fiscal Year, the preliminary budget for such Fiscal Year, if it be approved by the Consulting Engineers, shall be deemed to be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year shall be adopted; and if the preliminary budget shall not have been approved by the Consulting Engineers, the Annual Budget for the preceding Fiscal Year shall be deemed to continue in effect.

The Issuer may at any time adopt an amended Annual Budget for the then current Fiscal Year, but no such amended Annual Budget shall supersede any prior budget until it shall be approved by the Consulting Engineers as being, in their opinion, reasonable and necessary.

The Issuer shall mail copies of such Annual Budgets and amended Annual Budgets and all resolutions authorizing increased expenditures for Operating Expenses to any Holder who shall file an address with the Clerk and request in writing that copies of all such Annual Budgets and resolutions be furnished to such Holder and shall make available all such Annual Budgets and resolutions authorizing increased expenditures for Operating Expenses at all reasonable times to any Holder or to anyone acting for or on behalf of any Holder. The Issuer shall be permitted to make a reasonable charge for furnishing to any Holder such Annual Budgets and resolutions.

SECTION 5.06. Rates and Connection Charges. The Issuer shall fix, establish, maintain and collect Rates, and revise the same effective at the beginning of each Fiscal Year, in the manner provided in this Section 5.07, to the extent necessary, to provide (A) if no Assessments shall be pledged to the Bonds, (1) Net Revenues in such Fiscal Year, together with any Connection Charges actually on deposit in the Current Account at the beginning of such Fiscal Year, equal to at least one hundred twenty percent (120%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, and (2) Net Revenues in such Fiscal Year, not taking into account Connection Charges, equal to at least one hundred ten percent (110%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, or (B) if Assessments shall be pledged to the Bonds, (1) Net Revenues in such Fiscal Year, together with the dollar amount of the Assessments to be collected in such Fiscal Year (but as to each separate lot of Assessments levied for any improvements which shall be part of a Project, except for the first Fiscal Year in which such lot of Assessments shall be billed, not exceeding the dollar amount of

the portion of such lot of Assessments actually collected by the Issuer in the immediately preceding Fiscal Year) and any Connection Charges actually on deposit in the Current Account at the beginning of such Fiscal Year, equal to at least one hundred twenty percent (120%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, (2) Net Revenues in such Fiscal Year, together with the dollar amount of the Assessments to be collected in such Fiscal Year (but as to each separate lot of Assessments levied for any improvements which shall be part of a Project, except for the first Fiscal Year in which such lot of Assessments shall be billed, not exceeding the dollar amount of the portion of such lot of Assessments actually collected by the Issuer in the immediately preceding Fiscal Year), without taking into account Connection Charges, equal to at least one hundred ten percent (110%) of the Debt Service Requirement for the Bond Year ending in such Fiscal Year and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, (3) Net Revenues in such Fiscal Year, together with any Connection Charges actually on deposit in the Current Account at the beginning of such Fiscal Year, without taking into account Assessments, equal to at least one hundred twenty percent (120%) of the amount obtained by reducing the Debt Service Requirement for the Bond Year ending in such Fiscal Year by the amount of the debt service for all Assessments Redemption Bonds and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year, and (4) Net Revenues in such Fiscal Year, not taking into account Assessments or Connection Charges, equal to at least one hundred ten percent (110%) of the amount obtained by reducing the Debt Service Requirement for the Bond Year ending in such Fiscal Year by the amount of the debt service for all Assessments Redemption Bonds and at least one hundred percent (100%) of any amounts required by the terms hereof to be deposited in the Reserve Account or in the Renewal and Replacement Fund or with any issuer of a Reserve Account Letter of Credit or Reserve Account Insurance Policy in such Fiscal Year. Such Rates shall not be so reduced that the same will be insufficient to provide Net Revenues in each Fiscal Year fully adequate for the purposes provided therefor by this Resolution, provided, however, anything herein to the contrary notwithstanding, no provision hereof shall be construed to obligate the Issuer to impose or, once imposed, continue Connection Charges; but at any time and while Connection Charges shall be in effect and imposed by the Issuer, the same shall be pledged hereunder to the extent provided herein.

The Issuer covenants and agrees that prior to the beginning of each Fiscal Year, whenever the Rates which shall be projected by the Annual Budget proposed for such Fiscal Year shall be insufficient for the coverage required by the first paragraph of this section, the Issuer shall revise the Rates by adopting a schedule thereof by resolution or ordinance in the manner provided by applicable Florida law.

The Issuer further covenants and agrees that after receipt by the Issuer of each Annual Audit, if the Net Revenues shall be shown by such Annual Audit to have been insufficient in the Fiscal Year audited for the coverage required by the first paragraph of this section, the Issuer

shall, prior to the commencement of the next succeeding Fiscal Year, revise the Rates by adopting a schedule thereof by resolution or ordinance in the manner provided by applicable Florida law, with respect to which revised Rates schedule the Issuer shall have obtained a certificate in writing from an independent firm of certified public accountants of suitable qualifications and experience that (1) had such revised schedule been in effect during such immediately preceding Fiscal Year the coverages required by this section would have been met or exceeded, and (2) had the same been in effect since the beginning of the then current Fiscal Year, (a) based upon the current Annual Budget said coverage would be met or exceeded for such Current Fiscal Year and (b) estimated Gross Revenues for such current Fiscal Year as reflected in the current Annual Budget would exceed the actual Gross Revenues received in such immediately preceding Fiscal Year as reflected in such Annual Audit by at least the amount that the estimated Operating Expenses for such current Fiscal Year as reflected in the current Annual Budget shall exceed the actual Operating Expenses during such immediately preceding Fiscal Year as reflected in such Annual Audit. If and whenever the Issuer shall be required to increase the Rates by reason of the provisions of this paragraph, the Issuer shall cause the Consulting Engineers to review its Rates, Gross Revenues, Operating Expenses and methods of operation and to make written recommendations as to the means, including further Rate increases, by which the Issuer may best assure Net Revenues in the next succeeding Fiscal Year sufficient for compliance with all of the terms of this Resolution. The Issuer shall implement such recommendations by making any recommended revisions in the Rates in the aforesaid manner, effective at the beginning of the next succeeding Fiscal Year or as soon thereafter as shall be possible, and by taking any other recommended action as soon thereafter as shall be practicable.

The Issuer shall proceed diligently to perform legally and effectively all steps required in the collection of the Connection Charges. Upon the due date of any such Connection Charges, the Issuer shall diligently proceed to collect the same and shall exercise all legally available remedies to enforce such collections now or hereafter available under State law.

SECTION 5.07. Books and Records. The Issuer will keep books, records and accounts of the receipt of the Pledged Funds in accordance with generally accepted accounting principles, and any Credit Bank, Insurer, or Holder of any Bonds Outstanding or the duly authorized representatives thereof shall have the right at all reasonable times to inspect all books, records and accounts of the Issuer relating thereto.

The Issuer covenants that within one hundred eighty (180) days of the close of each Fiscal Year it will cause to be prepared and filed with the Clerk and mailed to all Credit Banks, Insurers and Holders who shall have filed their names and addresses with the Clerk for such purpose a statement setting forth in respect of the preceding Fiscal Year: (A) the amount of the Pledged Funds received in the preceding Fiscal Year; (B) the total amounts deposited to the credit of each fund and account created under the provisions of this Resolution; (C) the principal amount of all Bonds issued, paid, purchased or redeemed; and (D) the amounts on deposit at the end of such Fiscal Year to the credit of each such fund or account.

SECTION 5.08. Annual Audit. The Issuer shall, immediately after the close of each Fiscal Year, cause the financial statements of the Issuer to be properly audited by a recognized independent firm of certified public accountants, and shall require such accountants to complete their report of such Annual Audit in accordance with applicable law. Such Annual Audits shall

contain, but not be limited to, a balance sheet, an income statement, a statement of changes in financial position, a statement of change in retained earnings, a statement of insurance coverage, and any other statements as required by law or accounting convention, and a certificate by such accountants disclosing any material default on the part of the Issuer of any covenant or agreement herein. Each Annual Audit shall be in conformity with generally accepted accounting principles. A copy of each Annual Audit shall regularly be furnished to any Credit Bank, to any Insurer and to any Holder who shall have furnished an address to the Clerk and requested in writing that the same be furnished to such Holder. The Issuer shall be permitted to make a reasonable charge for furnishing to any Holder such Annual Audit.

SECTION 5.09. Mortgage, Sale or Closing of Facilities. The Issuer irrevocably covenants, binds and obligates itself not to sell, lease, encumber or in any manner dispose of any facilities of the System except as provided in this section, until all of the Bonds and all interest thereon shall have been paid in full or provision for payment has been made in accordance with Section 8.01 hereof.

The Issuer shall have and hereby reserves the right to close any facility of the System or part thereof and/or sell, lease or otherwise dispose of any site, facilities or property comprising a part of the System in the manner provided in this Section 5.10, if in the judgment of the Issuer such closing or disposition will not adversely affect the security for the Bondholders and any one of the following conditions exist: (A) such site, facilities or property is not necessary for the operation of the System, (B) such site, facilities or property is not useful in the operation of the System, (C) such site, facilities or property is not profitable in the operation of the System, or (D) in the case of a lease of such site, facilities or property, such lease will be advantageous to the System.

Prior to the Issuer's closing, sale, lease or other disposition of any facility of the System or part thereof, an Authorized Issuer Officer shall first make a finding in writing and the Consulting Engineers shall first make an engineering finding in writing determining that one or more of the conditions for the closing, sale, lease or other disposition of property provided for in the second paragraph of this Section 5.10 have been met, and the Governing Body shall, by resolution, duly adopt, approve and concur in such finding. Prior to any such sale, lease or other disposition of said property: (1) if the value thereof at original cost is not in excess of one-half (1/2) of one percent (1%) of the value of the gross plant of the System at original cost, an Authorized Issuer Officer shall make a finding in writing determining that one or more of the conditions for the closing, sale, lease or disposition of property provided for in the second paragraph of this Section 5.10 have been met; or (2) if the value of said property at original cost shall be in excess of one-half (1/2) of one percent (1%) of the value of the gross plant of the System at original cost, an Authorized Issuer Officer shall first make a finding in writing and the Consulting Engineers shall first make an engineering finding in writing determining that one or more of the conditions for the closing, sale, lease or other disposition of property provided for in the second paragraph of this Section 5.10 have been met, and the Governing Body shall, by resolution, duly adopt, approve and concur in such findings.

The proceeds from any such sale, lease or other disposition shall be deposited into the Revenue Fund.

The transfer of the System as a whole from the control of the Governing Body to some other board or authority which may hereafter be created for such purpose and which constitutes a governmental entity, interest on obligations issued by which is excluded from gross income of the holders thereof for federal income tax purposes under Section 103 of the Code, shall not be deemed prohibited by this Section 5.10 and such successor board or authority shall fall within the definition of "Issuer" in Section 1.01 hereof.

Notwithstanding the foregoing provisions of this Section 5.10, the Issuer shall have the authority to sell for fair and reasonable consideration any land comprising a part of the System which is no longer necessary or useful in the operation of the System and the proceeds derived from the sale of such land shall be deposited into the Revenue Fund.

The Issuer may make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the System if such contract, license, easement or right does not, in the opinion of the Consulting Engineers, as evidenced by a certificate to that effect filed with the Issuer, impede or restrict the operation by the Issuer of the System, but any payments to the Issuer under or in connection with any such contract, license, easement or right in respect of the System or any part thereof shall constitute Gross Revenues.

SECTION 5.10. Insurance. So long as the Net Revenues are pledged hereunder, the Issuer will carry, with a reputable insurance carrier or carriers, such insurance as is ordinarily carried by private or public corporations owning and operating water and sewer facilities similar to the System, including public liability insurance, in such amounts as the Issuer shall determine to be sufficient. The property loss or damage insurance shall at all times be in an amount or amounts equal to the fair appraisal value of the buildings, furniture, fixtures and equipment of the System.

The Issuer may establish certain minimum levels of insurance for which the Issuer may self-insure. Such minimum levels of insurance shall be in amounts as recommended in writing by an insurance consultant who has a favorable reputation and experience and is qualified to survey risks and to recommend insurance coverage for Persons engaged in operations similar to the System.

SECTION 5.11. No Impairment. The pledging of the Pledged Funds in the manner provided herein shall not be subject to repeal, modification or impairment by any subsequent ordinance, resolution or other proceedings of the Governing Body. This provision shall not, however, be deemed to prohibit the reduction or elimination of the Rates in the manner provided in Section 5.07 hereof.

SECTION 5.12. Special Covenants Relating to Reserve Account Insurance Policy or Reserve Account Letter of Credit.

(A) The Issuer shall annually submit to the issuer of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit, records of withdrawals on such Reserve Account Insurance Policy or such Reserve Account Letter of Credit, as the case may be, received by the Paying Agent and remaining unpaid, the respective dates of such withdrawals, the interest accrued on such withdrawals and the aggregate amount of interest due by the Issuer to the issuer

of such Reserve Account Insurance Policy or such Reserve Account Letter of Credit, as the case may be.

(B) The Issuer hereby acknowledges that the issuer of the Reserve Account Insurance Policy and/or the Reserve Account Letter of Credit shall be deemed a third-party beneficiary of this Resolution for the purpose of enforcing the terms, conditions and obligations of the Resolution which benefit the issuer of such Reserve Account Insurance Policy or such Reserve Account Letter of Credit, as the case may be.

SECTION 5.13. Covenants with Credit Banks and Insurers. The Issuer may make such covenants as it may in its sole discretion determine to be appropriate with any Insurer, Credit Bank or other financial institution that shall agree to insure or to provide for Bonds of any one or more Series credit or liquidity support that shall enhance the security or the value of such Bonds. Such covenants may be set forth in the applicable Supplemental Resolution and shall be binding on the Issuer, the Registrar, the Paying Agent and all the Holders of Bonds the same as if such covenants were set forth in full in this Resolution.

#### SECTION 5.14. Federal Income Tax Covenants; Taxable Bonds.

(A) The Issuer covenants with the Holders of each Series of Bonds (other than Taxable Bonds), that it shall not use the proceeds of such Series of Bonds in any manner which would cause the interest on such Series of Bonds to be or become includable in the gross income of the Holder thereof for federal income tax purposes.

(B) The Issuer covenants with the Holders of each Series of Bonds (other than Taxable Bonds) that neither the Issuer nor any Person under its control or direction will knowingly make any use of the proceeds of such Series of Bonds (or amounts deemed to be proceeds under the Code) in any manner which would cause such Series of Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, and neither, the Issuer nor any such other Person shall knowingly do any act or fail to do any act which would cause the interest on such Series of Bonds to become includable in the gross income of the Holder thereof for federal income tax purposes.

(C) The Issuer hereby covenants with the Holders of each Series of Bonds (other than Taxable Bonds) that it will use its best efforts to comply with all provisions of the Code necessary to maintain the exclusion of interest on the Bonds from the gross income of the Holder thereof for federal income tax purposes, including, in particular, the payment of any amount required to be rebated to the United States Treasury pursuant to the Code.

(D) The Issuer may, if it so elects, issue one or more Series of Taxable Bonds the interest on which is (or may be) includable in the gross income of the Holder thereof for federal income taxation purposes, so long as each Bond of such Series states in the body thereof that interest payable thereon is (or may be) subject to federal income taxation and provided that the issuance thereof will not cause the interest on any other Bonds theretofore issued hereunder to be or become includable in the gross income of the Holder thereof for federal income tax purposes. The covenants set forth in subsections (A), (B) and (C) of this Section 5.15 shall not apply to any Taxable Bonds.

SECTION 5.15. Financial Guaranty as Insurer. Notwithstanding any provisions to the contrary contained herein, the following provisions shall apply so long as the Bond Insurance Policy issued by Financial Guaranty, as hereinafter defined, shall be in full force and effect:

(A) Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto ("Financial Guaranty"), shall be deemed the Insurer of the Series 1989 Bonds.

(B) The notice address for Financial Guaranty shall be: Financial Guaranty Insurance Company, 175 Water Street, New York, New York 10038, Attention: President.

(C) Financial Guaranty shall be provided with the Annual Budget pursuant to Section 5.06 hereof, the Annual Audit pursuant to Section 5.09 hereof and in addition Financial Guaranty shall be provided with the following information:

(1) Official statements, if any, prepared in connection with the issuance of additional debt, whether or not such debt is on a parity with the Bonds within 30 days of the sale thereof;

(2) Notice of any draw upon or deficiency due to market fluctuation in the Reserve Account;

(3) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(4) On an annual basis commencing October 1, 1989:

(a) The number of System users as of the end of the Fiscal Year;

(b) Notification of the withdrawal of any major System users (defined as a user comprising 4% or more of System sales measured in terms of revenue dollars) since the last reporting date;

(c) Since the last reporting date any significant plant retirements or expansions planned or undertaken; and

(5) Such additional information as Financial Guaranty may reasonably request from time to time.

(D) For the purposes of Article VI hereof, Financial Guaranty shall be deemed the sole Holder of Bonds insured by Financial Guaranty, and the prior written consent of Financial Guaranty shall be required for any waiver of an Event of Default.

(E) For the purposes of Section 8.01 hereof, only cash or Federal Securities shall be used to accomplish defeasance of the Bonds, provided, however, that Prerefunded Obligations may be used with the prior written consent of Financial Guaranty, and in the event of an advance refunding, there shall be provided a verification report of an independent nationally recognized certified public accounting firm.



## ARTICLE VI

### DEFAULTS AND REMEDIES

SECTION 6.01. Events of Default. The following events shall each constitute an "Event of Default" hereunder:

(A) Default shall be made in the payment of the principal of, Amortization Installment, redemption premium or interest on any Bond when due by the Issuer.

(B) There shall occur the dissolution or liquidation of the Issuer, or the filing by the Issuer of a voluntary petition in bankruptcy, or the commission by the Issuer of any act of bankruptcy, or adjudication of the Issuer as a bankrupt, or assignment by the Issuer for the benefit of its creditors, or appointment of a receiver for the Issuer, or the entry by the Issuer into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Issuer in any proceeding for its reorganization instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted.

(C) The Issuer shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in this Resolution on the part of the Issuer to be performed, and such default shall continue for a period of thirty (30) days after written notice of such default shall have been received from any Insurer or the Holders of not less than twenty-five percent (25%) of the aggregate principal amount of Bonds Outstanding or any Credit Bank. Notwithstanding the foregoing, the Issuer shall not be deemed in default hereunder if such default can be cured within a reasonable period of time and if the Issuer in good faith institutes curative action and diligently pursues such action until the default has been corrected.

SECTION 6.02. Remedies. Any Holder of Bonds issued under the provisions of this Resolution or any trustee or receiver acting for such Bondholders may either at law or in equity, by suit, action, mandamus or other proceedings in any court of competent jurisdiction, protect and enforce any and all rights under the laws of the State, or granted and contained in this Resolution, and may enforce and compel the performance of all duties required by this Resolution or by any applicable statutes to be performed by the Issuer or by any officer thereof. This paragraph shall not be deemed to be a waiver by the Issuer of its venue rights.

The Holder or Holders of Bonds in an aggregate principal amount of not less than twenty-five percent (25%) of the Bonds then Outstanding may by a duly executed certificate in writing appoint a trustee for Holders of Bonds issued pursuant to this Resolution with authority to represent such Bondholders in any legal proceedings for the enforcement and protection of the rights of such Bondholders and such certificate shall be executed by such Bondholders or their duly authorized attorneys or representatives, and shall be filed in the office of the Clerk. Notice of such appointment, together with evidence of the requisite signatures of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding and the trust

instrument under which the trustee shall have agreed to serve shall be filed with the Issuer and the trustee and notice of appointment shall be given to all Holders of Bonds in the same manner as notices of redemption are given hereunder. After the appointment of the first trustee hereunder, no further trustees may be appointed; however, the Holders of a majority in aggregate principal amount of all the Bonds then Outstanding may remove the trustee initially appointed and appoint a successor and subsequent successors at any time.

SECTION 6.03. Directions to Trustee as to Remedial Proceedings. The Holders of a majority in principal amount of the Bonds then Outstanding (or any Insurer insuring, or any Credit Bank providing a Credit Facility for, any then Outstanding Bonds) have the right, by an instrument or concurrent instruments in writing executed and delivered to the trustee, to direct the method and place of conducting all remedial proceedings to be taken by the trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions hereof, and that the trustee shall have the right to decline to follow any such direction which in the opinion of the trustee would be unjustly prejudicial to Holders of Bonds not parties to such direction.

SECTION 6.04. Remedies Cumulative. No remedy herein conferred upon or reserved to the Bondholders is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder, or now or hereafter, existing at law or in equity or by statute.

SECTION 6.05. Waiver of Default. No delay or omission of any Bondholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by Section 6.02 of this Resolution to the Bondholders may be exercised from time to time, and as often as may be deemed expedient.

SECTION 6.06. Application of Moneys After Default. If an Event of Default shall happen and shall not have been remedied, the Issuer or a court-appointed trustee or receiver shall apply all Pledged Funds as follows and in the following order:

(A) To the payment of the reasonable and proper charges, expenses and liabilities of the trustee or receiver, Registrar and Paying Agent hereunder; and

(B) To the payment of the amounts required for reasonable and necessary Operation Expenses, and for the reasonable renewals, repairs and replacements of the System necessary to prevent loss of Gross Revenues, as certified by the Consulting Engineers; and

(C) To the payment of the interest and principal or Redemption Price, if applicable, then due on the Bonds, as follows:

(1) Unless the principal of all the Bonds shall have become 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, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the

amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference;

SECOND: to the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due at maturity or upon mandatory redemption prior to maturity (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of Section 8.01 of this Resolution), in the order of their due dates, with interest upon such Bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the Persons entitled thereto without any discrimination or preference; and

THIRD: to the payment of the Redemption Price of any Bonds called for optional redemption pursuant to the provisions of this Resolution.

(2) If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest thereon as aforesaid, 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 preference.

SECTION 6.07. Control by Insurer or Credit Bank. Upon the occurrence and continuance of an Event of Default, each Insurer or Credit Bank, if such Insurer or Credit Bank shall have honored all of its commitments under its Bond Insurance Policy or its Credit Facility, as the case may be, shall be entitled to direct and control the enforcement of all rights and remedies with respect to the Bonds it shall insure or for which such Credit Facility is provided.

## ARTICLE VII

### SUPPLEMENTAL RESOLUTIONS

SECTION 7.01. Supplemental Resolution Without Bondholders' Consent. The Issuer, from time to time and at any time, may adopt such Supplemental Resolutions without the consent of the Bondholders (which Supplemental Resolution shall thereafter form a part hereof) for any of the following purposes:

(A) To cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in this Resolution or to clarify any matters or questions arising hereunder.

(B) To grant to or confer upon the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders.

(C) To add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of this Resolution other conditions, limitations and restrictions thereafter to be observed.

(D) To add to the covenants and agreements of the Issuer in this Resolution other covenants and agreements thereafter to be observed the Issuer or to surrender any right or power herein reserved to or conferred upon the Issuer.

(E) To specify and determine at any time prior to the first delivery of any Series of Bonds the matters and things referred to in Sections 2.01, 2.02 or 2.09 hereof, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with this Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination.

(F) To authorize Additional Projects or to change or modify the description of the Initial Project or any Additional Project.

(G) To specify and determine matters necessary or desirable for the issuance of Capital Appreciation Bonds or Variable Rate Bonds.

(H) To authorize Additional Bonds or Subordinated Indebtedness.

(I) To make any other change that, in the opinion of Bond Counsel, would not materially adversely affect the security for the Bonds. In making such determination, Bond Counsel shall not take into consideration any Bond Insurance Policy.

Except Supplemental Resolutions described in subsections (E), (F) and (H) of this Section 7.01 and Supplemental Resolutions adopted for the purpose of authorizing Additional Bonds in compliance with all applicable provisions hereof, no Supplemental Resolution adopted pursuant to Article VII shall become effective unless approved by every Insurer; and the Issuer covenants and agrees to furnish to each Insurer an executed original transcript of the Issuer's proceedings with respect to the adoption of each Supplemental Resolution.

