REOFFERING - NOT A NEW ISSUE **BOOK-ENTRY-ONLY**

RATINGS: See "Ratings" herein

In the opinion of Bond Counsel, under existing law, interest on the Warrants (i) is and will continue to be excluded from gross income for federal income tax purposes if the County continues to comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Warrants in order that interest thereon be and remain excluded from gross income, and (ii) will not be an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. Bond Counsel is also of the opinion that under existing law, interest on the Warrants is and will continue to be exempt from State of Alabama income taxation. See "TAX MATTERS" herein for further information and certain other federal tax consequences arising with respect to the Warrants.

$98,300,000
JEFFERSON COUNTY, ALABAMA
SEWER REVENUE REFUNDING WARRANTS
SERIES 2002-C-5

Dated: August 1, 2003 **Due: February 1, 2040**

Jefferson County, Alabama (the "County") is reoffering its Sewer Revenue Refunding Warrants identified above (the "Warrants"), in the principal amount set forth above. The Warrants are not general obligations of or a charge against the general credit taxing power of the State of Alabama, the County or any other political subdivision of the State of Alabama. The Warrants are limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the revenues (other than tax revenues) from the County's sanitary sewer system remaining after payment of operating expenses. The pledge thereof in favor of the Warrants is on a parity of lien with the pledge thereof for the benefit of certain sewer revenue warrants heretofore issued by the County. The Indenture provides for the issuance of additional securities secured on a parity of lien with the Warrants and such outstanding sewer revenue warrants.

The payment of the principal of and interest on the Warrants when due is insured by a municipal bond insurance policy which was issued by XL Capital Assurance Inc. simultaneously with the initial delivery of the Warrants.

XL CAPITAL ASSURANCE

Commencing August 1, 2003, the Warrants will bear interest at the Auction Rate. For a summary of the method of determination of interest rates, interest periods, interest payment dates and certain other terms applicable to the Warrants while they bear interest at the Auction Rate, see the inside cover hereof.

The Warrants are subject to mandatory and optional tender and redemption as described herein.

Price: 100%

The interest rate mode applicable to the Warrants may be changed from the Auction Rate to another Adjustable Rate or a Fixed Rate as determined in accordance with the Indenture. Upon a Change in Interest Rate Mode applicable to the Warrants as described herein, the Warrants will be subject to mandatory tender for purchase, the principal portion of such purchase price being payable solely from the proceeds of a remarketing in accordance with the Indenture. **This Reoffering Circular has been prepared solely for use in connection with the reoffering of the Warrants while bearing interest at the Auction Rate and describes the terms of the Warrants only while they bear interest at the Auction Rate. It is not intended to provide any information relating to the Warrants while they bear interest in any other interest rate mode.**

The Warrants are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC acts as the Securities Depository for the Warrants. Beneficial interests in each series of the Warrants may be purchased in book-entry-form only, in denominations of $25,000 or any integral multiple thereof. See "THE WARRANTS— Securities Depository" herein.

The Warrants are not general obligations of or a charge against the general credit taxing power of the State of Alabama, the County or any other political subdivision of the State of Alabama. The Warrants are limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the revenues (other than tax revenues) from the County's sanitary sewer system remaining after payment of operating expenses. The pledge thereof in favor of the Warrants is on a parity of lien with the pledge thereof for the benefit of certain sewer revenue warrants heretofore issued by the County. The Indenture provides for the issuance of additional securities secured on a parity of lien with the Warrants and such outstanding sewer revenue warrants.

This cover page and the inside cover page contain certain information for quick reference only. Investors should read the entire Reoffering Circular to obtain additional information essential to making an informed investment decision.

The Warrants are reoffered subject to conversion to Auction Rate Warrants and to certain other conditions, including the opinion of Haskell Slaughter Young & Rediker, L.L.C., Bond Counsel. Certain legal matters with respect to the Underwriters by Peck, Shaffer & Williams LLP. It is expected that delivery of the Warrants to DTC will be made on or about August 1, 2003.

JPMorgan **Morgan Keegan & Company, Inc.**

Dated: August 1, 2003

Initial Pricing Date:	**July 31, 2003**
Settlement Date:	**August 1, 2003**
First Auction Date:	**August 18, 2003**
First Interest Payment Date:	**August 19, 2003**
Standard Auction Period:	**35 days**

Capitalized terms are used as defined in this Reoffering Circular, including Appendix C and Appendix F.

The initial interest rate applicable to the Warrants will apply to the period commencing on and including August 1, 2003, to and including the first Auction Date as set forth above. Thereafter, the Warrants will bear interest at the Auction Rate that the Auction Agent advises has resulted from an Auction conducted on each Auction Date in accordance with the Auction Procedures, subject to certain conditions and exceptions. Interest of the Warrants will accrue from the date of conversion of the Warrants to Auction Rate Warrants and will be payable commencing on the first Interest Payment Date as set forth above, and on each Interest Payment Date thereafter. Thereafter, the Interest Payment Dates are the Business Days immediately following the related Auction Period, except in the case of an Auction Period of more than 91 days, in which case the Interest Payment Dates are each thirteenth Tuesday after the first day of such Auction Period and the Business Day immediately succeeding such Auction Period.

The length of the Auction Periods may be changed as described herein. The Warrants will not be subject to mandatory tender for purchase upon a change in the length of an Auction Period, however, notice of such change will be given as further described herein and any Warrants that are not the subject of a specific Order shall be deemed to be subject to a Sell Order.

The Bank of New York, New York, New York, will serve as Auction Agent for the Warrants and J.P. Morgan Securities Inc. and Morgan Keegan & Company, Inc. will serve as Broker-Dealers.

Prospective purchasers of the Warrants should carefully review the Auction Procedures described in Appendix F hereto, and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Warrants based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications or otherwise and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Warrants may be transferred only pursuant to a Bid or Sell Order placed or deemed to be placed in an Auction or to or through a Broker-Dealer.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS REOFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No person has been authorized to give any information or to make any representations other than those contained in this Reoffering Circular in connection with the offer made hereby, and if given or made, such information or representations must not be relied upon as having been authorized by the County or the Underwriters. Neither the delivery of this Reoffering Circular nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the County since the date hereof. This Reoffering Circular does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. The information set forth herein has been obtained from sources believed to be reliable. The Underwriters have reviewed the information in this Reoffering Circular in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but do not guarantee the accuracy or completeness of such information.

CONTENTS OF REOFFERING CIRCULAR

Page

REOFFERING CIRCULAR

$98,300,000
JEFFERSON COUNTY, ALABAMA
SEWER REVENUE REFUNDING WARRANTS
SERIES 2002-C-5

INTRODUCTORY STATEMENT

This Reoffering Circular sets forth certain information with respect to $98,300,000 aggregate principal amount of Sewer Revenue Refunding Warrants identified above (the "Warrants") issued by Jefferson County, Alabama (the "County"). The Warrants were originally issued together with other sewer revenue warrants of the County to refund warrants issued to finance a portion of the cost of the construction and operation of certain sanitary sewer facilities located in the County and certain contiguous territory in Shelby County and St. Clair County, Alabama (collectively, the "System") of the County. The Warrants were issued under a Trust Indenture dated as of February 1, 1997 (the "Original Indenture") between the County and The Bank of New York, as trustee (as successor to AmSouth Bank of Alabama) (the "Trustee"), as supplemented by (i) the First Supplemental Indenture dated as of March 1, 1997 (the "First Supplemental Indenture"), (ii) the Second Supplemental Indenture dated as of March 1, 1999 (the "Second Supplemental Indenture"), (iii) the Third Supplemental Indenture dated as of March 1, 2001 (the "Third Supplemental Indenture"), (iv) the Fourth Supplemental Indenture dated as of February 1, 2002 (the "Fourth Supplemental Indenture"), (v) the Fifth Supplemental Indenture dated as of September 1, 2002 (the "Fifth Supplemental Indenture"), and (vi) the Sixth Supplemental Indenture dated as of October 1, 2002 (the "Sixth Supplemental Indenture"; the Original Indenture, as supplemented, being herein referred to as the "Indenture"). The Trustee also acts as the registrar and paying agent (the "Registrar and Paying Agent") under the Indenture.

Capitalized terms used in this Reoffering Circular that are not defined herein have the meanings given to them in Appendix C and Appendix F to this Reoffering Circular unless the context otherwise indicates.

The opinion of Bond Counsel delivered on October 25, 2002, in connection with the issuance of the Warrants stated that, under existing law, interest on the Warrants (i) is excluded from gross income for federal income tax purposes if the County continues to comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Warrants in order that interest thereon be and remain excluded from gross income, and (ii) will not be an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. Bond Counsel also gave the opinion that under existing law, interest on the Warrants is exempt from State of Alabama income taxation. See "TAX MATTERS" herein for further information and certain other federal tax consequences arising with respect to the Warrants.

Under the Indenture, the pledge of Pledged Revenues in favor of the Warrants will be on parity with the pledge thereof in favor of (a) certain outstanding obligations of the County issued in calendar year 1997 (collectively, the "Series 1997 Warrants") which consists of (i) the Sewer Revenue Refunding Warrants, Series 1997-A, which are outstanding in the aggregate principal amount of $211,040,000, (ii) the Taxable Sewer Revenue Refunding Warrants, Series 1997-B, which are outstanding in the aggregate principal amount of $10,805,000, (iii) the Taxable Sewer Revenue Refunding Warrants, Series 1997-C, which are outstanding in the aggregate principal amount of $41,820,000 and (iv) the Sewer Revenue Warrants, Series 1997-D, which are outstanding in the aggregate principal amount of $115,740,000; (b) the County's Sewer Revenue Capital Improvement Warrants, Series 1999-A, dated March 1, 1999, which are outstanding in the aggregate principal amount of $506,910,000 (the "Series 1999-A Warrants"); (c) the County's Sewer Revenue Capital Improvement Warrants, Series 2001-A, dated March 1, 2001, which will be outstanding in the aggregate principal amount of $176,840,000 (the "Series 2001-A Warrants"); (d) the County's Sewer Revenue Capital Improvement Warrants, Series 2002-A, dated March 6, 2002, which are outstanding in the aggregate principal amount of $110,000,000 (the "Series 2002-A Warrants); (e) the County's Sewer Revenue Capital Improvement Warrants, Series 2002-B, dated September 1, 2002, which are outstanding in the aggregate principal amount of $540,000,000; and (f) the County's Sewer Revenue Refunding Warrants, Series 2002-C, dated October 25, 2002 (collectively with the Warrants, the "Series 2002-C Warrants") consisting of Series 2002-C-1-A, which are outstanding in the aggregate principal amount of $74,450,000, Series 2002-C-1-B, which are outstanding in the aggregate principal amount of $74,450,000, Series 2002-C-1-C, which are outstanding in the aggregate principal amount of $74,450,000, Series 2002-C-1-D, which are outstanding in the aggregate principal amount of $75,450,000, Series 2002-C-2, which are outstanding in the aggregate principal amount of $73,700,000, Series 2002-C-3, which are outstanding in the aggregate principal amount of $98,300,000, Series 2002-C-4, which are outstanding in the aggregate principal amount of $73,700,000, Series 2002-C-6, which are outstanding in the aggregate principal amount of $147,600,000 and Series 2002-C-7, which are outstanding in the aggregate principal amount of $49,100,000. See "SECURITY AND SOURCE OF PAYMENT".

XL Capital Assurance Inc. ("XL Capital Assurance" or the "Bond Insurer") has issued a financial guaranty insurance policy with respect to the Warrants insuring the regularly scheduled payments of principal of and interest on the Warrants pursuant to the provisions of such policy (the "Insurance Policy"). See "THE INSURANCE POLICY" and "APPENDIX G — FORM OF BOND INSURANCE POLICY."

Effective August 1, 2003, the Warrants will bear interest at the Auction Rate accruing from that date. The initial interest rate applicable to the Warrants will be the rate determined in accordance with the Indenture and will apply to the period commencing on and including August 1, 2003, to and including the first Auction Date as set forth on the inside front cover. Thereafter, the Warrants will bear interest at the Auction Rate that the Auction Agent advises has resulted from an Auction conducted on each Auction Date in accordance with the Auction Procedures contained in the Indenture and described in Appendix D hereto, subject to certain conditions and exceptions. Interest on the Warrants will be payable commencing on the first Interest Payment Date as set forth on the inside front cover, and on each Interest Payment Date thereafter. The first Auction Date and each scheduled Auction Date thereafter and the first Interest Payment Date and each Interest Payment Date thereafter are set forth on the inside front cover of this Reoffering Circular. Prospective purchasers of the Warrants should carefully review the Auction Procedures, and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Warrants based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications or otherwise and (iii) settlement for purchases and sales will be made on the Business Day, as hereinafter defined, following an Auction. Beneficial interests in Warrants may be transferred only pursuant to a Bid or Sell Order placed or deemed to be placed in an Auction or to or through a Broker-Dealer. See "THE WARRANTS."

The County may direct a change in the interest rate mode (a "Change in the Interest Rate Mode") applicable to each series or subseries of Warrants as described herein.

The Warrants are subject to redemption and to mandatory tender for purchase prior to maturity as described herein.

Brief descriptions of the County, the Warrants, the Indenture, the Insurance Policy, the Auction Agency Agreement and the Broker-Dealer Agreement and certain related agreements are included in this Reoffering Circular. The descriptions of such documents contained herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the entire text of such documents, and references herein to the Warrants are qualified in their entirety by reference to the forms thereof included in the Indenture and the information with respect thereto included in such documents, all of which are available for inspection at the principal corporate trust office of the Trustee in New York, New York. All such descriptions are further qualified in their entirety by reference to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws and to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of forms of the Indenture, the Insurance Policy, the Auction Agency Agreement and the Broker-Dealer Agreement and certain other agreements may be obtained at the principal offices of the Underwriters.

This Reoffering Circular has been prepared solely for use in connection with the reoffering of the Warrants and describes the terms of the Warrants only while they bear interest at the Auction Rate. It is not intended to provide any information relating to the Warrants while they bear interest in any other interest rate mode.

Information with respect to the County, including certain financial information, is set forth in Appendix A and Appendix B hereto. The information contained in this Reoffering Circular (other than under the captions "THE WARRANTS – Securities Depository," "THE INSURANCE POLICY – XL Capital Assurance," "PLAN OF DISTRIBUTION" and "TAX MATTERS") and in Appendix A and Appendix B to this Reoffering Circular has been furnished by the County. Certain information furnished by XL Capital Assurance concerning its business and financial condition is set forth under "INSURANCE POLICY — XL Capital Assurance" herein. Such descriptions and information do not purport to be comprehensive or definitive.

THE COUNTY AND THE SYSTEM

For certain information concerning the County and the System, see Appendix A and Appendix B hereto.

SECURITY AND SOURCES OF PAYMENT

The Warrants are not general obligations of, and will not constitute a charge against the general credit or taxing power of, the State of Alabama, the County, or any other political subdivision of the State of Alabama.

The Warrants are limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the Pledged Revenues on a parity of lien with the Series 2002-C Warrants, the Series 2002-B Warrants, the Series 2002-A Warrants, the Series 2001-A Warrants, the Series 1999-A Warrants and the Series 1997 Warrants. Information describing the revenues collected by the County is set forth in this Reoffering Circular under Appendix A.

Pursuant to the Indenture, a debt service reserve fund (the "Reserve Fund") has been established for the benefit of the Outstanding Sewer Revenue Indebtedness. For a description of the funds and accounts established under the Indenture for the collection and disposition of revenues from the System, see Appendix C - "SUMMARY OF THE INDENTURE -Flow of Funds".

Pursuant to Amendment No. 73 to the Alabama Constitution, any moneys derived by the County from sewer service charges may be expended only for purposes related to the improvement, extension, maintenance and operation of the System and may not be used to pay general expenses of the County.

Remedies

The County is, under existing law, subject to suit in the event that it defaults in payment of the principal of or the interest on the Warrants. However, the extent of the remedies afforded to the holders of the Warrants by any such suit, and the enforceability of any judgment against the County resulting therefrom, are subject to those limitations inherent in the fact that the Warrants are limited obligations of the County payable solely out of the Pledged Revenues, and may be subject, among other things, to

(1) the provisions of the United States Bankruptcy Code, referred to below, and

(2) the provisions of other statutes that may hereafter be enacted by the Congress of the United States or the Legislature of Alabama extending the time for payment of county, municipal or public authority indebtedness or imposing other restraints upon the enforcement of rights of warrantholders.

The United States Bankruptcy Code

The United States Bankruptcy Code permits political subdivisions of a state and certain state and local public agencies or instrumentalities that are insolvent or unable to meet their debts to file petitions for relief in the Federal Bankruptcy Courts if authorized by state law. While the matter is not entirely free from doubt, prospective purchasers of the Warrants should assume that existing Alabama statutes presently authorize the County to file such petitions for relief.

A petition filed under Chapter 9 of the Bankruptcy Code, however, does not operate as a stay of application of pledged special revenues to payment of debt secured by such revenues. Thus, an automatic stay under Chapter 9 would not be effective to prevent payment of principal and interest on the Warrants from the Pledged Revenues.

DESCRIPTION OF XL CAPITAL ASSURANCE INC.

The following information has been supplied by XL Capital Assurance for inclusion in this Reoffering Circular. No representation is made by the County as to the accuracy or completeness of the information.

XL Capital Assurance accepts no responsibility for the accuracy or completeness of this Reoffering Circular or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XL Capital Assurance and its affiliates set forth under this heading. In addition, XL Capital Assurance makes no representation regarding the Warrants or the advisability of investing in the Warrants.

General

XL Capital Assurance Inc. (the “Insurer” or “XLCA”) is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation (“XL Capital Ltd”). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. (“London”), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity.

London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd (“XLFA”), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the XL Capital Assurance Insurance Policy.

Based on the audited financials of XLFA, as of December 31, 2002, XLFA had total assets, liabilities, redeemable preferred shares and shareholders’ equity of $611,791,000, $245,750,000, $39,000,000 and $327,041,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of “AAA” from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an “A+” rating from A.M. Best, XLI’s financial strength rating is “Aa2”by Moody’s and “AA” by Standard & Poor’s and Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Warrants and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Warrants will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Warrants.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch, Inc. (“Fitch”). In addition, XLCA has obtained a financial enhancement rating of “AAA” from Standard & Poor’s. These ratings reflect Moody’s, Standard & Poor’s and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Warrants and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Warrants. The Insurer does not guaranty the market price of the Warrants nor does it guaranty that the ratings on the Warrants will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2001, XLCA had total admitted assets of $158,442,157, total liabilities of $48,899,461 and total capital and surplus of $109,542,696 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of $180,993,189, total liabilities of $58,685,217 and total capital and surplus of $122,307,972 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Reoffering Circular. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Reoffering Circular, or after the date of this Reoffering Circular but prior to termination of the offering of the Warrants, shall be deemed incorporated by reference in this Reoffering Circular. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE XL CAPITAL ASSURANCE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

Payment of the principal of and interest on the Warrants will be guaranteed by the Insurance Policy previously issued in connection with original issuance of the Warrants and will continue to secure the Warrants upon conversion.

THE WARRANTS

The following is a summary of certain provisions of the Warrants. Reference is hereby made to the Warrants in their entirety for the detailed provisions thereof. The Warrants are dated and become due on the dates shown on the front cover. The Warrants will bear interest at Auction Rates commencing August 1, 2003. The Warrants may be converted to bear interest at another variable interest rate or rates, or at a fixed rate to maturity, as hereinafter described under "ALTERNATIVE INTEREST RATE MODES." Upon any conversion of the interest on the Warrants from an Auction Rate to another variable interest rate or rates or a fixed rate, the Warrants so affected shall be subject to mandatory tender for purchase without the right to retain as hereinafter described under "ALTERNATIVE INTEREST RATE MODES." **This Reoffering Circular has been prepared solely for use in connection with the reoffering of the Warrants and describes the terms of the Warrants only while they bear interest at Auction Rates. It is not intended to provide any information relating to the Warrants while they bear interest at any other interest rate.**

Auction Rate Warrants

Effective August 1, 2003, the Warrants will bear interest at Auction Rates accruing from that date. Interest on the Warrants will be payable commencing on the first Interest Payment Date, and on each Interest Payment Date thereafter. While the Warrants bear interest at Auction Rates, during an Auction Rate Period of 180 days or less, interest accrued on such Warrants will be computed on the basis of a 360-day year for the number of days actually elapsed. Interest accruing on Warrants bearing interest at an Auction Rate during an Auction Rate Period of over 180 days will be computed on the basis of a 360-day year, consisting of twelve (12) thirty (30) day months. As long as the Warrants are registered in the name of Cede & Co., as nominee of DTC, payments of interest on the Warrants will be made directly to DTC. See "Securities Depository" herein.