SECTION 7.02. Supplemental Resolution With Bondholders' Insurer's and Credit Bank's Consent. Subject only to the terms and conditions contained in this Section 7.02 and Section 7.01 hereof, the Holder or Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the adoption of such Supplemental Resolution or Resolutions hereto as shall be deemed necessary or desirable by the Issuer for the purpose of supplementing, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Resolution; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series or maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section 7.02. Any Supplemental Resolution which is adopted in accordance with the provisions of this Section 7.02 shall also require the written consent of the Insurer of, or any Credit Bank providing a Credit Facility for, any Bonds which are outstanding at the time such Supplemental Resolution shall take effect. No Supplemental Resolution may be approved or adopted which shall permit

or require (A) an extension of the maturity of the principal of or the payment of the interest on any Bond issued hereunder, (B) reduction in the principal amount of any Bond or the Redemption Price or the rate of interest thereon, (C) the creation of a lien upon or a pledge of the Pledged Funds which adversely affects the rights granted by the Bonds or this Resolution in favor of any Bondholders, (D) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (E) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution. Nothing herein contained, however, shall be construed as making necessary the approval by Bondholders, the Insurer or the Credit Bank of the adoption of any Supplemental Resolution as authorized in Section 7.01 hereof.

If at any time the Issuer shall determine that it is necessary or desirable to adopt any Supplemental Resolution pursuant to this Section 7.02, the Clerk shall cause the Registrar to give notice of the proposed adoption of such Supplemental Resolution and the form of consent to such adoption to be mailed, postage prepaid, to all Bondholders at their addresses as they appear on the registration books and to all Insurers of, and Credit Banks providing a Credit Facility for, Bonds Outstanding. Such notice shall briefly set forth the nature of the proposed Supplemental Resolution and shall state that copies thereof are on file at the offices of the Clerk and the Registrar for inspection by all Bondholders. The Issuer shall not, however, be subject to any liability to any Bondholder by reason of its failure to cause the notice required by this Section 7.02 to be mailed and any such failure shall not affect the validity of such Supplemental Resolution when consented to and approved as provided in this Section 7.02.

Whenever the Issuer shall deliver to the Clerk an instrument or instruments in writing purporting to be executed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Resolution described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Issuer may adopt such Supplemental Resolution in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the adoption of such Supplemental Resolution shall have consented to and approved the adoption thereof as herein provided, no Holder of any Bond shall have any right to object to the adoption of such Supplemental Resolution, or 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 adoption thereof, or to enjoin or restrain the Issuer from adopting the same or from taking any action pursuant to the provisions thereof.

Upon the adoption of any Supplemental Resolution pursuant to the provisions of this Section 7.02, this Resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Resolution of the Issuer and all Holders of Bonds then Outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of this Resolution as so modified and amended.

SECTION 7.03. Amendment with Consent of Insurer and/or Credit Bank Only. If all of a Series of Bonds Outstanding hereunder are insured or secured as to payment of principal and

interest by an Insurer or Insurers and/or by a Credit Facility provided by a Credit Bank or Credit Banks, and the Insurer or Insurers and/or the Credit Bank or Credit Banks, as applicable, are not in default, and such Bonds, at the time of the hereinafter described amendment, shall be rated by the rating agencies which shall have rated the Bonds at the time such Bonds were insured or such Credit Facility was provided no lower than the ratings assigned thereto by such rating agencies on the date such Bonds were insured or such Credit Facility was provided, the Issuer may enact one or more Supplemental Resolutions amending all or any part of Articles I, IV, V, VI and VIII hereof with the written consent of said Insurer or Insurers and/or said Credit Bank or Credit Banks, as applicable, and the acknowledgment by said Insurer or Issuers and/or said Credit Bank or Credit Banks that its Bond Insurance Policy or its Credit Facility, as the case may be, will remain in full force and effect. If the Issuer shall provide to Moody's Investors Service and Standard & Poor's Corporation notice of an amendment and a copy thereof at least 15 days in advance of its adoption, the consent of the Holders of any Bonds shall not be necessary. The foregoing right of amendment, however, does not apply to any amendment to Section 5.15 hereof with respect to the exclusion, if applicable, of interest on said Bonds from the gross income of the Holders thereof for federal income tax purposes nor may any such amendments deprive the Holders of any Bond of right to payment of the Bonds from, and their lien on, the Pledged Funds and any additional security pledged hereunder. Upon filing with the Clerk of evidence of such notice to such rating agencies and such consent of the Insurer or Insurers and/or the Credit Bank or Credit Banks as aforesaid, the Issuer may adopt such Supplemental Resolution. After the adoption by the Issuer of such Supplemental Resolution, notice thereof shall be mailed in the same manner as notice of an amendment under Section 7.02 hereof. Anything contained in this section to the contrary notwithstanding, any Supplemental Resolution or other amendment or supplement to this Resolution shall be subject to the prior written consent of Financial Guaranty Insurance Company so long as any Bonds insured by Financial Guaranty Insurance Company shall remain Outstanding.

## ARTICLE VIII

### MISCELLANEOUS

SECTION 8.01. Defeasance. If the Issuer shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of the Pledged Funds and any additional security pledged hereunder, and all covenants, agreements and other obligations of the Issuer to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Paying Agents shall pay over or deliver to the Issuer all money or securities held by them pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Except as otherwise provided in Section 5.16 hereof, any Bonds or interest installments appertaining thereto, whether at or prior to the maturity or redemption date of such Bonds, shall be deemed to have been paid within the meaning of this Section 8.01 if (A) in case any such Bonds are to be redeemed prior to the maturity thereof, there shall have been taken all action necessary to call such Bonds for redemption and notice of such redemption shall have been duly given or provision shall have been made for the giving of such notice, and (B) there shall have

been deposited in irrevocable trust with a banking institution or trust company by or on behalf of the Issuer either moneys in an amount which shall be sufficient, or Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with such bank or trust company at the same time shall be sufficient, to pay the principal of or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be. Neither the Securities nor any moneys so deposited with such bank or trust company nor any moneys received by such bank or trust company on account of principal of or Redemption Price, if applicable, or interest on said Securities shall be withdrawn or used for any purpose other than, and all such moneys shall be held in trust for and be applied to, the payment, when due, of the principal of or Redemption Price, if applicable, of the Bonds for the payment or redemption of which they were deposited and the interest accruing thereon to the date of maturity or redemption thereof; provided, however, the Issuer may substitute new Securities and moneys for the deposited Securities and moneys if the new Securities and moneys are sufficient to pay the principal of or Redemption Price, if applicable, and interest on such Bonds, and any trust agreement governing the deposit of such Securities and moneys may provide for the investment of moneys unclaimed by Bondholders and for the payment to the Issuer of such unclaimed moneys and the investment earnings thereon.

For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or the redemption date thereof, as the case may be, by the deposit of moneys, or specified Securities and moneys, if any, in accordance with this Section 8.01, the interest to come due on such Variable Rate Bonds on or prior to the maturity or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than the Maximum Interest Rate for any period, the total amount of moneys and specified Securities on deposit for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited on such date in respect of such Variable Rate Bonds in order to satisfy this Section 8.01, such excess shall be paid to the Issuer free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under this Resolution.

In the event the Bonds for which moneys are to be deposited for the payment thereof in accordance with this Section 8.01 are not by their terms subject to redemption within the next succeeding sixty (60) days, the Issuer shall cause the Registrar to mail a notice to the Holders of such Bonds that the deposit required by this Section 8.01 of moneys or Securities has been made and said Bonds are deemed to be paid in accordance with the provisions of this Section 8.01 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of or Redemption Price, if applicable, and interest on said Bonds.

Nothing herein shall be deemed to require the Issuer to call any of the Outstanding Bonds for redemption prior to maturity pursuant to any applicable optional redemption provisions, or to impair the discretion of the Issuer in determining whether to exercise any such option for early redemption.

In the event that the principal of or Redemption Price, if applicable, and interest due on the Bonds or any portion thereof shall be paid by an Insurer or Insurers or a Credit Bank or

Credit Banks and such Insurer or Credit Bank shall not have been reimbursed by the Issuer, such Bonds or any portion thereof shall remain Outstanding, shall not be defeased and shall not be considered paid by the Issuer, and the pledge of the Pledged Funds and any additional security pledged hereunder, and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and such Insurer or Insurers or such Credit Bank or Credit Banks shall be subrogated to the rights of such Bondholders.

SECTION 8.02. Capital Appreciation Bonds. For the purposes of (A) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (B) receiving payment of a Capital Appreciation Bond if the principal of all Bonds becomes due and payable under the provisions of this Resolution, or (C) computing the amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the Issuer or any trustee or receiver appointed to represent the Bondholders any notice, consent, request or demand pursuant to this Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

SECTION 8.03. General Authority. The members of the Governing Body and the Issuer's officers, attorneys and other agents and employees are hereby authorized to do all acts and things required of them by this Resolution or desirable or consistent with the requirements hereof for the full, punctual and complete performance of all of the terms, covenants and agreements contained in the Bonds and this Resolution, and they are hereby authorized to execute and deliver all documents which shall be required by Bond Counsel or the initial purchasers of the Bonds to effectuate the sale of the Bonds to said initial purchasers.

SECTION 8.04. No Personal Liability. No representation, statement, covenant, warranty, stipulation, obligation or agreement herein contained, or contained in the Bonds, or in any certificate or other instrument to be executed on behalf of the Issuer in connection with the issuance of the Bonds, shall be deemed to be a representation, statement, covenant, warranty, stipulation, obligation or agreement of any member of the Governing Body, officer, employee or agent of the Issuer in his or her individual capacity, and none of the foregoing persons nor any officer of the Issuer executing the Bonds or any certificate or other instrument to be executed in connection with the issuance of the Bonds, shall be liable personally thereon or be subject to any personal liability or accountability by reason of the execution or delivery thereof.

SECTION 8.05. No Third Party Beneficiaries. Except such other Persons as may be expressly described herein or in the Bonds, nothing in this Resolution, or in the Bonds, expressed or implied, is intended or shall be construed to confer upon any Person other than the Issuer, the Insurer and the Holders any right, remedy or claim, legal or equitable, under and by reason of this Resolution or any provision hereof, or of the Bonds, all provisions hereof and thereof being intended to be and being for the sole and exclusive benefit of the Issuer, the Insurer and the Persons who shall from time to time be the Holders. The Insurer shall be entitled to (i) give notice of the occurrence of an Event of Default and (ii) intervene in judicial proceedings that affect the Bonds or the security therefor.

SECTION 8.06. Sale of Bonds. The Bonds shall be issued and sold at public or private sale at one time or in installments from time to time and at such price or prices as shall be



consistent with the provisions of the Act, the requirements of this Resolution and other applicable provisions of law.

SECTION 8.07. Severability of Invalid Provisions. If any one or more of the covenants, agreements or provisions of this Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements and provisions of this Resolution and shall in no way affect the validity of any of the other covenants, agreements or provisions hereof or of the Bonds issued hereunder.

SECTION 8.08. Repeal of Inconsistent Resolutions. Resolution No. 88-241 and Resolution No. 88-253 of the Issuer are hereby repealed. All other resolutions or parts thereof in conflict herewith are hereby superseded and repealed to the extent of such conflict.

SECTION 8.09. Table of Contents and Headings not Part Hereof. The Table of Contents preceding the body of this Resolution and the headings preceding the several articles and sections hereof shall be solely for convenience of reference and shall not constitute a part of this Resolution or affect its meaning, construction or effect.

SECTION 8.10. Effective Date. This Resolution shall become effective immediately upon its passage.

## ADDITIONAL AMENDATORY PROVISIONS

### Certain Additional Provisions Relating to Insurers.

(A) No Additional Bonds may be issued without Financial Guaranty Insurance Company prior written consent if any policy costs due to Financial Guaranty Insurance Company under the Reserve Account Insurance Policy Agreement are past due and owing to such Insurer. [Resolution 98-99, Section 4.2(J)]

(B) Any successor Paying Agent or Registrar must have combined capital, surplus and undivided profits of at least \$50 million, unless Financial Guaranty Insurance Company shall otherwise approve. Financial Guaranty Insurance Company shall be furnished with written notice of the resignation or removal of the Paying Agent or Registrar and the appointment of any successor thereto. [Resolution 98-99, Section 4.2(K) and Resolution 99-72, Section 4.2(J)]

(C) Variable Rate Bonds shall be issued under the Original Instrument by the Issuer only upon the prior written consent of Financial Guaranty Insurance Company. [Resolution 98-99, Section 4.2(M) and Resolution 99-72, Section 4.2(M)]

(D) Financial Guaranty Insurance Company shall be furnished with written notice of the issuance of any Additional Bonds. [Resolution 99-72, Section 4.2(K)]

(E) Notwithstanding any other provisions of this Resolution to the contrary, the following provisions shall apply with respect to the Bonds or any Additional Bonds hereafter issued the scheduled payment of the principal of the interest on which is insured by a Bond Insurance Policy:

(1) Except as otherwise provided in paragraph (D) below, and notwithstanding the terms of Section 7.02 hereof, an Insurer shall be deemed to be the sole Holder of each Bond Insured by it for purposes of exercising any voting right or privilege or giving any consent to the execution and delivery of any supplemental resolution or ordinance or any amendment, supplement or change to or modification of this Resolution and direction, approval or the taking of any other action that the Bondholders whose Bonds are insured by such Insurer are entitled to take pursuant hereto.

(2) Except as otherwise provided in paragraph (D) below, the occurrence and continuance of an event of default, an Insurer shall be deemed to be the sole Holder of each Bond insured by it for purposes of directing the enforcement and exercising of rights and remedies granted to the Bondholders under this Resolution, no acceleration of such Bonds shall occur without the prior written consent of such Insurer, and such Insurer shall also be entitled to approve all waivers of events of default with respect to Bonds insured by the Insurer. Notwithstanding the foregoing, however, any notices of events of default hereunder required to be sent to Bondholders shall be sent to Bondholders as well as each Insurer. In the event that the maturity of Bonds is accelerated, an Insurer of such Bonds may pay the accelerated principal and accrued or accreted interest, as applicable, on such principal to the date of acceleration and the Insurer's obligations under its Bond Insurance Policy with respect to such Bonds shall be fully discharged.

(3) In the event that the principal and/or interest due on Bonds insured by an Insurer shall be paid by such Insurer pursuant to its Bond Insurance Policy, such Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the Pledged Funds and all covenants, agreements and other obligations of the Issuer to the Holders thereof shall continue to exist and shall run to the benefit of such Insurer and the Insurer shall be subrogated to the rights of such Holders in accordance with the Bond Insurance Policy.

(4) Notwithstanding any other provision contained in this Section 4.2 or elsewhere in this Resolution to the contrary:

(a) If an Insurer shall be in default in the due and punctual performance of its payment obligations under its Bond Insurance Policy or if such policy for whatever reason is not then enforceable and in full force and effect; or

(b) If an Insurer shall apply for or consent to the appointment of a receiver, custodian, trustee or liquidator of such Insurer or of all or a substantial part of its assets, or shall admit in writing its inability, or be generally unable, to pay its debts as such debts become due, or shall make a general assignment for the benefit of its creditors, or commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect) or shall file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, or shall fail to consent in a timely and appropriate manner, or acquiesce in writing to, any other petition filed against such Insurer in any involuntary case under said Federal Bankruptcy Code, or shall take any other action for the purpose of effecting the foregoing; or

(c) If a proceeding or case shall be commenced without the application or consent of an Insurer, in any court of competent jurisdiction seeking the liquidation, reorganization, dissolution, winding up or composition or readjustment of debts of such Insurer or the appointment of a trustee, receiver, custodian, or liquidator or the like of the Insurer or of all or a substantial part of its assets, or similar relief with respect to the Insurer or adjustment of debts, and such proceeding or case shall continue undismissed and an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed in effect for a period of sixty (60) days from the commencement of such proceedings or case, or any order for relief against the Insurer shall be entered in an involuntary case under said Federal Bankruptcy Code; then in any such event such Insurer shall not be entitled to any rights specifically granted to it herein to consent to, approve or participate in any action proposed to be taken by the Insurer, a Bondholder or any of them pursuant to this resolution or to receive any notices or other documents or instruments.

The Issuer hereby acknowledges that the issuer of the Bond Insurance Policy shall be deemed a third-party beneficiary of this Resolution for the purpose of enforcing the terms, condition and obligations of this Resolution which benefit the issuer of such Bond Insurance Policy. [Resolution 2002-239, Section 4.2]

(F) No grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days, without the prior written consent of Financial Security Assurance Inc. No grace period shall be permitted for payment defaults. [Resolution 2002-239, Section 4.3]

(G) No agreement or arrangement that reduces the share of Pledged Funds received by the Issuer shall be effective without the prior written consent of Financial Security Assurance Inc. [Resolution 2002-239, Section 4.3]

(H) Notwithstanding satisfaction of other conditions to the issuance of Additional Bonds contained in Resolution 2002-239, no such issuance may occur (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance, and (2) unless the Reserve Account is fully funded at its requirement upon the issuance of such Additional Bonds (except that with respect to such Additional Bonds, a balance of up to 50% of the requirement may be funded within 24 months of the date of issuance of such Additional Bonds), in either case unless otherwise permitted by Financial Security Assurance Inc. [Resolution 2002-239, Section 4.3]

(I) Notwithstanding the provisions of the Original Instrument, Prerefunded Obligations shall not be used to defease the lien on the Pledged Funds of the Series 2004 Bonds without the written consent of the Insurer. [Resolution 2004-\_\_, Section 3.5]

(J) Notwithstanding any provision to the contrary contained herein, the following provisions shall apply so long as the Financial Guaranty Insurance Policy and the Reserve Account Insurance Policy with respect to the Series 2004 Bonds issued by the Insurer shall be in full force and effect:

(1) Any provision of the Bond Resolution expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance thereunder without the prior written consent of Ambac Assurance. Ambac Assurance has reserved the right to charge the Issuer a fee for any consent or amendment to the Bond Resolution while the Financial Guaranty Insurance Policy or Reserve Account Surety is outstanding.

(2) Unless otherwise provided in Section 7.01 of the Original Instrument, Ambac Assurance's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution; (ii) removal of the Paying Agent for the Series 2004 Bonds and selection and appointment of any successor Paying Agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of Holders of the Series 2004 Bonds.

(3) Any reorganization or liquidation plan with respect to the Issuer 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 Holders who hold Series 2004 Bonds absent a default by Ambac Assurance under the Financial Guaranty Insurance Policy.

(4) Anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined therein, Ambac Assurance shall be

entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 Bonds or a trustee for the benefit of the Holders of the Series 2004 Bonds under the Bond Resolution.

(5) While the Financial Guaranty Insurance Policy or Reserve Account Surety is in effect, the following shall be sent to the attention of the Surveillance Department of Ambac Assurance:

(a) the Issuer shall furnish to Ambac Assurance, upon request, the following: (a) a copy of any financial statement, audit and/or annual report of the Issuer and (b) such additional information Ambac Assurance may reasonably request.

(b) a copy of any notice to be given to the registered owners of the Series 2004 Bonds, including, without limitation, notice of any redemption of or defeasance of Series 2004 Bonds, and any certificate rendered pursuant to the Bond Resolution relating to the security for the Series 2004 Bonds.

(6) While the Financial Guaranty Insurance Policy or Reserve Account Surety is in effect, the following notices shall be sent to the attention of the General Counsel Office of Ambac Assurance:

(a) The Issuer shall notify Ambac Assurance of any failure of the Issuer to provide relevant notices, certificates, etc.

(b) Notwithstanding any other provision of the Bond Resolution, the Issuer shall immediately notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest on the Series 2004 Bonds as required and immediately upon the occurrence of any Event of Default under the Bond Resolution.

(7) The Issuer will permit Ambac Assurance to discuss the affairs, finances and accounts of the Issuer or any information Ambac Assurance may reasonably request regarding the security for the Series 2004 Bonds with appropriate officers of the Issuer. The Issuer will permit Ambac Assurance to have access to Project 2004 and have access to and to make copies of all books and records relating to the Series 2004 Bonds at any reasonable time.

(8) Ambac Assurance shall have the right to direct an accounting at the Issuer's expense, and the Issuer'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 under the Bond Resolution; 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 2004 Bonds.

(9) As long as the Financial Guaranty Insurance Policy shall be in full force and effect, the Issuer hereby directs the Paying Agent to comply with the following provisions with respect to the Series 2004 Bonds:

(a) at least one day prior to all Interest Dates the Paying Agent will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest on the Series 2004 Bonds on such Interest Date. If the Paying Agent determines that there will be insufficient funds in such Funds or Accounts, the Paying Agent shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Series 2004 Bonds to which such deficiency is applicable and whether such Series 2004 Bonds will be deficient as to principal or interest, or both. If the Paying Agent has not so notified Ambac Assurance at least one (1) day prior to an Interest Date, Ambac Assurance will make payments of principal or interest due on the Series 2004 Bonds on or before the first day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Paying Agent.

(b) the Paying Agent shall, after giving notice to Ambac Assurance as provided in (1) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Issuer maintained by the registrar, and all records relating to the funds and accounts maintained under the Bond Resolution relating to the Series 2004 Bonds.

(c) the Paying Agent shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Series 2004 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 2004 Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Series 2004 Bonds surrendered to the Insurance Trustee by the registered owners of Series 2004 Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(d) the Paying Agent shall, at the time it provides notice to Ambac Assurance pursuant to (1) above, notify registered owners of Series 2004 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 2004 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 2004 Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Paying Agent and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Series 2004 Bonds for payment thereon first to the Paying Agent who shall note on such Series 2004 Bonds the portion of the principal paid by the Paying Agent 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 Paying Agent has notice that any payment of principal of or interest on a Series 2004 Bond which has become Due for Payment and which is made to a

Holder by or on behalf of the Issuer 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 Paying Agent shall, at the time Ambac Assurance is notified pursuant to (1) 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 Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Paying Agent shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Series 2004 Bonds which have been made by the Paying Agent 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 the Bond Resolution, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Series 2004 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 Paying Agent shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Paying Agent upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Series 2004 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Paying Agent shall note Ambac Assurance's rights as subrogee on the registration books of the Issuer maintained by the Paying Agent upon surrender of the Series 2004 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(10) (a) The Paying Agent for the Series 2004 Bonds may be removed at any time, at the request of Ambac Assurance, for any breach of its obligations and duties.

(b) Any successor Paying Agent shall not be appointed unless Ambac Assurance approves such successor in writing.

(c) Notwithstanding any other provision of the Bond Resolution in determining whether the rights of the Holders of the Series 2004 Bonds will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Paying Agent shall consider the effect on the Holders as if there were no Financial Guaranty Insurance Policy.

(d) Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to Ambac Assurance, shall be appointed. [Resolution 2004-\_\_, Section 4.2]

**CONTINUING DISCLOSURE CERTIFICATE**

This **CONTINUING DISCLOSURE CERTIFICATE** (this "Disclosure Certificate") is executed and delivered as of February 1, 2004 by **ST. JOHNS COUNTY, FLORIDA** (the "County"), in connection with the sale of the County's Water and Sewer Revenue Bonds, Series 2004 (the "Series 2004 Bonds") in the aggregate principal amount of \$ \_\_\_\_\_ to be issued pursuant to and in full compliance with the Constitution and laws of the State of Florida, particularly Chapter 125, Part I, Florida Statutes, as amended, County Ordinance 86-89 enacted by the Board of County Commissioners of the County (the "Board"), as amended (the "Ordinance"), and other applicable provisions of law and Resolution No. 89-84 of the County duly adopted by the Board on April 25, 1989, as amended and supplemented (the "Master Resolution"), as particularly supplemented by Resolution No. 2004-[ ] duly adopted by the Board on January 20, 2004 (together with the Master Resolution, the "Resolution").

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the County for the benefit of owners and Beneficial Owners of the Series 2004 Bonds. The financial information and operating data forming the basis of the annual reporting requirements of Section 3 and 4 of this Disclosure Certificate are derived from the Official Statement (as defined herein).

**Section 2. Definitions.** In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined herein, the following capitalized terms used in this Disclosure Certificate have the following meanings:

**"Annual Financial Information"** shall mean the information with respect to the County described in Section 4 of this Disclosure Certificate.

**"Beneficial Owner"** shall mean any individual beneficial owner of the Series 2004 Bonds. Beneficial ownership is to be determined consistent with the definition thereof contained in Rule 13d-3 of the Securities and Exchange Act of 1934, as amended, or, in the event such provisions do not adequately address the situation at hand (in the opinion of nationally recognized bond counsel), beneficial ownership is to be determined based upon ownership for federal income tax purposes.

**"Cover Sheet"** means the Municipal Secondary Market Disclosure Information Cover Sheet in the form attached hereto as Exhibit A or as may be amended, or supplemented or substituted from time to time.

**"Dissemination Agent"** shall mean the County or any Dissemination Agent designated by the County pursuant to Section 7 hereof.

**"Fiscal Year"** shall mean the fiscal year of the County, which currently is the twelve month period beginning October 1 and ending on September 30 of the following year.



"GAAP" shall mean generally accepted accounting principles promulgated by the Governmental Accounting Standards Board as in effect from time to time in the United States.

"Listed Events" shall mean any of the events listed in Section 5(a) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board, 1150 18th Street, N.W., Suite 400, Washington, DC 20036-2491.

"National Repository" shall mean any of the names and addresses of each National Repository and State Repository as of any date may currently be obtained by calling the SEC's Fax on Demand Service at 202/942-8088 and requesting document numbers 0206 and 0207, respectively, or by visiting the SEC's web site at "www.sec.gov/info/municipal/nrmsir.htm."

"Obligated Person" shall mean the County and any person who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Series 2004 Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). The County confirms that currently it is the only Obligated Person.

"Official Statement" shall mean the Official Statement of the County, dated January \_\_\_, 2004, delivered in connection with the offering of the Series 2004 Bonds and any amendment or supplement thereto.

"Repository" shall mean each National Repository and each State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as such rule may be amended from time to time and any successor provisions thereto.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of Florida.

"State Repository" or "SID" shall mean any public or private repository or entity designated by the State as a state information depository for the purposes of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

**Section 3. Provision of Annual Financial Information.** Except as otherwise provided herein, the County shall, or shall cause the Dissemination Agent to, provide each Repository with the Annual Financial Information for each Fiscal Year ending on or after September 30, 2003, not later than the following June 1. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package, and may include by cross-reference other information as provided in Section 4 hereof; provided however, that, if the financial statements of the County are audited, then such audited financial statements must be submitted, but they may be submitted separately from the balance of the Annual Financial

Information and later than the date required above for the filing of the Annual Financial Information if they are not available by such date. If the Fiscal Year changes, the County shall give written notice of such change in the same manner as for a Listed Event in Section 5(c) hereof. If the financial statements of the County specified in the manner described hereof are not available by the time the Annual Financial Information must be provided, unaudited Financial Statements of the County shall be provided by the County as part of the Annual Financial Information and such audited financial statements of the County, when and if available, will be provided by the County to each Repository immediately upon such audited financial statements becoming available.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues with respect to which the County is an "obligated person", which have been filed with each Repository or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify each such other document so included by reference.

The requirements of this Section do not necessitate the preparation of any separate annual report addressing only the Series 2004 Bonds. These requirements may be met by the filing of a combined bond report or the County's Comprehensive Annual Financial Report; provided, such report includes all of the information required by this Disclosure Certificate to be provided and is available by June 1.

The Annual Financial Information, when provided to each Repository, may be accompanied by a Cover Sheet.

**Section 4. Content of Annual Financial Information.** The Annual Financial Information of the County shall consist of or cross reference the following:

(a) Basic financial statements and required supplementary information for the County prepared in accordance with GAAP.

(b) Annual, updated historical financial information and operating data of the System of the type included in the Official Statement, including, but not limited to, information contained in: (i) the tables under the heading "THE SYSTEM – Rates," (ii) the table under the heading "HISTORICAL REVENUES, EXPENSES AND DEBT SERVICE COVERAGE" and (iii) the table entitled "St. Johns County, Florida Net Debt Statement as of September 30, 2002" under "APPENDIX A – GENERAL INFORMATION CONCERNING THE COUNTY." Such update shall include only financial information for the prior Fiscal Year and shall not include any projections for future Fiscal Years.

If the County has not filed the Annual Financial Information when due, then the County or the Dissemination Agent, on behalf of the County, shall file a notice with each Repository as required by the Rule.

## **Section 5. Reporting of Significant Events.**

(a) The County shall give, or cause to be given, on behalf of the County and in a timely manner, notice of the occurrence of any of the following events with respect to the Series 2004 Bonds, if material, to each Repository or the MSRB:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on any credit enhancements reflecting financial difficulties;
- (v) Substitutions of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2004 Bonds;
- (vii) Modifications to rights of holders of the Series 2004 Bonds;
- (viii) Calls (excluding calls for sinking fund mandatory redemptions) on the Series 2004 Bonds;
- (ix) Defeasances of the Series 2004 Bonds;
- (x) Release, substitution or sale of property securing repayment of the Series 2004 Bonds;
- (xi) Rating changes; and
- (xii) Notice of any failure on the part of the County or any other Obligated Person to meet the requirements of this Section 5.

(b) Whenever the County obtains actual knowledge of the occurrence of a Listed Event, the County shall determine promptly if such event would be material to holders of the Series 2004 Bonds or any series thereof, under applicable federal securities laws.

(c) If the County has determined that knowledge of the occurrence of a Listed Event would be material to holders of the Series 2004 Bonds or any series thereof, under applicable federal securities laws, the County shall timely give or cause to be given a notice of such occurrence (as required by Section 5(a) hereof) to each National

Repository or the MSRB and to the SID, if any, provided, that any event under Section 5(a)(iii), (iv), (v), (vi) or (xi) above will always be deemed to be material.

(d) Each notice given pursuant to this Section 5 shall be captioned "Material Event Notice," shall prominently state the date, title and CUSIP numbers of the affected Series 2004 Bonds and may be accompanied by a Cover Sheet.

**Section 6. Termination of Reporting Obligation.**

(a) The obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2004 Bonds.

(b) If in the opinion of nationally recognized bond counsel satisfactory to the County, the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then such information shall no longer be required to be provided hereunder; and if and to the extent in the opinion of nationally recognized bond counsel satisfactory to the County, the Rule, or any provisions thereof, shall be declared by a federal court of competent and final, non-appealable jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Series 2004 Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided hereunder.

(c) If a termination or cessation described in either Section 6(a) or (b) hereof occurs prior to the final maturity of the Series 2004 Bonds, the County shall give or cause to be given notice of such event in the same manner as for a Listed Event under Section 5(c) hereof.

**Section 7. Dissemination Agent.** The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the County may unilaterally amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3, 4, 5 or 10 hereof, it may only be made in connection with a change in circumstances that arises from a change in applicable legal requirements, change in law, any subsequent change in or applicable and binding interpretation of the Rule, or change in the identity, nature or status of the County or any other Obligated Person or the type of business conducted;

(b) this Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2004 Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver does not materially impair the interests of the owners or Beneficial Owners of the Series 2004 Bonds, as determined either by parties unaffiliated with the County or any other Obligated Persons (i.e., nationally recognized bond counsel satisfactory to the County).

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the County shall describe such amendment in the next Annual Financial Information relating to the County, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being provided by or in respect of the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c) hereof, and (ii) the Annual Financial Information relating to the County for the year in which the change is made shall present a comparison (in narrative form and also, if feasible in quantitative form) between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the County to meet its obligations. To the extent reasonably feasible, the comparison also shall be quantitative.

**Section 9. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation hereunder to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

**Section 10. Default.** In the event of a failure of the County to comply with any provision of this Disclosure Certificate, the sole remedy available to any holder, owner or Beneficial Owner of Series 2004 Bonds shall be to seek specific performance by court order to cause the County to comply with its obligations under this Disclosure Certificate, it being the County's position that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution.

**Section 11. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, if any, all holders, owners and Beneficial Owners from time to time of the Series 2004 Bonds for the benefit of such holders, owners and Beneficial Owners, and shall create no rights in any other person or entity.

**Section 12. Sources of Payment.** The County shall be required to use only Pledged Funds to pay any costs and expenses to be incurred in the performance of its obligations under this Disclosure Certificate and the performance of its obligations hereunder shall be subject to the availability of Pledged Funds for that purpose. None of the officers, commissioners, members or employees of the County shall be charged personally with any liability, or held liable under any term or provision of this Disclosure Certificate because of its execution or attempted execution, or because of any breach or attempted or alleged breach thereof.

**THE SERIES 2004 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE COUNTY AS "BONDS" WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, BUT SHALL BE SPECIAL OBLIGATIONS OF THE COUNTY, PAYABLE SOLELY FROM AND SECURED BY A LIEN UPON AND A PLEDGE OF THE PLEDGED FUNDS IN ACCORDANCE WITH THE TERMS OF THE RESOLUTION. NO HOLDER OF ANY SERIES 2004 BONDS OR ANY CREDIT BANK OR ANY INSURER SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON ANY SUCH SERIES 2004 BOND OR SHALL BE ENTITLED TO PAYMENT OF SUCH SERIES 2004 BOND FROM ANY MONEYS OF THE COUNTY EXCEPT THE PLEDGED FUNDS IN THE MANNER PROVIDED IN THE RESOLUTION.**

**Section 13. Obligated Persons.** Any change in Obligated Persons shall be reported by the County in connection with the Annual Financial Information. If any person, other than the County, becomes an Obligated Person relating to the Series 2004 Bonds, the County shall use its reasonable best efforts to require such Obligated Person to comply with all provisions of the Rule applicable to such Obligated Person; provided, however, the County takes no responsibility for the accuracy or completeness of any financial information or operating data or other filings by any future Obligated Person.

**Section 14. Governing Law.** This Disclosure Certificate shall be governed by and construed in accordance with the internal laws of the State of Florida (without regard to conflict of law principles thereof), provided that, to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

**Section 15. Severability.** In case any part of this Disclosure Certificate is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Certificate. This Disclosure Certificate shall be construed or enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application of this Disclosure Certificate affect any legal and valid application.

**IN WITNESS WHEREOF**, the County has executed this Disclosure Certificate to be executed on its behalf by its authorized representative as of the date first above written.

**ST. JOHNS COUNTY, FLORIDA**

By: \_\_\_\_\_  
Karen R. Stern, Chair

**EXHIBIT A**

**FORM OF MUNICIPAL SECONDARY MARKET  
DISCLOSURE INFORMATION COVER SHEET**



## APPENDIX F

### Form of Bond Counsel Opinion

Upon the delivery of the Series 2004 Bonds, Rogers Towers, P.A. Jacksonville, Florida, Bond Counsel, proposes to render its final approving opinion with respect to the Series 2004 Bonds in substantially the following form:

\$ \_\_,000,000  
St. Johns County, Florida  
Water and Sewer Revenue Bonds,  
Series 2004

Board of County Commissioners of  
St. Johns County, Florida  
St. Augustine, Florida

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by St. Johns County, Florida (the "Issuer") of \$ \_\_,000,000 aggregate principal amount of Water and Sewer Revenue Bonds, Series 2004 (the "Bonds"). The Bonds are issued pursuant to the Constitution and laws of the State of Florida, including, in particular, Chapter 125, Florida Statutes, St. Johns County Ordinance No. 86-89, as amended and supplemented, and Resolution No. 89-84, duly adopted by the Board of County Commissioners (the "Board") of the Issuer on April 25, 1989, as amended and supplemented, particularly as supplemented by Resolution No. 2004-\_\_ duly adopted by the Board on January \_\_, 2004 (collectively, the "Resolution") to finance the cost of certain additions, extensions and improvements to the Issuer's Water and Sewer System, the cost of a reserve account insurance policy relating to the Bonds and the cost of issuance of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The principal of, premium, if any, and interest on the Bonds are payable solely from and secured by a prior lien upon and a pledge of (1) the Net Revenues of the System, (2) certain Connection Charges to the extent provided in the Resolution and (3) until applied in accordance with the provisions of the Resolution, the proceeds of the Bonds, all moneys and investments thereof in certain of the funds and accounts established pursuant to the Resolution and the earnings on such investments (collectively, the "Pledged Funds"), all in the manner and to the extent described in the Resolution. The Bonds are payable from the Pledged Funds on a parity with the Issuer's outstanding Water and Sewer Revenue Bonds, Series 1991A, Water and Sewer Revenue and Refunding Bonds, Series 1996, Water and Sewer Revenue Refunding Bonds, Series 1998, Water and Sewer Revenue Bonds, Series 1999A, Taxable Water and Sewer

Revenue Refunding Bonds, Series 1999B, Water and Sewer Revenue Refunding Bonds, Series 2002A and Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B (collectively, the "Parity Obligations"), in the manner provided in the Resolution.

The Bonds and the interest thereon do not constitute a general indebtedness of the Issuer or a pledge of its faith and credit, but are payable solely from the Pledged Funds in the manner provided in the Resolution. No owner of any of the Bonds shall ever have the right to compel the exercise of the ad valorem taxing power of the Issuer to pay the Bonds or interest thereon or be entitled to payment of the Bonds or interest thereon from any moneys of the Issuer except the Pledged Funds.

The Issuer has reserved the right to issue additional parity bonds to be payable from and secured by the Pledged Funds equally and ratably with the Bonds and the Parity Obligations, upon the terms and conditions prescribed in the Resolution.

As to questions of fact material to our opinion, we have relied upon the representations of the Issuer contained in the Resolution and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, including matters essential to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and of the legal conclusions contained in the opinion, referred to in the third paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We express no opinion herein as to the accuracy, completeness or sufficiency of any offering material relating to the Bonds. We have not passed herein upon any matters relating to the business, affairs or condition (financial or otherwise) of the Issuer and no inference should be drawn that we have expressed any opinion on matters relating to the ability of the Issuer to perform its obligations under the instruments described herein.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Issuer is a duly created and validly existing political subdivision of the State of Florida with the power to adopt the Resolution, perform the agreements on its part contained therein and issue the Bonds.

(2) The Resolution has been duly adopted by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable upon the Issuer in accordance with its terms.

(3) The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer enforceable in accordance with their terms.

(4) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income.

(5) The Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations.

(6) The amount by which the respective issue prices of the Bonds maturing on October 1, 200\_\_ through October 1, 20\_\_, inclusive, (collectively, the "Discount Bonds") is less than the amount to be paid at maturity of each such maturity of the Discount Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Discount Bonds which is excluded from gross income for federal income tax purposes to the same extent as set forth in paragraph (5) hereof. For this purpose, the issue price of each maturity of the Discount Bonds is the first price at which a substantial amount of such Bonds of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Except as stated in paragraphs (4), (5) and (6) hereof, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

All opinions as to legal obligations of the Issuer set forth above are subject to and limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditor's rights, (b) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, including limitations on legal remedies against bodies political and corporate, (c) the application of judicial discretion in appropriate cases and (d) other applicable laws that may affect remedies, but do not, in our opinion, materially impair the practical realization of the benefits or the security of the parties entitled thereto. Further, we express no opinion with respect to any indemnification, contribution,

penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Respectfully submitted,

**Ambac**

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

*Robert J. Pardo*

President



*Anne G. Gill*

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

*Norinda Lauro*

Authorized Officer of Insurance Trustee

# Ambac

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

The insurance provided by this Policy is not covered by the Florida Insurance Guaranty Association.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

*Robert J. Lueda*

President



*Anne G. Gill*

Secretary

Authorized Representative

## **APPENDIX H**

### **TABLE OF ACCRETED VALUES**

**[TO COME]**

EXHIBIT B

**BOND PURCHASE AGREEMENT**

**\$30,000,000**  
**St. Johns County, Florida**  
**Water and Sewer Revenue Bonds,**  
**Series 2004**

January \_\_, 2004

Board of County Commissioners of  
St. Johns County, Florida  
County Administration Building  
4020 Lewis Speedway  
St. Augustine, Florida 32095

Ladies and Gentlemen:

William R. Hough & Co., and its successors and assigns (the "Managing Underwriter") on behalf of itself and Merchant Capital L.L.C. (the "Co-Underwriter" and together with the Managing Underwriter, the "Underwriters") offers to enter into the following agreement (the "Purchase Contract") with St. Johns County, Florida (the "County"), which, upon your acceptance of this offer, will be binding upon the County and, jointly and severally, upon the Underwriters. This offer is made subject to your acceptance on or before 5:00 p.m., Eastern time, on the date hereof and if not so accepted, will be subject to withdrawal by the Managing Underwriter upon notice to the County at any time prior to your acceptance hereof. Capitalized terms not defined herein shall have the meanings ascribed to them in the Resolution (as defined herein).

**SECTION 1. PURCHASE AND SALE.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriters hereby agree to purchase from the County for offering to the public, and the County hereby agrees to sell to the Underwriters for such purpose, all (but not less than all) of the County's \$30,000,000 Water and Sewer Revenue Bonds, Series 2004 (the "Bonds"). The Bonds shall be dated the date of their delivery, and shall be issued in such principal amounts, bear such rates of interest, and be redeemable upon such terms as set forth in EXHIBIT A attached hereto. Interest on the Bonds which are Current Interest Bonds shall be payable June 1 and December 1 of each year, commencing June 1, 2004. Interest on the Bonds which are Capital Appreciation Bonds shall be compounded on June 1 and December 1 of each year, commencing June 1, 2004, and will be payable as part of the Maturity Amounts of the Bonds. The aggregate purchase price of the Bonds is [\$\_\_\_\_\_] (representing the principal amount of \$30,000,000.00, less an underwriters' discount of [\$\_\_\_\_\_] per \$1,000 of the Bonds which is equal to [\$\_\_\_\_\_] , less an original issue discount of [\$\_\_\_\_\_] and plus an original issue premium of [\$\_\_\_\_\_] ) to the Closing Date (as hereinafter defined). The Bonds shall initially be offered to the public as set forth in Section 3 hereof at such prices or yields as



indicated on EXHIBIT A attached hereto. The Bonds are being issued pursuant to the Constitution and laws of the State of Florida, particularly Chapter 125, Part I, Florida Statutes, as amended, County Ordinance 86-89 enacted by the Board of County Commissioners of the County (the "Board"), as amended, and other applicable provisions of law (the "Act") and Resolution No. 89-84 of the County duly adopted by the Board on April 25, 1989, as amended and supplemented (the "Master Resolution"), particularly as supplemented by Resolution No. 2004-[ ] (the "2004 Bond Resolution") duly adopted by the Board on January 20, 2004 (together with the Master Resolution, the "Resolution"). The Bonds are special and limited obligations of the County, payable solely from and secured by the Pledged Funds.

The County is proposing to issue the Bonds to: (a) finance all or a portion of the cost of the acquisition, construction and installation of Project 2004, (ii) fund the reserve account requirement for the Bonds, and (iii) pay the costs of issuance related to the Bonds, including payment of the premium for a municipal bond insurance policy (the "Bond Insurance Policy") to be purchased from Ambac Assurance Corporation (the "Insurer"). The Bonds and the interest thereon will be payable solely from and secured by a pledge of and prior lien upon the Pledged Funds, which include the Net Revenues derived from the operation of the water and sewer systems owned, operated and maintained by the County (the "System") and certain legally available connection charges. The Bonds are being issued on a parity with the County's outstanding Water and Sewer Revenue Bonds, Series 1991A; its outstanding Water and Sewer Revenue and Refunding Bonds, Series 1996; its outstanding Water and Sewer Revenue Refunding Bonds, Series 1998; its outstanding Water and Sewer Revenue Refunding Bonds, Series 1999A; its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B; its outstanding Water and Sewer Revenue Refunding Bonds, Series 2002A; and its outstanding Taxable Water and Sewer Revenue Refunding Bonds, Series 2002B.

Concurrently with the execution and delivery of the Bonds, there are to be executed and delivered, among other things, (a) the Continuing Disclosure Certificate of the County dated as of February 1, 2004 (the "Continuing Disclosure Certificate"), (b) the Registrar and Paying Agency Agreement dated as of February 1, 2004 (the "Registrar and Paying Agency Agreement"), between the County and J.P. Morgan Trust Company, National Association, its successors and assigns, as registrar and paying agent for the Bonds (the "Registrar and Paying Agent"), (c) the Tax Certificate of the County dated as of February 1, 2004 (the "Tax Certificate") and (d) any other documents related to the transactions contemplated in the Official Statement in connection with the public offering, sale and distribution of the Bonds.

**SECTION 2. UNDERWRITERS' LIABILITY.** Delivered to you herewith, as a good faith deposit, is a corporate check of the Managing Underwriter payable to the order of the County in the amount of [\$ ] as security for the performance by the Underwriters of their obligation to accept and pay for the Bonds at Closing in accordance with the provisions of this Purchase Contract. In the event that you accept this offer, said check will be held uncashed by the County as a good faith deposit. At the Closing, the check will be returned to the Managing Underwriter. In the event you do not accept this offer, the check shall be immediately returned to the Managing Underwriter. If the Underwriters fail (other than for a reason permitted hereunder) to accept and pay for the Bonds at the Closing as provided herein, the check may be cashed by the County and the proceeds retained by the County as full liquidated damages for the failure of the Underwriters to accept and pay for the Bonds at closing and for any and all defaults

hereunder on the part of the Underwriters, and the retention of such amounts shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults hereunder on the part of the Underwriters, it being understood by both the County and the Underwriters that actual damages in such circumstances may be difficult or impossible to compute.

In the event that the County fails to deliver the Bonds at the Closing, or if the County is unable at or prior to the Closing Date to satisfy or cause to be satisfied the conditions to the obligations of the Underwriters contained in this Purchase Contract, or if the obligations of the Underwriters contained herein shall be cancelled or terminated for any reason permitted by this Purchase Contract, the County shall be obligated to immediately return the check to the Managing Underwriter and such return shall constitute a full release and discharge of all claims by the County and the Underwriters arising out of the transaction contemplated herein except for the respective obligations of the County and the Underwriters set forth in Section 8 below.

**SECTION 3. OFFERING.** The Underwriters agree to make a public offering of the Bonds at the initial offering prices or yields set forth in EXHIBIT A attached hereto; provided, however, the Underwriters reserve the right to make concessions to dealers and to change such initial offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

The Managing Underwriter covenants and warrants to the County that the Managing Underwriter has entered into a separate agreement with the Co-Underwriter whereby the Bonds will be allocated, underwritten and sold in the manner set forth in Exhibit B attached hereto.

It shall be a condition of your obligation to sell the Bonds to the Underwriters and to deliver the Bonds to the Managing Underwriter as provided in Section 6 hereof, and the obligation of the Underwriters to purchase and accept delivery of the Bonds, that the entire initial aggregate principal amount of the Bonds shall be sold and delivered by you and accepted and paid for by the Underwriters at the Closing.

**SECTION 4. PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT.** The County hereby confirms that it has made available to the Underwriters a Preliminary Official Statement of the County relating to the Bonds dated [January \_\_, 2004] (which, together with the cover page and appendices contained therein, is herein called the "Preliminary Official Statement"). Within seven business days of the acceptance hereof by the County, the County shall deliver to the Managing Underwriter, at the County's expense such reasonable number of conformed copies of the Official Statement (which, together with the cover page, inside cover and appendices contained therein, is herein called the "Official Statement"), as the Managing Underwriter shall reasonably request which shall be sufficient in number to permit the Underwriters to comply with paragraph (b)(4) of Rule 15c2-12 of the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act of 1934") and with Rule G-32 and all other applicable rules of Municipal Securities Rulemaking Board. The County, by its acceptance hereof ratifies and approves the Preliminary Official Statement as of its date and approves and authorizes the Underwriters to use the Official Statement and all documents described therein in connection with the public offering and the sale of the Bonds. The County agrees to make no amendments to the Official Statement without the

prior written consent of the Managing Underwriter, which consent shall not be unreasonably withheld. In addition, the County will undertake, pursuant to the Resolution and the Continuing Disclosure Certificate dated the Closing Date to provide certain annual financial and operating information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Offering Statement and will also be set forth in the Official Statement.

In accordance with Section 218.385(6), Florida Statutes, the Underwriters hereby disclose the required information as provided in EXHIBIT C attached hereto. In accordance with 218.385(2) and (3), Florida Statutes, the Underwriters have delivered to the County the Truth-in-Bonding statement, which statement is attached hereto as EXHIBIT D.

**SECTION 5. REPRESENTATIONS, WARRANTIES AND AGREEMENTS.** The County hereby represents, warrants and agrees as follows:

(a) As of the date of the Preliminary Official Statement and the date of this Purchase Contract, and as of the date of Official Statement and at the time of Closing, the statements and information contained in the Preliminary Official Statement and Official Statement will be true, correct and complete in all material respects and the Preliminary Official Statement and Official Statement will not omit any statement or information which should be included therein for the purposes for which the Preliminary Official Statement and Official Statement are to be used or which is necessary to make the statements or information contained therein, in light of the circumstances under which they were made, not misleading (provided, however, that no representation or warranty is being provided with respect to the Bond Insurance Policy or DTC and its book-entry system).