The Warrants are fully registered, without coupons in denominations of $25,000 or any integral multiple thereof. The Warrants will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry-Only System. Purchases of beneficial interests in the Warrants will be made in book-entry form, without certificates. If at any time the Book-Entry-Only System is discontinued for the Warrants, the Warrants will be exchangeable for other fully registered certificated Warrants of the same series. See "Securities Depository" herein. The Trustee may impose a charge sufficient to reimburse the County or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Warrant.

Determination of Interest Rates and Auction Periods for the Warrants

The initial interest rate for the Warrants will be the rate determined in accordance with the Indenture and will apply to the period commencing on August 1, 2003, to and including the first Auction Date specified on the inside front cover. Thereafter, the Warrants will bear interest at an Auction Rate (as defined below) determined on each Auction Date for each Auction Period pursuant to the Auction Procedures set forth in Appendix F. The Auction Period and Auction Date applicable to the Warrants will be the Auction Period and Auction Date set forth on the inside front cover until the length of such Auction Period is changed as described below under "Change in the Length of the Auction Period."

"Auction Rate" means with respect to the Warrants, the rate of interest to be borne by the Warrants during each Auction Period, which will equal the rate determined pursuant to each Auction (as described below) for each Auction Period, subject to the following exceptions:

(i) Upon the occurrence of a Failure to Deposit on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids will be of no effect and the Auction Rate for the next succeeding Auction Period will equal the Maximum Auction Rate on and as of such Auction Date.

(ii) Upon the occurrence of an Event of Default, the Auction Procedures will be suspended, and the Auction Rate for each Auction Period commencing after the occurrence of an Event of Default to and including the Auction Period, if any, during which or commencing less than two Business Days after such Event of Default has been cured or waived will be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date. The Overdue Rate will be redetermined by the Remarketing Agent on each Auction Date. Initially, the Broker-Dealer will serve as the Remarketing Agent.

(iii) In the event the Auction Agent shall fail to calculate or, for any reason, shall fail to provide the Auction Rate for any Auction Period, (a) if the preceding Auction Period was a daily Auction Period, the preceding Auction Period will be extended for seven calendar days (unless such seventh day is not a Business Day in which case to the next day which is a Business Day) and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended, (b) if the preceding Auction Period was a period of 35 days or less (other than a daily Auction Period), the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (c) if the preceding Auction Period was a period of greater than 35 days, the Auction Period shall be extended through the next Monday (or if such Monday is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (c) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(iv) In the event that certain conditions set forth in "ALTERNATIVE INTEREST RATE MODES" in connection with a Change in Interest Rate Mode from an Auction Rate or set forth in "THE WARRANTS — Change in the Length of the Auction Period" in connection with the conversion from one Auction Period to another Auction Period have not been met, the Warrants will continue to be in an Auction Rate with a 35-day Auction Period and bear interest at the Maximum Auction Rate for the next Auction Period.

(v) If the Warrants are no longer rated or are no longer maintained in book-entry form by the Securities Depository, then the Auction Rate shall be the Maximum Auction Rate.

The interest rate that the Auction Agent advises results from an Auction conducted in accordance with the Auction Procedures will be as follows:

(i) If Sufficient Clearing Bids exist, the Winning Bid Rate.
(ii) If Sufficient Clearing Bids do not exist, the Maximum Auction Rate.
(iii) If all Warrants are the subject of Submitted Hold Orders, the All Hold Rate.

Interest Payment Dates. Interest on the Warrants will be payable on the first Interest Payment Date and on each Interest Payment Date thereafter. The first Interest Payment Date is set forth on the inside front cover. Thereafter, the Interest Payment Dates are the Business Days immediately following the related Auction Period unless the Auction Period is more than 91 days, in which case the Interest Payment Dates are each thirteenth Tuesday after the first day of such Auction Period and the Business Day immediately succeeding such Auction Period. In the event of a conversion from the Auction Period to another Auction Period, interest on the Warrants will be payable on each Interest Payment Date for such new Auction Period.

Record Date. The record date for the Warrants will be on the Business Day next preceding an Interest Payment Date.

Auction Date. An Auction to determine the interest rate for the Warrants for each Auction Period will be held on the first Auction Date and each Auction Date thereafter. The first Auction Date and each Auction Date thereafter are set forth on the inside front cover. In the event of a conversion from an Auction Period to another Auction Period, Auctions will be held on each Auction Date for such new Auction Period. The day of the week on which Auctions are held may be changed by the Auction Agent in accordance with the Auction Procedures described in Appendix F. See Appendix F – "Auction Procedures – Changes in Auction Period by County" and "- Change of Auction Date by Remarketing Agent."

Auction Agent. The Bank of New York will serve as the Auction Agent for the Warrants (together with any successor bank or trust company or other entity, the "Auction Agent"). The Auction Agent will enter into an agreement (the "Auction Agency Agreement") with the County which will provide, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, in The City of New York and having a combined capital stock, surplus and undivided profits of at least $15,000,000, or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Auction Agency Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 100 days' notice to the Trustee, the County and the Remarketing Agent. The Auction Agent may be removed at any time by the Company upon at least 100 days' written notice; provided that the Company shall have entered into an agreement in substantially the form of the Auction Agency Agreement with a successor Auction Agent.

Auction Procedures. The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix F, as are the particulars with regard to the determination of the Auction Rate (collectively, the "Auction Procedures"). See Appendix F – "Auction Procedures."

Amendment of Indenture. The provisions of the Indenture relating to the Auction Procedures, the Auction Rate Provisions and the definitions of Default Rate, Maximum Auction Rate, All Hold Rate, Applicable Percentages and Auction Period, may be amended pursuant to the Indenture by obtaining, when required by the Indenture, the consent of the owners of all Warrants, in lieu thereof as permitted by the Indenture, the Bond Insurer for the Warrants. Notwithstanding anything in the Indenture to the contrary, while the Warrants are in an Auction Rate Period the consent of the Holders of the required amount of Warrants shall be deemed given with respect to a Supplemental Indenture if on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed modification or amendment to the registered owners of the Outstanding Warrants as required by the Indenture, there are Sufficient Clearing Bids and the Auction Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate.

Change in the Length of the Auction Period. Each Auction Period shall be a Standard Auction Period (35 days unless changed) unless a different Auction Period is established and each Auction Period which immediately succeeds a non-Standard Auction Period will be a Standard Auction Period unless a different Auction Period is established. The length of an Auction Period may be changed at any time unless a Failure to Deposit or an Event of Default has occurred and has not been cured or waived. During an Auction Rate Period the County, may change the length of a single Auction Period or the Standard Auction Period by means of a written notice delivered at least 10 days but not more than 60 days prior to the Auction Date for such Auction Period to the Registrar and Paying Agent, the Trustee, the Broker-Dealer, the Remarketing Agent, the Auction Agent, the Company and the Securities Depository. Any Auction Period or Standard Auction Period established by the County may not exceed 365 days in duration. If the new Auction Period is less than 35 days, the notice will be effective only if it is accompanied by a written statement of the Registrar and Paying Agent, the Trustee, the Broker-Dealer, the Remarketing Agent, the Auction Agent and the Securities Depository to the effect that they are capable of performing their duties under the Indenture, the Broker-Dealer Agreement, the Remarketing Agreements and the Auction Agency Agreement with respect to such Auction Period. If the notice specifies a change in the length of the Standard Auction Period, such notice will be effective only if it is accompanied by the written consent of the Broker-Dealer to such change. The length of an Auction Period or the Standard Auction Period may not be changed unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Company, on behalf of the County, by telecopy or similar means, authorizing the change in the Auction Period or the Standard Auction Period, specified in such certificate, and confirming that Bond Counsel expects to be able to give an Opinion of Bond Counsel on the first day of such Auction Period to the effect that the change in the Auction Period is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Warrants from gross income for federal income tax purposes, (B) the Trustee has not delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that a Failure to Deposit has occurred, (C) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period, and (D) the Trustee and the Auction Agent receive by 9:30 a.m. (New York City time) on the first day of such Auction Period, an opinion of Bond Counsel to the effect that the change in the Auction Period is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest of such Warrants from gross income for federal income tax purposes. If the condition referred to in (A) above is not met, the Auction Rate for the next succeeding Auction Period will be determined pursuant to the Auction Procedures and the next succeeding Auction Period shall be a Standard Auction Period. If any of the conditions referred to in (B), (C) or (D) above are not met, the Auction Rate for the next succeeding Auction Period will equal the Maximum Auction Rate as determined as of the Auction Date and the next succeeding Auction Period will be a 35-day Auction Period.

Orders by Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix F, as are the particulars with regard to the allocation of Warrants bearing interest at Auction Period Rates.

Special Considerations Relating to the Auction Rate Warrants Bearing Interest at Auction Period Rates

The Indenture provides that the Auction Agent may be removed at any time by the County upon at least 100 days' notice; provided that the County shall have entered into an agreement in substantially the form of the Auction Agency Agreement with a successor Auction Agent.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. The Indenture provides that any Broker-Dealer that is an Affiliate of the County may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Auction Warrants for its own account, it must submit a Sell Order on the next Auction Date with respect to such Auction Warrants. In the Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

So long as the ownership of the Warrants during an Auction Rate Period is maintained in book-entry form by the Securities Depository, an Existing Holder may sell, transfer or otherwise dispose of Warrants during an Auction Rate Period only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that in the case of all transfers other than pursuant to Auctions such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer. The ability to sell a Warrant in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Warrants at a rate equal to or less than the Maximum Auction Rate. Each of the Broker-Dealers has advised the County that it intends initially to make a market in the Warrants for which it serves as a Broker-Dealer between Auctions; however, they are not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures.

Securities Depository

The following information is provided by DTC and the County and the Underwriters make no representation as to the completeness or the accuracy of such information.

Unless a successor Securities Depository is designated pursuant to the Indenture, or unless the County otherwise directs, DTC will act as the Securities Depository for the

Warrants. The Warrants 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 Warrant certificate will be issued in the aggregate principal amount of the Warrants, and will be deposited with DTC.

Purchases of Warrants under the DTC system must be made by or through Direct Participants, which will receive a credit for the Warrants on DTC's records. The ownership interest of each 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, but 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 Warrants 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 Warrants, except in the event that use of the book-entry system for the Warrants is discontinued.

To facilitate subsequent transfers, all Warrants deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Warrants 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 Warrants; DTC's records reflect only the identity of the Direct Participants to whose accounts such Warrants are credited, which may or may not be the Beneficial Owners. The 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 Warrants may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Warrants, such as redemptions, tenders, defaults, and proposed amendments to the Warrant documents.

Redemption notices will be sent by the Trustee to DTC. If less than all of the Warrants are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Warrants to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Warrants 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 with respect to any request for consent or vote. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Warrants are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

The requirement for physical delivery of Warrants in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Warrants are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Warrants to the Registrar and Paying Agent's DTC account.

So long as Cede & Co. is the registered owner of the Warrants, as nominee of DTC, references herein to the registered owners or holders of the Warrants will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the County's obligations under the Indenture and the Company's obligations under the Participation Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the County, or the Trustee to be, and will not have any rights as, holders of Warrants under the Indenture.

The County and the Underwriters cannot and do not give any assurances that DTC will distribute payments of debt service on the Warrants made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

DTC may discontinue providing its services as Securities Depository with respect to the Warrants at any time by giving reasonable notice to the County or the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Warrant certificates are required to be printed and delivered.

In the event that the Book-Entry-Only System is discontinued, the following provisions will apply. So long as any of the Warrants remain outstanding, the Trustee will maintain books for the registration, transfer and exchange of the Warrants and Warrants will be transferred only upon the books for the registration and transfer kept by the Trustee. Upon surrender for transfer or exchange of any Warrant at such office, with a written instrument of transfer or authorization for exchange in form and with guarantee of signature satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, the County will execute and the Trustee will authenticate and deliver an equal aggregate principal amount of Warrants of any authorized denominations, subject to such reasonable regulations as the Trustee may prescribe and upon payment sufficient to reimburse it for any tax, fee or other governmental charge required to be paid in connection with such transfer or exchange. All Warrants surrendered for transfer or exchange will be canceled by the Trustee. The Trustee will not be required to transfer or exchange Warrants subject to redemption during the fifteen days preceding the date of mailing of notice of redemption of such Warrants, or any Warrant after such Warrant has been called for redemption.

THE COUNTY, THE TRUSTEE, THE REGISTRAR AND PAYING AGENT, THE AUCTION AGENT AND THE UNDERWRITERS HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF THE SECURITIES DEPOSITORY OR ANY PARTICIPANT AS TO THE BENEFICIAL OWNERSHIP OF THE WARRANTS; (II) THE DELIVERY OF EITHER NOTICES OR PAYMENT TO ANY PARTY OTHER THAN THE SECURITIES DEPOSITORY OR ITS NOMINEE AS REGISTERED OWNER OF THE WARRANTS; (III) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE SECURITIES DEPOSITORY OR ITS NOMINEE AS THE OWNER OF RECORD OF ALL ISSUED AND OUTSTANDING WARRANTS; OR (IV) THE SELECTION BY THE SECURITIES DEPOSITORY OR ANY PARTICIPANTS OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF WARRANTS. EACH BENEFICIAL OWNER OF WARRANTS MUST MAKE ARRANGEMENTS WITH ITS PARTICIPANT TO RECEIVE NOTICES AND PAYMENTS WITH RESPECT TO THE WARRANTS.

ALTERNATIVE INTEREST RATE MODES

General

The Indenture permits the County to direct a Change in the Interest Rate Mode on the Warrants at any time from the Auction Period Rate to a rate determined pursuant to one of five other interest rate modes: Commercial Paper Rate, Daily Rate, Weekly Rate, Term Rate (each as defined in the Indenture, an "Adjustable Rate"), or Fixed Rate in accordance with the procedures provided in the Indenture.

A Change in the Interest Rate Mode from an Auction Rate may be effected only on a day that is also the last Interest Payment Date for any Auction Period of the affected Warrants.

Change from the Auction Rate to a Different Adjustable Rate

Prior to the Fixed Rate Conversion Date, upon at least 30 days written notice to the Trustee and other specified parties, the Auction Rate may be changed to a different Adjustable Rate (the "New Adjustable Rate") by the County. Such notice will be effective in the case of any change to be effected by the County only if accompanied by the form of opinion of Bond Counsel that Bond Counsel (as defined in the Indenture) expects to give on the effective date of the Change in the Interest Rate Mode to the effect that such Change in the Interest Rate Mode is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Warrants from gross income for federal income tax purposes.

In the case of any Change in the Interest Rate Mode to a Term Rate, the notice referred to above must specify the length of the Calculation Period, and, unless otherwise specified, such Calculation Period will thereafter apply to the Warrants until the earliest to occur of (i) the Fixed Rate Conversion Date, (ii) a Change in the Interest Rate Mode to a New Adjustable Rate or (iii) the maturity of the Warrants.

Any Change in the Interest Rate Mode to a New Adjustable Rate shall be effective only if the Trustee and Auction Agent shall receive:

(A) a certificate of an Authorized County Representative by no later than the seventh day prior to the effective date of such Change in the Interest Rate Mode stating (1) that a written agreement between the County and the Remarketing Agent to remarket such Warrants on such effective date at a price of 100% of the principal amount thereof has been entered into, which agreement may be subject to such reasonable terms and conditions agreed to by the Remarketing Agent which in the judgment of the Remarketing Agent reflect the current market standards regarding investment banking risk and (2) that a Liquidity Facility is in effect or has been obtained by the County with respect to those of the Warrants to be converted from an Auction Rate to another Adjustable Rate and shall be in effect on or prior to the date of such Change in the Interest Rate Mode and thereafter for a period of at least 364 days;

(B) by 11:00 a.m. (New York City time) on the second Business Day prior to the effective date of such Change in the Interest Rate Mode, by telecopy, facsimile or other similar means, a certificate from the County (i) authorizing the establishment of the New Adjustable Rate, (ii) confirming that Bond Counsel expects to be able to give an opinion on the effective date of such Change in the Interest Rate Mode to the effect that such Change in the Interest Rate Mode is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the Warrants from gross income for federal income tax purposes and (iii) confirming that any amendment to the Sixth Supplemental Indenture necessary to provide for the application of moneys available under the Liquidity Facility have been agreed to by the parties thereto and will be in effect prior to the Change in the Interest Rate Mode; and

(C) by 4:00 p.m. (New York City time) on the effective date of such Change in the Interest Rate Mode, by telecopy, facsimile or other similar means, a certificate from the County that accrued and unpaid interest, if any, and premium, if any, on the Warrants shall have been paid pursuant to the Indenture from funds deposited with the Trustee;

If the condition referred to in (C) above is not met with respect to any Change in the Interest Rate Mode for any Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period for such Warrants shall be equal to the Maximum Auction Rate as determined on the date the condition is not met, or the Auction Date for the current Auction Period for such Warrants, if later. If any of the foregoing conditions for a Change in the Interest Rate Mode is not met (other than with respect to any contemplated change from an Auction Rate), the Trustee shall mail, or cause the Tender Agent to mail, to the County and the Holders notice thereof within three Business Days after the failure to meet any of such conditions.

Change from an Auction Rate to the Fixed Rate

Subject to the limitations described below, the County has the right to fix the interest rate per annum on all of the Warrants for the balance of the term thereof. Upon the exercise by the County at the request of the Company of its option to convert to the Fixed Rate (an "Option to Convert"), the Warrants will cease to bear interest at the Auction Rate but instead will bear interest at the Fixed Rate until maturity. The Option to Convert may be exercised at any time through a written notice given by the County at least 30 days prior to the proposed Fixed Rate Conversion Date to the Trustee and other specified parties. The Fixed Rate Conversion Date may only be the last Interest Payment Date for an Auction Period. Such notice will be effective only if it is accompanied by the form of opinion that Bond Counsel expects to give on the Fixed Rate Conversion Date to the effect that the establishment of the Fixed Rate is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Warrants from gross income for federal income tax purposes.

The Fixed Rate shall take effect only if:

(A) the Trustee and the Auction Agent receive (i) a certificate of an Authorized Company Representative by no later than the tenth (10th) day prior to the Fixed Rate Conversion Date stating that a written agreement between the Company and the Remarketing Agent has been entered into to remarket the Warrants on the Fixed Rate Conversion Date, at a price of not less than 100% of the principal amount thereof, which written agreement may be subject to reasonable terns and conditions imposed by the Remarketing Agent which in the judgment of the Remarketing Agent reflect current market standards regarding investment banking risk and must include a provision requiring payment by the Remarketing Agent in same-day funds for any Auction Rate Warrant tendered or deemed tendered, and (ii) by 11:00 a.m., New York City time, on the second Business Day prior to the Fixed Rate Conversion Date by telecopy or other similar means a certificate from the Company on behalf of the County (y) authorizing the establishment of the Fixed Rate and (z) confirming that Bond Counsel expects to be able to give an Opinion of Bond Counsel in the form previously delivered on the Fixed Rate Conversion Date; and

(B) the Trustee and the Auction Agent receive on the Fixed Rate Conversion Date (i) by 10:30 a.m., New York City time, an Opinion of Bond Counsel in the form previously delivered, and (ii) by 4:00 p.m., New York City time; a certificate by an Authorized Company Representative that all of the Warrants tendered or deemed tendered have been purchased at a price equal to the principal amount thereof, with funds provided from the remarketing of such Warrants, from the proceeds of a Support Facility or from other funds deposited with the Registrar and Paying Agent under the Warrant Purchase Trust Agreement, and that accrued interest, if any, and premium, if any, have been paid from the sources specified in the Indenture.

If any of the conditions set forth in (A) above is not met with respect to any change to the Fixed Rate from an Auction Rate, the Auction Rate for the next succeeding Auction Period will be determined pursuant to the Auction Procedures. If the conditions set forth in (B) above are not met with respect to any change to the Fixed Rate from an Auction Rate, the Auction Rate for the next succeeding Auction Period will equal the Maximum Auction Rate on the current Auction Date for an Auction Period of 35 days.

The Trustee and other specified parties will be given at least 30 days' notice of any proposed establishment of the Fixed Rate. The Indenture provides that the Trustee will mail, or cause to be mailed, notice to the registered owners of any proposed change to the Fixed Rate within three Business Days after receipt thereof.

Change in Interest Rate Mode on Less Than All Warrants

If the interest rate on less than all Warrants is to be changed to a New Adjustable Rate, the particular Warrants to be converted will be chosen by the Trustee, or the Trustee will direct the Registrar and Paying Agent to so choose, in such manner as the Trustee or Registrar and Paying Agent in its discretion may, subject to the provisions of the Indenture regarding authorized denominations of Warrants, deem proper. If it is determined that part, but not all, of the principal amount of any Warrant is to be converted, then upon notice of intention to convert such part, the holder of such Warrant will forthwith surrender such Warrant to the Registrar and Paying Agent for (i) payment of the purchase price (including the premium, if any, and accrued and unpaid interest, if any, to the date fixed for conversion) of such part so called for conversion and (ii) exchange for a new Warrant or Warrants in aggregate principal amount equal to the aggregate principal amount of the balance of the principal of such Warrant not subject to conversion. If the holder of any such Warrant of a denomination greater than the applicable minimum authorized denomination fails to present such Warrant, such Warrant will, nevertheless, become due and payable on the date fixed for conversion to the extent of the portion thereof subject to such conversion (and to that extent only).