(b) Between the date of this Purchase Contract and the time of Closing, the County will not execute any bonds, notes or obligations for borrowed money, other than the Bonds, which pledge either the full faith and credit of the County or the Pledged Funds, without giving prior written notice thereof to the Managing Underwriter.

(c) The County is, and will be at the Closing Date, duly organized and validly existing as a political subdivision of the State of Florida, with the powers and authority set forth in the Act.

(d) The County has full legal right, power and authority to: (i) enter into this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate and the Tax Certificate, (ii) adopt the Resolution, (iii) sell, issue and deliver the Bonds to the Underwriters under the Act as provided herein, and (iv) carry out and consummate the transactions contemplated by this Purchase Contract, the Resolution, the Registrar and Paying Agency Agreement, Continuing Disclosure Certificate, the Tax Certificate and the Official Statement, and the County has complied, and at the Closing will be in compliance, in all respects, with the terms of the Act and with the obligations on its part in connection with the issuance of the Bonds contained in the Resolution, the Bonds, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate and this Purchase Contract.

(e) By all necessary official action, the County has (i) duly adopted the Resolution, (ii) duly authorized and approved the Official Statement, and (iii) duly authorized and approved the execution and delivery of, and the performance by the County of, the Bonds, this Purchase Contract, the Resolution, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate and all other obligations on its part in connection with the issuance of the Bonds and the consummation by it of all other transactions contemplated by this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Official Statement and the Tax Certificate in connection with the issuance of the Bonds; and upon delivery of the Bonds at the Closing, the Resolution, this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate and the Tax Certificate will constitute legal, valid and binding obligations of the County, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

(f) When delivered to the Managing Underwriter and paid for by the Underwriters at the Closing in accordance with the provisions of this Purchase Contract, the Bonds shall be entitled to the benefits of the Resolution in accordance with the provisions of the Resolution, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

(g) The adoption of the Resolution and the authorization, execution and delivery of this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate and the Bonds, and compliance with the provisions hereof and thereof, will not conflict with, or constitute a material breach of or default under any law, administrative regulation, consent decree, ordinance, resolution or any agreement or other instrument to which the County was or is subject, as the case may be, nor will such adoption, execution, delivery, authorization or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the County, or under the terms of any law, administrative regulation, ordinance, resolution or instrument, except as expressly provided by the Resolution.

(h) At the time of Closing, the County will be in compliance in all respects with the covenants and agreements contained in the Resolution and no event of default and no event which, with the lapse of time or giving of notice, or both, would constitute an event of default under the Resolution will have occurred or be continuing.

(i) Except as provided in the Official Statement, all approvals, consents, authorizations and orders of any governmental authority or agency having jurisdiction in any matter which would constitute a condition precedent to the performance by the County of its obligations hereunder and its obligations under the Resolution have been obtained and are in full force and effect.

(j) The County is lawfully empowered to pledge and grant a lien on the Pledged Funds for payment of the principal of, redemption premium, if any, and interest on the Bonds.

(k) Except as expressly disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency or public board or body pending or, to the best knowledge of the County, threatened against the County, affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the collection of the Pledged Funds or the pledge of and lien on the Pledged Funds or contesting or affecting as to the County the validity or enforceability in any respect of the Bonds, the Resolution, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate or this Purchase Contract, or contesting the tax-exempt status of interest on the Bonds, or contesting the completeness or accuracy of the Official Statement or any supplement or amendment thereto, or contesting the powers of the County or the Board or any authority for the issuance of the Bonds, the adoption of the Resolution or the execution and delivery by the County of the Bonds, this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate or the Tax Certificate.

(l) The County, except as disclosed in the Official Statement, (i) has not failed to obtain any license, permit, certificate or other governmental authorization necessary for the conduct of its business with respect to the System, (ii) has not received any notice from any governmental authority and to its knowledge no such notice is pending or threatened alleging that the County has violated, or has not complied with, any condition, standard, law, ordinance or regulation relating to the System, and (iii) is not a party to any agreement or instrument, or subject to any judgment, order, writ, rule, regulation, code or ordinance, except where any such violation, noncompliance, failure, agreement or judgment would not constitute a material adverse effect on the properties, businesses, results of operations, prospects, management or financial or other condition of the System. Except as disclosed in the Official Statement, the County has all licenses, permits, approvals, registrations, contracts, consents, approvals, qualifications and other authorizations necessary for the lawful conduct of the business or operations of the System. Except as disclosed in the Official Statement, the County is not in material default under any such licenses, permits, approvals, consents or authorizations and to the County's knowledge, no event has occurred, and no condition exists, which, with the giving of notice, the passage of time, or both, would constitute a material default thereunder or would result in the suspension, revocation, impairment, forfeiture or non-renewal of any such permit, license or authorization.

(m) The County will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Managing Underwriter may reasonably request in order to (i) qualify the Bonds for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate, and (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the County shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(n) The County will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Resolution, and as described in the Official Statement.

(o) The County neither is nor has been in default at any time after December 31, 1975, as to principal or interest with respect to an obligation issued or guaranteed by the County as to which County revenues are pledged.

(p) As of its date, the Preliminary Official Statement was deemed "final" by the County for the purposes of SEC Rule 15c2-12(b)(1) except for the omission of certain matters permitted thereby.

(q) If, after the date of this Purchase Contract and until the earlier of (i) 90 days from the end of the "underwriting period" (as defined in SEC Rule 15c2-12) or (ii) the time when the Official Statement is available to any person from a nationally recognized repository, but in no case less than 25 days following the end of the underwriting period, any event shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the County shall notify the Managing Underwriter thereof and, if in the opinion of the Managing Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the County will at its own expense forthwith prepare and furnish to the Managing Underwriter a sufficient number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Managing Underwriter) which will supplement or amend the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at such time, not misleading.

(r) Any certificate signed by any official of the County and delivered to the Managing Underwriter shall be deemed a representation and warranty by the County to the Underwriters as to the truth of the statements therein contained.

(s) The County has never failed to comply with any prior continuing disclosure obligation arising out of SEC Rule 15c2-12.

**SECTION 6. CLOSING.** At noon, local time, on [February 12, 2004] (the "Closing Date"), or at such time on such earlier or later date as shall be agreed upon, the County will, subject to the terms and conditions hereof deliver to the Managing Underwriter in care of DTC or its agent, the Bonds in permanent form, duly executed, and will deliver the other documents herein mentioned at a location mutually agreed upon by the County and the Managing Underwriter; and the Underwriters will pay the purchase price of the Bonds as set forth in Section 1 hereof by immediately available funds, payable to the order of the County. This delivery and payment is herein called the "Closing."

**SECTION 7. CLOSING CONDITIONS.** The Underwriters have entered into this Purchase Contract in reliance upon the representations and warranties of the County herein contained and the performance by the County of its obligations hereunder, both as of the date hereof and as of the time of Closing. The obligations of the Underwriters under this Purchase Contract are and shall be subject to each of the following conditions and the obligations of the County shall be subject to the County being paid the aggregate purchase price of the Bonds and the County receiving the items described in conditions (f)(ii), (f)(iv), (f)(vi) through (f)(xiv) and (f)(xvii) through (f)(xx):

(a) The representations and warranties of the County contained herein shall be true and correct as of the date hereof and as of the Closing Date, as if made on the Closing Date.

(b) The County shall have performed all agreements of the County required to be performed under the Resolution and this Purchase Agreement prior to or on the Closing Date.

(c) At the time of the Closing, the Resolution shall be in full force and effect in accordance with its terms and shall not have been amended, modified or supplemented, and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Managing Underwriter.

(d) At the time of the Closing, all official action of the County relating to this Purchase Contract, the Resolution, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate, the Official Statement and the Bonds shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented in any material respect, except in each case as may have been agreed to by the Managing Underwriter.

(e) The Managing Underwriter may terminate the Underwriters' obligations hereunder by written notice to the County if, at any time subsequent to the date hereof and on or prior to the Closing Date:

(i) legislation shall have been introduced in or enacted by the Congress of the United States or enacted by the State of Florida, or legislation pending in the Congress of the United States shall have been amended, or legislation shall have been recommended to the Congress of the United States or otherwise endorsed for passage (by notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives or legislation shall have been proposed for consideration by either such Committee, by the Staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or the State of Florida, including the Tax Court of the United States, or a ruling shall have been made or a regulation shall have been proposed or a form of notice shall have been made or a regulation shall have been proposed or a form of notice shall have been issued

by the Treasury Department of the United States, or the Internal Revenue Service or other federal or State of Florida authority, with respect to Federal or State of Florida taxation upon revenues or other income of the general character to be derived by the County or by any similar body, or upon interest on obligations of the general character of the Bonds, which (A) may have the purpose or effect, directly or indirectly, of affecting the tax status of the County, its property or income, its securities (including the Bonds) or the interest thereon, or any applicable tax exemption granted or authorized by the State of Florida and, (B) which in the reasonable opinion of the Managing Underwriter, affects adversely the market for the Bonds, or the market price generally of obligations of the general character of the Bonds; or

(ii) (A) in the Managing Underwriter's reasonable judgment, the market price of the Bonds is materially adversely affected because: (I) additional material restrictions not in force as of the effective date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; (II) the New York Stock Exchange or other national securities exchange, or any governmental authority, shall impose, as to the Bonds or similar obligations, any material restrictions not now in force, or increase materially those now in force; or (III) a general banking moratorium shall have been established by federal, New York or Florida authorities; or (B) there shall have occurred any material change, or any other event which in the Managing Underwriter's reasonable opinion and concurrence by appropriate representatives of the County, materially adversely affects the marketability of the Bonds at the purchase price set forth in Section 1, herein; or (C) any litigation shall be instituted, pending or threatened to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting any authority for or the validity of the Bonds, any of the proceedings of the County taken with respect to the issuance or sale thereof, the pledge or application of any moneys or securities provided for the payment of the Bonds or the existence or powers of the County; or

(iii) (A) in the Managing Underwriter's reasonable judgment, and concurrence by the appropriate representatives of the County, the purchase price of the Bonds set forth in Section 1, herein is adversely affected because a war involving the United States of America shall have been declared, or (B) any other national or international calamity shall have occurred (economic or otherwise), or any conflict involving the armed forces of the United States of America shall have escalated to such magnitude as to materially affect the Underwriters' physical or technical ability to market the Bonds;

(iv) a stop order, release, regulation, or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made to the effect that the issuance, offering, or sale of the Bonds, including all the underlying obligations as contemplated hereby or by the Official Statement, or any document relating to the issuance, offering or sale of the Bonds is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"); or



(v) there shall be established any new restriction on transactions in securities materially affecting the free market for securities (including the imposition of any limitation on interest rates); or

(vi) legislation shall be enacted or be proposed or actively considered for enactment, or a decision by a court of the United States shall be rendered, or a ruling, or regulation, by or on behalf of the SEC or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that the Bonds or any securities of the County, any obligations of the general character of the Bonds, and the Resolution, are not exempt from the registration, qualification or other requirements of the Securities Act, and as then in effect or of the Trust Indenture Act, as then in effect, or otherwise, or would be in violation of any provision of the federal securities laws.

In the event that (i) any amendment or supplement to the Official Statement is proposed or deemed necessary by the Managing Underwriter, and (ii) the County notifies the Managing Underwriter that it has determined not to undertake such amendment or supplement, accompanied by a letter from its Bond Counsel and Disclosure Counsel that such firms are prepared to deliver, at the Closing of the Bonds, their respective opinions, then the proposed amendment or supplement to the Official Statement shall be immediately disclosed by the County and the Managing Underwriter to the Rating Agencies (as defined herein) and the Insurer. In the event that as a result of such disclosure (A) any of such Ratings Agencies notify the County and the Managing Underwriter that they will provide a lower underlying rating on the Bonds than that specified in Section 7(f)(ix) hereof or place the Bonds on a "credit watch" or the equivalent, and/or (B) the Insurer notifies the County and the Managing Underwriter that it will not deliver the Bond Insurance Policy or that it will increase the premium for such policy as a result of such disclosure, this Purchase Contract may be terminated by the Managing Underwriter without liability on the part of the Underwriters.

(f) At or prior to the Closing Date, the Managing Underwriter shall receive the following documents:

(i) The Resolution certified by the County Clerk under seal as having been duly adopted by the County and as being in effect, with such supplements, modifications or amendments as may have been agreed to by the Managing Underwriter.

(ii) A final approving opinion of Rogers Towers, P.A., Bond Counsel, addressed to the County, dated the date of the Closing, in substantially the form included in the Official Statement as Appendix F.

(iii) A letter of Bond Counsel addressed to the Underwriters and the Insurer, and dated the Closing Date, to the effect that their final approving opinion referred to in Section 7(f)(ii) hereof may be relied upon by the Underwriters and the Insurer to the same extent as if such opinion were addressed to the Underwriters and the Insurer.

(iv) An opinion of the Office of the County Attorney, addressed to the County, the Underwriters and the Insurer, and dated the date of the Closing, substantially to the effect that:

(A) the Resolution has been duly adopted by the County and the Bonds, this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate and the Tax Certificate have been duly authorized, executed and delivered by the County, and the Resolution, the Continuing Disclosure Certificate, the Tax Certificate, the Bonds, when duly authenticated, and the Purchase Contract, the Registrar and Paying Agency Agreement, when duly executed by the other parties thereto constitute valid, legal and binding agreements of the County enforceable in accordance with their respective terms; provided, however, the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally;

(B) the County is a political subdivision duly existing under the Constitution and laws of the State of Florida and has good right and lawful authority to issue the Bonds, to secure the Bonds in the manner provided in the Resolution, to carry out its powers under the Act (as defined in the Resolution) and to perform all of its obligations under the Resolution, the Bonds, the Purchase Contract, the Continuing Disclosure Certificate and the Registrar and Paying Agency Agreement;

(C) no consent, waiver or any other action by any person, board or body, public or private, other than the approval of the County which has been duly and validly obtained, is required as of the date hereof for the County to issue the Bonds or adopt the Resolution, or to execute and deliver the Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate or Tax Certificate, or to perform its obligations under any of the foregoing;

(D) to the best of his knowledge, the adoption of the Resolution and the execution and delivery of this Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate and the Bonds and compliance with the provisions of each do not and will not conflict with or constitute a breach of or default under any applicable law or administrative regulation of the State of Florida, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the County is a part or is otherwise subject;

(E) except as otherwise disclosed in the Official Statement, there is no litigation or proceeding, pending or, to the best of his knowledge, threatened, challenging the creation, organization or existence of the County, the operations of the System or the validity of the Bonds, the Purchase Contract, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate or the Tax Certificate or seeking to restrain or enjoin any of the transactions referred to therein or contemplated thereby, or which, in any manner, questions the right of the County to issue the Bonds, to operate the System or to pledge the Pledged Funds for repayment of the Bonds;

(F) nothing has come to his attention that would lead him to believe that the Official Statement as of its date or as of the date hereof contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(G) the Official Statement has been duly authorized, executed and delivered by the County, and the County has consented to the use thereof by the Underwriters; and

(H) the County is lawfully empowered to pledge and grant a lien on the Pledged Funds, for the payment of the principal of, redemption premium, if any, and interest on the Bonds.

(I) for purposes of the opinion, he has assumed that the County has obtained or will be able to obtain all permits and consents that are necessary for Project 2004, that the interest on the Bonds is excluded from gross income for federal income tax purposes and that neither the Bonds, the Purchase Contract, the Registrar and Paying Agency Agreement the Official Statement, the Resolution, the Continuing Disclosure Statement, the Tax Certificate nor any other matter or documents need to be registered or qualified under the Securities Act, the Florida Securities Act, Chapter 517 Florida Statutes, as amended, the Trust Indenture Act, or the securities or blue sky laws of any jurisdiction.

(v) A certificate, which shall be true and correct at the time of Closing, signed by the Chairman and the Clerk or such other officials satisfactory to the Managing Underwriter, and in form and substance satisfactory to the Managing Underwriter, to the effect that, to the best of their knowledge and belief

(A) the representations, warranties and covenants of the County contained herein are true and correct in all material respects as of the Closing Date and that the County has satisfied all conditions to be performed or satisfied hereunder at or prior to Closing;

(B) the Official Statement did not as of its date, and does not as of the Closing Date, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purposes for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances in which they were made, not misleading (provided, that no opinion need be expressed regarding the information contained therein relating to the Insurer, the Bond Insurance Policy, DTC and its book-entry system);

(C) that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to his or her knowledge, threatened against the County in any court or other tribunal of competent jurisdiction, State or Federal, in any way (I) restraining or enjoining the issuance, sale or delivery of any of the

Bonds, or (II) questioning or affecting the validity of this Purchase Contract, the Bonds, the Resolution, the Registrar and Paying Agency Agreement, the Continuing Disclosure Certificate, the Tax Certificate or the pledge by the County to the Bondholders of the Pledged Funds, or (III) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution, issuance or delivery of the Bonds or (IV) questioning or affecting (1) the organization or existence of the County or the title to office of the officers thereof, (2) the operation of the System, or (3) the power or authority of the County to receive the Pledged Funds or (V) asserting that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(D) that except as disclosed in the Official Statement, the County is not in default nor has been in default at anytime after December 31, 1975 as to principal or interest with respect to any obligation issued or guaranteed by the County;

(E) that no event affecting the County has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purposes for which it is to be used or that is necessary to be disclosed therein in order to make the statements and information therein not misleading in any material respect; and

(F) that since the date of the financial statements included in the Official Statement, (I) no material adverse change has occurred in the financial condition of the County and (II) the County has not incurred any material liabilities other than in the ordinary course of business, except as set forth in or contemplated by the Official Statement.

(vi) An opinion of Rogers Towers, P.A., as Bond Counsel, addressed to the County and the Underwriters, and dated the Closing Date, to the effect that:

(A) with respect to the information in the Official Statement and based upon said firm's review of the Official Statement, as Bond Counsel, and without having undertaken to determine independently the accuracy or completeness of the contents of the Official Statement, it is of the opinion that the information in the Official Statement under the headings "DESCRIPTION OF THE SERIES 2004 BONDS," "SECURITY FOR THE SERIES 2004 BONDS," "TAX MATTERS" (except for the financial and statistical data contained in any such headings, as to which no view need be expressed) and "APPENDIX D – THE RESOLUTION" insofar as such information purports to be descriptions or summaries of the Resolution, the Bonds or state and federal laws to the extent indicated therein, are accurate and fair statements or summaries of the matters set forth or the documents referred to therein; and

(B) the Bonds are exempt from registration under the Securities Act and the Resolution is exempt from qualification as an indenture under the Trust Indenture Act.

(vii) An opinion of Nabors, Giblin & Nickerson, P.A., as Disclosure Counsel, addressed to the County and the Underwriters, and dated the Closing Date, to the effect that it has participated in the preparation and review of the Official Statement dated [January \_\_, 2004] (the "Official Statement") relating to the Bonds; has conferred with certain of the County's officers and representatives; and has examined such other documents, proceedings, records and other instruments as it has deemed necessary or advisable; and without passing upon, or assuming responsibility for, the accuracy, completeness or fairness of the statements contained in the Official Statement, and without independent verification of factual matters, pursuant to Rule 10b-5 promulgated by the SEC nothing has come to its attention that would lead it to believe that the Official Statement contains any untrue statement of material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and the Continuing Disclosure Certificate, together with the Official Statement satisfy the requirements contained in Rule 15c2-12(b)(5) (the "Rule") promulgated by the SEC for an undertaking for the benefit of the owners of the Bonds to provide the information at the times and in the manner required by the Rule. No opinion need be expressed as to the ability of the County to comply with the terms and provisions of the Resolution, or the provisions of any other document or certificate, nor as to the portions of the Official Statement captioned "BOOK-ENTRY ONLY SYSTEM," "MUNICIPAL BOND INSURANCE," "THE 2004 RESERVE ACCOUNT INSURANCE POLICY," Appendices A, B, C, D, F, G or H thereto, or any financial, statistical, economic or demographic information included in the Official Statement.

(viii) A certificate of an authorized representative of the Registrar, as Paying Agent to the effect that:

(A) the Registrar and Paying Agent is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America and is duly authorized to exercise trust powers,

(B) the Registrar and Paying Agent has all the requisite authority, power, licenses, permits and franchises, and has full corporate power and legal authority to execute and perform its functions under the Resolution and the Registrar and Paying Agency Agreement;

(C) the performance by the Registrar and Paying Agent of its functions under the Resolution and the Registrar and Paying Agency Agreement will not result in any violation of the Articles of Association or Bylaws of the Registrar and Paying Agent, any court order to which the Registrar and Paying Agent is subject or any agreement, indenture or other obligation or instrument to which the Registrar and Paying Agent is a party or by which the Registrar and Paying Agent is bound, and no approval or other action by any governmental authority or

agency having supervisory authority over the Registrar and Paying Agent is required in order for the Registrar and Paying Agent to perform its functions under the Resolution and the Registrar and Paying Agency Agreement;

(D) the Registrar and Paying Agency Agreement constitutes a valid and binding obligation of the Registrar and Paying Agent in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity; and

(E) to the best of such authorized representative's knowledge, there is no action, suit, proceeding, or investigation at law or in equity before any court, public board or body pending or, to his or her knowledge, threatened against or affecting the Registrar and Paying Agent wherein an unfavorable decision, ruling or finding on an issue raised by any party thereto is likely to materially and adversely affect the ability of the Registrar to perform its obligations under the Resolution and the Registrar and Paying Agency Agreement.

(ix) Letters of Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P," together with Moody's are collectively referred to as the "Rating Agencies") to the effect that the Bonds have been assigned a rating no less favorable than "Aaa" and "AAA," respectively, and underlying ratings of "A2" and "A+," respectively, which ratings shall be in effect as of the Closing Date.

(x) Duly executed copies of the Bond Insurance Policy, the debt service reserve surety policy, the Registrar and Paying Agency Agreement, the Tax Certificate and the Continuing Disclosure Certificate in form acceptable to the Managing Underwriter and bond counsel.

(xi) An opinion of general counsel to the Insurer and a certificate of an officer of the Insurer dated the date of the Closing and addressed to the Underwriters and the County, concerning the Insurer, the Policy, and the information relating to the Insurer and the Policy, contained in the Official Statement, in form and substance satisfactory to the Managing Underwriter.

(xii) A certificate executed by the Chairman and the Clerk dated the Closing Date, satisfactory to Bond Counsel setting forth the facts, estimates and circumstances which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of the Internal Revenue Code of 1986, as amended, and to the best of the knowledge and belief of such officer, such expectations are reasonable.

(xiii) A letter of representations of the County to DTC.

(xiv) A consent letter of the County's independent auditor.

(xv) Internal Revenue Service Form 8038-G.

(xvi) State of Florida Division of Bond Finance Form BF2003/2004-B.

(xvii) A certificate from the County's financial advisor that the aggregate purchase price set forth in this Purchase Contract is not less than the Minimum Purchase Price, that the final terms of the Bonds are within the Parameters, that the costs of issuance of the Bonds is comparable to or less than the current average issuance costs of bonds of similar terms and amount, and that the principal sale of the Bonds complies with the Board's policy on priority of orders and allocation of bonds between Underwriters adopted on January 6, 2004.

(xviii) A certificate from an independent certified public accountant as required by Section 5.02 of the Original Resolution for the issuance of Additional Bonds.

(xvix) A certificate from the County's consulting engineer consenting to the use of its report in the Official Statement; certifying that it has reviewed the Official Statement and the information in the Official Statement under the headings "PROJECT 2004" and "THE SYSTEM" and that nothing has come to its attention that would lead it to believe that such sections contain any untrue statement of material fact or omits to state any fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading.

(xx) The written consent of the State Department described in Section 1.4(c) of the 2004 Bond Resolution.

(xxi) Such additional legal opinions, certificates, instruments and other documents as the Managing Underwriter may reasonably request, to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the County's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the County on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by it.

If the County shall be unable to satisfy the conditions to the obligations of the Managing Underwriter to accept delivery of the Bonds and the Underwriters to purchase and to pay for the Bonds contained in this Purchase Contract and the Managing Underwriter does not waive such inability in writing (except that the delivery of the Continuing Disclosure Certificate cannot be waived), or if the obligations of the Managing Underwriter to accept delivery of the Bonds and the Underwriters to purchase and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, or if the Bonds are not issued and delivered by the County in the year 2004, this Purchase Contract shall terminate, the good faith deposit described in Section 2 hereof shall be returned to the Managing Underwriter and neither the Underwriters nor the County shall be under any further obligation hereunder, except that the respective obligations of the County and the Underwriters set forth in Section 8 hereof shall continue in full force and effect.