REDEMPTION

While Warrants bear interest at an Auction Rate, they will be subject to redemption as described below.

Optional Redemption

The Warrants are subject to redemption at the option of the County on the Business Day immediately following the last day of any Auction Period, as a whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest to the date fixed for redemption.

Scheduled Mandatory Redemption

The Series 2002-C Warrants shall be redeemed at the redemption price equal to 100% of the principal amount to be redeemed plus accrued interest thereon to the redemption date, on February 1 (or, if any such February 1 is not an Interest Payment Date, then on the first Interest Payment date subsequent thereto) in years and principal amounts (after credit as provided below) as follow:

Year	Amount
2007	$2,700,000
2008	2,800,000
2009	3,000,000
2010	3,100,000
2011	3,200,000
2012	3,400,000
2013	3,600,000
2014	3,700,000
2015	3,900,000
2016	4,000,000
2017	4,200,000
2018	4,400,000
2019	4,600,000
2020	4,700,000
2021	5,000,000
2022	33,200,000
2023	32,100,000
2024	33,250,000
2025	34,800,000
2026	36,300,000
2027	37,900,000
2028	3,600,000
2029	6,100,000
2030	6,400,000
2031	6,700,000
2032	4,200,000
2033	4,300,000
2034	83,800,000
2035	90,900,000
2036	94,600,000
2037	98,750,000
2038	103,000,000
2039	2,950,000

$70,350,000 of the Series 2002-C Warrants
is scheduled to be retired at Maturity.

Provided, however, not less than 60 days prior to each such scheduled mandatory redemption date, the County may specify the particular subseries from which Series 2002-C Warrants are to be called for such redemption and (if more than one subseries is so specified) the respective principal amounts to be called for redemption from each thereof. In any such case, the particular Series 2002-C Warrants (or portions thereof) within a given subseries to be called for redemption shall be selected by the Trustee by lot. If the County fails to make such a specification with respect to any scheduled mandatory redemption date, not less than 45 or more than 60 days prior to each such date, the Trustee shall proceed to select for redemption, by lot, Series 2002-C Warrants or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such Series 2002-C Warrants or portions thereof for redemption on such scheduled mandatory redemption date. In any event, the County may, not less than 60 days prior to any such scheduled mandatory redemption date, direct that any or all of the following amounts be credited against the principal amount of Series 2002-C Warrants scheduled for redemption on such date: (i) the principal amount of Series 2002-C Warrants delivered by the County to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of Series 2002-C Warrants previously redeemed (other than Series 2002-C Warrants redeemed pursuant to this paragraph) and not previously claimed as a credit.

THIS PREVIOUS SECTION HAS BEEN INCLUDED TO ADVISE POTENTIAL INVESTORS THAT THE WARRANTS ARE SUBJECT TO SPECIAL MANDATORY REDEMPTION. IT SHOULD BE NOTED THAT THE COUNTY HAS THE OPTION TO DESIGNATE WHICH SUBSERIES OF SERIES 2002-C WARRANTS ARE SUBJECT TO MANDATORY REDEMPTION, THUS THE PRINCIPAL AMOUNTS OF THE WARRANTS COULD BE SUBJECT TO SPECIAL MANDATORY REDEMPTION AS EARLY AS THE COUNTY SO DESIRES.

Selection of Warrants for Redemption; Notice of Redemption

A redemption of Warrants shall be a redemption of the whole or of any part of the Warrants from any funds available for that purpose in a principal amount equal to an authorized denomination (so long as the principal amount not purchased is an authorized denomination). If less than all Warrants shall be redeemed, the particular Warrants to be redeemed shall be chosen by the Trustee, or the Trustee shall direct the Registrar and Paying Agent to so choose, as hereinafter described. If less than all the Warrants shall be called for redemption under any provision of the Indenture permitting such partial redemption, the particular Warrants or portions of Warrants, to be redeemed shall be selected (a) first, from Warrants held or owned by or for the issuer of a Support Facility pursuant to any Support Facility, (b) second, from Warrants for which the Registrar and Paying Agent has received, prior to such selection, a Notice of Election to Tender requiring the Registrar and Paying Agent to purchase such Warrants on the date on which the Warrants being selected are to be redeemed, and (c) third, from all other Warrants then outstanding, by lot or pro rata by the Trustee or, upon direction of the Trustee, the Registrar and Paying Agent, or in such manner as the Trustee or Registrar and Paying Agent in its discretion may deem proper.

Except as otherwise set forth in the Indenture, notice of redemption shall be given by mailing a copy of the redemption notice by first-class mail at least 30 days prior to the date fixed for redemption to the registered owners of the Warrants to be redeemed at the addresses shown on the registration books maintained by the Registrar and Paying Agent.

Effect of Redemption

If the Warrants have been duly called for redemption and notice of the redemption thereof has been duly given or provided for and if monies for the payment of the Warrants (or the principal amount thereof to be redeemed) and the interest to the redemption date on the Warrants (or on the principal amount thereof to be redeemed), if any, and the premium, if any, thereon are held by the Trustee, then the Warrants (or the principal amount of the Warrant to be redeemed) shall on the redemption date become due and payable and interest on the Warrants (or the principal amount thereof to be redeemed) shall cease to accrue from the redemption date, and the holders thereof shall thereafter have no rights under the Indenture as the holders of such Warrants (or the principal amount thereof to be redeemed), except to receive the principal amount thereof, premium, if any, thereon and interest to the redemption date.

THE INDENTURE

A summary of the Indenture is set forth in Appendix C hereto.

PROVISIONS RELATING TO THE INSURANCE POLICY

Consent of Bond Insurer. Notwithstanding any other provision of the Indenture to the contrary, the Bond Insurer shall be deemed to be the sole Holder of the Warrants when the approval, consent (except with respect to the consent that pursuant to the Indenture is required to be obtained from the Holders of all Warrants Outstanding which would be affected by an amendment or modification to the Indenture described in clauses (i), (ii) or (v) under the caption "Future Supplemental Indentures"), direction or any other action of the Holders of such Warrants is required or may be exercised under the Indenture.

Control by Bond Insurer Upon Default. The Bond Insurer shall have the right to give notice of, and to control and direct the enforcement of all rights and remedies granted to the Holders of the Warrants or the Trustee for the benefit of the Holders upon a default under the Indenture or under the Note, including, without limitation: (x) the right to accelerate the principal of the Warrants as provided in the Indenture, and (y) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default, so long as (i) the Bond Insurer is and remains solvent and not party to any proceeding for the rehabilitation, liquidation, conservation or dissolution of the Bond Insurer; (ii) the Insurance Policy is in full force and effect; and (iii) the Bond Insurer shall have made and be continuing to make all payments required to be made and meet all of its obligations required to be met under the Insurance Policy.

PLAN OF DISTRIBUTION

Prior to the date the Warrants are converted to Auction Rate Warrants, each of the underwriters named on the cover page of this Reoffering Circular (the "Underwriters") will agree to purchase a specified portion of the Warrants from the County pursuant to a Reoffering Purchase Contract among the County and the Underwriters (the "Reoffering Purchase

Contract”). The aggregate purchase price of the Warrants will be equal to the aggregate principal amount thereof. Pursuant to the Reoffering Purchase Contract, Morgan Keegan & Company, Inc. and J.P. Morgan Securities Inc. will agree to purchase the Warrants for no fee. Each Underwriter will be reimbursed by the County for certain out-of-pocket expenses. Each Underwriter will agree to take and pay for all the Warrants to be purchased by it if any are taken. The obligations of the Underwriters under the Reoffering Purchase Contract will be several, not joint.

In connection with the offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Warrants. Specifically, the Underwriters may overallot the offering, creating a syndicate short position. The Underwriters may bid for and purchase Warrants in the open market to cover such syndicate short position or to stabilize the price of the Warrants. Those activities may stabilize or maintain the market price of the Warrants above independent market levels. The Underwriters are not required to engage in these activities and may end any of these activities at any time.

The Underwriters and their respective affiliates have engaged and may engage in the future in transactions with and may perform services (including commercial banking and investment banking services) for the County and its affiliates in the ordinary course of business.

RISK FACTORS

Limited Source of Payment

The Warrants will be limited obligations of the County payable solely from the Pledged Revenues. See "SECURITY AND SOURCE OF PAYMENT". The Warrants do not constitute or give rise to a personal or pecuniary liability or a charge against the general credit of the County.

The sufficiency of revenues to pay debt service on the Warrants may be affected by events and conditions relating to, among other things, population trends, weather conditions and political and economic developments in the service area in which the System operates, the nature and extent of which are not presently determinable. No representation can be made and no assurance can be given that Pledged Revenues will be sufficient to permit the County to pay debt service on the Warrants.

Each prospective investor should carefully examine his own financial condition in order to make a judgment as to his ability to bear the risk of an investment in the Warrants. The following discussion of risk factors is intended only as a summary and does not purport to identify all the risk factors that may affect the County's ability to pay debt service on the Warrants.

Consent Decree

The County is bound by the terms of a Consent Decree that requires the County to implement a remedial plan to eliminate bypasses and unpermitted discharges of untreated sewage and sewer system overflows. See " APPENDIX A - LITIGATION - Consent Decree". The Consent Decree requires that such remedial plan be implemented over a twelve-year period beginning in mid-1995, and provides for stipulated penalties if the County fails to meet certain deadlines specified therein. The economic impact of the Consent Decree on the County and the System will be significant. The County currently estimates that the total cost of compliance with the Consent Decree will be approximately $1.99 billion, of which the County had spent approximately $1.184 million between October 1, 1995 and March 31, 2003. The actual cost of compliance with the Consent Decree may vary substantially depending on, among other things, (i) the availability of an adequate pool of qualified contractors to implement the program, (ii) the inflationary environment with respect to the costs of labor and supplies needed to implement the program, (iii) weather conditions that could adversely affect construction schedules and consumption patterns, (iv) population trends and political and economic developments in the service area in which the System operates that could adversely impact the collection of System Revenues; (v) the willingness of the U.S. Justice Department and the Environmental Protection Agency to cooperate with respect to various issues that may arise as the County implements its remedial plan, (vi) the possibility of new environmental legislation or regulations affecting the System, (vii) unanticipated costs or potential modifications to the County's sanitary sewer capital improvement program resulting from requirements and limitations imposed by environmental laws and regulations and (viii) the inherent uncertainty involved in a capital improvement project of the magnitude undertaken by the County. There can be no assurance that the actual cost of compliance will be within the range of the County's preliminary estimate. Nor can any assurances be given that the County will be able to comply fully with the terms of the Consent Decree.

Additional Indebtedness

In order to comply with the Consent Decree and to implement the County's ongoing sewer improvement program, the County may need to issue additional indebtedness secured by the Pledged Revenues on a parity with the lien thereon imposed by the Indenture for the benefit of the Outstanding Sewer Revenue Indebtedness. The burden of such additional debt may require increases in rates currently being charged to sewer customers in the County. No assurances can be given that such rate increases will be sufficient on a timely basis to generate the revenues required to pay debt service or to satisfy the debt service coverage covenant contained in the Indenture.

Under current Alabama law, the sewer rates established by the County must be reasonable and are subject to review by the courts in that regard upon complaint of a consumer. In establishing rates, the actions of the County are presumed by the courts to be reasonable, but sewer rates must not be arbitrary, discriminatory or greatly excessive.

CONTINUING DISCLOSURE

General

In order to provide certain continuing disclosure with respect to the Warrants in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time ("Rule 15c2-12"), the County has entered into a Disclosure Dissemination Agent Agreement ("Disclosure Dissemination Agreement") for the benefit of the Holders of the Warrants with

Digital Assurance Certification, L.L.C. ("DAC"), under which the County has designated DAC as Disclosure Dissemination Agent.

The County has covenanted for the benefit of the holders of the Warrants to provide certain information repositories with (i) certain financial information and operating data relating to the County on an annual basis (the "Annual Financial Information") within 180 days after the end of its fiscal year and (ii) notices ("Material Event Notices") of the occurrence of the following events, if it deems them to be material:

1. A delinquency in payment of principal of or interest on the Warrants.

2. Non-payment related defaults under the proceedings of the County authorizing the Warrants, whether or not such defaults constitute an event of default thereunder.

3. Unscheduled draws on any debt service reserve fund reflecting financial difficulties of the County.

4. Unscheduled draws on any credit enhancement or liquidity facility with respect to the Warrants reflecting financial difficulties of the County.

5. Substitution of a credit enhancer for the one originally described in the Reoffering Circular (if any), or the failure of any credit enhancer respecting the Warrants to perform its obligations under the agreement between the County and such credit enhancer.

6. The existence of any adverse tax opinion with respect to the Warrants or events affecting the tax-exempt status of interest on the Warrants.

7. Any modification of the rights of the registered owners of the Warrants.

8. Redemption of any of the Warrants prior to the stated maturity or mandatory redemption date thereof.

9. Defeasance of the lien of any of the Warrants or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Warrants, or any of them, to be no longer regarded as outstanding thereunder.

10. The release, substitution or sale of the property securing repayment of the Warrants.

11. Any changes in published ratings affecting the Warrants.

In addition, the County has covenanted to provide in a timely manner to each information repository and to the appropriate state information repository (if any), notice of the County's failure to provide the Annual Financial Information on or before the date specified herein.

The Annual Financial Information will include financial information and operating data relating to the County of the type found in the section of this Reoffering Circular called "APPENDIX A - RESULTS OF OPERATIONS". In addition, the County will provide to such repositories, when and if available, audited financial statements prepared in accordance with accounting principles described in the audited financial statements included in this Reoffering Circular as an appendix.

The Annual Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") as designated by the Securities and Exchange Commission and with any Alabama state information depository. Material Event Notices are required to be filed with each NRMSIR and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository.

The County shall never be subject to money damages for its failure to comply with its obligations to provide the required information. The only remedy available to the holders of the Warrants for breach by the County of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the County. The failure by the County to provide the required information shall not be an event of default with respect to the Warrants under the Indenture.

No person other than the County shall have any liability or responsibility for compliance by the County with its obligations to provide information. The Trustee has not undertaken any responsibility with respect to any required reports, notices or disclosures. The County may, upon 30-days' written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing 30-days' prior written notice to the County.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the County has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report, or any other information, disclosures or notices provided to it by the County and shall not be deemed to be acting in any fiduciary capacity for the County, the Holders of the Warrants or any other party. The Disclosure Dissemination Agent has no responsibility for the County's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the County has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the County at all times.

The County retains the right to modify its obligations described above as long as such modification is done in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission.

TAX MATTERS

The initial issuance of the Warrants and their delivery to the Underwriters was conditioned on receipt of the opinion of Haskell Slaughter Young & Rediker, L.L.C., Bond Counsel, that, under existing law, interest on the Warrants will be excluded from gross income for Federal income tax purposes if the County complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), in order that interest on the Warrants be and remain excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Warrants to be included in gross income, retroactively to the date of issuance of the Warrants. The County has covenanted to comply with all such requirements.

Bond Counsel is also of the opinion that under existing law interest on the Warrants will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

Bond Counsel will express no opinion regarding federal tax consequences arising with regard to the Warrants other than the opinions expressed in the two preceding paragraphs. The form of Bond Counsel's opinion with respect to the initial issuance of the Warrants is set forth in Appendix D to this Reoffering Circular and the form of Bond Counsel's opinion with respect to the conversion of the Warrants to Auction Rate Warrants is expected to be substantially as set forth in Appendix E to this Reoffering Circular.

Prospective purchasers of the Warrants should be aware that (i) Section 265 of the Internal Revenue Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Warrants, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Warrants, (iii) interest on the Warrants earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Internal Revenue Code, (iv) passive investment income, including interest on the Warrants, may be subject to federal income taxation under Section 1375 of the Internal Revenue Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, and (v) Section 86 of the Internal Revenue Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Warrants. Any purchaser of the Warrants who might be affected by any of these provisions of the Internal Revenue Code should consult his own tax advisor about the effect of such provisions as applied to the purchaser.

Bond Counsel is also of the opinion that under existing law interest on the Warrants will be exempt from State of Alabama income taxation.

LEGAL OPINIONS

Copies of the approving opinion of Haskell Slaughter Young & Rediker, L.L.C., Bond Counsel, delivered on the date of the original issuance of the Warrants is attached hereto as Appendix D. Legal matters incident to the Change in Interest Rate Mode applicable to the Warrants to an Auction Rate and the reoffering of Warrants will be subject to an opinion (the "Conversion Opinion") of Haskell Slaughter Young & Rediker, L.L.C.. Such Conversion Opinion will include an opinion that, under existing statutes and court decisions, the Change in the Interest Rate Mode to the Auction Rate is authorized by the Indenture and is permitted under the Act. It is anticipated that the Conversion Opinion will be substantially in the form attached hereto as Appendix E. Certain legal matters with respect to the Underwriters will be passed upon by their counsel Peck, Shaffer & Williams LLP.

FINANCIAL ADVISOR

National Bank of Commerce of Birmingham is serving as advisor to the County with respect to the reoffering of the Warrants. It is regularly engaged in the business of providing such advisory services.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned long term ratings of Aaa and AAA, respectively, to the Warrants on the understanding that a standard policy of a Bond Insurer insuring the timely payment of the principal of and interest on the Warrants when due will be maintained by a Bond Insurer. See "BOND INSURANCE" herein and Appendix G attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor either Underwriters for the Warrants makes any representations as to the appropriateness of such ratings. Any explanation of the significance of the ratings may only be obtained from each rating agency. There is no assurance that such ratings will remain for any given period of time or that they may not be lowered or withdrawn entirely if in the judgment of that rating agency, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Warrants.

FINANCIAL STATEMENTS

The audited financial statements of the County contained in Appendix B have been included for general information purposes only. The Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County. The Warrants are limited obligations of the County, payable solely out of and secured by an assignment and pledge of the Pledged Revenues.

MISCELLANEOUS

For further information during the reoffering period with respect to the Warrants, contact Steve Sayler, Director of Finance, Jefferson County, Suite 810, 716 Richard Arrington Jr. Boulevard North, Birmingham, Alabama 35203, telephone: (205) 325-5055.

EXECUTION

This Reoffering Circular has been duly executed and delivered by the County Commissioners of the County.

JEFFERSON COUNTY, ALABAMA

By: /s/
President of the Commission

43897/JLG/skf

APPENDIX A

THE COUNTY

JEFFERSON COUNTY SEWER SYSTEM

General Information

Act No. 714 of the Alabama Legislature, enacted February 28, 1901 authorized the construction, maintenance and operation of a sewage disposal system (the "System") in Jefferson County by the Jefferson County Sanitary Commission, which Act No. 714 created. Act No. 716, also enacted February 28, 1901, provided for the issuance of warrants for sewer purposes and for the levy of a special ad valorem tax (the "Sewer Tax") for sewer purposes. On August 19, 1909, Act No. 48 was enacted into law to transfer the rights, duties and powers with respect to the System from the Jefferson County Sanitary Commission to the Board of Revenue of the County. Pursuant to these acts, municipalities in the County may construct their own sewage collection systems which connect to trunk or branch lines of the System. Private sewer systems, if any, can also be connected to the System with the permission of the governing body of the County, the County Commission. In addition to building trunk and branch lines, the Commission is also authorized to locate and build wastewater treatment plants to carry out its legislative charge to protect the sources of drinking water supply from pollution.

Amendment No. 73 to the Alabama Constitution (the "County Sewer Amendment") grants to the governing body of the County the right to levy and collect sewer service charges from the users of the System. The County Sewer Amendment provides that the County Commission shall have a lien against any property served by the System to secure the payment of any related sewer service charges. Any such lien may be enforced by foreclosure in the same manner as municipal assessments for public improvements. Under the County Sewer Amendment, any moneys derived by the County from sewer service charges may be expended only for purposes related to the improvement, extension, maintenance and operation of the System.

Through the end of World War II, the System serviced four areas in the County, and total cumulative construction expenditures were under $2 million. Subsequent to World War II, two major forces contributed to the geographical expansion of the System and the upgrading of treatment provided by the System's wastewater treatment plants ("WWTPs"). The suburban migration that began in the 1950's, together with the rapid residential and industrial growth in the County at that time, was one factor. The other factor was the Federal Government's passage of the first Water Pollution Control Act of 1948, which set up policies, rules and grant procedures for water pollution control and was the first in a series of acts and amendments designed to protect the streams and watercourses in the United States.

The Federal Water Pollution Control Act amendments of 1972 and 1977 (the "Clean Water Acts") provide for the restoration and maintenance of the chemical, physical and biological integrity of the nation's waters. Toward the furtherance of that goal, the Clean Water Acts established the National Pollutant Discharge Elimination System ("NPDES"), a permit system administered by the United States Environmental Protection Agency ("EPA") in conjunction with the various states. EPA has delegated the NPDES program in Alabama to the Alabama Department of Environmental Management ("ADEM"). The System is subject to the requirements of the Clean Water Acts and the conditions set forth in the NPDES permit applicable to each of the WWTPs. In addition, the System is subject to regulation by ADEM.

All of the County's WWTPs achieve levels of secondary and tertiary treatment consistent with the standards set forth in the Clean Water Acts. However, due to the treatment capacities for wet weather flows to certain plants coupled with the loading restrictions associated with low volume of water flow of the stream into which the plants discharge, problems related to peak treatment capabilities remain. Additionally, the EPA and the ADEM have established high stream quality standards for the County. For example, the Cahaba River WWTP discharges into the Cahaba River, which has very low stream flow due to its upstream diversion and use as drinking water. Therefore, continued improvements to facilities where stringent effluent limits are imposed will be necessary in the future.

In 1998, as the result of a United States District Court's decision pursuant to a lawsuit claiming that Jefferson County was violating EPA regulations of the Clean Water Acts, the operations and maintenance of the sewage collection systems of twenty-one municipalities connected to the System were unified under the control of the County Commission. The unification of the respective sewage collection systems added over 11 million linear feet of sewer lines and approximately 100 pumping stations, thereby expanding the County Commission responsibility for the System with a total of more than 2600 miles of sewer lines, 140 pumping stations, and nine WWTPs. Upon the acquisition of the municipal systems, the County Commission determined that the municipal systems failed to meet the standards required to comply with the Clean Water Acts. The County Commission is currently implementing comprehensive rehabilitation to the infrastructure to comply with federal requirements and prepare the System to meet the demands of Jefferson County's growing population.

County Growth Patterns

The most significant aspect of the County's growth since 1950 is its low density when compared to the older central area. For instance, new suburban growth in the areas of the County on the southern side of Red Mountain from Birmingham have taken place at a density of less than two dwelling units per net residential acre as compared to densities in the West End section of Birmingham of approximately six dwelling units per net residential acre. Beginning in the 1950's, a mass outward migration of people from the central valley area began, following the national trend of movement from the city out to the suburbs. This led to pressure for sewer service in outlying areas at the same time that regulatory requirements were mandating secondary treatment of wastewater.

Although the period from 1970 to 1980 saw only a slight increase in the County's population, the number of housing units in the County increased by 22%. This may be attributable to an increase in multifamily construction during this time, which added to the County's housing units. The trend towards smaller families and declining birthrate, generally, also contributed to the slow population growth. Subsequent moratoria on sanitary sewer facilities and the impact of an economic recession slowed growth in the late 1970's.

Between 1980 and 1990, the County's population declined by nearly 20,000 people. Household size decreased rapidly during this decade, as well. In part, the shrinking population may be attributed to smaller households and the declining birthrate. In addition, migration from the County contributed to the population decline. Construction on Interstate 459 was completed during this decade which enabled those working in Birmingham to move to outlying counties and commute into the city. Despite the population decline during this time, the number of housing units in the County rose by 5.1%. This increase is likely the result of the construction of multi-unit dwellings.

Between 1990 and 2000, the population of the County increased slightly, reversing the trend of the prior decade. While out-migration from the County has occurred, this trend has been somewhat offset by a high birth to death ratio. The number of housing units increased during this time, as well, but not as rapidly as it did during the 1970's and 1980's. Nearly one-half of the new housing units in Jefferson County were located south of Birmingham along Interstate 65 and Highway 31 in the Hoover and Vestavia Hills areas and northeast of Birmingham along Interstate 59 in the Trussville area.

System Management

The Jefferson County Commission is comprised of five commissioners elected by district. The President of the Commission is responsible for the financial management of the System, as well as the financial management of the rest of the County's operations. One commissioner has been given the responsibility of Environmental Services which includes, in part, the overall operational management of the System. The System is managed by the County Environmental Services Department under the daily direction of the County's Environmental Services Director.

Environmental Services Department

The Environmental Services Department is organized into five divisions: Administration, Maintenance and Construction, Wastewater Treatment Plants, Barton Lab/Industrial Pretreatment and Solid Waste. The Environmental Services Department has a total of 761 employees, all of whom are civil service employees.

The Administration Division has the responsibility of providing direction to all phases of the Department's operations. The Administration Division has 79 employees, including the engineering staff. The duties include management of wastewater treatment plants, management of the capital construction programs, issuance of impact connection permits, sewer service inspections, sewer availability information, assessment sewers and review and approval of all proposed sewer construction plans.

The Maintenance and Construction Division has the responsibility for performing sewer maintenance activities, sewer construction inspection, and miscellaneous construction to support the maintenance crews. The maintenance operations are staffed 24 hours per day, seven days per week. This division has a total of 203 employees.

The Wastewater Treatment Plant Division has the responsibility for the operation and maintenance of the wastewater treatment facilities of the County. This division has a total of 379 employees.

Barton Lab/Industrial Pretreatment Division has the responsibility for miscellaneous laboratory analyses required by the Department, water quality monitoring activities, plant laboratory quality control and industrial pretreatment sampling and surcharge activities. This division has a total of 33 employees.

Solid Waste Division is responsible for operating and maintaining the Department's two public landfills, solid waste transfer facility and two wood waste facilities. This division is funded entirely from tipping fees, which revenues do not constitute System Revenues. This division has a total of 67 employees.

Jefferson County Wastewater Treatment Plants and Sewer Lines

Village Creek Wastewater Treatment Plant. The Village Creek Plant is located in Pratt City. The plant receives sewage flow from most of the downtown Birmingham area, including Southside, West End, Avondale, Woodlawn, East Lake, Huffman, North Birmingham, Ensley, Pratt City, Forestdale and Hooper City. The Village Creek Plant has an average design capacity of 60 million gallons per day ("MGD"). The unit processes for treatment consist of screening removal with mechanical bar screens, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, partial sand filtration, chlorination, dechlorination and final effluent discharge into Village Creek. Sludge handling consists of thickeners, anaerobic and aerobic digestion, mechanical dewatering by centrifuges. The dried solids are handled by the biosolids operations described later. There are 82 employees at this plant which is staffed 24 hours per day, seven days a week. The plant is currently under construction to expand the average capacity from 60 MGD to 120 MGD and provide peak flow treatment to all wet weather flows.

Valley Creek Wastewater Treatment Plant. The Valley Creek Plant is located in West Bessemer near the intersection of Johns Road and Powder Plant Road. The plant receives sewage flow from the Central Park — Fairgrounds area, Fairfield, Midfield, Powderly, Roosevelt City, Brighton, Lipscomb, Bessemer, Hueytown, Pleasant Grove, Dolomite, Garywood, Wylam and McCalla areas. The Valley Creek Plant also receives all the flow from the Shades Valley basin including Irondale, Mountain Brook, Homewood and portions of Birmingham south of Red Mountain. The Valley Creek Plant has an average design capacity of 65 MGD. The unit processes for treatment consist of mechanical bar screens, comminutors, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, chlorination, dechlorination and final effluent discharge to Valley Creek. Sludge handling consists of thickeners, anaerobic digesters and sludge dewatering by belt filter presses. Dried solids are handled by the biosolids operations. There are 72 employees at this plant, which is also staffed 24 hours per day, seven days a week. The plant is currently under construction to expand the average capacity to 85 MGD and provide peak flow treatment to all wet weather flows.

Five Mile Creek Wastewater Treatment Plant. The Five Mile Creek Plant is located in Lower Coalburg. The plant receives sewage flow from Tarrant City, Inglenook, Lewisburg, Roebuck, Center Point, Grayson Valley, the southern end of Pinson Valley, Fultondale and southern Gardendale. The Five Mile Creek Plant has an average design capacity of 20 MGD. The unit processes for treatment consist of mechanical screens, flow equalization, pre-aeration and grit removal, primary clarification, step-aeration activated sludge aeration, secondary clarification, chlorination and dechlorination, and final effluent discharge to Five Mile Creek. Sludge handling consists of aerobic digestion, thickeners and sludge drying beds. Dried solids are handled by the biosolids operations. There are 37 employees who operate the Five Mile Creek Plant 24 hours per day, seven days a week. The plant is currently under design to expand the average capacity to 30 MGD and provide peak flow treatment to all wet weather flows. However, the County does not intend to commence construction on this expansion in the foreseeable future.

Cahaba River Wastewater Treatment Plant. The Cahaba River Plant is located in Hoover just downstream of the I-65 bridge over the Cahaba River. The plant receives sewage flow from Hoover, Bluff Park, Vestavia, Rocky Ridge, Acton Valley, Cahaba Heights and that portion of Riverchase which is within Jefferson County. This plant has an average design capacity of 16 MGD. The unit process consists of mechanical fine screens, pre-aeration and grit removal, peak flow holding basin, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, filtration, chlorination, dechlorination and final effluent discharge to the Cahaba River. Sludge handling consists of aerobic digestion and sludge dewatering by belt filter presses. Dried solids are handled by the biosolids operations. There are 39 employees at the Cahaba River Plant, which is staffed 24 hours per day, seven days a week. The plant is currently under construction to add additional tertiary treatment components to meet new regulatory discharge requirements.

Turkey Creek Wastewater Treatment Plant. The Turkey Creek Plant is located in Pinson just off The Narrows Road. The plant receives sewage flow from Pinson, the Sweeney Hollow Road area, and northern Center Point. The Turkey Creek Plant has a design capacity of 4 MGD. The unit processes for treatment consist of bar screens, comminutors, pre-aeration and grit removal, equalization holding basin, oxidation ditch extended aeration, secondary clarification, ultraviolet light radiation and final effluent discharge cascade to Turkey Creek. Sludge handling consists of thickeners and sludge drying beds. Dried solids are handled by the biosolids operations. There are 10 employees at this plant which is staffed eight hours per day, seven days a week. The plant is currently under construction for expansion to accommodate growth within the service area of this plant and to provide additional peak flow treatment to all wet weather flows.

Norman R. Skinner (Leeds) Wastewater Treatment Plant. The Leeds Plant is located in the City of Leeds off Montevallo/Cahaba Valley Road. The plant receives sewage flow only from the City of Leeds, including small parts of St. Clair and Shelby Counties. The Leeds Wastewater Treatment Plant has a design capacity of 5 MGD. The unit processes for treatment consists of headworks grinders, grit removal, peak flow holding facilities, oxidation ditch extended aeration, secondary clarification, sand filtration, ultra-violet light radiation (disinfection) and final effluent discharge to the Little Cahaba River. Sludge handling consists of aerobic digestion, thickening and sludge drying beds. Dried solids are handled by the biosolids operations. There are 13 employees at this plant which is staffed 8 hours per day, seven days a week.

Trussville Wastewater Treatment Plant. The Trussville Plant is located in the City of Trussville behind City Hall. The plant currently receives flow from the City of Trussville and an area along U. S. Highway 11 between Trussville and I-459. The Trussville Plant, completed in July 1998, has a design capacity of 4.5 MGD. The unit processes for treatment consist of grit removal, oxidation ditch extended aeration, secondary clarification, sandfiltration, ultra-violet light radiation (disinfection) and final effluent discharge to the Cahaba River. Sludge handling consists of sludge drying beds. Dried solids are handled by the biosolids operations. There are 13 employees at this plant which is staffed eight hours per day, seven days a week.

Warrior Wastewater Treatment Plant. The Warrior Plant is located to the west of Warrior on Blackburn Drive and serves the City of Warrior. The plant has an average design capacity of 100,000 gallons per day. The unit processes for treatment consist of headworks grinders, extended aeration, final clarification, ultra-violet light radiation and final discharge into Cane Creek. The Warrior Plant is staffed for eight hours per day, five days per week with 2 employees. The plant is currently under construction for expansion to accommodate growth in the service area and to provide additional peak flow treatment to all wet weather flows.

Prudes Creek Wastewater Treatment Plant. The Prudes Creek Plant serves the Cities of Graysville and Adamsville. The Plant has an average design capacity of 600,000 gallons per day. The unit processes for treatment consist of headworks grinders, extended aeration, final clarifiers, ultra-violet light radiation and final effluent discharge into Fivemile Creek. The Prudes Creek Plant is staffed eight hours per day, five days per week with 2 employees. The plant is currently under design to provide additional peak flow treatment to all wet weather flows.

Pump Stations. The County Commission currently operates numerous pumping stations throughout the County. These stations operate automatically for the most part and they are not permanently staffed. This operation is staffed with 52 employees which comprise several crews who monitor and maintain these pumping stations on a daily basis.

Sewer Plant Maintenance Shops. The County Commission has electrical, electronic and mechanical maintenance shops at the Village Creek, Valley Creek and Five Mile Creek Plants with a total of 38 employees. The shops perform maintenance activities at all of the WWTPs.

Biosolids (Sludge) Beneficial Reuse Operations. This operation provides the staffing (19 employees) and trucking operations to haul and apply all dried sludge (biosolids) onto land which has been stripped for coal in the past as part of a beneficial reuse and land reclamation effort by the County Commission. This program has received regional and national recognition by the EPA.

Billing, Collection and Rate Making Authority

The majority of the sewer customers in the County are served by the Birmingham Water Works Board system or another city-owned water system. Sewer customers served by the

Birmingham Water Works Board and Bessemer are billed for sewer service on their monthly water bills. The remaining sewer customers are billed by and pay directly to the County. Some industrial and/or commercial users are subject to a surcharge based on the strength of their waste. This surcharge is administered by the County.

Pursuant to the County Sewer Amendment, the governing body of the County has sole authority to set sewer rates and charges in the County and to provide for the collection, payment and enforcement thereof. In 1984, the Alabama Supreme Court confirmed the County's authority to set rates for sewer service, and held unconstitutional an attempt by the Alabama Legislature to limit that authority. Since the County rate making authority is constitutionally granted, it can only be changed by further constitutional amendment.

The Commission has adopted an amended ordinance that provides for an automatic adjustment in the rates and charges for services furnished by the System, effective each January 1, in order to comply with the Rate Covenant. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Automatic Rate Adjustment Ordinance". The provisions of such ordinance do not limit or restrict the power and authority of the Commission to modify rates and charges in addition to the automatic rate increases resulting from the application of such ordinance.

Rates and Charges

On January 1, 2003, the effective charge for sewer service in the County became $4.90 per 100 cubic feet of water consumed, an increase from the rate of $3.53 which had become effective on January 1, 2002. A 15% consumption allowance is permitted for residential customers (other than customers who also have private meters) for water not returned to the System. In addition, the County charges a sewer impact fee of $100.00 for each new plumbing fixture added to the System.

[Remainder of Page Intentionally Left Blank]

Shown below is a chart reflecting the rates and charges for sewer service in effect since January 1, 1994:

Rate Increase Date	Average Per 100 Cubic Feet	Average Residential Bill[1]	Comparative Rates[2]
January 1, 2003	$4.90	$41.65	NA
January 1, 2002	3.53	30.01	NA
April 1, 2001	3.01	25.59	$20.32
January 1, 2001	2.74	23.29	20.32
January 1, 2000	2.48	21.08	20.32
March 1, 1999	2.20	18.70	18.70
January 1, 1999	1.96	16.66	18.70
January 1, 1998	1.88	15.98	17.88
February 1, 1997	1.78	15.13	17.57
January 1, 1996	1.73	14.71	17.27
June 1, 1995	1.58	13.43	16.97
January 1, 1994	1.44	12.24	16.60

[1]The typical monthly residential consumption is 1000 cubic feet. The typical residential customer does not have a special sewer meter. These typical customers receive a 15% consumption discount for water used that does not enter the sewer system. This information was supplied by Jefferson County.

[2]Sources: Raftelis Financial Consulting, PA (formerly known as Raftelis Environmental Consulting Group, Inc.), *Raftelis Financial Consulting, PA 1996, 1998, 2000 and 2002 Water and Wastewater Rate Survey*, Charlotte, N.C.; and Ernst & Young, 1994 Rate Survey.

The County expects that increases in sewer rates of roughly 10% per annum over each of the next five years will result under the County's automatic rate adjustment ordinance in order to pay the required debt service on the Series 2002-B Warrants, which were issued by the County on September 30, 2002, the Series 2002-C Warrants, which were issued on October 25, 2002, the Series 2002-D Warrants, which were issued on November 8, 2002, the Series 2003-C Warrants, which were issued on May 1, 2003, and the Series 2003-C Warrants. See "CAPITAL IMPROVEMENT PROGRAM". If and to the extent the County must incur additional indebtedness to pay for the County's ongoing capital improvement program, the County expects that sewer rates will have to be increased in order to pay debt service on any such additional borrowings.

Listed below is a comparison of residential sewer service charges per 1,000 cubic feet in other Southeastern cities. The charges listed in this chart are based on rates in effect as of January 1, 2003. Other than the charges referable to the County, the following charges have been extracted from a rate study conducted by Public Affairs Research Council of Alabama.

Residential Sewer Charge Comparisons
Per 1000 Cubic Feet of Water Metered

Albuquerque, NM	$18.27
Ashville, NC	33.81
Atlanta, GA	44.50
Baltimore, MD	20.74
Charleston, SC	42.32
Charlotte, NC	22.75
Chattanooga, TN	24.77
Cincinnati, OH	31.30
DeKalb Co., GA	20.72
Denver, CO	14.58
Fulton Co., GA	41.52
Greenville, SC	32.25
Henrico Co., VA	27.15
Houston, TX	22.96
Huntsville, AL	18.03
Jackson, MS	19.70
Jefferson Co., AL	**41.65**
Knoxville, TN	30.86
Little Rock, AR	23.64
Memphis, TN	4.39
Miami, FL	19.69
Mobile, AL	28.95
Nashville, TN	39.74
New Orleans, LA	21.82
Richmond, VA	34.46
San Diego, CA	43.26
San Francisco, CA	35.48
Seattle, WA	55.30

Source: Public Affairs Research Council of Alabama; based on rates effective January 1, 2003 and 1,000 cf of water metered.

[Remainder of Page Intentionally Left Blank]

Major Customers

Listed below are the top ten customers of the System during fiscal year ended September 30, 2002 and the related sewer service charges paid:

Major Sewer User	Business	Annual Sewer Service Revenues
University of Alabama at Birmingham	University	$2,317,840
Birmingham Housing Authority	Government	1,932,577
USX	Steel manufacturer	1,290,160
Barbers Dairies	Dairy	997,964*
Golden Flake	Snack Foods	606,370*
Birmingham Board of Education	Government	592,021
Buffalo Rock	Soft drinks	518,781*
Brookwood Medical Center	Hospital	412,754
SMI Steel	Steel manufacturer	377,128
Baptist Health System, Inc.	Hospitals	358,284

* Includes surcharge on same consumption.

Source: Jefferson County.

Sanitary Sewer Capital Improvement Program

The purposes of the County's Sanitary Sewer Capital Improvement Program are:

1. To achieve compliance with the Consent Decree. See "LITIGATION-Consent Decree".

2. To comply with the Clean Water Act and National Pollutant Discharge Elimination System standards sufficiently to prevent future moratoriums.

3. To upgrade and expand the large-scale wastewater treatment plants in order to permit projected and predictable economic and residential growth over the next 10 to 15 years.

4. To accommodate some areas of the County which have been without sewer systems and that show an imminent need.

Financing for the County's capital improvement program has been and will be accomplished through the issuance of sewer revenue warrants by the County and the use of retained sewer service charges not required for operation.

The following table sets forth the amount currently expected to be spent on projects necessary to comply with the Consent Decree, projects necessary for Clean Water Act compliance, and other ongoing capital projects for the periods shown, beginning October 1, 1997. The table below rounds the following estimates to the nearest million dollars.

JEFFERSON COUNTY ENVIRONMENTAL SERVICES
SANITARY SEWER CAPITAL IMPROVEMENT PROGRAM
Actual and Estimated Expenditures for Period beginning October 1, 1997

Period	Consent Decree Projects (millions)	Clean Water Act Compliance (millions)	Ongoing Capital Improvements (millions)	Total Expenditures (millions)
10/1/97 through 9/30/02	$1,062	$173	$174	$1,409
10/1/02 through 9/30/03	309	126	54	489
10/1/03 through 9/30/04	318	179	40	538
10/1/04 through 9/30/05	180	143	16	340
10/1/05 through completion	121 1/	169 2/	0	277
TOTALS	$1,990	$770	$283	$3,043

1/ Includes projected expenditures for fiscal years 2006 and 2007.

2/ Includes projected expenditures for fiscal years 2006 and 2007.

The foregoing table does not take into account ongoing efforts to reduce costs of the program. See "CAPITAL IMPROVEMENT PROGRAM-Cost Reduction Efforts". No assurances can be given that the amounts shown above will be spent at all nor that such amounts will be spent according to the schedule indicated.