**SECTION 8. EXPENSES.** The Underwriters shall be under no obligation to pay, and the County shall pay, any expense incident to the performance of the County's obligations

hereunder including, but not limited to: (a) the cost of preparation, printing and delivery of the Resolution; (b) the cost of preparation and printing of the Bonds, (c) the fees and expenses of Bond Counsel and Disclosure Counsel, (d) the fees and disbursements of the County's certified public accountants; (e) the fees and expenses of Public Financial Management, Inc., the County's financial advisor for the Bonds; (f) the fees and disbursements of Hartman & Associates, Inc., the County's consulting engineer, and any other experts, consultants or advisors retained by the County; (g) fees for bond ratings; (h) the fees and expenses of the Registrar and Paying Agent; and (i) the costs of preparing, printing and delivering the Preliminary Official Statement and the Official Statement and any supplements or amendments thereto. The Underwriters shall pay: (a) the cost of printing and delivery of this Purchase Contract; (b) the cost of all "Blue Sky" and legal investment memoranda and related filing fees; (c) all advertising expenses, and (d) all other expenses incurred by it in connection with the public offering of the Bonds including the fees and disbursements of counsel for the Underwriters, if any. In the event that either party shall have paid obligations of the other as set forth in this Section 8, adjustment shall be made at the time of the Closing.

**SECTION 9. NOTICES.** Any notice or other communication to be given to you under this Purchase Contract may be given by mailing the same to the attention of the County Administrator, at the address set forth on the first page hereof, and any such notice or other communication to be given to the Underwriters may be mailed to William R Hough & Co., One Independent Drive, Suite 3204, Jacksonville, Florida 32202, Attention: Mitchell N. Owens.

**SECTION 10. PARTIES IN INTEREST.** This Purchase Contract is made solely for the benefit of the County and the Underwriters and no other party or person shall acquire or have any right hereunder or by virtue hereof. All of the County's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect and shall survive the delivery of the Bonds.

**SECTION 11. WAIVER.** Notwithstanding any provision herein to the contrary, the performance of any and all obligations of the County hereunder and the performance of any and all conditions contained herein for the benefit of the Underwriters may be waived by the Managing Underwriter, and the approval of the Underwriters when required hereunder or the determination of their satisfaction as to any document referred to herein shall be evidenced by the purchase of the Bonds; provided, however, the Managing Underwriter may not waive the delivery of the Continuing Disclosure Certificate.

**SECTION 12. NO LIABILITY.** Neither the Commission, nor any of the members thereof, nor any officer, agent or employee thereof shall be charged personally by the Underwriters with any liability, or held liable to the Underwriters under any term or provision of this Purchase Contract because of its execution or attempted execution, or because of any breach or attempted or alleged breach thereof.

**SECTION 13. GOVERNING LAW.** This Purchase Contract, and the terms and conditions herein, shall constitute the full and complete agreement between the County and the Underwriters with respect to the purchase and sale of the Bonds. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida.



**SECTION 14. OPERATION OF WARRANTIES, ETC.** All the representations, warranties, covenants and agreements of the County in this Purchase Contract shall remain operative and in full force and effect as if made on the date hereof and the Closing Date, regardless of (i) any investigation made by or on behalf of the Underwriters or by Disclosure Counsel, or (ii) delivery of and any payment for the Bonds hereunder.

**SECTION 15. SECTION HEADINGS.** Section headings have been inserted in this Purchase Contract as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Purchase Contract and will not be used in the interpretation of any provisions of this Purchase Contract.

**SECTION 16. SEVERABILITY.** If any provision of this Purchase Contract shall be held or deemed to be, or shall in fact be, invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, or rule of public policy, or for any other reasons, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstances, or of rendering any other provision or provisions of this Purchase Contract invalid, inoperative or unenforceable to any extent whatever.

**SECTION 17. EXECUTION OF COUNTERPARTS.** This Purchase Contract may be executed in any number of counterparts, all of which taken together shall be one and the same instrument, and any parties hereto may execute this Purchase Contract by signing any such counterpart. The execution of this Purchase Contract has been duly authorized by the Commission.

**SECTION 18. GOVERNING LAW.** This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida.

**SECTION 19. EFFECTIVENESS.** This Purchase Contract shall become effective upon the execution by the appropriate County officials of the acceptance hereof by the County and shall be valid and enforceable at the time of such acceptance.

[SIGNATURE PAGE TO FOLLOW]

**SIGNATURE PAGE TO  
BOND PURCHASE AGREEMENT  
(Water and Sewer Revenue Bonds, Series 2004)**

Very truly yours,

**WILLIAM R. HOUGH & CO.**, on behalf of  
itself and Merchant Capital L.L.C.

By: \_\_\_\_\_  
Mitchell N. Owens, Senior Vice President

Accepted this \_\_\_\_\_ day of January, 2004  
by the Board of County Commissioners of  
St. Johns County, Florida

By: \_\_\_\_\_  
Karen R. Stern, Chair

# EXHIBIT A

## MATURITY SCHEDULE

\$30,000,000

ST. JOHNS COUNTY, FLORIDA  
Water and Sewer Revenue Bonds  
Series 2004

\$ \_\_\_\_\_ Current Interest Bonds

| <u>Maturity</u><br><u>(June 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u> | <u>Yield</u> |
|------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|                                    | \$                                | %                              |              | %            |

\$ \_\_\_\_\_ % Current Interest Term Bonds due June 1, \_\_\_\_\_ - Price \_\_\_\_\_, Yield \_\_\_\_\_ %  
\$ \_\_\_\_\_ % Current Interest Term Bonds due June 1, \_\_\_\_\_ - Price \_\_\_\_\_, Yield \_\_\_\_\_ %

\$ \_\_\_\_\_ Capital Appreciation Bonds

| <u>Maturity</u><br><u>(June 1)</u> | <u>Original Principal</u><br><u>Amount</u> | <u>Value at</u><br><u>Maturity</u> | <u>Original Principal</u><br><u>Per \$5,000</u><br><u>Maturity Amount</u> | <u>Approximate</u><br><u>Yield to Maturity</u> |
|------------------------------------|--------------------------------------------|------------------------------------|---------------------------------------------------------------------------|------------------------------------------------|
|                                    | \$                                         | \$                                 | %                                                                         | %                                              |

\$ \_\_\_\_\_ Original Principal Amount Capital Appreciation Term Bonds due June 1, \_\_\_\_\_  
Approximate Yield to Maturity \_\_\_\_\_ %, \$ \_\_\_\_\_ Value at Maturity

(\$ \_\_\_\_\_ Original Principal Amount per \$5,000 Maturity Amount)

## Redemption of the Series 2004 Bonds

Optional Redemption. The Series 2004 Current Interest Bonds maturing prior to June 1, 20\_\_\_\_, shall not be subject to redemption prior to maturity. The Series 2004 Current Interest Bonds maturing on or after June 1, 20\_\_\_\_ may be redeemed prior to their respective maturities, at the option of the County, from any moneys legally available therefor, upon notice as provided in the Resolution, as a whole on June 1, 20\_\_\_\_, or on any date thereafter, or in part, from such maturity or maturities as the County shall designate and by lot within a maturity, on June 1, 20\_\_\_\_, or on any interest payment date thereafter, at the following redemption prices (expressed as a percentage of the principal amount of the Series 2004 Current Interest Bonds to be redeemed), plus accrued interest to the redemption date, if redeemed during the following periods.

| <b>Redemption Period<br/>(Both Dates Inclusive)</b> | <b>Redemption<br/>Price</b> |
|-----------------------------------------------------|-----------------------------|
| _____ through _____                                 | _____ %                     |
| _____ through _____                                 |                             |
| _____ and thereafter                                |                             |

The Series 2004 Capital Appreciation Bonds maturing on or after June 1, 20\_\_\_\_ may be redeemed prior to their respective maturities, at the option of the County, from any moneys legally available therefor, upon notice as provided in the Resolution, in whole or in part at any time on or after June 1, 20\_\_\_\_, by lot within a maturity, and in such maturities as shall be determined by the County, at the following redemption prices (expressed as a percentage of the principal amount of the Series 2004 Capital Appreciation Bonds to be redeemed), plus accreted interest to the redemption date.

| <b>Redemption Period<br/>(Both Dates Inclusive)</b> | <b>Redemption<br/>Price</b> |
|-----------------------------------------------------|-----------------------------|
| _____ through _____                                 | _____ %                     |
| _____ through _____                                 |                             |
| _____ and thereafter                                |                             |

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**Mandatory Redemption.** The Series 2004 Current Interest Bonds maturing on June 1, 20\_\_ are subject to mandatory redemption by the County in part prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof without premium, plus accrued interest to the redemption date, beginning on June 1, 20\_\_ and on each June 1 thereafter in the years and in the principal amounts corresponding to the following Amortization Installments in the years specified.

| <u><b>Year</b></u><br><u><b>(June 1)</b></u> | <u><b>Amortization</b></u><br><u><b>Installments</b></u> |
|----------------------------------------------|----------------------------------------------------------|
|                                              | \$                                                       |

\*

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\* Final Maturity

The Series 2004 Current Interest Bonds maturing on June 1, 20\_\_ are subject to mandatory redemption by the County in part prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof without premium, plus accrued interest to the redemption date, beginning on June 1, 20\_\_ and on each June 1 thereafter in the years and in the principal amounts corresponding to the following Amortization Installments in the years specified.

| <u><b>Year</b></u><br><u><b>(June 1)</b></u> | <u><b>Amortization</b></u><br><u><b>Installments</b></u> |
|----------------------------------------------|----------------------------------------------------------|
|                                              | \$                                                       |

\*

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\* Final Maturity

## **EXHIBIT B**

The Agreement Among Underwriters between the Managing Underwriter and the Co-Underwriter includes the terms approved by the Board of County Commissioners of St. Johns County, Florida on January 6, 2004 including the following:

The Bonds will be sold with retail orders as the first priority filled.

The sales of Bonds to institutional investors shall be sold only with net designated orders, allocating to each Underwriter the "takedown" income from only the bonds it sells, and allocating the risk for buying unsold bonds; in proportions of 70% for the Managing Underwriter and 30% for the Co-Underwriter.

## EXHIBIT C

### DISCLOSURE STATEMENT

Board of County Commissioners of  
St. Johns County, Florida  
County Courthouse  
4010 Lewis Speedway  
St. Augustine, Florida 32084

Re: \$30,000,000 St. Johns County, Florida Water and Sewer Revenue Bonds, Series 2004

Ladies and Gentlemen:

In connection with the proposed issuance by St. Johns County, Florida of \$30,000,000 of its Water and Sewer Revenue Bonds, Series 2004 (the "Bonds"), William R. Hough & Co. (the "Managing Underwriter") and Merchant Capital L.L.C. (collectively, the "Underwriters") are underwriting a public offering of the Bonds. The purpose of this letter is to furnish on behalf of the Underwriters, pursuant to the provisions of Section 218.385(6), Florida Statutes, certain information in respect of the arrangements contemplated for the underwriting of the Bonds as follows:

(a) The nature and estimated amount of expenses to be incurred by the Underwriters in connection with the purchase and reoffering of the Bonds are set forth in Schedule I attached hereto.

(b) Other than as set forth in the Memorandum attached hereto, no person has entered into an understanding with the Underwriters, or to the knowledge of the Underwriters, with the County, for any paid or promised compensation or valuable consideration, directly or indirectly, expressly or implied, to act solely as an intermediary between the County and the Underwriters or to exercise or attempt to exercise any influence to effect any transaction in the purchase of the Bonds.

(c) The underwriting spread, the difference between the price at which the Bonds will be initially offered to the public by the Underwriters and the price to be paid to the County for the Bonds, exclusive of accrued interest, will be [\$\_\_\_\_\_] per \$1,000 of Bonds issued.

(d) As part of the estimated underwriting spread set forth in Paragraph (c) above, the Underwriters will charge a management fee of [\$\_\_\_\_\_] per \$1,000 of Bonds issued.

No other fee, bonus or other compensation is estimated to be paid by the Underwriters in connection with the issuance of the Bonds to any person not regularly employed or retained by the Underwriters (including any "finder" as defined in Section 218.386(l)(a), Florida Statutes),

except as specifically enumerated as expenses to be incurred by the Underwriters, as set forth in Paragraph (a) above.

(e) The names and addresses of the Underwriters are not forth below:

William R. Hough & Co.  
One Independent Drive  
Suite 3204  
Jacksonville, Florida 32202

Merchant Capital LLC  
250 Commerce Street, 4th Floor  
Montgomery, Alabama 36104

We understand that you do not require any further disclosure from the Underwriters, pursuant to Section 218.385(6), Florida Statutes.

**WILLIAM R. HOUGH & CO.**, on behalf of  
itself and Merchant Capital L.L.C.

By: \_\_\_\_\_  
Mitchell N. Owens, Senior Vice President



## SCHEDULE I

### UNDERWRITERS' ESTIMATED EXPENSES

|                            | <u>(per \$1,000)</u> |
|----------------------------|----------------------|
| MSRB, CUSIP, DTC           | \$                   |
| Travel and Closing         |                      |
| Communications/Advertising |                      |
| Day Loan                   |                      |
| Total Expenses             | <u>\$</u>            |

## EXHIBIT D

### TRUTH-IN BONDING STATEMENT

The following truth-in-bonding statement is prepared pursuant to Section 218.385(2) and (3), Florida Statutes, and is for informational purposes only. It shall not affect or control the actual terms and conditions of the debt or obligations.

St. Johns, Florida (the "County") is proposing to issue \$30,000,000 of St. Johns County, Florida, Water and Sewer Revenue Bonds, Series 2004 (the "Bonds") for the purpose of financing the cost of all or a portion of the cost of the acquisition, construction and installation of various capital projects, to fund the reserve account requirement and to pay certain costs and expenses related to the issuance of the Bonds including the cost of a municipal bond insurance policy. The Bonds are expected to be repaid over a period of approximately [ ] years. At the interest rates set forth in EXHIBIT A of the Purchase Contract, total interest paid over the life of the Bonds inclusive of accrued interest will be [\$ ].

The Bonds and the interest thereon will be payable solely from and secured by a pledge of and prior lien upon the Pledged Funds, which include the Net Revenues derived from the operation of the water and sewer systems owned, operated and maintained by the County (the "System") and certain legally available connection charges. Authorizing the Bonds will result in [\$ ] of the System's revenues not being available to finance other projects of the County each year for [ ] years.

EXHIBIT C

Ambac Assurance Corporation  
One State Street Plaza  
New York, NY 10004  
212.668.0340

*A member of Ambac Financial Group, Inc.*

**COMMITMENT FOR FINANCIAL GUARANTY INSURANCE**

Obligor: **ST JOHNS COUNTY, FLORIDA**

Commitment Number: 26087

Commitment Date: December 30, 2003

Expiration Date: March 29, 2004

Obligations: \$27,617,899\* in stated principal amount of, Water and Sewer Revenue Bonds, Series 2004, dated their Date of Delivery consisting of: \$8,990,000 Serial Bonds maturing on June 1 in the years 2005 through 2021, both inclusive; and \$18,626,899 in Capital Appreciation Bonds maturing on June 1 in the years 2022 through 2034, both inclusive.

**Insurance premium: 0.319% of the total principal and interest due on the Obligations (Fitch, Inc., Moody's Investors Service and Standard & Poor's Credit Markets Services assess separate rating fees which are payable directly to them. Each rating agency will bill separately and all questions regarding the payment of such fees must be addressed to the applicable agency.)**

**Ambac Assurance Corporation ("Ambac"), a Wisconsin Stock Insurance Corporation,**

hereby commits to issue a Financial Guaranty Insurance Policy (the "Policy") relating to the above-described debt obligations (the "Obligations"), substantially in the form imprinted in this Commitment, subject to the terms and conditions contained herein or added hereto (see conditions set forth herein).

To keep this Commitment in effect after the expiration date set forth above, a request for renewal must be submitted to Ambac prior to such expiration date. Ambac reserves the right to refuse wholly or in part to grant a renewal.

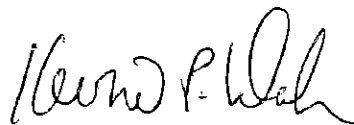
**The Financial Guaranty Insurance Policy shall be issued if the following conditions are satisfied:**

1. The documents to be executed and delivered in connection with the issuance and sale of the Obligations shall not contain any untrue or misleading statement of a material fact and shall not fail to state a material fact necessary in order to make the information contained therein not misleading.
2. No event shall occur which would permit any purchaser of the Obligations, otherwise required, not to be required to purchase the Obligations on the date scheduled for the issuance and delivery thereof.
3. There shall be no material change in or affecting the Obligations (including, without limitation, the security for the Obligations or the proposed debt service structure for the Obligations) or the financing documents or the official statement (or any similar disclosure document) to be executed and delivered in connection with the issuance and sale of the Obligations from the descriptions or schedules thereof heretofore provided to Ambac.

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\* Subject to change, with Ambac's approval.

4. The Obligations shall contain no reference to Ambac, the Policy or the financial guaranty insurance evidenced thereby except as may be approved by Ambac.
5. Ambac shall be provided with:
  - (a) Executed copies of all financing documents, the official statement (or any similar disclosure document) and the various legal opinions delivered in connection with the issuance and sale of the Obligations, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Ambac. The form of Bond Counsel's approving opinion shall also indicate, if applicable, that the Obligations are exempt from federal income taxation, that the Obligor must comply with certain covenants under and pursuant to the new tax law and that the Obligor has the legal power to comply with such covenants. Such opinion of bond counsel shall be addressed to Ambac or, in lieu thereof, a letter shall be provided to Ambac to the effect that Ambac may rely on such opinion as if it were addressed to Ambac.
  - (b) Evidence of a wire transfer in an amount equal to the insurance premium at the time of the issuance and delivery of the Obligations.
6. Unless expressly waived in whole or in part by Ambac, the financing documents and the Official Statement shall contain (a) the terms and provisions provided in Ambac's STANDARD PACKAGE transmitted herewith, and (b) any additional oral or written provisions or comments submitted by Ambac.
7. Ambac shall receive a copy of any insurance policy, surety bond, guaranty or indemnification or any other policy, contract or agreement which provides for payment of all or any portion of the debt, the costs of reconstruction, the loss of business income or in any way secures, ensures or enhances the income stream anticipated to pay the Obligations.
8. Any provisions or requirements of the Purchase Contract or Bond Purchase Agreement referencing Ambac must be sent to the attention of Danielle Brackett not less than five (5) business days prior to closing. If such provisions or requirements are not received within that time, compliance may not be possible.



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Authorized Officer

November 25, 2003

Ambac Assurance Corporation  
One State Street Plaza  
New York, NY 10004  
212.668.0340

*A member of Ambac Financial Group, Inc.*

**AMBAC ASSURANCE STANDARD PACKAGE FOR AMBAC-INSURED TRANSACTIONS**  
**[NOT FOR USE WITH GENERAL OBLIGATION/LIMITED OR**  
**UNLIMITED TAX TRANSACTIONS]**

TO: Obligor, Obligor's Counsel, Managing Underwriter, Obligation Counsel and Underwriter's Counsel

RE: Preparation of Financing Documents for Ambac Assurance Insured Issues

**Ambac**

The attached materials have been prepared to assist you in the preparation of documents for your Ambac Assurance Corporation ("Ambac Assurance") insured issue. Please modify the attached exhibits where appropriate and notify us as to any proposed modifications. If desired, these provisions can be incorporated into one section entitled "Financial Guaranty Insurance" within the applicable Indenture, Resolution, Ordinance, Order or any other operative financing document (such applicable financing document will be referred to herein as the "Financing Document"). Please be advised that the provisions contained in this package are in addition to the conditions listed in the Commitment for Financial Guaranty Insurance and any other comments or changes that may be required by the Ambac Assurance personnel working on this financing. If you have any questions, please call one of the following persons: David N. Abramowitz, Jeffrey R. Fried, Eileen L. Kirchoff or Stephen M. Ksenak (Public Finance) and Kevin J. Doyle, Lee Ann Duffy, Jean Kim, Juan B. Roman or Nicola J. Ryan (Specialized Finance).

- Definitions (Exhibit A).
- Ambac Assurance consent required for changes to underlying documentation and exercise of remedies upon default (Exhibit B).
- Notices/information to be given to Ambac Assurance (Exhibit C).
- Permitted Investments and Valuation Provisions (Exhibit D).
- Defeasance Language (Exhibit E).
- Description of Ambac Assurance Payment Procedure (Exhibit F).
- Trustee-related provisions (Exhibit G).
- Ambac Assurance as a third-party beneficiary (Exhibit H).
- Suggested language for (i) Ambac Assurance Official Statement Disclosure, (ii) Notice of Sale, (iii) Bond Legend, and (iv) Cover page of Official Statement (Exhibit I).
- Form of Ambac Assurance Legal Opinion (Exhibit J).
- Form of Ambac Assurance Certificate of Insurer (Exhibit K).
- Ambac Assurance Wiring Instructions (Exhibit L).
- Representations, Warranties and Covenants for Revised Article 9 Collateral (Exhibit M).

## EXHIBIT A

### DEFINITIONS

The following definitions are those which Ambac Assurance recommends for the Financing Document:

"Ambac Assurance" shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Financial Guaranty Insurance Policy" shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Obligations as provided therein.

## EXHIBIT B

### AMBAC ASSURANCE CONSENT LANGUAGE

Ambac Assurance requires that the Financing Document include the following consent provisions:

#### A. Consent of Ambac Assurance.

Any provision of this [Financing Document] 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. Ambac Assurance reserves the right to charge the Obligor\* a fee for any consent or amendment to the Financing Document while the Financial Guaranty Insurance Policy is outstanding.

#### B. 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 Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental [Financing Document] or any amendment, supplement or change to or modification of the [Loan Agreement, Lease Agreement, etc.] (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent [required in those transactions in which the Financing Document provides for a trustee or paying agent]; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent.

#### C. Consent of Ambac Assurance in the Event of Insolvency

Any reorganization or liquidation plan with respect to the [Obligor or obligor] 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 Holders who hold Ambac Assurance-insured Obligations absent a default by Ambac Assurance under the applicable Financial Guaranty Insurance Policy insuring such Obligations.

[In transactions for which acceleration is not a remedy for an event of default, the following provision is to be included in the Financing Document.]

#### D. Consent of Ambac Assurance Upon Default.

Anything in this [Financing Document] to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under this [Financing Document].

\* or appropriate obligor on the Obligations.

[In transactions for which acceleration is a remedy for an event of default, the following two provisions must be included in the Financing Document in lieu of paragraph D above.]

**D. Consent of Ambac Assurance Upon Default.**

Anything in this [Financing Document] to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under this [Financing Document], including, without limitation: (i) the right to accelerate the principal of the Obligations as described in this [Financing Document], and (ii) the right to annul any declaration of acceleration, and Ambac Assurance shall also be entitled to approve all waivers of events of default.

**E. Acceleration Rights**

Upon the occurrence of an event of default, the Trustee may, with the consent of Ambac Assurance, and shall, at the direction of Ambac Assurance or \_\_% of the Holders with the consent of Ambac Assurance, by written notice to the Obligor and Ambac Assurance, declare the principal of the Obligations to be immediately due and payable, whereupon that portion of the principal of the Obligations thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this [Financing Document] or in the Obligations to the contrary notwithstanding.

## EXHIBIT C

### NOTICES/INFORMATION TO BE GIVEN TO AMBAC ASSURANCE

Ambac Assurance requires that the following notice provisions be incorporated in the Financing Document:

#### Notices to be sent to the attention of the SURVEILLANCE DEPARTMENT:

- A. While the Financial Guaranty Insurance Policy is in effect, the Obligor\* or the Trustee [as appropriate] shall furnish to Ambac Assurance, upon request, the following :
- (a) a copy of any financial statement, audit and/or annual report of the Obligor\*
  - (b) such additional information it may reasonably request.

Upon request, such information shall be delivered at the Obligor's\* expense to the attention of the Surveillance Department, unless otherwise indicated.

- B. a copy of any notice to be given to the registered owners of the Obligations, including, without limitation, notice of any redemption of or defeasance of Obligations, and any certificate rendered pursuant to this [Financing Document] relating to the security for the Obligations.
- C. To the extent that the Obligor has entered into a continuing disclosure agreement with respect to the Obligations, Ambac Assurance shall be included as party to be notified.