Sewer Tax

The Sewer Tax is levied and collected by the County as a .7 mill ad valorem tax for the purpose of paying a portion of the costs of improving, maintaining and operating the System and debt service on County obligations issued for sewer purposes. For the fiscal year that ended September 30, 2002, the revenues derived from the Sewer Tax were approximately $3.1 million and it is expected that the annual revenues from such tax will continue to approximate that amount.

Insurance Coverage for Casualty Loss

The County has casualty insurance coverage for all perils, including flood and earthquake, with limits of $100 million per occurrence and $50 million per location. Such insurance is underwritten by North American Specialty Insurance Company.

RESULTS OF OPERATIONS

This section of the Reoffering Circular presents certain historical operating data and financial information concerning the System. This information in this section will be updated annually and such annual report will be filed with appropriate information repositories in accordance with the requirements of Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE".

System Utilization

The following table sets forth certain essential utilization data with respect to the System for the past six fiscal years.

	Fiscal Year Ended September 30					
	2002	2001	2000	1999	1998	1997
Active Accounts	143,038	142,305	142,277	142,042	141,606	140,324
Avg. daily treatment volume (millions of gallons treated)	116	97	114	119	132	127
Sewer Rate Charges (in thousands) [1]	$84,470	$72,129	$66,834	$57,020	$49,531	$46,950
% Revenues - Largest Customer	2.74%	2.66%	2.57%	2.93%	2.91%	2.92%
% Revenues - Top 10 Customers	11.13%	12.53%	11.99%	11.62%	12.35%	10.37%

Summary of Revenues and Expenditures

The following table sets forth the consolidated revenues, expenditures and changes in fund balance with respect to the System for each of the past five years:

	Fiscal Year Ended September 30				
	2002	2001	2000	1999	1998
Revenues					
Sewer Rate Charges [1]	$83,929,394	$70,560,676	$68,267,995	$60,705,297	$49,531,824
Other Operating Revenue	6,537,849	6,491,136	6,776,612	5,552,947	5,837,746
Ad Valorem Taxes	3,127,531	3,805,666	4,486,818	3,151,127	3,009,938
Interest income	43,816,319	51,359,876	46,564,365	34,367,637	21,504,762
Miscellaneous Revenue	635,277	28,874	155,674	53,655	244,054
TOTAL REVENUES	$138,046,370	$132,246,228	$126,251,464	$103,830,663	$80,128,324
Expenses					
Salaries and Wages	$26,541,901	$24,548,763	$22,369,514	$19,610,265	$17,100,926
Contract Services	6,019,224	6,091,616	4,386,205	3,538,821	3,495,947
Other	12,454,034	13,519,821	14,419,350	10,714,865	9,123,806
TOTAL EXPENSES	45,015,159	44,160,200	41,175,069	33,238,685	31,311,738
Excess of Revenues Over Expenditures	$93,031,211	$88,086,028	$85,076,395	$70,591,978	$48,816,586
Other Financing Sources (Uses)					
Transfers	-0-	(336,568)	(57,695)		
Depreciation & Amortization	(76,602,471)	(33,576,394)	(31,503,295)	(24,920,608)	(22,525,436)
Interest Expense	(114,324,268)	(90,390,904)	(82,904,264)	(62,504,352)	(33,546,331)
TOTAL OTHER FINANCING SOURCES (USES)	(190,926,739)	(124,303,866)	(114,465,254)	(87,424,960)	(56,071,767)

[1] Represents sewer rate charges billed but not collected by the County during the fiscal year.
[1] Represents sewer rate charges collected by the County during the fiscal year.

Net Income (Loss)	(97,895,528)	(36,217,838)	(29,388,859)	(16,832,982)	(7,255,181)
Retained Earnings, Beginning of Year	1,522,673,586	143,063,194	172,452,053	189,285,035	196,540,505
Adjustments for Prior Periods	(122,976,982)	1,415,828,230	0	0	0
Adjusted Retained Earnings Beginning of Year	1,399,696,604	1,558,891,424	172,452,053	189,285,035	196,540,505
Retained Earnings, End of Year	$1,301,801,076	$1,522,673,586	$143,063,194	$172,452,053	$189,285,324

Summary of Balance Sheet

The following table sets forth a summary of the assets and liabilities of the System for each of the past five years:

	Fiscal Year Ended September 30				
	2002	2001	2000	1999	1998
ASSETS					
Cash and Investments	$830,274,161	$555,728,032	$688,401,358	$972,410,540	$217,577,359
Accounts Receivable, Net	12,393,996	10,998,922	12,008,486	11,063,769	7,576,355
Interest Receivable	667,063	352,821	0	0	0
Due From Other Governmental Units	3,997,020	4,036,862	489,659	465,039	325,510
Inventories	344,304	496,768	546,885	534,599	514,939
Prepaid Items	8,580	4,874	0	0	0
Warrant Issue Costs	39,798,214	33,497,709	22,941,539	23,821,583	16,615,610
Fixed Assets, Net	2,932,952,495	2,770,619,883	1,005,837,887	755,595,701	576,175,647
Deferred Loss on Early Debt Retirement	2,321,981	2,775,870	3,229,759	3,683,648	4,137,537
TOTAL ASSETS	$3,822,757,814	$3,378,511,741	$1,733,455,573	$1,767,574,879	$822,922,957
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	$42,304,800	$18,700,513	$26,955,667	$25,478,133	$19,860,553
Interest Payable	18,384,383	16,273,088	13,695,115	13,799,841	5,472,833
Accrued Payroll and Taxes	521,629	425,831	393,570	978,339	796,949
Retainage Payable	12,505,351	13,121,124	6,114,742	3,684,049	3,044,758
Accrued Vacation and Sick Leave	3,026,745	2,810,681	2,562,982	2,340,363	2,137,551
Accrued Compensatory Leave	414,455	364,934	324,028	263,741	224,989
Due to Other Funds	-0-				
Deferred Revenue	3,661,500	3,427,014			
Arbitrage Rebate Payable	2,382,875	4,464,970	3,461,275	603,360	
Warrants Payable	2,437,755,000	1,796,250,000	1,536,885,000	1,547,975,000	602,100,000
TOTAL LIABILITIES	2,520,956,738	1,855,838,155	1,590,392,379	1,595,122,826	633,637,633
FUND EQUITY					
Retained Earnings	1,301,801,076	1,522,673,586	143,063,194	172,452,053	189,285,324
TOTAL FUND EQUITY	1,301,801,076	1,522,673,586	143,063,194	172,452,053	189,285,324
TOTAL LIABILITIES AND FUND EQUITY	$3,822,757,814	$3,378,511,741	$1,733,455,373	$1,767,574,879	$822,922,957

DEBT SERVICE REQUIREMENTS AND COVERAGE

The following table [1/2/3/4] presents the actual debt service requirements on the Outstanding Sewer Revenue Indebtedness.

Fiscal Year Ending September 30	Principal	Interest	Total Debt Service
9/30/04	$2,595,000	$125,039,288	$127,634,288
9/30/05	8,575,000	97,810,388	106,385,388
9/30/06	6,490,000	104,479,312	110,969,312
9/30/07	6,430,000	105,220,614	111,650,614
9/30/08	6,685,000	126,983,407	133,668,407
9/30/09	12,450,000	138,635,528	151,085,528
9/30/10	21,170,000	137,956,471	159,126,471
9/30/11	29,295,000	136,843,105	166,138,105
9/30/12	30,535,000	135,492,769	166,027,769
9/30/13	31,885,000	134,081,503	165,966,503
9/30/14	33,475,000	132,599,511	166,074,511
9/30/15	35,115,000	131,041,983	166,156,983
9/30/16	36,795,000	129,361,510	166,156,510
9/30/17	39,520,000	127,474,545	166,994,545
9/30/18	43,035,000	125,366,701	168,401,701
9/30/19	44,495,000	123,341,013	167,836,013
9/30/20	47,155,000	121,505,132	168,660,132
9/30/21	47,505,000	119,663,418	167,168,418
9/30/22	70,200,000	117,241,823	187,441,823
9/30/23	72,885,000	114,198,350	187,083,350
9/30/24	78,155,000	110,985,417	189,140,417
9/30/25	84,250,000	107,528,667	191,778,667
9/30/26	90,550,000	103,824,435	194,374,435
9/30/27	97,565,000	99,874,832	197,439,832
9/30/28	83,410,000	96,180,522	179,590,522
9/30/29	86,970,000	92,795,356	179,765,356
9/30/30	96,575,000	88,721,893	185,296,893
9/30/31	101,420,000	83,916,459	185,336,459
9/30/32	99,895,000	79,450,753	179,345,753
9/30/33	103,930,000	75,360,305	179,290,305
9/30/34	115,320,000	70,872,853	186,192,853
9/30/35	120,685,000	65,976,425	186,661,425
9/30/36	125,850,000	60,877,379	186,727,379
9/30/37	128,950,000	55,782,985	184,732,985
9/30/38	232,350,000	48,276,561	280,626,561
9/30/39	233,640,000	38,250,131	271,890,131
9/30/40	238,450,000	28,001,773	266,451,773
9/30/41	243,155,000	17,591,869	260,746,869
9/30/42	260,075,000	6,209,719	266,284,719
Totals:	$3,247,485,000	$3,814,814,700	$7,062,299,700

1/ The County has entered into variable-to-fixed interest rate swap transactions that are referable to the Series 2002-C Warrants. For purposes of the foregoing table, interest on the Series 2002-C Warrants has been calculated on the basis of a fixed rate (3.92%) that determines the amounts payable by the County under those swap transactions.

2/ The County has entered into a variable-to-fixed interest rate swap transaction that is referable to the Series 2002-A Warrants. For purposes of the foregoing table, interest on the Series 2002-A Warrants has been calculated on the basis of the fixed rate (5.06%) that determines the amounts payable by the County under that swap transaction.

3/ The County has entered into a variable-to-fixed interest rate swap transaction that is referable to the Series 2003-B Warrants. For purposes of the foregoing table, interest on the Series 2003-B Warrants has been calculated on the basis of the fixed rate (3.678%) that determines the amounts payable by the County under that swap transaction.

4/ The County has refunded certain interest on Outstanding Sewer Revenue Indebtedness other than the Refunded Warrants. Such refunding is reflected in the table above.

Historical Coverage

Prior to the issuance of the Series 1997 Warrants, the County Commission amended the ordinance that establishes rates and charges for the System (the "Rate Ordinance") in order to establish a procedure for periodic automatic increases in such rates and charges. See "Automatic Rate Adjustment Ordinance" herein. In December 1997, pursuant to the amended Rate Ordinance, the County increased the sewer service charge from $1.78 to $1.88 per hundred cubic feet, effective January 1, 1998. In November 1998, pursuant to the amended Rate Ordinance, the County increased the sewer service charge from $1.88 to $1.96 per hundred cubic feet, effective January 1, 1999. In January 1999, after a public hearing, the County Commission, acting on a discretionary basis, increased the sewer service charge from $1.96 to $2.20 per hundred cubic feet, effective March 1, 1999. Two additional automatic annual increases in sewer rates under the Rate Ordinance raised the sewer service charge to $2.48 as of January 1, 2000 and to $2.74 as of January 1, 2001. Sewer rates increased to $3.01 per hundred cubic feet as of April 1, 2001 due to a discretionary rate increase by the County Commission. Additional automatic annual increases under the Rate Ordinance raised the sewer service charge to $3.53 effective January 1, 2002 and $4.90 effective January 1, 2003.

The following table sets forth certain historical debt service coverage ratios for the County's sewer revenue debt by the County's excess of revenues over expenditures for the fiscal years indicated:

Fiscal Year Ended September 30	Excess of Revenues over Expenditures (000's)	Net Revenues Available for Debt Service (unaudited)[1]	Current Year Debt Service (000's)	Current Year Debt Service Coverage Ratio[2]
1997	$42,815	$42,593	$ 7,294	5.84
1998	48,817	48,481	39,750	1.22
1999	70,592	69,112	39,958	1.73
2000	85,076	82,661	43,744	1.89
2001	88,086	69,060	47,486	1.45
2002	93,031	71,688	72,531	.99

Additional Debt

Parity Debt Under Indenture. The County may from time to time issue warrants, notes or other obligations entitled to a charge, lien or claim on the Pledged Revenues on a parity with the lien or claim imposed by the Indenture for the benefit of the Outstanding Sewer Revenue Indebtedness ("Additional Parity Securities"), subject to the restrictions noted below. The Outstanding Sewer Revenue Indebtedness and the Additional Parity Securities shall be secured equally and proportionately by the Pledged Revenues.

Subordinated Debt. The County may also from time to time issue subordinated debt payable from or secured by a pledge and assignment of the Pledged Revenues that is subject and subordinate to the lien in favor of the Outstanding Sewer Revenue Indebtedness and other outstanding Additional Parity Securities (if any) that is imposed by the Indenture, subject to the restrictions noted below.

Restrictions on Additional Debt. So long as the Indenture remains in effect, the County shall not issue any Additional Parity Securities unless (i) no Event of Default exists under the Indenture and (ii) the Trustee is provided with a Revenue Certificate or a Revenue Forecast (as hereinafter defined). However, the County is not required to deliver a Revenue Certificate or Revenue Forecast in connection with the issuance of a series of Additional Parity Securities for refunding purposes if, in lieu thereof, the County delivers a certificate signed by the County's Director of Finance or an Independent Investment Advisor stating (i) that the Maximum Annual Debt Service immediately after the issuance of such Additional Parity Securities will not be greater than the Maximum Annual Debt Service immediately prior to the issuance of such Additional Parity Securities and (ii) that the total debt service expected to be due and payable on such Additional Parity Securities will be less than the total debt service that would be due and payable after the issuance date of such Additional Parity Securities on those of the Parity Securities being refunded if such refunding did not occur. In the case of the Series 2003-C Warrants, no Revenue Certificate or Revenue Forecast will be required because the County's Director of Revenue will deliver the foregoing alternative certificate.

"Revenue Certificate" means a certificate signed by an Independent Accountant, the President of the Jefferson County Commission (the "Commission") or the County's Director of Finance that satisfies whichever of the following is applicable:

(I) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued prior to October 1, 2007, such certificate shall state the following:

(i) the sum of (A) the Prior Years' Surplus as of the beginning of the Fiscal Year that immediately preceded the Fiscal Year in which such certificate is delivered and (B) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; and

(ii) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 75% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

(II) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, such certificate shall state that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

If rates and charges for services furnished by the System were increased and put into effect by the County after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an Independent Engineer may certify the amount of gross revenues from the System that would have been received by the County had such increased rates and charges been in effect during the entire Fiscal Year or other twelve-month period, and the Independent Accountant, the President of the Commission or the County's Director of Finance, as the case may be, preparing and signing the Revenue Certificate may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer.

"Revenue Forecast" means a report prepared by an Independent Engineer with respect to a period that shall begin on the first day of the Fiscal Year that succeeds the Fiscal Year in which the proposed Additional Parity Securities are issued and that shall not be longer than five Fiscal Years (such period being herein called the "Forecast Period"), which report shall make the following projections with respect to the last Fiscal Year in the Forecast Period (such year being herein called the "Test Year"):

(I) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued prior to October 1, 2007,

(i) the sum of (A) the projected Prior Years' Surplus as of the beginning of the Test Year and (B) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made; and

(ii) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 75% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

(II) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

In preparing its Revenue Forecast, the Independent Engineer shall be entitled (a) to make projections with respect to the rates and charges to be imposed for services furnished by the System during each of the Fiscal Years in the Forecast Period (so long as such Independent Engineer certifies, with respect to any projected rates and charges that are higher than the actual rates and charges in effect as of the date of the Revenue Forecast, that such projected rates and charges would be reasonable for public sanitary sewer systems similar in size and character to the System) and (b) to rely upon estimates prepared by an independent investment advisor with respect to the aggregate amount of debt service on the Parity Securities to become due and payable during each of the Fiscal Years in the Forecast Period.

For purposes of any Revenue Certificate or Revenue Forecast prepared and delivered to the Trustee in connection with the issuance of a series of Additional Parity Securities, the date for determining Maximum Annual Debt Service may be any date that occurs during the period of thirty (30) days that immediately precedes the issuance date for such series of Additional Parity Securities (provided that, in any event, the debt service on such series of Additional Parity Securities shall be taken into account and included in calculating Maximum Annual Debt Service).

Rate Covenant

The County has sole jurisdiction to set the rates for sewer services. The County's rates are not subject to review by any federal, state or similar regulatory authority, but are subject to judicial review as to reasonableness.

The County has covenanted in the Indenture to make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall result in compliance with each of the following two requirements (such requirements being referred to herein collectively as the "Rate Covenant"):

(i) the sum of (A) the Net Revenues Available for Debt Service for a given Fiscal Year and (B) the Prior Years' Surplus as of the beginning of such Fiscal Year shall not be less than 110% of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities; and

(ii) the Net Revenues Available for Debt Service for a given Fiscal Year shall not be less than 80% (or, in the case of any Fiscal Year beginning on or after October 1, 2007, 100%) of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities.

For purposes of the Rate Covenant, (a) debt service on the Parity Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Parity Securities, (b) debt service shall be reduced by any amounts received by the County during the Fiscal Year in question pursuant to Qualified Swaps (other than any amounts so received that constitute extraordinary non-periodic payments), and (c) debt service shall be increased by any amounts paid by the County during such Fiscal Year pursuant to Qualified Swaps. The County has covenanted to make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

The Indenture provides that the County's Director of Finance shall, within 60 days after the end of each Fiscal Year, (i) determine whether or not the Net Revenues Available for Debt Service and Prior Years' Surplus for the then most recently completed Fiscal Year were sufficient to result in compliance with the Rate Covenant for such Fiscal Year (the "Historical Evaluation"), (ii) determine whether or not the combination of the Net Revenues Available for Debt Service for the then most recently completed Fiscal Year (subject to adjustment in the manner hereinafter described) and the Prior Years' Surplus as of the beginning of the then current Fiscal Year would be sufficient to result in compliance with the Rate Covenant for the then current Fiscal Year (the "Immediate Prospective Evaluation") and (iii) determine whether or not the Net Revenues Available for Debt Service for the then most recently completed Fiscal Year (subject to adjustment in the manner hereinafter described) were equal to or greater than 100% of Maximum Annual Debt Service (the "Extended Prospective Evaluation"). For purposes of the Immediate Prospective Evaluation and the Extended Prospective Evaluation, the Net Revenues Available for Debt Service for the preceding Fiscal Year may be adjusted to give effect to any increase in the rates and charges for services furnished by the System that was put into effect after the beginning of such Fiscal Year.

If at the beginning of any Fiscal Year the County's Director of Finance makes the aforesaid determinations and concludes that the County has failed to satisfy the Historical Evaluation, the Immediate Prospective Evaluation or the Extended Prospective Evaluation, then a written notice setting forth such determinations and the conclusions reached (a "Rate Adjustment Notice") shall be delivered, no later than December 10 in such Fiscal Year, to the Trustee and to each member of the Commission. The County has covenanted that, in the event of delivery of notice of the County's failure to satisfy the Historical Evaluation or Immediate Prospective Evaluation (or both), the County will increase rates and charges for services furnished by the System in order to comply with the Rate Covenant.

Automatic Rate Adjustment Ordinance

On February 12, 1997, the Commission amended the ordinance that establishes the rates and charges for services furnished by the System (the "Rate Ordinance") in a manner that has resulted in continual compliance with the Rate Covenant. Under the provisions of the Rate Ordinance, the preparation and delivery of a Rate Adjustment Notice in accordance with the provisions of the Indenture results in an automatic increase in the rates for the standard charges imposed upon and collected from the users of the System, with such increase to be effective as of January 1 in the Fiscal Year in which such Rate Adjustment Notice is delivered. The amount of any such rate increase is determined by formulas contained in the Rate Ordinance, which formulas produce periodic rate increases that are consistent with the requirements of the Rate Covenant.

The Rate Ordinance specifically provides that the provisions thereof shall not limit or restrict the power and authority of the Commission to modify the rates and charges for services furnished by the System in addition to the automatic rate increases resulting from the application of the Rate Ordinance. The Rate Ordinance shall not constitute a contract between the County and the Series 2002-B Warrantholders and such ordinance or any rate adjustments resulting from the operation thereof may be modified at any time by the Commission at its sole discretion.

The automatic rate increases under the Rate Ordinance have been implemented six times, resulting in rate increases effective January 1 in the years 1998, 1999, 2000, 2001, 2002 and 2003. The County Commission also has implemented two discretionary rate increases in addition to the increases resulting from the Rate Ordinance, which discretionary rate increases became effective March 1, 1999 and April 1, 2001. See "Historical Coverage" herein.

Related Obligations

The County may obtain or cause to be obtained letters of credit, lines of credit, bond insurance or similar instruments (collectively, "Credit Facilities") to secure or provide for the payment or purchase of all or a portion of the Parity Securities of any particular series. In connection therewith, the County may enter into agreements with the issuer of or obligor on any such Credit Facility providing for, among other things, the payment of fees and expenses to such issuer or obligor for the issuance of such Credit Facility, the terms and conditions of such Credit Facility and the series of Parity Securities affected thereby, and the security, if any, to be provided for the issuance of such Credit Facility and the payment of such fees and expenses or the obligations of the County with respect thereto. The County may also, to the extent permitted by law, enter into an interest rate swap agreement, an interest rate cap agreement, an interest rate floor agreement, an interest rate collar agreement or any similar agreement with respect to any series of Parity Securities or portion thereof.

The County may, if it elects to do so, secure all or any portion of its contractual obligations with respect to any Credit Facility or any Qualified Swap (any such contractual obligations being herein called "Related Obligations") by a pledge of the Pledged Revenues which may be on a parity with the pledge made in the Indenture (except to the extent that any such pledge secures the payment of any amount payable by the County as a consequence of an early termination of a Qualified Swap) so long as no default exists on the part of the entity providing such Credit Facility or on the part of the related Qualified Swap Provider, as the case may be. Any Related Obligation that is secured by a pledge of the Pledged Revenues that is on a parity with the pledge made in the Indenture is referred to herein as a "Secured Related Obligation". Notwithstanding any pledge that may be made as described in the preceding sentence, Secured Related Obligations shall not constitute or be treated as Parity Securities for any purpose in applying the provisions of the Indenture (including, without limitation, the conditions precedent to the issuance of Additional Parity Securities and the Rate Covenant).

The County has entered into certain interest rate swap transactions and certain standby warrant purchase agreements pursuant to its rights described in the preceding paragraphs. See "OUTSTANDING DEBT - Outstanding Swap Transactions." Also, the obligations of the County with respect to the Fixed Payer Swap Transaction and under the Standby Purchase Agreements will constitute Secured Related Obligations.

OUTSTANDING DEBT

General

The principal forms of indebtedness that the County is authorized to incur include bonds and warrants, general obligation bond anticipation notes, special or limited obligation warrants and various revenue anticipation warrants and warrants relating to enterprises. In addition, the County has the power to enter into certain leases which constitute a charge upon the general credit of the County. Under existing law, the County may issue general obligation warrants only after a favorable vote of the electorate of the County. General and special obligation warrants issued for certain specified purposes may be issued without voter approval.

The County Financial Control Act generally prohibits the issuance of warrants by counties unless at the time of such issuance funds are available for their payment. The statutes pursuant to which the Series 2002-C Warrants were issued, as well as certain other statutes authorizing Alabama counties to issue general and special obligation warrants for certain specified capital and other similar purposes, expressly negate the application of the County Financial Control Act to such warrants. With certain minor and narrow exceptions, however, Alabama counties may not incur long-term debt for payment of current operating expenses, and the County Financial Control Act has the practical effect of prohibiting deficit financing for current operations.

Outstanding Long-Term Sewer Revenue Debt

After the issuance of the County's Sewer Revenue Refunding Warrants Series 2003-C, the County's only outstanding long-term sewer revenue debt will consist of the Outstanding Sewer Revenue Indebtedness. See "GLOSSARY OF TERMS" herein. For a schedule of debt service requirements on the Outstanding Sewer Revenue Indebtedness, see "DEBT SERVICE REQUIREMENTS AND COVERAGE".

Outstanding Short-Term Sewer Revenue Debt

The County does not have any short-term debt outstanding payable out of Pledged Revenues and does not have a line of credit for short-term borrowing purposes payable out of such revenues. However, the Series 2002-A Warrants and certain of the Series 2002-C Warrants and Series 2003-B Warrants having an aggregate principal amount of $840,700,000 are variable rate demand obligations that may be put to the County at the option of the holders. To provide for the purchase of the Series 2002-A Warrants and such Series 2002-C Warrants and Series 2003-B Warrants tendered for purchase but not remarketed, the County has entered into various Standby Warrant Purchase Agreements (the "Existing Liquidity Facilities"). The County has covenanted that it will, under certain specified circumstances, redeem in accordance with applicable optional redemption provisions warrants that have been purchased pursuant to the Existing Liquidity Facilities and not subsequently remarketed or otherwise transferred. Comparable agreements are contained in the Standby Purchase Agreements. The obligations of the County under the Existing Liquidity Facilities and the Standby Purchase Agreements are Secured Related Obligations for purposes of the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Related Obligations".

Outstanding Swap Transactions

Acting in accordance with rights reserved in the Indenture, the County has entered into various interest rate swap transactions with respect to the Parity Securities. The County is now obligated with respect to six of those transactions, in addition to the Fixed Payer Swap Transaction. In each of these transactions, the swap counterparty is obligated to post collateral to secure such counterparty's payment obligation but the County is not required to post collateral under any circumstances.

Under three of the County's swap transactions (which are referred to herein as "Outstanding Variable Payment Swaps"), the County (a) is obligated to make monthly payments calculated by reference to the applicable notional amount and the BMA Municipal Swap Index and (b) is entitled to receive semiannual payments calculated by reference to the applicable notional amount and the applicable fixed interest rate. For each of the Outstanding Variable Payment Swaps, the following descriptions take into account both (i) the provisions of the initial swap transaction and (ii) the provisions of a subsequent transaction (the "Interim Reversal") that effectively reversed, for a specified period of time, the provisions of such initial transaction.

Two of the Outstanding Variable Payment Swaps are between the County and JPMorgan Chase Bank (formerly Morgan Guaranty Trust Company of New York) ("Morgan"). Those transactions (the "Morgan Transactions") have notional amounts of $200,000,000 and $175,000,000, respectively. The Morgan Transaction with a notional amount of $200,000,000 had an effective date of February 1, 2001, a termination date of January 1, 2016, and a fixed rate (for determining payments to be made by Morgan) of 5.069%. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.524% to said notional amount.

The Morgan Transaction with a notional amount of $175,000,000 has an effective date of February 1, 2002, a termination date of January 1, 2016, and a fixed rate (for determining payments to be made by Morgan) of 5.2251%. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.4551% to said notional amount.

For each Morgan Transaction, Morgan has the option to cancel such transaction on the first calendar day of any month occurring after January 31, 2004. In addition, if Morgan exercises such cancellation option with respect to a transaction, Morgan will then have the option to reinstate such transaction (in accordance with its original terms) on the first calendar day of any month occurring after January 31, 2009.

The third Outstanding Variable Payment Swap is between the County and Morgan (formerly The Chase Manhattan Bank). That transaction has a notional amount of $70,000,000, an effective date of February 1, 2002, a termination date of February 1, 2031, and a fixed rate (for determining payments to be made by Morgan) of 5.17%. Morgan has the option to cancel this transaction on the first calendar day of any month occurring after January 31, 2007. Because of the related Interim Reversal transaction, until February 1, 2007, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of

1.225% to said notional amount (provided that Morgan has an option to cancel the Interim Reversal transaction on February 1, 2005, and semiannually thereafter until February 1, 2007).

In addition to the Outstanding Variable Payment Swaps, the County has entered into certain fixed payment swap transactions (referred to herein as the "Outstanding Fixed Payment Swaps"). The first Outstanding Fixed Payment Transaction is between the County and Morgan and relates to the issuance of the Series 2002-A Warrants (the "Initial Fixed Payment Transaction"). The Initial Fixed Payment Transaction has notional amount of $110,000,000 (which notional amount amortizes according to the mandatory redemption schedule of the Series 2002-A Warrants), an effective date of February 15, 2002, and a termination date of February 1, 2042. Under such transaction, the County (a) is obligated to make semiannual payments calculated by reference to said notional amount and a fixed rate of 5.06% and (b) is entitled to receive monthly payments calculated by reference to said notional amount and the BMA Municipal Swap Index. The County expects that the payments that the County will receive pursuant to such transaction will approximate (both in amounts and in dates of payment) the payments of interest due on the Series 2002-A Warrants.

In connection with the issuance of the Series 2002-C Warrants, the County has entered into separate Outstanding Fixed Payment Transactions with Morgan and Lehman Brothers with an aggregate notional amount equal to $839,500,000 (which notional amount amortizes according to the mandatory redemption schedule of the Series 2002-C Warrants), an effective date of October 23, 2002, and a termination date of February 1, 2040. Under such transactions, the County is obligated to make semiannual payments calculated by reference to said notional amount and a fixed rate of 3.92% and is entitled to receive monthly payments calculated by reference to the same notional amount and an interest rate equal to 67% of one-month LIBOR (London InterBank Offered Rate). Neither the County nor any counterparty involved in these transactions has an option to terminate earlier than the designated termination dates in the absence of certain extraordinary events such as a rating downgrade of the County.

In connection with the issuance of the Series 2003-B Warrants, the County has entered into an Outstanding Fixed Payment Transaction with Morgan with an aggregate notional amount of $1,035,800,000 (which notional amount amortizes according to the mandatory redemption schedule of the Series 2003-B Warrants other than the Series 2003-B-8 Warrants), an effective date of May 1, 2003 and a termination date of February 1, 2042. Under such transaction, the County (a) is obligated to make semiannual fixed payments to Morgan calculated by reference to the applicable notional amount and a fixed rate of 3.678% and (b) is entitled to receive monthly floating payments from Morgan calculated by reference to the same notional amount and 67% of one-month LIBOR (or, for the first year only, the BMA Municipal Swap Index). Neither the County nor Morgan has an option to terminate earlier than the designated termination date in the absence of certain extraordinary events such as a rating downgrade of the County.

In the case of all the Outstanding Fixed Payment Transactions except the Initial Fixed Payment Transaction, the County is entitled to receive payments calculated by reference to the one-month LIBOR, an index of taxable obligations. Therefore, although the County expects that the payments the County will receive under such transactions will approximate (both in amount and date of payment) the payments of interest due on the Series 2002-C Warrants and the

Series 2003-B Warrants respectively, no assurances can be given that the County will not be adversely affected by factors which may have an impact on the spread between taxable and tax-exempt rates, including without limitation, a legislative change in marginal tax brackets.

The County has entered into fixed payer swap transactions with respect to the Series 2003-C Warrants.

The Outstanding Swaps are Qualified Swaps and Secured Related Obligations for purposes of the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE - Related Obligations."

Anticipated Debt

In order to comply with the Consent Decree governing the System (see "LITIGATION - The Consent Decree") and to meet the System's ongoing capital improvement requirements, the County does not expect to issue substantial additional indebtedness within the next two fiscal years. The County anticipates that the remaining projects included in the remedial plan, the Clean Water Act compliance program and ongoing sewer improvement program, may require additional borrowings of approximately $772 million. The County is exploring all options to reduce the said amount, including value engineering and cancellation of certain contracts. After any such savings are realized, the County expects to finance these and other discretionary capital improvements by periodically issuing additional debt secured by the Pledged Revenues on a parity of lien with the Outstanding Sewer Revenue Indebtedness. The next phase (if any) of such additional financing is expected to occur no earlier than 2005. See "CAPITAL IMPROVEMENT PROGRAM – Sources of Funding".

Outstanding General Obligation Debt

The County's outstanding general obligation indebtedness (apart from (i) current liabilities incurred in the regular and ordinary operations of the County and (ii) certain conduit financings for which the County has no payment obligation or other liability) consists of the following outstanding warrants of the County:

General Obligation Warrants, Series 2001-A, maturing annually April 1, 2004 through April 1, 2011	68,025,000
General Obligation Warrants, Series 2001-B, maturing April 1, 2021	120,000,000
General Obligation Warrants, Series 2002-A, maturing annually April 1, 2004 through April 1, 2007	15,805,000
General Obligation Warrants, Series 2003-A maturing annually April 1, 2004 through April 1, 2023.	94,000,000
TOTAL	$297,830,000

Civic Center Financing

The Birmingham-Jefferson Civic Center Authority (the "Authority") is a public corporation that owns and operates a civic center complex (the "Civic Center") located in the County. In order to finance the costs of certain improvements and additions to the Civic Center, the Authority issued and sold $132,380,000 principal amount of tax-exempt warrants in 1989, which have since been refunded. In order to assist the Authority in this undertaking, the City of Birmingham and the County entered into separate agreements with the Authority in which they pledged and appropriated certain tax revenues to the Authority for the purpose of paying a portion of the debt service on the aforesaid warrants of the Authority. The agreement between the County and the Authority provides for the pledge and appropriation by the County to the Authority of certain proceeds of a special privilege or license tax (the "Special County License Tax") that the County levies and collects at the rate of 1/2% of the gross receipts of each person following a vocation, occupation, calling or profession within the County. No other County revenues are subject to such financial commitment. Under the provisions of said agreement, the County is required to make payments to the Authority out of such proceeds in the amount of $10,000,000 per year for each calendar year until and including 2008.

Jefferson County Economic and Industrial Development Authority Financing

The Jefferson County Economic and Industrial Development Authority (the "JCEIDA") is a public corporation that owns an industrial park in the western portion of the County. In 1998, the JCEIDA issued $15,280,000 principal amount of warrants (the "JCEIDA Warrants") to finance the cost of acquiring, constructing and developing the industrial park. The County entered into a Funding Agreement (the "Funding Agreement") pursuant to which the County agreed to pay amounts sufficient to provide for the payment of principal of and interest on the JCEIDA Warrants due in any fiscal year of the County, to the extent that the JCEIDA does not have sufficient funds to pay such principal and interest. The Funding Agreement has a one-year term and is subject to automatic renewal in each successive fiscal year unless the County provides written notice by August 1 of the prior fiscal year that it elects not to renew the Funding Agreement.

The County's obligation to make the payments provided for in the Funding Agreement during each one-year term constitutes a general obligation of the County, and the County has pledged its full faith and credit for such payments; however, all obligations of the County under the Funding Agreement are payable solely out of the current revenues of the County for the fiscal year during which the County becomes obligated to pay or otherwise discharge such obligations. The maximum amount of principal and interest due on the JCEIDA Warrants in any year does not exceed approximately $2 million.

CAPITAL IMPROVEMENT PROGRAM

Capital Improvements Mandated by Consent Decree

The County is a party to a consent decree (the "Consent Decree") arising out of certain litigation involving alleged violations of the federal Clean Water Act in the operation of the System. See "LITIGATION - The Consent Decree". The Consent Decree calls for the development and implementation of a remedial plan which is intended to eliminate bypasses and other unlawful discharges of untreated sewage to streams in the County. The remedial plan requires, among other things, extensive rehabilitation of lateral and collector sewers throughout the County and construction of additional capacity to the treatment plants in the System.

Phase I of the remedial plan involved the preparation of planning documents used to evaluate the physical condition and hydraulic capacity of the County's sewage collection system and wastewater treatment plants. Phase II involved a detailed analysis of the conditions of the County and municipal sewage collection systems and wastewater treatment plants, including reports quantifying the amount of infiltration and inflow in each sewage collection system, describing the types of remedial or corrective work needed and quantifying the benefits expected. Both Phase I and Phase II of the remedial plan have now been completed. Phase III is the implementation phase of the Consent Decree and it began in late 1996.

The County has estimated that the total cost to fully implement the remedial plan is approximately $2.0 billion. Between fiscal year 1996 and March 31, 2003, approximately $1.19 billion had been expended under this plan, leaving approximately $810 million to be expended in future years. As of March 31, 2003, approximately $1.46 billion of such total costs were under contract, leaving approximately $540 million of future projects not under contract. On December 23, 2002, the Jefferson County Commission hired BE&K to review the Capital Improvement Program and to recommend ways to reduce costs by introducing alternative solutions to complete the projects designated in the remedial plan. BE&K's final report is expected to be completed by the end of August 2003. In addition, the County's Environmental Services Department has undertaken a comprehensive re-examination of its spending priorities in order to focus on projects that are essential to implement the remedial plan. The County expects that the overall cost of the remedial plan will decline as a result of these combined efforts. See "CAPITAL IMPROVEMENT PROGRAM – Cost Reduction Efforts".

Clean Water Act Compliance

The County has undertaken a number of sewer improvement projects which, while not specifically identified as a requirement of the Consent Decree, are believed by the County to be necessary in order to comply with the Clean Water Act, to which substantial compliance is an additional element of the Consent Decree. The County has estimated that the total cost of the projects which fall into this category is approximately $784 million. Between fiscal year 1996 and March 31, 2003, approximately $210 million had been expended on Clean Water Act compliance projects, leaving approximately $575 million to be expended in future years. As of March 31, 2003, approximately $407 million of such Clean Water Act compliance costs were under contract, leaving approximately $375 million of future projects not under contract. As stated above, the County has engaged the engineering firm of BE&K to perform a comprehensive review of the Capital Improvement Program. In addition, the County's Environmental Services Department has undertaken to re-examine its spending priorities in order to focus on projects that are essential to the implementation of the remedial plan. The County expects that, upon conclusion of these efforts, the overall cost of Clean Water Act compliance projects will be significantly reduced. See "CAPITAL IMPROVEMENT PROGRAM—Cost Reduction Efforts".

Ongoing Sewer Expansion Program

In addition to the capital improvement projects that are designed to meet the Consent Decree and to comply with the Clean Water Act, the County has had an ongoing sewer expansion program. Between fiscal year 1996 and March 31, 2003, the County expended approximately $180 million on such expansion projects. In addition, as of March 31, 2003, the County had ongoing expansion project contracts in place pursuant to which an additional $80 million had been committed. Since March 31, 2003, the Jefferson County Commission has directed the Environmental Services Department not to commit any additional funds to this expansion program. As a result of this direction, the Environmental Services Department has placed on hold all future expansion projects which are not currently under contract, has terminated two existing contracts and has reduced the scope of a third contract. As a result, the amount of committed expenditures on ongoing expansion projects is expected to decrease by approximately $20 million.

Sources of Funding

The County expects that the remaining costs of the remedial plan, Clean Water Act compliance and the ongoing sewer expansion program will be funded from remaining proceeds of the Series 2002-B Warrants and Series 2002-D Warrants, interest income, and possibly future borrowings. Additionally, the County expects that its ongoing cost reduction efforts will result in a significant reduction in the costs shown below. See "CAPITAL IMPROVEMENT PROGRAM-Cost Reduction Efforts". The County may also liquidate approximately $200 million in reserves from previous warrants, replacing such reserves with surety warrants, in order to cover costs of the Capital Improvement Program. Unless and until the Jefferson County Commission takes official action to approve and implement a cost reduction plan, the County estimates that the Capital Improvement Program will be funded as follows:

Future Costs

	(in millions)
Remaining costs of the remedial plan	810.0
Clean Water Act compliance	575.0
Ongoing sewer expansion program (projects currently under contract)	60.0
TOTAL	1,445.0

Sources of Funding

	(in millions)
Remaining proceeds of Series 2002-B Warrants (as of March 31, 2003)	330.0
Remaining proceeds of Series 2002-D Warrants (as of March 31, 2003)	388.0
TOTAL	718.0

Cost Reduction Efforts

The Jefferson County Commission has committed to reduce the overall cost of the Capital Improvement Program. To that end, the Commission has directed its Environmental Services Department to cease entering into any new contracts which further the ongoing expansion program and, in addition, to terminate two existing contracts and substantially reduce the scope of a third contract. See "CAPITAL IMPROVEMENT PROGRAM-Ongoing Sewer Expansion Program".

In addition, on December 23, 2002, the Commission hired the engineering firm of BE&K to perform a comprehensive review of the Capital Improvement Program and to recommend ways in which the County may reduce costs by implementing alternative solutions with respect to projects designated in the remedial plan and the Clean Water Act compliance program. BE&K's final report is expected to be completed by the end of August, 2003, and the Commission may approve and implement all or part of BE&K's recommendations.

Finally, the Commission has directed its Environmental Services Department to undertake a comprehensive re-examination of its priorities in order to focus on those projects which are essential to the implementation of the remedial plan. The Environmental Services Department has completed this re-examination and has concluded that the remedial plan can be implemented without substantial additional borrowings by the County by downsizing the number and scope of certain projects. This conclusion has not been reviewed by BE&K nor has it been formally adopted by the Commission. The County Commission expects to evaluate the conclusions of the Environmental Services Department at the same time that it reviews BE&K's final report.

As of June 30, 2003, the balances in the construction funds established with proceeds of the Series 2002-B Warrants and the Series 2002-D Warrants were $242,325,972 and $388,900,455, respectively. No assurances can be given that available proceeds of the Series 2002-B Warrants and Series 2002-D Warrants, combined with future cost reductions, and interest income will be sufficient to pay all of the costs of the Capital Improvement Program. The County may need to incur additional indebtedness in order to complete the Capital Improvement Program. The County may also liquidate reserves for the Series 2002-A, 2002-B and 2002-D Warrants, replacing such reserves with surety warrants, in order to fund the program. The timing of an additional borrowing, if any, cannot be predicted with certainty. Numerous factors can affect the timing of any such borrowing, including changes in the work priority as a result of future performance of the System, timing requirements of the Consent Decree, the rate at which independent contractors complete their work, the availability of materials and supplies, market conditions, and the availability of the cash reserves to cover costs in excess of available Series 2002-B Warrants, and Series 2002-D Warrant proceeds until an additional borrowing can be completed.