#### Notices to be sent to the attention of the GENERAL COUNSEL OFFICE:

- A. The Trustee or Obligor\* [as appropriate] shall notify Ambac Assurance of any failure of the Obligor\* to provide relevant notices, certificates, etc.
- B. Notwithstanding any other provision of this [Financing Document], the Trustee or Obligor\* [as appropriate] 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 hereunder.

#### Other Information to be given to Ambac Assurance:

The Obligor\* will permit Ambac Assurance to discuss the affairs, finances and accounts of the Obligor\* or any information Ambac Assurance may reasonably request regarding the security for the Obligations with appropriate officers of the Obligor\*. The Trustee or Obligor\* [as appropriate] will permit Ambac Assurance to [have access to the Project and] have access to and to make copies of all books and records relating to the Obligations at any reasonable time.

\*or appropriate obligor on the Obligations



Ambac Assurance will have the right to direct an accounting at the Obligor's\* expense, and the Obligor'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 Obligations.

[FOR CALIFORNIA AND INDIANA (ABATEMENT STYLE) LEASES] The Trustee or Obligor [as appropriate] shall annually certify to Ambac that the insurance policies required by Section \_\_\_ of the [Lease/Indenture] are in full force and effect, and will provide Ambac with copies of such policies upon request.

## EXHIBIT D

### AMBAC ASSURANCE CORPORATION

#### *Permitted Investment Guidelines:*

#### *Permitted Investments*

- A. Ambac Assurance will allow the following obligations to be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts.

(Ambac Assurance does not give a premium credit for the investment of accrued and/or capitalized interest).

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

- B. Ambac will allow the following Obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

- (2) Direct obligations of any of the following federal agencies each obligations are not fully guaranteed by the full faith and credit of the United States of America:
  - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
  - Obligations of the Resolution Funding Corporation (REFCORP)
  - Senior debt obligations of the Federal Home Loan Bank System
  - Senior debt obligations of other Government Sponsored Agencies approved by Ambac
- (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- (6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
  - (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
  - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium; if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; **[Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may be used as Permitted Investments for annual appropriation lease transactions.]**
- (7) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.
- (8) Investment Agreements approved in writing by Ambac Assurance Corporation (supported by appropriate opinions of counsel); and
- (9) other forms of investments (including repurchase agreements) approved in writing by Ambac.

- C. The value of the above investments shall be determined as follows:
- a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.
  - b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus, accrued interest thereon; and
  - c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer, the Trustee, and Ambac.

## EXHIBIT E

### DEFEASANCE LANGUAGE

- A. The definition of "Outstanding" Obligations or obligations, or any like concept, should specifically include Obligations or obligations which fall into the category described below.
- B. The defeasance section of the Financing Document should include the following language:

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Obligations shall be paid by Ambac Assurance Corporation pursuant to the Financial Guaranty Insurance Policy, the Obligations shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Obligor, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Obligor 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.

## EXHIBIT F

### PAYMENT PROCEDURE PURSUANT TO THE FINANCIAL GUARANTY INSURANCE POLICY

The following language sets out the applicable procedure for payments under the Financial Guaranty Insurance Policy and should be incorporated into the Financing Document:

As long as the Obligation insurance shall be in full force and effect, the Obligor, the Trustee and any Paying Agent agree to comply with the following provisions:

(a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal or interest on the Obligations on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Obligations to which such deficiency is applicable and whether such Obligations will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, 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 Obligations on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

(b) the Trustee or Paying Agent, if any, 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, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Obligor maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts maintained under this [Financing Document].

(c) the Trustee or Paying Agent, if any, shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Obligations 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 Obligations entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon

Obligations surrendered to the Insurance Trustee by the registered owners of Obligations entitled to receive full or partial principal payments from Ambac Assurance.

(d) the Trustee or Paying Agent, if any, shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of Obligations 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 Obligations (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Obligations to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Obligations for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such Obligations the portion of the principal paid by the Trustee or Paying Agent, if any, 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 or Paying Agent, if any, has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor 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 or Paying Agent, if any, 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 owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Obligations which have been made by the Trustee or Paying Agent, if any, 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 [Financing Document], Ambac Assurance shall, to the extent it makes payment of principal or interest on Obligations, 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 or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Obligor maintained by the Trustee or Paying Agent, if any, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Obligations, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Obligor maintained by the Trustee or Paying Agent, if any, upon surrender of the Obligations by the registered owners thereof together with proof of the payment of principal thereof.

## EXHIBIT G

### TRUSTEE-RELATED PROVISIONS

With respect to transactions involving a trustee or paying agent, Ambac requires that the following provisions be incorporated into the Financing Document. Please note that unless otherwise required by Ambac, if the financing at hand does not contemplate a trustee or paying agent, these provisions may be disregarded.

1. The Trustee (or Paying Agent) may be removed at any time, at the request of Ambac Assurance, for any breach of the Trust set forth herein.
2. Ambac Assurance shall receive prior written notice of any Trustee (or Paying Agent) resignation.
3. Every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to Ambac Assurance. Any successor Paying Agent, if applicable, shall not be appointed unless Ambac approves such successor in writing.
4. Notwithstanding any other provision of this [Financing Document], in determining whether the rights of the Holders will be adversely affected by any action taken pursuant to the terms and provisions of this [Financing Document], the Trustee (or Paying Agent) shall consider the effect on the Holders as if there were no Financial Guaranty Insurance Policy.
5. Notwithstanding any other provision of this [Financing Document], no removal, resignation or termination of the Trustee (or Paying Agent) shall take effect until a successor, acceptable to Ambac, shall be appointed.

## EXHIBIT H

### INTERESTED PARTIES

In addition to the provisions listed above, Ambac also requires the following provision be incorporated into the Financing Document:

#### A. Ambac As Third Party Beneficiary.

To the extent that this [Financing Document] confers upon or gives or grants to Ambac any right, remedy or claim under or by reason of this [Financing Document], Ambac 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.

#### B. Parties Interested Herein.

Nothing in this [Financing Document] expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Obligor, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Obligations, any right, remedy or claim under or by reason of this [Financing Document] or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this [Financing Document] contained by and on behalf of the Obligor shall be for the sole and exclusive benefit of the Obligor, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Obligations.

## EXHIBIT I

### AMBAC ASSURANCE OFFICIAL STATEMENT DISCLOSURE AND SUGGESTED LANGUAGE FOR THE NOTICE OF SALE, OBLIGATION LEGEND, COVER PAGE OF OFFICIAL STATEMENT

#### AMBAC ASSURANCE OFFICIAL STATEMENT DISCLOSURE

##### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the [Trustee/Paying Agent/Bond Registrar]. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the [Trustee/Paying Agent/Bond Registrar] has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

**FOR TRANSACTIONS INVOLVING AUCTION RATE SECURITIES:**

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of Obligations at Auctions or losses suffered as a result of a Holder's inability to sell Obligations.

**FOR TRANSACTIONS INVOLVING VARIABLE RATE OBLIGATIONS:**

The Financial Guaranty Insurance Policy does not insure against loss relating to payments of the purchase price of Obligations upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Obligations upon tender by a registered owner thereof.

**ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:**

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

**ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:**

The insurance provided by the Financial Guaranty Insurance Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

**ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:**

The insurance provided by the Financial Guaranty Insurance Policy is not covered by the Florida Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:**

In the event that Ambac were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the Connecticut Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR OKLAHOMA TRANSACTIONS:**

**WARNING:** Any person who knowingly, and with intent to injure, defrauds or deceives any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

**ADDITIONAL PARAGRAPH FOR VIRGINIA TRANSACTIONS:**

The Policy shall not be deemed invalid due to the absence of the required signature or countersignature.

**Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory

capital of \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations. [THE FOLLOWING MUST BE INCLUDED IN ANNUAL APPROPRIATION LEASE TRANSACTIONS: No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.]

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "\_\_\_\_\_".

#### Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

#### Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;



- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
- 8) The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
- 10) The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
- 11) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;
- 12) The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;
- 13) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003; and
- 14) The Company's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

## NOTICE OF SALE

Ambac Assurance Corporation ("Ambac Assurance") has issued a commitment for a financial guaranty insurance policy relating to the Obligations. All bids may be conditioned upon the issuance, effective as of the date on which the Obligations are issued, of a policy of insurance by Ambac Assurance, insuring the payment when due of principal of and interest on the Obligations. Each Obligation will bear a legend referring to the insurance. The purchaser, holder or owner is not authorized to make any statements concerning the insurance beyond those set out here and in the Bond Legend without the approval of Ambac Assurance.

## BOND LEGEND

Financial Guaranty Insurance Policy No. \_\_ (the "Policy") with respect to payments due for principal of and interest on this Bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to The Bank of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

## COVER PAGE OF OFFICIAL STATEMENT

Payment of the principal of and interest on the Obligations when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Obligations.

## EXHIBIT J

### FORM OF THE AMBAC LEGAL OPINION

Date:

Ladies and Gentlemen:

This opinion has been requested of the undersigned, a Vice President and an Assistant General Counsel of Ambac Assurance Corporation, a Wisconsin stock insurance company ("Ambac Assurance"), in connection with the issuance by Ambac Assurance of a certain Financial Guaranty Insurance Policy and endorsement thereto, effective as of the date hereof (the "Policy"), insuring \$> in aggregate principal amount of the > (the "Obligor"), > dated > (the "Obligations").

In connection with my opinion herein, I have examined the Policy, such statutes, documents and proceedings as I have considered necessary or appropriate under the circumstances to render the following opinion, including, without limiting the generality of the foregoing, certain statements contained in the Official Statement of the Obligor dated >, relating to the Obligations (the "Official Statement") under the headings ">" and ">".

Based upon the foregoing and having regard to legal considerations I deem relevant, I am of the opinion that:

1. Ambac Assurance is a stock insurance company duly organized and validly existing under the laws of the State of Wisconsin and duly qualified to conduct an insurance business in the State of >.
2. Ambac Assurance has full corporate power and authority to execute and deliver the Policy and the Policy has been duly authorized, executed and delivered by Ambac Assurance and constitutes a legal, valid and binding obligation of Ambac Assurance enforceable in accordance with its terms except to the extent that the enforceability (but not the validity) of such obligation may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar law or enactment now or hereafter enacted affecting the enforcement of creditors' rights.
3. The execution and delivery by Ambac Assurance of the Policy will not, and the consummation of the transactions contemplated thereby and the satisfaction of the terms thereof will not, conflict with or result in a breach of any of the terms, conditions or provisions of the Certificate of Authority, Articles of Incorporation or By-Laws of Ambac Assurance, or any restriction contained in any contract, agreement or instrument to which Ambac Assurance is a party or by which it is bound or constitute a default under any of the foregoing.
4. Proceedings legally required for the issuance of the Policy have been taken by Ambac Assurance and licenses, orders, consents or other authorizations or approvals of any governmental boards or bodies legally required for the enforceability of the Policy have been obtained; any proceedings not taken and any licenses, authorizations or approvals not obtained are not material to the enforceability of the Policy.
5. The statements contained in the Official Statement under the heading ">," insofar as such statements constitute summaries of the matters referred to therein, accurately reflect and fairly present the information purported to be shown and, insofar as such statements describe Ambac Assurance, fairly and accurately describe Ambac Assurance.

6. The form of Policy contained in the Official Statement under the heading ">" is a true and complete copy of the form of Policy.

The opinions expressed herein are solely for your benefit, and may not be relied upon by any other person.

Very truly yours,

Vice President and  
Assistant General Counsel

## EXHIBIT K

### CERTIFICATE OF OBLIGATION INSURER

In connection with the issuance of > in aggregate principal amount of (the "Obligor") > (the "Obligations"), Ambac Assurance Corporation ("Ambac") is issuing a Financial Guaranty insurance policy (the "Insurance Policy") guaranteeing the payment of principal and interest when due on the Obligations, all as more fully set out in the Insurance Policy.

On behalf of Ambac, the undersigned hereby certifies that:

(i) the Insurance Policy is an unconditional and recourse obligation of Ambac (enforceable by or on behalf of the holders of the Obligations) to pay the scheduled payments of interest and principal on the Obligations in the event of a Nonpayment as defined in the Insurance Policy;

(ii) the insurance premium of \$ \_\_\_\_\_ was determined in arm's length negotiations in accordance with our standard procedures, is required to be paid as a condition to the issuance of the Insurance Policy and represents a reasonable charge for the transfer of credit risk;

(iii) no portion of such premium represents a payment for any direct or indirect services other than the transfer of credit risk, including costs of underwriting or remarketing the Obligations or the cost of insurance for casualty of Obligation financed property;

(iv) we are not co-obligors on the Obligations and do not reasonably expect that we will be called upon to make any payment under the Insurance Policy;

(v) the Obligor is not entitled to a refund for the Insurance Policy in the event that the Obligations are retired prior to their stated maturity; and

(vi) we would not have issued the Insurance Policy in the absence of a debt service reserve fund of the size and type established by the documents pursuant to which the Obligations are being issued, and it is normal and customary to require a debt service reserve fund of such a size and type in similar transactions.

IN WITNESS WHEREOF, Ambac Assurance Corporation has caused this certificate to be executed in its name on this > day of >, 200\_ by one of its officers duly authorized as of such date.

AMBAC ASSURANCE CORPORATION

By: \_\_\_\_\_  
Vice President and Assistant  
General Counsel

## EXHIBIT L

### AMBAC ASSURANCE CORPORATION WIRING INSTRUCTIONS

Citibank N.A.  
ABA NO. 021000089  
For: Ambac Assurance Corporation  
A/C No. 40609486  
Attention: [Closing Coordinator], 212-208-3—

\*\*\* Please indicate Policy Number on wire and call your closing coordinator with your wire reference number on the morning of closing\*\*\*

## EXHIBIT M

### REPRESENTATIONS, WARRANTIES AND COVENANTS FOR REVISED ARTICLE 9 COLLATERAL

1. This [Financing Agreement] creates a valid and binding [pledge of/assignment of/lien on and/or security interest in] the [described collateral] in favor of the [Trustee/Bondholders] as security for payment of the [Obligations], enforceable by the [Trustee/Bondholders] in accordance with the terms hereof.
2. Under the laws of the [state of issuer], (1) such [pledge of assignment/lien and/or security interest], (2) and each pledge, assignment, lien, or other security interest made to secure any prior obligations of [Obligor] which, by the terms hereof, ranks on a parity with or prior to the [pledge/assignment/lien and/or security interest] granted hereby, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the [Obligor] on a simple contract. By the date of issue of the [Obligations] the [Obligor] will have filed all financing statements describing, and transferring such possession or control over, such collateral (and for so long as any [Obligation] is outstanding the [Obligor] will file, continue, and amend all such financing statements and transfer such possession and control) as may be necessary to establish and maintain such priority in each jurisdiction in which the [Obligor] is organized or such collateral may be located or that may otherwise be applicable pursuant to Uniform Commercial Code §§9.301-9.306 of such jurisdiction.
3. The [Obligor] has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of such collateral that ranks on a parity with or prior to the [pledge/assignment/lien and/or security interest] granted hereby [, except for the [pledge/assignment/lien and/or security interest] granted to secure the [Parity Obligations].] The [Obligor] shall not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in such collateral that ranks prior to or on a parity with the [pledge/assignment/lien and/or security interest] granted hereby, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted hereby.

Ambac Assurance Corporation  
One State Street Plaza  
New York, NY 10004  
212.668.0340

*A member of Ambac Financial Group, Inc.*

## COMMITMENT FOR SURETY BOND

Obligor: **ST JOHNS COUNTY, FLORIDA**

Commitment Number: SB26088

REVISED: DECEMBER 31, 2003

Commitment Date: December 30, 2003

Expiration Date: March 29, 2004

Obligations: \$27,617,899 Water and Sewer Revenue Bonds, Series 2004, dated their Date of Delivery, maturing on June 1, 2034 and all other additional bonds issued or to be issued on a parity therewith pursuant to Resolution No. 89-84, as amended and supplemented.

Surety Amount: Up to a maximum of \$2,800,000

Surety Bond Expiration Date: June 1, 2034.

**Insurance premium: \$40,000.00**

**Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Corporation** hereby commits to issue a Surety Bond (the "Commitment") relating to the Debt Service Reserve Fund for the above-described debt obligations (the "Obligations"), substantially in the form attached hereto, subject to the terms and conditions contained herein or added hereto (see conditions set forth herein).

To extend this Commitment after the expiration date set forth above, an oral (subsequently confirmed in writing) or written request for renewal must be submitted to Ambac at least one business day prior to such expiration date. Ambac reserves the right to refuse to grant a renewal or may renew this Commitment subject to additional terms and conditions.

The Surety Bond (the "Surety") shall be issued if the following conditions are satisfied:

1. Ambac shall receive an opinion of counsel or a certificate of an officer of the Obligor or ultimate obligor stating that the information supplied to Ambac in order to obtain the Surety and the documents to be executed and delivered in connection with the issuance and sale of the Obligations do not contain any untrue or misleading statement of a material fact and do not fail to state a material fact required to be stated therein or necessary in order to make the information contained therein not misleading.
2. No event shall occur which would permit any purchaser of the Obligations, otherwise required, not to be required to purchase the Obligations on the date scheduled for the issuance and delivery thereof.

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Subject to change, with Ambac's approval.

3. There shall be no material change in or affecting the Obligations, the Obligor or ultimate obligor (including, but not limited to, the security for the Obligations or the proposed debt service structure for the Obligations), the Official Statement, if any (or any similar disclosure document), including any financial statements therein contained, the financing documents or any legal opinions to be executed and delivered in connection with the issuance and sale of the Obligations, or any other information submitted to Ambac in order to obtain the Surety, from the descriptions or schedules thereof heretofore provided to Ambac at any time prior to the issuance of the Obligations and there shall not have occurred or come to the attention of the Obligor or purchaser any material change of fact or law adverse to the interests of Ambac, unless approved by Ambac in writing.
4. Unless expressly waived in whole or in part by Ambac, the financing documents shall contain a) the terms and provisions provided in the Ambac STANDARD PACKAGE transmitted herewith, and b) any provisions or comments given orally by Ambac.
5. Ambac will prepare, and the Obligor will execute, a Guaranty Agreement in the form (with such revisions of Ambac and the Obligor agree to) contained in the Standard Package.
6. **NO LATER THAN FIVE (5) BUSINESS DAYS PRIOR TO CLOSING**, Ambac shall be provided with:
  - a) the final debt service schedule; and
  - b) proposed copies of all financing documents; and
  - c) the proposed official statement (or any similar disclosure document); and
  - d) the proposed various legal opinions delivered in connection with the issuance and sale of the Obligations, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Ambac. The form of bond counsel's approving opinion must be acceptable to Ambac. The form of bond counsel's approving opinion shall indicate that the Obligor must comply with certain covenants under and pursuant to the Internal Revenue Code of 1986, as amended and that the Obligor has the legal power to comply with such covenants. Ambac shall also be provided with executed copies of all financing documents, including but not limited to the Official Statement (or any similar disclosure document) and the various legal opinions rendered. The executed opinion of bond counsel shall be addressed to Ambac or in lieu thereof, a letter shall be provided to Ambac to the effect that Ambac may rely on such opinion as if it were addressed to Ambac and such letter shall be delivered with an executed opinion; and
  - e) any provisions of the Purchase Contract or Bond Purchase Agreement referencing Ambac or the Obligor of the Surety in general. If such provisions are not received in a timely manner or if provisions are inserted in the Purchase Contract or Bond Purchase Agreement without Ambac's knowledge, compliance with such provisions may not be possible; and
  - f) a letter from bond counsel or counsel to the purchaser or otherwise from another counsel acceptable to Ambac to the effect that the financing documents, the Official Statement (or any similar disclosure document) and the various legal opinions executed and delivered in connection with the issuance and sale of the Obligations, are substantially in the forms previously submitted to Ambac for review, with only such amendments, modifications or deletions as may be approved by Ambac; and
  - g) a copy of any insurance policy, surety bond, guaranty or indemnification or any other policy, contract or agreement which provides for payment of all or any portion of the debt, the costs of



reconstruction, the loss of business income or in any way secures, ensures or enhances the income stream anticipated to pay the Obligations.

7. Evidence of wire transfer of an amount equal to the payment for the Surety at the time of the issuance and delivery of the Obligations.
8. An opinion addressed to Ambac by counsel acceptable to Ambac that the Guaranty Agreement is a legal, valid and binding obligation of the Obligor thereof, enforceable in accordance with its terms.



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Authorized Officer

Ambac Assurance Corporation  
One State Street Plaza  
New York, NY 10004  
212.668.0340

*A member of Ambac Financial Group, Inc.*

November 25, 2003

**AMBAC ASSURANCE STANDARD PACKAGE  
FOR TRANSACTIONS SUPPORTED BY AN  
AMBAC ASSURANCE CORPORATION  
SURETY BOND WITHOUT DEPOSIT AGREEMENT**

TO: Obligor, Obligor's Counsel, Managing Underwriter, Obligation Counsel and Underwriter's Counsel

RE: Preparation of Financing Documents for Issues the Debt Service Reserve Fund of which is to be supported by an Ambac Assurance Corporation ("Ambac Assurance") Surety Bond

## **Ambac**

The attached materials have been prepared to assist you in the preparation of documents for issues the Debt Service Reserve Fund of which is to be supported by an Ambac Assurance Surety Bond. Please modify the attached exhibits where appropriate. If desired, these provisions can be incorporated into one section entitled "Debt Service Reserve Fund Ambac Assurance Surety Bond" within the applicable Indenture, Resolution, Ordinance, Order or any other operative financing document (such applicable financing document will be referred to herein as the "Financing Document"). Please be advised that the provisions contained in this package are in addition to the conditions listed on the commitment for the Ambac Surety Bond and any other comments or changes that may be required by the Ambac Assurance personnel working on this financing. **This package and the documents contained herein are not for use in Virginia financings.** If you have any questions, please call one of the following persons: David N. Abramowitz, Jeffrey R. Fried, Eileen L. Kirchoff or Stephen M. Ksenak (Public Finance) and Kevin J. Doyle, Lee Ann Duffy, Jean Kim, Juan B. Roman or Nicola J. Ryan (Specialized Finance).

- Definitions (Exhibit A).
- Ambac Assurance consent required for changes to underlying documentation and exercise of remedies upon default (Exhibit B).
- Notices/Information to be given to Ambac Assurance (Exhibit C).
- Description of Ambac Assurance payment procedure (Exhibit D).
- Ambac Assurance Official Statement Disclosure (Exhibit E).
- Form of Ambac Assurance Opinion (Exhibit F).
- Form of Surety Certificate of Insurer (Exhibit G)
- Form of Surety Bond (Exhibit H).
- Form of Guaranty Agreement (Exhibit I).
- Ambac Assurance Corporation Wiring Instructions (Exhibit J).

## EXHIBIT D

### PAYMENT PROCEDURE PURSUANT TO THE SURETY BOND

The following language sets out standard procedure for payments under the Surety Bond. Modifications should be made to take into account definitions used in the Financing Document (e.g. Debt Service Reserve Fund, Revenues, Additional Funding Instrument). Specific or different payment procedure required by the Financing Document must be discussed with Ambac Assurance.

- A. As long as the Surety Bond shall be in full force and effect, the Obligor, Trustee and Paying Agent, if appropriate, agree to comply with the following provisions:
- (a) In the event and to the extent that moneys on deposit in the Fund/ Account, plus all amounts on deposit in and credited to the [Debt Service Reserve Fund] in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due under the [Financing Document] has not been made to the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in New York, New York, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent under the [Financing Document] (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the [Debt Service Reserve Fund], in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.
  - (b) the Trustee, or Paying Agent, if appropriate, shall, after submitting to Ambac Assurance the Demand for Payment as provided in (a) above, make available to Ambac Assurance all records relating to the Funds and Accounts maintained under this [Financing Document].
  - (c) the Trustee, or Paying Agent, if appropriate, shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Debt Service Reserve Fund to the extent of moneys received pursuant to such Demand.
  - (d) the [Debt Service Reserve Fund] shall be replenished in the following priority: (i) [principal and interest on the Surety Bond shall be paid from first available Revenues] [principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Revenues on a pro rata basis]; (ii) after all such amounts are paid in full, amounts necessary to fund the [Debt Service Reserve Fund] to the required level, after taking into account the amounts available under the Surety Bond [and the Additional Funding Instrument] shall be deposited from next available Revenues.