GENERAL INFORMATION RESPECTING
JEFFERSON COUNTY, ALABAMA

COUNTY GOVERNMENT AND ADMINISTRATION

The County Commission

The governing body of the County is the Commission. The five commissioners are elected from five districts within the County for four-year terms. The current term of office for the present commissioners, President Larry P. Langford and Commissioners Mary M. Buckelew, Bettye Fine Collins, Shelia Smoot and Gary White, will end in November 2006.

The major responsibilities of the Commission are to administer the County's finances, serve as custodians of all of the County's property, collect taxes as set by state law, allocate resources for the construction of buildings, roads and other public facilities, provide for the delivery of services that by law are the County's responsibility (such as sewer service, medical care, care for the indigent and law enforcement) and make appointments to various governmental boards and agencies.

In the 2002 fiscal year, the County employed 4,854 individuals. The County's employees perform tasks in five areas of County government. These areas are the Department of Finance and General Services, the Department of Roads and Transportation, the Department of Environmental Services, the Department of Health and Human Services and the Department of Technology and Development. A description of these areas follows:

The Department of Finance and General Services

The Department of Finance and General Services is responsible for the administration of the financial affairs of the County, the management of the public buildings of the County and the maintenance of the accounting records of the County. The department supervises the operations of the County Revenue Department, which collects a number of state and local taxes (such as sales and use taxes and other excise taxes), as well as the Finance Department. See "COUNTY FINANCIAL SYSTEM". In addition, the department supervises Cooper Green Hospital, which provides medical care for indigent residents of the County. For the most part, the activities of the department are supported with moneys from the General Fund of the County. However, Cooper Green Hospital is supported by the Indigent Care Fund of the County. The President of the Commission, Larry P. Langford, has been assigned the responsibility of the Department of Finance and General Services.

The Department of Roads and Transportation

The Department of Roads and Transportation is responsible for the construction and maintenance within the unincorporated area of the County of public highways, streets and bridges. Commissioner Shelia Smoot has been assigned the responsibility of this department. The various divisions which constitute the department, including the Administrative Division, the Design Division, the Right-of-Way Division, the Highway Engineering Division, the

Highway Maintenance Division, the Traffic Division and the Equipment Division, are supported with moneys from the Road Fund.

The Department of Environmental Services

The Department of Environmental Services is responsible for the construction, operation and maintenance within the County of wastewater treatment plants and sanitary sewer lines and solid waste facilities. Commissioner Gary White has been assigned the responsibility for this department.

The Department of Health and Human Services

The Department of Health and Human Services, which is the responsibility of Commissioner Bettye Fine Collins, supervises the Office of Senior Citizens Services and certain health care institutions and agencies of the County. One of the institutions subject to the supervision of the department is the Jefferson Rehabilitation & Health Center in Ketona, Alabama (the "Health Center"). The Health Center is supported by the General Fund.

The Department of Technology and Development

The Department of Technology and Development is responsible for activities related to the County’s growth and development, Commissioner Mary M. Buckelew has been assigned the responsibility for this department, which includes the County’s offices for Land Development, Inspection Services and Information Technology.

COUNTY FINANCIAL SYSTEM

The Department of Finance and General Services is responsible for the administration of the financial affairs of the County and the maintenance of its accounting records. The Finance Department, a division of the Department of Finance and General Services, directs the County's financial program by assembling, maintaining and preparing the County's financial records and statements and by assisting in budget hearings. The Director of Finance of the County is Steve Sayler.

Pursuant to Alabama law, the County is audited annually by the State Department of Examiners of Public Accounts. Historically, the emphasis of the state audit has been on compliance with applicable state law. Such audits are generally completed within one year after the end of the audit period. The most recent available state audit is for the fiscal year ended September 30, 2002. In addition to the state audit, the Director of Finance of the County prepares internal financial statements which conform to the format of the state audit. **A copy of the latest audit for the County is included in Appendix B for general information purposes only. The Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County but instead are limited obligations of the County payable solely out of the Pledged Revenues.**

Budget System

The budget for the County consists of an operating budget for each of the funds maintained by the County. Together, these separate operating budgets constitute a complete financial plan for the County and reflect the projection of the receipts, disbursements and transfers from all sources.

All of the operating budgets are developed by the Finance Department under the direction of the members of the Commission respectively responsible for the operation of the individual County departments. The budgets are based on estimates of the amount and cost of work to be performed together with historical costs of operations as submitted by the head of each office and department. Estimated revenues are detailed according to source, and estimated expenditures are detailed according to function and type.

Upon submission of the proposed budgets by the Finance Department, the Commission holds public hearings at which the requests of the individual County departments and the recommendations of the Finance Department are fully reviewed. After conclusion of the hearings, the Commission may add new expenditures or increase, decrease or delete expenditures in the proposed budgets, provided that expenditures for debt service or any other expenditures required by law to be included may not be deleted from the budgets. The Commission is prohibited by law from adopting budgets in which the total of expenditures exceeds the estimated total receipts and available surplus.

The Commission is required to adopt the annual budgets on or before the first Tuesday in October of the fiscal year in which the budgets are to take effect. Upon adoption by the Commission, the budgets are printed for distribution to all departments of the County, as well as financial institutions and the general public. Appropriations in addition to those in the original budgets may be made by the Commission if unencumbered and unappropriated moneys sufficient to meet such appropriations are available.

Accounting System

The County maintains a number of separate funds, some of which should be categorized as governmental funds and the remainder of which are more appropriately considered to be proprietary or fiduciary funds. For at least the last five fiscal years, these funds have been maintained and reported by the County in accordance with the standards of the Government Finance Officers Association. The following paragraphs contain brief descriptions of certain of the funds maintained by the County.

General Fund. The General Fund is the primary operating fund of the County. Its revenues are not earmarked and may be utilized for any purpose authorized by state or local law. Primary sources of revenue for the General Fund are occupational taxes, property taxes, county sales taxes and commissions and revenues collected by the State and shared with the County. For the most part, the General Fund supports the operation of the County's basic governmental functions, including management, personnel, accounting, taxation, purchasing, data processing, law enforcement, the judiciary and land utilization.

Special Revenue Funds. The County maintains a number of special revenue funds in order to account for revenues from specific sources which are regulated and restricted to expenditures for specific purposes. The following are brief descriptions of the special revenue funds of the County.

The Indigent Care Fund is used to support the operation of Cooper Green Hospital. Revenue sources for the Indigent Care Fund include alcoholic beverage taxes and sales taxes.

The Road Fund is used to support County road and street construction and maintenance. Revenue sources for the fund include County ad valorem taxes and a County gasoline tax, together with the County's portion of the state gasoline taxes and drivers' license and motor vehicle tag fees.

The Bridge and Public Building Fund is used to account for expenditures of ad valorem taxes designated for the maintenance and repair of County bridges and public buildings. Expenditures from this fund include transfers of moneys to the Road Fund to support the County road maintenance program and payments of debt service on County obligations incurred for road and public building purposes.

The Community Development Fund is used to account for the receipt and disbursement of certain federal grant funds received by the County. Typical grants received are Community Development Block Grants, Farmers' Home Administration Grants and Housing and Urban Development Grants. Moneys from such fund are used for housing development and community revitalization projects, including related road and sewer developments.

The Senior Citizens' Services Fund is used in connection with a federally-sponsored program to help senior citizens obtain prepared meals, medical care and transportation.

Debt Service Funds. The debt service funds are a group of accounts into which the proceeds of pledged taxes and interest income are deposited for the payment of the County's long-term debt.

Capital Project Funds. The capital project funds are used to receive transfers from other funds and interest income and proceeds from the sale of certain warrants, warrants or other securities of the County and to make capital outlay expenditures. Brief illustrative descriptions of such funds are presented below.

The Capital Improvements Fund is used to support a variety of capital projects undertaken by the County, including construction of new buildings, renovation of existing buildings and major equipment purchases.

The Road Construction Fund is used to account for the expenditures related to a number of road construction and improvement projects. Moneys in this fund consist primarily of warrant proceeds, contributions from other governmental entities and proceeds of grants.

Enterprise Funds. The enterprise funds are used to account for activities where the intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the County has decided that periodic income determination is appropriate for capital maintenance, public policy, management control accountability or other purposes. A major County enterprise fund is the Sanitary Operations Fund, which is used to support the operation and maintenance of sewage disposal facilities in the County. Sewer service charges constitute the primary revenue source for such fund. Other major enterprise funds are maintained with respect to Cooper Green Hospital, the Health Center, the County solid waste disposal facilities and the County Parking Deck.

Trust and Agency Funds. The County maintains trust and agency funds to account for expendable trust funds and agency funds which the County is charged with maintaining.

Pension and Retirement Plan

The General Retirement System for Employees of Jefferson County (the "Pension System") is established under Act No. 497 of the 1965 Regular Session of the Legislature, as amended (the "Pension Act"). With certain limited exceptions, all employees of the County who are subject to the Civil Service System are members of the Pension System. County officers and those County employees who are not subject to the Civil Service System may elect to be members of the Pension System. As of September 30, 2002, there were 4,993 members of the Pension System (including both present and retired employees and beneficiaries).

Benefits payable under the Pension System are funded through a trust to which both the County and the members of the Pension System (the "Members") are required to contribute. With certain exceptions, each Member is required to make contributions to the Pension System, by means of regular payroll deductions, at a rate equal to 6% of the Member's compensation. The County is required to make a monthly contribution to the Pension System in an amount equal to the contributions made by Members for the month.

The Pension Act requires periodic review of the Pension System by a reputable actuary. The most recent actuarial valuation of the Pension System was prepared as of September 30, 2002, by Bucks Consultants (the "Actuary"). According to that valuation, the Pension System had as of September 30, 2002, actuarial accrued liabilities of $610,320,857. The assets of the Pension System as of September, 30, 2002, consisted of actuarial value of assets valued at $676,093,864. On the basis of that valuation and certain actuarial assumptions, the Actuary concluded that the Pension System is actuarially sound.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Jefferson County (the "County"), Alabama's most populous county, is the principal center of finance, trade, health care, manufacturing, transportation and education in the State of Alabama. Birmingham, the State's largest city, and the county seat, had a population of 239,416 in 2002. Forty-five other municipalities are located within the County's 1,124 square miles. The County, which had a population of 663,222 in 2000, is the center of the seven-county Birmingham-Hoover Metropolitan Statistical Area (MSA),[1] which covers approximately 5,310 square miles. The total population of the counties now comprising the Birmingham-Hoover MSA was 1,052,238[2] in 2000, making it the 48th most populated area among the 316 metropolitan areas in the U.S.[3]

AS USED HEREIN, THE TERM "BIRMINGHAM MSA" AND ALL RELATED STATISTICAL DATA REFER TO THE FOUR-COUNTY BIRMINGHAM MSA AS DESIGNATED BY THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET ("OMB") IN 1983. THE TERM "BIRMINGHAM-HOOVER MSA" REFERS TO THE SEVEN-COUNTY BIRMINGHAM-HOOVER MSA AS DESIGNATED BY OMB IN 2003. STATISTICAL DATA IS NOT CURRENTLY AVAILABLE FOR THE BIRMINGHAM-HOOVER MSA.

While the County's economy once depended primarily on iron and steel and other heavy industry, it has diversified extensively over the past three decades into healthcare, finance, trade, government and other services. In 2001, 83 percent of the County's work force was employed in the service-producing sectors of the economy. Over nine percent of the wage and salary jobs in the County are in the health care sector.

---

[1] *The Birmingham Standard Metropolitan Statistical Area (SMSA) was established in 1967, and originally included Jefferson, Shelby and Walker Counties. St. Clair County was added to the SMSA in 1973. Blount County was added in 1983, at which time the official federal government designation became the Birmingham Metropolitan Statistical Area (MSA). Walker County was removed from the Birmingham MSA in 1993. Bibb, Chilton and Walker Counties were added in 2003, at which time the official federal government designation became the Birmingham-Hoover MSA.

[2] The population of the Birmingham-Hoover MSA in 2000 was calculated as the sum of the population of the Birmingham MSA in 2000 (from the Bureau of the Census, U.S. Department of Commerce) and the population of each of the three Alabama counties in 2000 (from the Bureau of the Census, U.S. Department of Commerce) which were added by OMB in the 2003 Birmingham-Hoover MSA designation (see footnote 1).

[3] Source: Jefferson County

Population

The County and the Birmingham MSA have experienced steady population growth over the years. Although the City experienced an 8.7 percent loss in population between 1990 and 2000, the Birmingham MSA grew 14.6 percent from 1990 to 2000. The suburban counties of Blount, Shelby and St. Clair experienced some of the fastest growth in population in the State. It is anticipated that most of the population growth in the Birmingham-Hoover MSA will continue to occur outside the present City limits and that the City will continue to serve as an employment, service and cultural center for residents of the suburban areas. The following table summarizes historical population growth for Jefferson County, the City of Birmingham, and the Birmingham MSA.

Population Trends

Year	Jefferson County	City of Birmingham	Birmingham MSA*
2000	663,222	242,820	921,106
1990	651,525	265,968	907,810
1980	671,324	286,799	884,040
1970	644,991	300,910	794,083
1960	634,864	340,887	772,044
1950	558,928	326,037	708,721
1940	459,930	267,583	609,919

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: Bureau of the Census, U.S. Department of Commerce.

As previously stated, in addition to the City of Birmingham, there are 45 municipalities in Jefferson County. Population changes from the 1980 to the 2000 Census are listed in the following table for these areas:

Place	2000	1990	1980	Percent Change, 1990 – 2000
Adamsville	4,965	5,161	4,511	-3.8%
Bessemer	29,672	33,518	31,729	-11.5%
Brighton	3,640	4,518	5,308	-19.4%
Brookside	1,393	1,365	1,409	2.1%
Cahaba Heights	5,203	4,778	4,675	8.9%
Cardiff	82	72	140	13.9%
Center Point	22,784	22,658	23,486	0.6%
Chalkville	3,829			
Clay	4,947			
Concord	1,809			
County Line	257	75	99	242.7%
Edgewater	730			
Fairfield	12,381	12,200	13,239	1.5%
Forestdale	10,509	10,395	10,688	1.1%
Fultondale	6,595	6,400	6,217	3.0%
Gardendale	11,626	9,251	8,608	25.7%
Grayson Valley	5,447			

Place	2000	1990	1980	Percent Change, 1990 – 2000
Graysville	2,344	2,249	2,642	4.2%
Homewood	25,043	23,644	21,412	5.9%
Hoover	62,742	40,000	20,881	56.9%
Hueytown	15,364	15,280	14,797	0.5%
Irondale	9,813	9,458	7,073	3.8%
Kimberly	1,801	1,096	1,043	64.3%
Leeds	10,455	10,009	7,881	4.5%
Lipscomb	2,458	2,892	3,741	-15.0%
Maytown	435	651	538	-33.2%
McDonald Chapel	1,054			
Midfield	5,626	5,559	6,185	1.2%
Minor	1,116			
Morris	1,827	1,136	623	60.8%
Mount Olive	3,957			
Mountain Brook	20,604	19,810	19,718	4.0%
Mulga	973	284	405	242.6%
North Johns	142	177	243	-19.8%
Oak Grove	457			
Pinson	5,033			
Pleasant Grove	9,983	8,458	7,102	18.0%
Rock Creek	1,495			
Sylvan Springs	1,465	1,470	450	-0.3%
Tarrant	7,022	8,046	8,148	-12.7%
Trafford	523	739	763	-29.2%
Trussville	12,924	8,283	3,507	56.0%
Vestavia Hills	24,476	19,550	15,722	25.2%
Warrior	3,169	3,280	3,260	-3.4%
West Jefferson	344	388	357	-11.3%
Jefferson County	**662,047**	**651,525**	**671,392**	**1.6%**

Note: Municipalities without population figures for 1980 or 1990 were not designated as municipalities in those Census counts.
Source: Birmingham Regional Chamber of Commerce, U.S. Census Bureau.

Employment and Labor Force

The following tables present certain information with respect to employment in the Birmingham MSA. The growth in jobs in the Birmingham area has occurred primarily in the service-producing sectors. Construction is the only goods-producing sector that has experienced growth since the 1970s.

BIRMINGHAM MSA*
WAGE AND SALARY NON-AGRICULTURAL EMPLOYMENT

(Jobs in Thousands)

Sector	2002	1970	1980	1990	1999	2000	2001
Goods Producing	80.0	95.3	96.5	81.2	82.7	84.5	83.0
Mining	2.7	6.3	9.9	3.4	2.4	2.6	2.7
Construction	31.1	13.5	20.4	23.2	29.2	30.3	30.4
Manufacturing	46.2	75.5	66.2	54.6	51.1	51.6	49.9
Durable Goods	30.2	56.6	48.9	35.3	32.9	33.3	32.1
Nondurable Goods	16.0	18.9	17.3	19.3	18.2	18.3	17.8
Service-Producing	405.7	171.8	260.5	319.8	399.4	401.1	402.1
Transportation and Public Utilities	29.4	19.2	29.3	31.4	31.2	31.2	31.1
Trade	117.3	59.7	83.7	95.4	118.9	118.0	116.4
Finance, Insurance and Real Estate	39.5	16.8	23.0	29.6	37.9	38.1	39.0
Services	148.3	38.1	67.1	100.7	143.5	145.0	146.5
Government	71.2	38.0	57.4	62.7	68.0	68.8	69.2
Total	485.7	**267.1**	**357.0**	**401.0**	**482.1**	**485.5**	**485.1**

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: State of Alabama, Department of Industrial Relations.

BIRMINGHAM MSA*
PERCENTAGE DISTRIBUTION OF
NON-AGRICULTURAL EMPLOYMENT

(2001 Annual Averages)

Category	Birmingham MSA	United States
Goods-Producing	17.1%	19.0%
Mining	0.6	0.4
Construction	6.3	5.2
Manufacturing	10.3	13.4
Service-Producing	82.9	81.0
Transportation & Public Utilities	6.4	5.3
Trade	24.0	23.1
Finance, Insurance & Real Estate	8.0	5.8
Services	30.2	31.0
Government	14.3	15.8
Total	**100.0%**	**100.0%**

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: State of Alabama, Department of Industrial Relations.

COMPARATIVE EMPLOYMENT TRENDS
Annual Averages
(000's)

	2002*	2001	2000	1999	1998	1997
Birmingham						
Employed	N/A	123.3	123.4	122.3	124.6	124.1
Unemployed	N/A	7.2	6.4	6.4	5.8	7.0
Unemployment Rate	N/A	5.5%	5.0%	5.0%	4.5%	5.3%
Jefferson County						
Employed	327.9	323.7	324.0	321.1	327.4	326.1
Unemployed	15.5	12.9	11.6	11.5	10.5	12.6
Unemployment Rate	4.5	3.8%	3.5%	3.5%	3.1%	3.7%
Birmingham MSA**						
Employed	465.8	459.8	460.4	456.1	459.8	453.9
Unemployed	20.1	16.4	14.5	14.6	13.3	15.7
Unemployment Rate	4.2%	3.5%	3.1%	3.1%	2.8%	3.4%
State of Alabama						
Employed	2,033.5	2,033.2	2,055.2	2,043.1	2,065.6	2,057.2
Unemployed	120.9	114.4	99.1	102.2	90.9	109.8
Unemployment Rate	5.6%	5.3%	4.6%	4.8%	4.2%	5.1%
United States						
Employed	134,275	135,073	135,208	133,488	131,463	129,588
Unemployed	8,208	6,742	5,655	5,880	6,210	6,739
Unemployment Rate	5.8%	4.8%	4.0%	4.2%	4.5%	4.9%

***The 2002 Comparative Employment Trends for Jefferson County and Birmingham MSA are preliminary.**
**Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: State of Alabama, Department of Industrial Relations. Based on place of residence.

RECENT EMPLOYMENT DATA
April 2002
(thousands)

	Number Employed	Number Unemployed	Unemployment Rate
Birmingham	123.7	7.6	5.8%
Jefferson County	325.0	13.7	4.1
Birmingham MSA*	461.5	18.4	3.8
Alabama**	2,032.5	120.9	5.6
United States**	133,976.0	8,594.0	6.0

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
**Seasonally adjusted.
Source: State of Alabama, Department of Industrial Relations.

The following table lists the top employers in the Birmingham metropolitan area. This list underscores the diversification of the area's economy. The list includes education, government, healthcare, communications, finance and manufacturing industries.