## EXHIBIT E

### OFFICIAL STATEMENT DISCLOSURE FOR AMBAC ASSURANCE CORPORATION SURETY BOND

#### Security For The Obligations

#### Debt Service Reserve Fund Ambac Assurance Surety Bond

The [Financing Document] requires the establishment of a Debt Service Reserve Fund in an amount equal to \$ \_\_\_\_\_ >. The [Financing Document] authorizes the Obligor to obtain a Surety Bond in place of fully funding the Debt Service Reserve Fund. Accordingly, application has been made to Ambac Assurance Corporation ("Ambac Assurance") for the issuance of a Surety Bond for the purpose of funding [a portion of] the Debt Service Reserve Fund (see the "[Financing Document]" herein). The Obligations will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Obligations. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the [Trustee/Paying Agent/Obligation Registrar] certifying that provision for the payment of principal of or interest on the Obligations when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Obligations, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Obligor is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor's obligations with respect to the Obligations.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the [Debt Service Reserve Fund], in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The [Financing Document] provides that the [Debt Service Reserve Fund] shall be replenished in the following priority: (i) [principal and interest on the Surety Bond shall be paid from first available Revenues] [principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Revenues on a pro rata basis]; (ii) after all such amounts are paid in full, amounts necessary to fund the [Debt Service Reserve Fund] to the required level, after taking into account the amounts available under the Surety Bond [and the Additional Funding Instrument] shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

[In addition, one of the following paragraphs may apply:]

#### ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

**ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:**

In the event that Ambac were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the Connecticut Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the Florida Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

**FOR OKLAHOMA TRANSACTIONS, AN ENDORSEMENT TO THE SURETY BOND IS REQUIRED, WHICH SPECIFIES THE FOLLOWING;**

**WARNING:** Any person who knowingly, and with intent to injure, defrauds or deceives any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information, is guilty of a felony.

**Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of approximately \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations. **[THE FOLLOWING MUST BE INCLUDED IN ANNUAL APPROPRIATION LEASE TRANSACTION:** No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee]

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading

"\_\_\_\_\_"

14. The Company's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

**EXHIBIT F**  
**FORM OF AMBAC ASSURANCE OPINION**

>, 200\_

Ladies and Gentlemen:

This opinion has been requested of the undersigned, a Vice President and an Assistant General Counsel of Ambac Assurance Corporation, a Wisconsin stock insurance company ("Ambac Assurance"), in connection with the issuance by Ambac Assurance of a certain Surety Bond, effective as of the date hereof (the "Surety"), guaranteeing payment of an amount equal to \$> into the Debt Service Reserve Fund for the >, dated > (the "Obligations").

In connection with my opinion herein, I have examined the Surety, such statutes, documents and proceedings as I have considered necessary or appropriate under the circumstances to render the following opinion, including, without limiting the generality of the foregoing, certain statements contained in the Official Statement of the Obligor dated >, 200\_, relating to the Obligations (the "Official Statement") under the headings ">" and ">".

Based upon the foregoing and having regard to legal considerations I deem relevant, I am of the opinion that:

1. Ambac Assurance is a stock insurance company duly organized and validly existing under the laws of the State of Wisconsin and duly qualified to conduct an insurance business in the State of >.
2. Ambac Assurance has full corporate power and authority to execute and deliver the Surety and the Surety has been duly authorized, executed and delivered by Ambac Assurance and constitutes a legal, valid and binding obligation of Ambac Assurance enforceable in accordance with its terms except to the extent that the enforceability (but not the validity) of such obligation may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar law or enactment now or hereafter enacted affecting the enforcement of creditors' rights.
3. The execution and delivery by Ambac Assurance of the Surety will not, and the consummation of the transactions contemplated thereby and the satisfaction of the terms thereof will not, conflict with or result in a breach of any of the terms, conditions or provisions of the Certificate of Authority, Articles of Incorporation or By-Laws of Ambac Assurance, or any restriction contained in any contract, agreement or instrument to which Ambac Assurance is a party or by which it is bound or constitute a default under any of the foregoing.
4. Proceedings legally required for the issuance of the Surety have been taken by Ambac Assurance and licenses, orders, consents or other authorizations or approvals of any governmental boards or bodies legally required for the enforceability of the Surety have been obtained; any proceedings not taken and any licenses, authorizations or approvals not obtained are not material to the enforceability of the Surety.
5. The statements contained in the Official Statement under the heading ">," insofar as such statements constitute summaries of the matters referred to therein, accurately reflect and fairly present the information

6. purported to be shown and, insofar as such statements describe Ambac Assurance, fairly and accurately describe Ambac Assurance.

The opinions expressed herein are solely for your benefit, and may not be relied upon by any other person.

Very truly yours,

Vice President and  
Assistant General Counsel

## EXHIBIT G

### SURETY CERTIFICATE OF OBLIGATION INSURER

Ambac Assurance Corporation ("Ambac") is issuing a Surety Bond (the "Surety Bond") guaranteeing payment of an amount equal to \$> to fund the Obligation Reserve Requirement (as defined in the Surety Bond) established with regard to > (the "Obligor") >, dated > (the "Obligations").

On behalf of Ambac, the undersigned hereby certifies that:

(i) the Surety Bond is an unconditional and recourse obligation of Ambac to pay the scheduled payments of interest and principal on the Obligations in the event a draw on the Reserve Fund is required under the {Resolution/Indenture} and the amount credited to such Fund is insufficient to make such payment (up to but not in excess of the Surety Bond Coverage as defined in the Surety Bond);

(ii) the premium of \$> for the Surety Bond was determined in arm's length negotiations in accordance with our standard procedures, is required to be paid as a condition to the issuance of the Surety Bond, and represents a reasonable charge for the transfer of credit risk;

(iii) no portion of such premium represents a payment for any direct or indirect services other than the transfer of credit risk, including costs of underwriting or remarketing the Obligations or the cost of insurance for casualty of Obligation financed property;

(iv) we are not co-obligors on the Obligations and we do not reasonably expect that we will be called upon to make any payment under the Surety Bond; and

(v) the Obligor is not entitled to a refund of any portion of the premium for the Surety Bond in the event that the Obligations are retired prior to their stated maturity.

IN WITNESS WHEREOF, Ambac Assurance Corporation has caused this certificate to be executed in its name on this > day of >, > by one of its officers duly authorized as of such date.

AMBAC ASSURANCE CORPORATION

By: \_\_\_\_\_  
>  
Vice President and  
Assistant General Counsel

Vice President and  
Assistant General Counsel



**EXHIBIT H**  
**SURETY BOND**

Ambac Assurance Corporation

Statutory Office:  
c/o CT Corporation  
44 East Mifflin Street  
Madison, Wisconsin 53703

Administrative Office:  
One State Street Plaza  
New York, New York 10004  
Telephone: (212) 668-0340

Policy No. SB\_\_BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and which are required to be made by or on behalf of the (the "Obligor") to \_\_\_\_ (the "Paying Agent/Trustee") as such payments are due by the Obligor but shall not be so paid pursuant to a resolution of the City Council of the Obligor authorizing the issuance of \$ \_\_\_\_\_ (the "Obligations") of said city and providing the terms and conditions for the issuance of said Obligations (the "Resolution/Indenture/Ordinance"); provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$ \_\_\_\_\_ or the [Debt Service Reserve Fund Requirement for the Obligations, as that term is defined in the Resolution] (the "Reserve Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the Obligations.
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in [City/State] sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.
4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the Obligations, by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage, Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such

reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) \_\_\_\_\_ (the maturity date of the Obligations) or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the Obligations pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin [or Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington or Commonwealth of Pennsylvania, for financings in those states], and any suit hereunder [seeking specific performance (for Florida)] in connection with any payment may be brought only by the Paying Agent within one year [two years in Minnesota, three years in Maryland and Utah, five years in Kansas] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

8. One of the following paragraphs may apply:

**ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:**

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

**ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:**

In the event that Ambac were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the Connecticut Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the Florida Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

***FOR OKLAHOMA TRANSACTIONS — MUST USE OKLAHOMA ENDORSEMENT***

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this  
day of, 200\_

**Ambac Assurance Corporation**

Attest: \_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
Vice President and  
Assistant General Counsel

By: \_\_\_\_\_  
[Countersignature Agent, if applicable]

Attachment 1

Surety Bond No. SB\_\_BE

DEMAND FOR PAYMENT

, 200\_\_

Ambac Assurance Corporation  
One State Street Plaza  
New York, New York 10004  
Attention: General Counsel

Reference is made to the Surety Bond No. SB\_\_BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Trustee hereby certifies that:

(a) Payment by the Obligor to the Trustee was due on \_\_\_\_\_ [a date not less than one (1) day prior to the applicable payment date for the Obligations] under the Ordinance attached hereto as Exhibit A, in an amount equal to \$\_\_\_\_\_ (the "Amount Due"). The Amount Due is payable to the Owners of the Obligations on \_\_\_\_\_.

(b) \$\_\_\_\_\_ has been deposited in the \_\_\_\_\_ [fund/account] from moneys paid by the Obligor or from other funds legally available to the Trustee for payment to the Owners of the Obligations, which amount is \$\_\_\_\_\_ less than the Amount Due (the "Deficiency").

(c) The Trustee has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Trustee hereby requests that payment of the Deficiency (up to but not in excess of the Surety Bond Coverage) be made by Ambac under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond:

\_\_\_\_\_  
[Trustee's Account]

[Trustee]

By: \_\_\_\_\_

Its: \_\_\_\_\_

**For New York Policies, add:**

"Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."

**For Florida Policies, add:**

"Any person who knowingly and with intent to injure, defraud, or deceive any insurance company files a statement of claim containing any false, incomplete or misleading information is guilty of a felony of the third degree."

Attachment 2

Surety Bond No. SB BE

NOTICE OF REINSTATEMENT

[Paying Agent]

, 200\_

[Address]

Reference is made to the Surety Bond No. SB BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

Ambac hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$ \_\_\_\_\_, subject to a reduction as the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

AMBAC ASSURANCE CORPORATION

Attest: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

## EXHIBIT I

### GUARANTY AGREEMENT

GUARANTY AGREEMENT dated as of \_\_\_\_\_, 200\_\_ by and between \_\_\_\_\_, a public body corporate organized and existing under the laws of the State of \_\_\_\_\_ (the "Obligor"); and AMBAC ASSURANCE CORPORATION ("Ambac"), a Wisconsin domiciled stock insurance company.

#### WITNESSETH:

WHEREAS, the Obligor has or will issue (the "Obligations"); and

WHEREAS, Ambac will issue its Surety Bond (the "Surety Bond"), substantially in the form set forth in Annex A to this Agreement, guaranteeing certain payments by the Obligor subject to the terms and limitations of the Surety Bond; and

WHEREAS, to induce Ambac to issue the Surety Bond, the Obligor has agreed to pay the premium for such Surety Bond and to reimburse Ambac for all payments made by Ambac under the Surety Bond from Legally Available Funds, all as more fully set forth in this Agreement; and

WHEREAS, the Obligor understands that Ambac expressly requires the delivery of this Agreement as part of the consideration for the execution by Ambac of the Surety Bond; and

NOW, THEREFORE, in consideration of the premises and of the agreements herein contained and of the execution of the Surety Bond, the Obligor and Ambac agree as follows:

#### ARTICLE I

##### DEFINITIONS; SURETY BOND

Section 1.01. Definitions. Except as otherwise expressly provided herein or unless the context otherwise requires, the terms which are capitalized herein shall have the meanings specified in Annex B hereto.

Section 1.02. Surety Bond.

(a) Ambac will issue the Surety Bond in accordance with and subject to the terms and conditions of the Commitment.

(b) The maximum liability of Ambac under the Surety Bond and the coverage and term thereof shall be subject to and limited by the Surety Bond Coverage and the terms and conditions of the Surety Bond.

(c) Payments made under the Surety Bond will reduce the Surety Bond Coverage to the extent of that payment, provided that the Surety Bond Coverage shall be automatically reinstated to the extent of the reimbursement of principal by the Obligor of any payment made by Ambac. Ambac shall notify the Paying Agent in writing no later than the fifth (5th) day following the reimbursement by the Obligor that the Surety Bond has been reinstated to the extent of such reimbursement.

Section 1.03. Premium. In consideration of Ambac agreeing to issue the Surety Bond hereunder, the Obligor hereby agrees to pay or cause to be paid from Legally Available Funds the premium set forth in the Commitment.

Section 1.04. Certain Other Expenses. The Obligor will pay all reasonable fees and disbursements of Ambac's counsel related to any modification of this Agreement or the Surety Bond.

## ARTICLE II

### REIMBURSEMENT OBLIGATIONS OF OBLIGOR AND SECURITY THEREFORE

#### Section 2.01. Reimbursement for Payments Under the Surety Bond and Expenses.

(a) The Obligor will reimburse Ambac, from Legally Available Funds within the Reimbursement Period, without demand or notice by Ambac to the Obligor or any other person, to the extent of each Surety Bond Payment with interest on each Surety Bond Payment from and including the date made to the date of the reimbursement by the Obligor at the Effective Interest Rate. The Obligor agrees that it shall make monthly level principal repayments for each Surety Bond Payment during the Reimbursement Period. Interest on each Surety Bond Payment shall be paid monthly during the Reimbursement Period. To the extent that interest payments due hereunder are not paid on a monthly basis, or are not paid as each principal repayment is made, interest shall accrue on such unpaid amounts at a rate equal to the Effective Interest Rate.

(b) The Obligor also agrees to reimburse Ambac, from Legally Available Funds, immediately and unconditionally upon demand for all reasonable expenses incurred by Ambac in connection with the Surety Bond and the enforcement by Ambac of the Obligor's obligations under this Agreement together with interest on all such expenses from and including the date which is 30 days from the date a statement for such expenses is received by the Obligor incurred to the date of payment at the rate set forth in subsection (a) of this Section 2.01.

Section 2.02. Allocation of Payments. Ambac and the Obligor hereby agree that each repayment of principal received by Ambac from or on behalf of the Obligor as a reimbursement to Ambac as required by Section 2.01(a) hereof shall be applied to reinstate all or a portion of the Surety Bond Coverage to the extent of such repayment. Any interest payable pursuant to Section 2.01(a) hereof shall not be applied to the reinstatement of any portion of the Surety Bond Coverage.

Section 2.03. Security for Payments; Instruments of Further Assurance. To the extent, but only to the extent, that the Resolution pledges to the Owners or any paying agent therefor, or grants a security interest or lien in or on any collateral property, revenue or other payments ("Collateral and Revenues") in order to secure the Obligations or provide a source of payment for the Obligations, the Obligor hereby grants to Ambac a security interest in or lien on, as the case may be, and pledges to Ambac all such Collateral and Revenues as security for payment of all amounts due hereunder, which security interest, lien and/or pledge created or granted under this Section 2.03 shall be subordinate only to the interests of the Owners and any paying agent therefor in such Collateral and Revenues. The Obligor agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by Ambac for the perfection of the security interest, if any, granted under this Section 2.03 and for the preservation and protection of all rights of Ambac under this Section 2.03.

Section 2.04. Unconditional Obligation. The obligations of the Obligor hereunder are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, irrespective of:

- (a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Resolution or the Obligations;
- (b) any exchange, release or nonperfection of any security interest in property securing the Obligations or this Agreement or any obligations hereunder;
- (c) any circumstances which might otherwise constitute a defense available to, or discharge of, the Obligor with respect to the Obligations;

(d) whether or not such obligations are contingent or matured, disputed or undisputed, liquidated or unliquidated.

### ARTICLE III

#### EVENTS OF DEFAULT; REMEDIES

Section 3.01. Events of Default. The following events shall constitute Events of Default hereunder:

(a) The Obligor shall fail to pay to Ambac any amount payable under Sections 1.04 and 2.01 hereof and such failure shall have continued for a period in excess of the Reimbursement Period;

(b) Any material representation or warranty made by the Obligor hereunder or under the Resolution or any statement in the application for the Surety Bond or any report, certificate, financial statement or other instrument provided in connection with the Commitment, the Surety Bond or herewith shall have been materially false at the time when made;

(c) Except as otherwise provided in this Section 3.01, the Obligor shall fail to perform any of its other obligations under this Agreement, provided that such failure continues for more than thirty (30) days after receipt by the Obligor of notice of such failure to perform;

(d) The Obligor shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Obligor or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing; or

(e) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Obligor, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Obligor or for a substantial part of its property; and such proceeding or petition shall continue undismissed for sixty (60) days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for thirty (30) days.

Section 3.02. Remedies. If an Event of Default shall occur and be continuing, then Ambac may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under this Agreement or any related instrument and enforce any obligation, agreement or covenant of the Obligor under this Agreement; provided, however, that Ambac may not take any action to direct or require acceleration or other early redemption of the Obligations or adversely affect the rights of the Owners. All rights and remedies of Ambac under this Section 3.02 are cumulative and the exercise of any one remedy does not preclude the exercise of one or more of the other available remedies.

### ARTICLE IV

#### SETTLEMENT



Ambac shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against Ambac, the Obligor or any other party on the Surety Bond shall or shall not be paid, compromised, resisted, defended, tried or appealed, and Ambac's decision thereon, if made in good faith, shall be final and binding upon the Obligor. An itemized statement of payments made by Ambac, certified by an officer of Ambac, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Obligor, and if the Obligor fails to reimburse Ambac, pursuant to subsection (b) of Section 2.01 hereof, upon the receipt of such statement of payments, interest shall be computed on such amount from the date of any payment made by Ambac at the rate set forth in subsection (a) of Section 2.01 hereof.

## ARTICLE V

### MISCELLANEOUS

Section 5.01. Computations. All computations of premium, interest and fees hereunder shall be made on the basis of the actual number of days elapsed over a year of 360 days.

Section 5.02: Exercise of Rights. No failure or delay on the part of Ambac to exercise any right, power or privilege under this Agreement and no course of dealing between Ambac and the Obligor or any other party shall operate as a waiver of any such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which Ambac would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 5.03. Amendment and Waiver. Any provision of this Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the Obligor and Ambac. The Obligor hereby agrees that upon the written request of the Paying Agent, Ambac may make or consent to issue any substitute for the Surety Bond to cure any ambiguity or formal defect or omission in the Surety Bond which does not materially change the terms of the Surety Bond nor adversely affect the rights of the Owners, and this Agreement shall apply to such substituted Surety Bond. Ambac agrees to deliver to the Obligor and to the company or companies, if any, rating the Obligations, a copy of such substituted Surety Bond.

Section 5.04. Successors and Assigns; Descriptive Headings.

(a) This Agreement shall bind, and the benefits thereof shall inure to, the Obligor and Ambac and their respective successors and assigns; provided, that the Obligor may not transfer or assign any or all of its rights and obligations hereunder without the prior written consent of Ambac.

(b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 5.05. Other Sureties. If Ambac shall procure any other surety to reinsure the Surety Bond, this Agreement shall inure to the benefit of such other surety, its successors and assigns, so as to give to it a direct right of action against the Obligor to enforce this Agreement, and "Ambac," wherever used herein, shall be deemed to include such reinsuring surety, as its respective interests may appear.

Section 5.06. Signature on Obligation. The Obligor's liability shall not be affected by its failure to sign the Surety Bond nor by any claim that other indemnity or security was to have been obtained nor by the release of any indemnity, nor the return or exchange of any collateral that may have been obtained.

Section 5.07. Waiver. The Obligor waives any defense that this Agreement was executed subsequent to the date of the Surety Bond, admitting and covenanting that such Surety Bond was executed pursuant to the Obligor's request and in reliance on the Obligor's promise to execute this Agreement.

Section 5.08. Notices, Requests, Demands. Except as otherwise expressly provided herein, all written notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case of telex or telecopier notice sent over a telex or a telecopier machine owned or operated by a party hereto, when sent, addressed as specified below or at such other address as either of the parties hereto or the Paying Agent may hereafter specify in writing to the others:

If to the Obligor: >

If to the Paying Agent: >

If to Ambac: **Ambac Assurance Corporation**  
One State Street Plaza  
17th Floor  
New York, New York 10004  
Attention: General Counsel

Section 5.09. Survival of Representations and Warranties. All representations, warranties and obligations contained herein shall survive the execution and delivery of this Agreement and the Surety Bond.

Section 5.10. Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State.

Section 5.11. Counterparts. This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument. Complete counterparts of this Agreement shall be lodged with the Obligor and Ambac.

Section 5.12. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

(Seal)  
Attest: \_\_\_\_\_  
Title: \_\_\_\_\_

[OBLIGOR]

By \_\_\_\_\_  
Title: \_\_\_\_\_

AMBAC ASSURANCE CORPORATION

Attest: \_\_\_\_\_  
Title: \_\_\_\_\_

By \_\_\_\_\_  
Title: \_\_\_\_\_

## ANNEX A - SURETY BOND

## ANNEX B

### DEFINITIONS

For all purposes of this Agreement, except as otherwise expressly provided herein or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below.

"Agreement" means this Guaranty Agreement.

"Ambac" has the same meaning as set forth in the first paragraph of this Agreement.

"Collateral and Revenues" has the same meaning as set forth in Section 2.03 hereof.

"Commitment" means the Ambac Commitment for Surety Bond in the form attached hereto as Annex C.

"Debt Service Payments" means those payments required to be made by the Obligor which will be applied to payment of principal of and interest on the Obligations.

"Effective Interest Rate" means the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law; provided, however, that the Effective Interest Rate shall in no event be less than the interest rate on the Obligations.

"Event of Default" shall mean those events of default set forth in Section 3.01 of this Agreement.

"Legally Available Funds" means any moneys legally available to the Obligor for the payment of its obligations.

"Obligations" has the same meaning as set forth in the second paragraph of this Agreement.

"Obligor" has the same meaning as set forth in the first paragraph of this Agreement.

"Owners" means the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

"Paying Agent" means \_\_\_\_\_.

"Reimbursement Period" means, with respect to a particular Surety Bond Payment, the period commencing on the date of such Surety Bond Payment and ending 12 months following such Surety Bond Payment.

"Reimbursement Rate" means Citibank's prime rate plus two (2) percent per annum, as of the date of such Surety Bond Payment, said "prime rate" being the rate of interest announced from time to time by Citibank, New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of a 360 day year.

"Resolution" means \_\_\_\_\_.

"State" means the State of \_\_\_\_\_.

"Surety Bond" means the Surety Bond issued by Ambac substantially in the form attached to this Agreement as Annex A.

"Surety Bond Coverage" means the amount available at any particular time to be paid to the Paying Agent under the terms of the Surety Bond, which amount shall never exceed \$ \_\_\_\_\_.

"Surety Bond Payment" means an amount equal to the Debt Service Payment less (i) that portion of the Debt Service Payment paid by the Obligor, and (ii) other funds legally available to the Paying Agent for payment to the Owners, all as certified by the Paying Agent in a demand for payment rendered pursuant to the terms of the Surety Bond.

ANNEX C  
COMMITMENT

EXHIBIT J

AMBAC ASSURANCE CORPORATION WIRING INSTRUCTIONS

Citibank N.A.  
ABA NO. 021000089  
For: Ambac Assurance Corporation  
A/C No. 40609486  
Attention: [Closing Coordinator], 212-208-3---

**\*\*\* Please indicate Policy Number on wire and call your closing coordinator with your wire reference number on the morning of closing\*\*\***

**EXHIBIT D**

**APPROVALS OF EXISTING INSURERS TO  
THE RESERVE ACCOUNT SURETY**



**EXHIBIT D**

**APPROVALS OF EXISTING INSURERS TO  
THE RESERVE ACCOUNT SURETY**



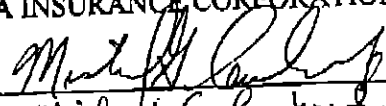
Capital Strength. Triple-A Performance.

### MBIA CONSENT

Pursuant to Section 4.06(A)(2)(d) of Resolution No. 89-84, duly adopted by the Board of County Commissioners ("the Board") of St. Johns County, Florida, on April 25, 1989, as amended and supplemented, particularly as amended and supplemented by Resolution No. 89-189 duly adopted by the Board on August 9, 1989, the undersigned authorized representative of MBIA Insurance Corporation hereby consents, as the bond insurer for the St. Johns County, Florida Water and Sewer Revenue Bonds, Series 1991A and Water and Sewer Revenue and Refunding Bonds, Series 1996 to the deposit of a debt service reserve account insurance policy issued by Ambac Assurance Corporation into the reserve account in connection with the issuance of the St. Johns County, Florida Water and Sewer Revenue Bonds, Series 2004A.

Dated: January 9, 2004

MBIA INSURANCE CORPORATION

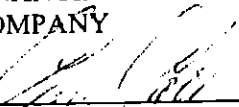
By   
Name: Michael G. Cambridge  
Title: V.P.

## FINANCIAL GUARANTY INSURANCE COMPANY CONSENT

Pursuant to Section 4.06(A)(2)(d) of Resolution No. 89-84, duly adopted by the Board of County Commissioners ("the Board") of St. Johns County, Florida, on April 25, 1989, as amended and supplemented, particularly as amended and supplemented by Resolution No. 89-189 duly adopted by the Board on August 9, 1989, the undersigned authorized representative of Financial Guaranty Insurance Company hereby consents, as the bond insurer for the St. Johns County, Florida Water and Sewer Revenue Refunding Bonds, Series 1998, Water and Sewer Revenue Refunding Bonds, Series 1999A and Taxable Water and Sewer Revenue Refunding Bonds, Series 1999B, to the deposit of a debt service reserve account insurance policy issued by Ambac Assurance Corporation into the reserve account in connection with the issuance of the St. Johns County, Florida Water and Sewer Revenue Bonds, Series 2004A.

Dated: January 9th, 2004

FINANCIAL GUARANTY INSURANCE  
COMPANY

By 

Name: Timothy Tattam

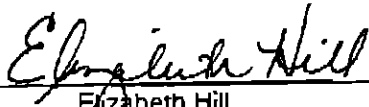
Title: Vice President

## CONSENT OF FINANCIAL SECURITY ASSURANCE INC.

The undersigned hereby certifies that she is authorized to execute and deliver this Consent on behalf of Financial Security Assurance Inc. ("Financial Security"), as issuer of a municipal bond insurance policy for the \$5,130,000 St. Johns County, Florida Water and Sewer Revenue Refunding Bonds, Series 2002 A & B (the "Bonds"). Financial Security hereby consents to the deposit of Ambac Assurance Corporation debt service reserve account insurance policy for the Series 2004A Bonds to meet the common reserve requirement (in the form attached hereto as Exhibit A). Financial Security's consent is provided pursuant to Section 4.06(A)(2)(d) of Resolution No. 89-84, duly adopted by the Board of County Commissioners (the "Board") of St. Johns County, Florida, on April 25, 1989, and as amended and supplemented

By granting this Consent Financial Security expresses no opinion as to whether the consent of any other person is required.

FINANCIAL SECURITY ASSURANCE INC.

  
Elizabeth Hill  
Managing Director

Dated: January 9, 2004

## EXHIBIT A

### SURETY BOND

Ambac Assurance Corporation

Statutory Office:  
c/o CT Corporation  
44 East Mifflin Street  
Madison, Wisconsin 53703

Administrative Office:  
One State Street Plaza  
New York, New York 10004  
Telephone: (212) 668-0340

Policy No. SB\_\_BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and which are required to be made by or on behalf of the (the "Obligor") to \_\_\_\_ (the "Paying Agent/Trustee") as such payments are due by the Obligor but shall not be so paid pursuant to a resolution of the City Council of the Obligor authorizing the issuance of \$ \_\_\_\_\_ (the "Obligations") of said city and providing the terms and conditions for the issuance of said Obligations (the "Resolution/Indenture/Ordinance"); provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$ \_\_\_\_\_ or the [Debt Service Reserve Fund Requirement for the Obligations, as that term is defined in the Resolution] (the "Reserve Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the Obligations.
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in [City/State] sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.
4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the Obligations, by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage, Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such

reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) \_\_\_\_\_ (the maturity date of the Obligations) or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the Obligations pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin [or Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington or Commonwealth of Pennsylvania, for financings in those states], and any suit hereunder [seeking specific performance (for Florida)] in connection with any payment may be brought only by the Paying Agent within one year [two years in Minnesota, three years in Maryland and Utah, five years in Kansas] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

8. One of the following paragraphs may apply:

**ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:**

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

**ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:**

In the event that Ambac were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the Connecticut Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the Florida Insurance Guaranty Association.

**ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:**

The insurance provided by the Surety Bond is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

***FOR OKLAHOMA TRANSACTIONS — MUST USE OKLAHOMA ENDORSEMENT***

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this  
day of, 200\_

**Ambac Assurance Corporation**

Attest: \_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
Vice President and  
Assistant General Counsel

By: \_\_\_\_\_  
[Countersignature Agent, if applicable]

Attachment 1

Surety Bond No. SB\_\_BE

DEMAND FOR PAYMENT

Ambac Assurance Corporation  
One State Street Plaza  
New York, New York 10004  
Attention: General Counsel

, 200\_

Reference is made to the Surety Bond No. SB\_\_BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Trustee hereby certifies that:

(a) Payment by the Obligor to the Trustee was due on \_\_\_\_\_ [a date not less than one (1) day prior to the applicable payment date for the Obligations] under the Ordinance attached hereto as Exhibit A, in an amount equal to \$\_\_\_\_\_ (the "Amount Due"). The Amount Due is payable to the Owners of the Obligations on \_\_\_\_\_.

(b) \$\_\_\_\_\_ has been deposited in the \_\_\_\_\_ [fund/account] from moneys paid by the Obligor or from other funds legally available to the Trustee for payment to the Owners of the Obligations, which amount is \$\_\_\_\_\_ less than the Amount Due (the "Deficiency").

(c) The Trustee has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Trustee hereby requests that payment of the Deficiency (up to but not in excess of the Surety Bond Coverage) be made by Ambac under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond:

\_\_\_\_\_ [Trustee's Account]

[Trustee]

By: \_\_\_\_\_

Its: \_\_\_\_\_

For New York Policies, add:

"Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."

For Florida Policies, add:

"Any person who knowingly and with intent to injure, defraud, or deceive any insurance company files a statement of claim containing any false, incomplete or misleading information is guilty of a felony of the third degree."



Attachment 2

Surety Bond No. SB BE

NOTICE OF REINSTATEMENT

[Paying Agent]

, 200\_

[Address]

Reference is made to the Surety Bond No. SB BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

Ambac hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$\_\_\_\_\_, subject to a reduction as the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

AMBAC ASSURANCE CORPORATION

Attest: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT E**

---

**REGISTRAR AND PAYING AGENCY AGREEMENT**

**Between**

**ST. JOHNS COUNTY, FLORIDA**

**And**

**J. P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION**

**Pertaining to**

**\$30,000,000  
St. Johns County, Florida  
Water and Sewer Revenue Bonds,  
Series 2004**

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**Dated as of February 1, 2004**

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**ADDENDA**

Annex A

## **REGISTRAR AND PAYING AGENCY AGREEMENT**

THIS REGISTRAR AND PAYING AGENCY AGREEMENT (the or this "Agreement") between ST. JOHNS COUNTY, FLORIDA (the "Issuer"), and J. P. Morgan Trust Company, National Association (the "Bank").

WHEREAS, the Issuer has duly authorized and provided for the issuance of \$30,000,000 in aggregate principal amount of its Water and Sewer Revenue Bonds, Series 2004 (the "Bonds"), to be issued as registered securities without coupons;

WHEREAS, all things necessary to make the Bonds the valid obligations of the Issuer, in accordance with their terms, will be taken upon the issuance and delivery thereof;

WHEREAS, the Issuer is desirous that the Bank act as the Paying Agent of the Issuer in paying the principal, redemption premium, if any, and interest on the Bonds, in accordance with the terms thereof, and that the Bank act as Registrar for the Bonds;

WHEREAS, the Issuer and the Bank have duly authorized the execution and delivery of this Agreement, and all things necessary to make this Agreement the valid agreement of the Issuer and the Bank, in accordance with its terms, have been done;

NOW, THEREFORE, it is mutually agreed to the following terms:

### **ARTICLE ONE**

#### **APPOINTMENT OF BANK AS REGISTRAR AND PAYING AGENT**

##### **Section 1.01. Appointment.**

(a) The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Bonds, in paying to the Owners of the Bonds the principal, redemption premium, if any, and interest on all or any of the Bonds.

(b) The Issuer hereby appoints the Bank as Registrar with respect to the Bonds.

(c) The Bank hereby accepts its appointment and agrees to act as the Paying Agent and Registrar.

##### **Section 1.02. Compensation.**

As compensation for Bank's services as Registrar and Paying Agent, the Issuer agrees to pay the Bank from lawfully available non ad valorem revenues the fees and amounts set forth in Annex A hereto annually in advance while this Agreement is in effect. From lawfully available non ad valorem revenues, the Issuer agrees to reimburse the Bank for any reasonable expenses disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agent and counsel). Such fees and expenses shall be paid to the Bank as billed.

## ARTICLE TWO

### DEFINITIONS

#### Section 2.01. Definitions.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms have the following meanings when used in this Agreement:

“Bank” means J. P. Morgan Trust Company, National Association.

“Bank Office” means the designated corporate trust office of the Bank located at Dallas, Texas. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

“Bond” or “Bonds” mean any or all of the Issuer’s Water and Sewer Revenue Bonds, Series 2004.

“Bond Purchase Agreement” means the Bond Purchase Agreement dated January \_\_, 2004 between the Issuer and William R. Hough & Co., representing the underwriters of the Bonds.

“Bond Resolution” means the resolution, order or ordinance of the governing body of the Issuer pursuant to which the Bonds are issued, certified by any officer of the Issuer and delivered to the Bank

“County Administrator” means the County Administrator of the Issuer.

“Fiscal Year” means the 12 month period ending September 30th of each year.

“Issuer” means St. Johns County, Florida.

“Issuer Request” and “Issuer Order” means a written request or order signed in the name of the Issuer by the County Administrator or any other authorized representative of the Issuer and delivered to the Bank.

“Legal Holiday” means a day on which the Bank is required or authorized to be closed.

“Owner” means the Person in whose name a Bond is registered in the Register.

“Paying Agent” means the Bank when it is performing the functions associated with the terms of Article Three of this Agreement.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

“Register” means a register in which the Issuer shall provide for the registration and transfer of Bonds.

“Responsible Officer” when used with respect to the Bank means the President or Vice President of the Board of Directors, the Chairman or Vice Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“State” means the State of Florida.

“Stated Maturity” means the date specified in the Bond Purchase Agreement as the fixed date on which the principal of the Bond is due and payable.

### **ARTICLE THREE**

#### **PAYING AGENT**

##### **Section 3.01. Duties of Paying Agent.**

(a) The Bank, as Paying Agent and on behalf of the Issuer, shall pay to the Owner, at the Stated Maturity and upon the surrender of the Bond or Bonds so maturing at the Bank Office, the principal amount of the Bond or Bonds then maturing, provided that the Bank shall have been provided by or on behalf of the Issuer adequate collected funds to make such payment.

(b) The Bank, as Paying Agent and on behalf of the Issuer, shall pay interest when due on the Bonds to each Owner of the Bonds as shown in the Register at the close of business on the record date, provided that the Bank shall have been provided by or on behalf of the Issuer adequate collected funds to make such payments; such payments shall be made by computing the amount of interest to be paid each Owner, preparing the checks, and mailing the checks on each interest payment date addressed to each Owner’s address as it appears on the Register.

(c) In the case of registered Owner of \$1,000,000 or more of Bonds, the payments to be made to such Owner may be by wire transfer to a domestic bank account specified in writing by such registered Owner.

(d) The Paying Agent will also perform the duties of the Paying Agent that are set forth in the Bond Resolution.

##### **Section 3.02. Payment Dates.**

The Issuer hereby instructs the Bank to pay the principal of, premium, if any, and interest on the Bonds at the dates specified in the Bond Purchase Agreement.

## ARTICLE FOUR

### REGISTRAR

#### Section 4.01. Authentication of Bonds.

The Issuer may deliver executed Bonds to the Bank for authentication and the Bank shall manually authenticate and deliver such Bonds (in the case of initial issuance) in accordance with written instructions of the Issuer and not otherwise. No Bond shall be entitled to any benefit under the Bond Resolution or be valid for any purpose unless such Bond shall bear thereon a certificate of authentication substantially in the form set forth in the form of Bond set out in the Bond resolution executed on behalf of the Bank with the manual signature of an authorized signatory of the Bank. Such certificate of authentication executed as aforesaid on a Bond shall be conclusive evidence that such Bond has been authenticated and delivered under the Resolution.

#### Section 4.02. Transfer and Exchange.

(a) The Issuer shall keep the Register at the Bank Office, and subject to such reasonable written regulations as the Issuer may prescribe, which regulations shall be furnished the Bank herewith or subsequent hereto by Issuer Order, the Issuer shall provide for the registration and transfer of the Bonds. The Bank is hereby appointed "Registrar" for the purpose of registering and transferring the Bonds as herein provided. The Bank agrees to accept the appointment as Registrar for the Bonds and maintain the Register while it is Registrar.

(b) The Bank hereby agrees that at any time while any Bond is outstanding, the Owner may deliver such Bond to the Registrar for transfer or exchange, accompanied by instructions from the Owner, or the duly authorized designee of the Owner, designating the persons, the maturities and the principal amounts to and in which such Bond is to be transferred and the addresses of such persons; the Registrar shall thereupon, within not more than three (3) business days, register and deliver such Bond or Bonds as provided in such instructions. The provisions of the Bond Resolution shall control the procedures for transfer or exchange set forth herein to the extent such procedures are in conflict with the provisions set forth herein.

(c) Every Bond surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfers, in form satisfactory to the Bank, duly executed by the Owner thereof or his attorney duly authorized in writing. The Bank shall manually authenticate every Bond surrendered for transfer or exchange in accordance with Section 4.01 hereof.

(d) The Registrar may request any supporting documentation necessary to effect a re-registration.

(e) No service charge shall be made to the Owner for any registration, transfer, or exchange of Bond, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.



#### Section 4.03. The Bonds.

The Issuer shall provide an adequate inventory of unregistered Bonds to facilitate transfers. The Bank covenants that it will maintain the unregistered Bonds in safekeeping, which shall be not less than the care it maintains for debt securities of other governments or corporations for which it serves as registrar, or which it maintains for its own securities.

#### Section 4.04. Form of Register.

The Bank as registrar will maintain the records of the Register in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Register in any form other than a form which the Bank has currently available and currently utilizes at the time.

#### Section 4.05. List of Owners.

(a) The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the cost, if any, of reproduction, a copy of the information contained in the Register. The Issuer may also inspect the information in the Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

(b) The Bank will not release or disclose the content of the Register to any person other than to, an authorized officer or employee of the Issuer, except upon receipt of a subpoena or court order. Upon receipt of a subpoena or court order and as permitted by law, the Bank will notify the Issuer so that the Issuer may contest the subpoena or court order.

#### Section 4.06. Cancellation of Bonds.

All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Bank, shall be promptly canceled by it and, if surrendered to the Issuer, shall be delivered to the Bank and, if not already canceled, shall be promptly canceled by the Bank. The Issuer may at any time deliver to the Bank for cancellation any Bonds previously certified or registered and delivered which the Issuer may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bank. All canceled Bonds held by the Bank shall be disposed of by the Bank as directed by the Issuer. The Bank will surrender to the Issuer, at such reasonable intervals as it determines, certificates of destruction, in lieu of which or in exchange for which other bonds have been issued or which have been paid.

#### Section 4.07. Mutilated, Destroyed, Lost, or Stolen Bonds.

(a) Subject to the provisions of this Section 4.07, the Issuer hereby instructs the Bank to deliver fully registered Bonds in exchange for or in lieu of mutilated, destroyed, lost or stolen Bonds as long as the same does not result in an overissuance, all in conformance with the requirements of the Bond Resolution.

(b) If (i) any mutilated Bond is surrendered to the Bank, or the Issuer and the Bank receives evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there

is delivered to the Issuer and the Bank such security or indemnity as may be required by the Bank to save and hold each of them harmless, then, in the absence of notice to the Issuer or the Bank that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Bank shall register, manually authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same stated maturity and of like tenor and principal amount bearing a number not contemporaneously outstanding.

(c) Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Bond Resolution equally and ratably with all other outstanding Bonds.

(d) Upon the satisfaction of the Bank and the issuer that a Bond has been mutilated, destroyed, lost or stolen, and upon receipt by the Bank and the Issuer of such indemnity or security as they may require, the Bank shall cancel the Bond number on the Bond registered with a notation in the Register that said Bond has been mutilated, destroyed, lost or stolen, and a new Bond shall be issued of the same series and of like tenor and principal amount bearing a number, according to the Register not contemporaneously outstanding.

(e) The Bank may charge the Owner the Bank's fees and expenses in connection with issuing a new Bond in lieu of or exchange for a mutilated, destroyed, lost or stolen Bond.

#### Section 4.08. Transaction Information to Issuer.

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Bonds it has paid pursuant to Section 3.01, Bonds it has delivered upon the transfer or exchange of any Bonds pursuant to Section 4.02, and Bonds it has delivered in exchange for or in lieu of mutilated, destroyed, lost or stolen Bonds pursuant to Section 4.07.

### ARTICLE FIVE

#### THE BANK

##### Section 5.01. Duties of Bank.

The Bank undertakes to perform the duties of the Bank, Paying Agent and Registrar as set forth herein and in accordance with the Bond Resolution and agrees to use reasonable care in the performance thereof. The Bank hereby agrees to use the funds deposited with it for payment of the principal of, redemption premium, if any, and interest on the Bonds to pay the Bonds as the same shall become due and further agrees to establish and maintain all accounts and funds as may be required for the Bank to function as Paying Agent.

##### Section 5.02. Reliance on Documents, etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank by the Issuer.

(b) The Bank shall not be liable for any error of judgment or any act or steps taken or permitted to be taken in good faith, or for any mistake in law or fact, or for anything it may do or refrain from doing in connection herewith, except for its own willful misconduct or gross negligence.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Bonds, but is protected in acting upon receipt of Bonds containing an endorsement or instruction of transfer or power of transfer in the manner required by the Bond Resolution and which appears on its face to be signed by the Owner or an attorney-in-fact of the Owner. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, direction, consent, order, certificate, note, security paper or document supplied by Issuer.

(e) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

(f) The Bank may consult with counsel, and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

#### Section 5.03. Recitals of Issuer.

(a) The recitals contained herein, in the Bond Resolution and in the Bonds shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

(b) The Bank shall in no event (except to the extent the Issuer has provided the Bank with funds therefor) be liable to the Issuer, any Owner or Owners or any other Person for any amount due on any Bond.

#### Section 5.04. May Hold Bonds.

The Bank, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Money Held by Bank.

(a) Money held by the Bank hereunder need not be segregated from any other funds provided appropriate accounts are maintained.

(b) The Bank shall be under no liability for interest on any money received by it hereunder.

(c) Any money deposited with the Bank for the payment of the principal of, redemption premium, if any, or interest on any Bond and remaining unclaimed for three years after the date on which such Bonds have become payable shall be treated as abandoned property pursuant to applicable provisions of State law and the Bank shall report and remit this property to the State escheat fund, and thereafter the Owner shall look only to the State escheat fund for payment and then only to the extent of the amounts so received, without any interest thereon and the Bank and Issuer shall have no responsibility with respect to such money.

Section 5.06. Mergers of Consolidations.

Any corporation into which the Bank, or any successor to it in the trusts created by this Agreement, may be merged or converted or with which it or any successor to it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation resulting from any merger, conversion, consolidation or tax-free reorganization to which the Bank or any successor to it shall be a party shall be the successor Bank under this Agreement without the execution or filing of any paper or any other act on the part of any of the parties hereto, anything herein notwithstanding.

Section 5.07. Indemnification.

The Issuer hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated), to the extent permitted by State law and to the extent that non ad valorem revenues of the Issuer are lawfully available for such purpose, to indemnify, protect, save and keep harmless the Bank and its respective successors, assigns, agents and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements), which may be imposed on, incurred by, or asserted against, at any time, the Bank by Persons other than the Issuer and in any way relating to or arising out of the execution and delivery of this Agreement, the acceptance of the funds and securities deposited hereunder, and any payment, transfer or other application of funds and securities by the Bank in accordance with the provisions of this Agreement; or any other duties of the Bank hereunder, provided, however, that the Issuer shall not be required to indemnify the Bank against its own negligence or willful misconduct. In no event shall the Issuer be liable to any person by reason the transactions contemplated hereby other than to the Bank as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

Section 5.08. Interpleader.

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its persons as well as funds on deposit, waive personal service of

any process, and agree that service of process by certified or registered mail, return receipt requested, to the address set forth in Section 6.03 hereof shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction to determine the rights of any Person other than the Issuer claiming any interest herein. Any court action in which the Issuer may have an interest shall be filed in a court of competent jurisdiction located in Duval County, Florida or in St. Johns County, Florida.

## **ARTICLE SIX**

### **MISCELLANEOUS PROVISIONS**

#### **Section 6.01. Amendment.**

This Agreement may be amended only by an agreement in writing signed by both of the parties hereof.

#### **Section 6.02. Assignment.**

This Agreement may not be assigned by either party without the prior written consent of the other.

#### **Section 6.03. Notices.**

Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed first class postage prepaid or hand delivered to the Issuer or the Bank or sent by facsimile transmission if confirmed in writing and sent as specified above, respectively, at the addresses shown below:

- |                       |                                                                                                                                                                                      |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) if to the Issuer: | St. Johns County, Florida<br>County Courthouse<br>4010 Lewis Speedway<br>St. Augustine, FL 32084<br><br>Attention: Finance Director                                                  |
| (b) if to the Bank:   | J P Morgan Trust Company, N.A.<br>Institutional Trust Services<br>10151 Deerwood Park Blvd.<br>Building 200, Suite 250<br>Jacksonville, Florida 32256<br><br>Attention: Jane E. Pope |

#### **Section 6.04. Effect of Headings.**

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns.

All covenants and agreements herein by the Issuer and the Bank shall bind their respective successors and assigns whether so expressed or not.

Section 6.06. Severability.

In case any provision herein shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy or claim hereunder.

Section 6.08. Entire Agreement.

This Agreement and the Bond Resolution constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Bond Resolution, the Bond Resolution shall govern.

Section 6.09. Counterparts.

This Agreement may be executed in any number of counterparts, each which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination.

(a) This Agreement will terminate on the date of final payment by the Bank issuing its checks for the final payment of principal and interest of the Bonds.

(b) This Agreement may be earlier terminated with or without cause upon 60 days written notice by either party. Upon such termination, the Issuer reserves the right to appoint a successor Paying Agent and Registrar. If such appointment is not made within sixty (60) days from the date of written notice, the Bank shall deliver all records and any unclaimed funds to the Issuer. However, the Bank is entitled to payment of all outstanding fees and expenses before delivering records to the Issuer. In the event this Agreement is terminated by giving written notice, then the Bank agrees, upon request by the Issuer, to give notice by first-class mail to all registered holders of the name and address of the successor Paying Agent and Registrar. Expenses for such notice shall be paid by the Issuer. The Bank shall provide Ambac Assurance Corporation with prior written notice should it resign from its duties hereunder.

Any successor Registrar and Paying Agent appointed by the Issuer shall be either a national or a state banking institution, and shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, subject to supervision or examination by federal or state authority, and registered with the Securities and Exchange Commission.

(c) The provisions of Section 1.02 shall survive, and remain in full force and effect following the termination of this Agreement.

Section 6.11. Governing Law.

This Agreement shall be construed in accordance with and governed by the laws of the State.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the 1<sup>st</sup> day of February, 2004.

[SEAL]

**BOARD OF COUNTY COMMISSIONERS  
OF ST. JOHNS COUNTY, FLORIDA**

---

Karen R. Stern, Chair

Attest:

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Cheryl Strickland, Clerk of the Circuit Court of  
St. Johns County, ex officio Clerk of the Board  
of County Commissioners

**J. P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION**, as Registrar  
and Paying Agent

---

Jane E. Pope, Vice President



## **ANNEX A**

Fee for services as Registrar and Paying Agent for the term of this Agreement shall be \$5,750, payable upon the delivery hereof. Should the Bank resign or be removed from its duties hereunder, it shall refund to the Issuer a pro rata portion of the fee.

Out-of-pocket expenses will be reimbursed but shall not exceed reasonable amounts.

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**EXHIBIT F**

**CONTINUING DISCLOSURE CERTIFICATE**

[See Appendix E of Exhibit A]

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