BIRMINGHAM MSA*
LARGEST EMPLOYERS
2002

Employer	Service or Product	Number of Employees
University of Alabama at Birmingham	Education, medical research	16,271
U.S. Government	Federal government	9,690**
BellSouth	Telecommunications	7,500
State of Alabama	State government	6,784
Baptist Health System	Integrated healthcare system	6,000
Bruno's, Inc.	Retail grocery store	5,374
Jefferson County Board of Education	Education	5,000
Birmingham Public Schools	Education	4,555
City of Birmingham	Municipal government	4,500
Wal-Mart	Discount department stores	4,320
Jefferson County Government	County government	4,191
HealthSouth Corporation	Healthcare and rehabilitation	3,960
AmSouth Bank	Banking and financial services	3,624
Southern Company Services	Utility & Engineering	3,207
SouthTrust Bank	Banking and financial services	3,094
Alabama Power Company	Utilities	3,000
Regions Financial	Banking services	3,000
Drummond Company	Coal mining	2,900
Children's Health System	Healthcare	2,800
Blue Cross-Blue Shield of Alabama	Employee benefits	2,750
Shelby County Board of Education	Education	2,734
UAB Health Services Foundation	Healthcare	2,500
American Cast Iron Pipe	Iron and steel pipe, steel castings	2,400
USX	Steel Mill	2,400
Compass Bank	Banking and financial services	2,371

Note: Employment figures reflect both full-time and part-time employees.
*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
**Includes 4,110 U.S. Postal Service employees; 1,662 Social Security Administration employees and 1,260 Veterans Administration Hospital employees.
Source: Birmingham Regional Chamber of Commerce, August, 2001.

Income

Per Capita Personal Income is listed in the table below for Jefferson County, the Birmingham MSA, the State of Alabama, and the United States. Per Capita Personal Income is defined as the current income from all sources received by one resident in an area. It is measured before deduction of income and other personal taxes, but after deduction of personal contributions for social security, government retirement, and other social insurance programs. Per capita personal income in the County and MSA are above average for the State of Alabama. Per capita personal incomes in the Birmingham MSA are slightly below the national average, while per capita personal incomes in the County just exceed the national average.

Per Capita Personal Income

	Jefferson County		Birmingham MSA*		State of Alabama		United States	
	Income	% of National Average	Income	% of National Average	Income	% of National Average	Income	% of National Average
2000	$29,895	101%	$29,057	99%	$23,521	80%	$29,469	100%
1999	28,816	103%	27,966	100%	22,694	82%	27,843	100%
1998	27,673	103%	26,791	100%	21,904	81%	26,893	100%
1997	26,339	103%	25,454	100%	21,899	82%	25,874	100%
1996	25,221	104%	24,501	101%	20,138	83%	24,270	100%
1989	17,946	97%	17,488	94%	14,899	80%	18,566	100%
1979	8,827	96%	8,541	93%	7,199	78%	9,230	100%
1969	3,394	88%	3,298	86%	2,748	71%	3,846	100%

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: Bureau of Economic Analysis, U.S. Dept. of Commerce.

The median family income is a measure defined by the U.S. Census Bureau as the amount of income per family that divides the income distribution of families into two equal groups. In recent years, median family income in Alabama and the Birmingham MSA increased at slightly faster rates than the U.S. overall.

Median Family Income

	1997	1998	1999	2000*	2001*	2002*	% Change, 97-02
United States	$43,500	$45,300	$47,800	$50,200	$52,500	$54,400	25.1%
Alabama	37,100	38,700	41,500	44,300	46,100	47,000	26.7%
Birmingham MSA**	41,900	44,000	47,900	51,100	51,100	52,700	25.8%

*Estimates.
**Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: Center for Business and Economic Research, The University of Alabama; HUD Office of Economic Affairs.

Housing and Construction

The following tables present information about existing housing units and construction activity in the County and Birmingham metro area:

BIRMINGHAM AREA HOUSING UNITS

	Housing Units			Percent Change	
	2000	1990	1980	1990-2000	1980-90
City of Birmingham	111,927	117,691	114,503	-4.9%	2.8%
Jefferson County	288,162	273,097	259,805	5.5%	5.1%
Birmingham MSA*	395,295	348,470	313,908	13.6%	20.0%

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: Bureau of the Census, U.S. Department of Commerce, Birmingham Regional Chamber of Commerce.

BIRMINGHAM MSA*
RESIDENTIAL CONSTRUCTION ACTIVITY

	Single-Family		Multi-Family	
Year	Permits Issued	Value	Units	Value
1996	4,774	$553,539,000	1,925	$60,771,000
1997	4,333	528,651,000	725	27,579,000
1998	5,076	611,924,000	1,285	51,434,000
1999	4,973	677,045,000	985	49,927,000
2000	4,352	569,298,000	781	42,454,000
2001	4,072	555,612,000	305	12,373,000

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.
Source: U.S. Census Bureau.

Education

The County is home to nine major institutions of higher education, with a combined enrollment of over 33,000.

The largest institution is the University of Alabama at Birmingham (UAB), which includes the University College, the graduate school, and UAB Health Services. The UAB complex, featuring a wide range of undergraduate, graduate and professional programs, is the third-largest educational institution in Alabama, with a total enrollment of 16,016. UAB Health Services includes the Schools of Medicine, Dentistry, Nursing, Optometry, Public Health and

Health-Related Professions. UAB has a full-time payroll exceeding $559 million and is the largest employer in the Birmingham MSA.

Institutions of Higher Education
Jefferson County

Name	Type	Enrollment June 2003
Four-Year		
Birmingham-Southern College	Private	1,550
Miles College	Private	1,838
Samford University	Private	4,485
Southeastern Bible College	Private	250
University of Alabama at Birmingham*	State Supported	16,016
Two-Year		
Bessemer State Technical College	State Supported	1,800
Herzing College of Business & Technology	Private	500
ITT Technical Institute	Private	400
Jefferson State Junior College	State Supported	6,723
Lawson State Community College	State Supported	2,100
Virginia College	Private	2,500

*Includes advanced professional degree students, such as residents and interns.
Source: Birmingham Regional Chamber of Commerce.

Primary and Secondary Education

The Jefferson County School System consists of 62 schools with an enrollment of approximately 42,000 students. The City of Birmingham has 75 schools in its system and approximately 38,000 students. The nine other public school systems in the County encompass 46 schools and more than 30,600 students. In addition, the Birmingham MSA has 79 private and denominational schools with grades ranging from kindergarten through high school.

National Rankings

The following table shows the ranking of the Birmingham MSA for a number of socioeconomic categories in comparison with other metropolitan areas in the nation.

Birmingham MSA* National Ranking
for Selected Categories

Category	2002 Rank Among All 323 United States Metro Markets**
Population	66
Effective Buying Income (EBI)	63
Households with EBI of $150,000 and over	54
Retail Sales	49
Households	65
Buying Power Index†	45

*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA.

**Metro markets as defined by Sales & Marketing Management.

†Buying Power Index is defined as a market's "ability to buy;" it is a weighted index of population, income and retail sales.

Source: "2002 Survey of Buying Power," *Sales & Marketing Management.*

[Remainder of Page Intentionally Left Blank]

Jefferson County, Alabama
Statistical Comparison to City of Birmingham, Birmingham MSA* and State of Alabama (2002)

Area	Population	Percent of Alabama	Households (000)	Percent of Alabama
Birmingham	237,600	5.3%	97.0	5.5 %
Jefferson County	655,300	14.6%	261.9	14.8%
Birmingham MSA*	925,600	20.79%	364.9	20.7%
Alabama	4,474,600	100.0%	1,760.5	100.0%

Area	Total Retail Sales	Percent of Alabama	Household Median EBI	Percent of Alabama	Percent of National Average
Birmingham	$ 3,625,088	7.9%	$26,965	86.59%	70.3%
Jefferson County	9,250,713	20.1%	35,516	114.0%	92.6%
Birmingham MSA*	11,113,904	24.2%	36,669	117.7%	95.6%
Alabama	46,008,635	100.0%	31,162	100.0%	81.2%

Note: Effective Buying Income ("EBI") is generally known as "disposable personal income" and is equal to personal income less personal taxes (federal, state and local), nontax payments (fines, fees and penalties) and personal contributions to Social Security.
*Information is not currently available for the new Birmingham-Hoover MSA. The statistics used herein are for the Birmingham MSA
Source: "2002 Survey of Buying Power," *Sales & Marketing Management.*

Transportation

Commercial airline service is available through Birmingham's airport, which is served by six major carriers--American, Continental, Delta, Northwest, Southwest, and USAirways, and the commuter airlines of Atlantic Southeast, Comair, Continental Express, Delta Connection, Skywest, United Express and U.S. Airways Express. Air cargo service is provided by Airborne Express, BAX Global, Continental Cargo, Federal Express and United Parcel Service. Total passenger traffic at the Airport was 2.81 million for the year ended December 31, 2002.

Over 60 truck lines have terminals in the area. Additionally, Birmingham is served by three major railroads-Norfolk Southern, CSX Corporation and Burlington Northern Sante Fe Railway. Amtrak passenger service is also available.

Barge transportation is available at Port Birmingham in western Jefferson County. These facilities are part of the Warrior-Tombigbee waterway system, which provides access to the Port of Mobile in south Alabama. The area is linked with the Tennessee-Tombigbee waterway system, which connects the County with inland ports in Midwest America.

AIRLINE OPERATIONS
PASSENGERS ON & OFF

Year	Number of Passengers
1991	1,934,305
1992	1,970,201
1993	2,076,326
1994	2,244,181
1995	2,508,205
1996	2,749,403
1997	2,747,225
1998	2,854,917
1999	3,046,220
2000	3,067,777
2001	3,012,729

Source: Birmingham Regional Chamber of Commerce, Executive Director, Birmingham Airport Authority.

Health Care

The area's 21 hospitals and numerous specialized health care facilities have turned Birmingham into a major medical center. The University of Alabama at Birmingham, the area's largest employer, is home to a world-class patient care and research medical center. The Kirklin Clinic, opened in June 1992 by the University of Alabama Health Services Foundation, has enhanced Birmingham's reputation in healthcare.

Birmingham is Alabama's center for advanced technology, with high-technology firms involved in industries such as telecommunications, engineering, aerospace design and computer services, in addition to health care. Southern Research Institute, located in Birmingham's Oxmoor Valley Mixed-Use Development, is the largest nonprofit independent research laboratory located in the Southeast. In 2000, The University of Alabama at Birmingham ranked 29th in federally financed research and development expenditures for science and engineering, and ranked 17th among institutions receiving funding from the National Institutes of Health.

LITIGATION

General

In a case styled Knott et al. v. Jefferson County Commission et al., Civ. Action No. 02-BU-0030-S, filed January 4, 2002 in the United States District Court for the Northern District of Alabama, Southern Division, plaintiffs brought suit challenging the redistricting plan adopted by the County Commission on October 31, 2001. As a part of this suit, plaintiffs request that the County Commission district lines be redrawn. The County has filed a motion to dismiss the Knott action. A redistricting plan has not been submitted to the U.S. Department of Justice. The Knott case was settled by mutual agreement of the parties on or about January 29, 2003. The settlement does not call for any material payment by the County.

The County is a defendant in numerous suits and has been notified of numerous claims against it arising from alleged negligence relating to motor vehicles and other matters relating to the normal operation of a county, as well as suits and claims arising from alleged denial of civil rights. Some of such suits and claims demand damages in large amounts. The County believes that any liability resulting from such suits and claims will be covered adequately by the funds of the County which will be available to discharge such liability without impairing its ability to perform any of its other obligations.

The immunity from tort liability formerly enjoyed by local governmental units in Alabama has been largely eroded by recent court decisions. The Code of Alabama 1975, Title 11, Chapter 93, as amended, prescribes certain maximum limits on the liability of Alabama local governmental units (such as the County) for bodily injury, sickness, disease or death sustained by a person and for damage to or destruction of tangible property. Although the general constitutional validity of Chapter 93 has been upheld by the Supreme Court of Alabama, it has been held to be inapplicable to causes of action under Section 1983 of Title 42 of the United States Code. The County, along with other local governmental units throughout the country, has been increasingly subjected to lawsuits – many of which claim damages in large amounts — for alleged denial of civil rights under the provisions of Section 1983.

The Consent Decree

The County has been a defendant in certain civil actions (collectively referred to as the "Clean Water Act litigation") in which the County allegedly violated various provisions of the federal Clean Water Act, 33 U.S.C. § 1251 et seq. (the "Clean Water Act") in the operation of the System. The plaintiffs in the Clean Water Act litigation included private citizens, an environmental group, and the United States Justice Department, acting at the request and on behalf of the Environmental Protection Agency ("EPA"). The actions were filed and consolidated in the United States District Court, Northern District of Alabama, Southern Division (United States of America v. Jefferson County, Alabama, et al., Civil Action No. 94-G-2947-S, and R. Allen Kipp, Jr. et al. and Cahaba River Society, Inc. v. Jefferson County, Alabama, et al., Civil Action No. 93-G-2492-S).

The thrust of the claims by the plaintiffs in the Clean Water Act litigation was that the System has discharged untreated water containing raw sewage into the Cahaba River and the Black Warrior River and that these discharges violate the standards and limitations of the Clean Water Act as well as the System's various permits issued under the National Pollution Discharge Elimination System (NPDES) of the Clean Water Act. The plaintiffs claimed that the discharges occur during periods of heavy rainfall when the rainwater infiltrates or flows into the lateral and collector lines for the System; that this infiltration and inflow increases the volume of water in the System beyond capacity limits of the System's treatment plants; and that untreated or partially treated waste water above treatment plant capacity limits bypasses the treatment plants and is diverted during these periods directly into rivers in violation of the Clean Water Act and the System's NPDES permits.

On January 20, 1995 the District Court granted partial summary judgment in favor of the plaintiffs, finding that the County and the System were in violation of the Clean Water Act, and directed the parties to engage in settlement discussions with respect to the appropriate remedy. On July 31, 1995 the County announced that it had reached an agreement with the plaintiffs on the essential terms of a settlement; the terms of such settlement are now embodied in a Consent Decree (the "Consent Decree") that was approved and entered by the District Court on December 9, 1996.

The principal component of the Consent Decree is a remedial plan to eliminate bypasses and unpermitted discharges of untreated sewage and sewer system overflows. The action requirements of the decree consist of three phases -- essentially, a planning phase and an investigative phase (both of which have been completed) and an implementation phase -- all of which must occur over a twelve-year period. The Consent Decree provides for stipulated penalties if the County fails to meet submittal dates for plans, reports and schedules under the remedial plans, deadlines for completing remedial work and deadlines relating to the Supplemental Environmental Project referred to below. Such stipulated penalties apply on a per-day basis and are potentially substantial. If EPA makes a written demand for stipulated penalties, the County has the right to contest EPA's position, both directly with EPA and the Court pursuant to dispute resolution provisions in the decree. Moreover, if delays result from causes outside the County's control (force majeure), stipulated penalties may not be assessed. The County does not expect to incur substantial penalties under the decree. The County has not failed to meet any deadline imposed by the Consent Decree and has not been assessed any penalties by EPA.

A significant feature of the Consent Decree is a mechanism to provide for the establishment of a unified County-wide system for collection and treatment of sewage under the authority of the County. Such unification has now been achieved, resulting in the conveyance to the County of all municipal systems in the County. This unification provides the County with the means to address the problems of infiltration and inflow in lateral and collector lines which is the principal objective of the Consent Decree.

Pursuant to the Consent Decree, the County has paid $750,000 to the United States Government as a penalty for past violations of the Clean Water Act. In addition, the County has agreed to undertake a supplemental environmental project ("SEP") at a cost of $30 million that will be financed out of the funds raised to carry out the total remedial project. As of December 2002, the County has paid $30 million into a trust fund for use in developing the SEP.

The economic impact of the Consent Decree on the County and the System is likely to be substantial. The County estimates that the cost of bringing the System into consistent compliance with the Clean Water Act, as required by the Consent Decree, will likely exceed $2.0 billion, not including any stipulated penalties that may be imposed. The financing of costs of this magnitude will require significant increases in the charges payable by the users of the System. However, there can be no assurance that the actual cost of compliance will be within the range of this estimate.

APPENDIX B

FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2001-2002

Report on the

Jefferson County Commission

Jefferson County, Alabama

October 1, 2001 Through September 30, 2002

Filed: March 28, 2003

Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.state.al.us

Ronald L. Jones, Chief Examiner

03-248

Table of Contents

Table of Contents

Table of Contents

State of Alabama
Department of
Examiners of Public Accounts
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-14, we submit this report on the Jefferson County Commission for the period October 1, 2001 through September 30, 2002.

SCOPE AND OBJECTIVES

This report encompasses an audit of the financial statements of the Jefferson County Commission (the "Commission") and a review of compliance by the Commission with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission has complied with applicable laws and regulations.

CONTENTS OF REPORT

This report includes the following segments:

1. ***Report to the Chief Examiner*** – contains items pertaining to state legal compliance, agency operations and other matters.

2. ***Independent Auditor's Report*** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.

3. ***Management's Discussion and Analysis*** – a component of required supplementary information presented by the management of the Commission introducing the basic financial statements and providing an analytical overview of the Commission's financial activities for the year. This information is supplementary information required by the Governmental Accounting Standards Board (GASB).

4. ***Financial Section*** – includes basic financial statements (Exhibits 1 through 11) and notes to the financial statements.

5. ***Required Supplementary Information*** – includes Budget to Actual comparisons (Exhibits 12 through 14) which contains supplementary information required by the Governmental Accounting Standards Board (GASB).

6. ***Supplementary Information*** – includes combining statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds (Exhibits 15 through 24) and the Schedule of Expenditures of Federal Awards (Exhibit 25), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.

7. ***Additional Information*** – contains basic information related to the Commission (Exhibit 26) and the following reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

   Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Exhibit 27) – a report on internal control related to the financial statements and on whether the Commission has complied with laws and regulations which could have a direct and material effect on the Commission's financial statements.

   Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 (Exhibit 28) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Commission complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

   Schedule of Findings and Questioned Costs (Exhibit 29) – a report summarizing the results of the audit findings relating to the financial statements as required by ***Government Auditing Standards*** and findings and questioned costs for federal awards as required by OMB Circular A-133.

   Summary Schedule of Prior Audit Findings (Exhibit 30) – a report, prepared by the Commission, on the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs relative to federal awards.

   Auditee Response/Corrective Action Plan (Exhibit 31) – a response by the Commission on the results of the audit and/or corrective action plan for federal audit findings.

AUDIT COMMENTS

The Jefferson County Commission provides for public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services, educational, cultural and recreational services to the citizens of Jefferson County.

The Birmingham Water Works Board (BWWB) and the City of Bessemer, Alabama-Water Service Department (Bessemer Water Service) bills and collects sewer service charges for the Jefferson County Commission (Commission). For the fiscal year ended September 30, 2002, Bessemer Water Service had not engaged an auditor to provide a report on the entity's internal controls that may be relevant to the Commission's internal controls.

AUDIT FINDINGS

♦ The ***Code of Alabama 1975***, Section 39-2-2 (b), (Alabama Public Works Law) states, that "an awarding authority may let contracts for public works involving fifty thousand dollars ($50,000) or less with or without advertising or sealed bids." For the period October 1, 1998 to September 30, 2002, the Commission awarded approximately 160 contracts for manhole adjustments and installation projects. These contracts were awarded in exactly $50,000.00 increments. The contracts were awarded to approximately nine different vendors.

✓ The following is the approximate number of contracts awarded and payments made on the contracts by fiscal year:

Year	Contracts Awarded	Contract Amount	Actual Payments
1998-1999	4	$ 200,000	$ 196,000
1999-2000	21	1,050,000	973,000
2000-2001	45	2,250,000	2,223,000
2001-2002	90	4,500,000	3,545,000
Total	160	$8,000,000	$6,937,000

✓ It appears that manhole adjustment and installation projects were split in such a manner that each project would be less than the fifty thousand dollar ($50,000) threshold established under the Alabama Public Works Law.

- The ***Code of Alabama 1975***, Section 39-2-2(d), (Alabama Public Works Law) states, that "excluded from the operation of this title shall be contracts with persons who shall perform only architectural, engineering, construction management, program management, or project management services in support of the public works and who shall not engage in actual construction, repair, renovation, or maintenance of the public works with their own forces, by contract, subcontract, purchase order, lease, or otherwise." For the period October 1, 2001 to September 30, 2002, two contracts were awarded to a vendor for engineering and professional services. These contracts totaled $5,500,000.00. Payments of approximately the same amount were made on these contracts. The contracts were for purposes of 1) performing necessary surveys, evaluations and TV inspection of the designated sewer lines. 2) providing engineering analysis to rank the severity of defects and to summarize recommendations, 3) provide other services deemed necessary by the County such as cleaning sewer lines and locating and exposing buried manhole covers.

  - ✓ It appears that the County is not complying with the Alabama Public Works Law by contracting with a vendor to provide professional services and then allowing the vendor to engage in the repair and maintenance of the public works.

- The ***Code of Alabama 1975***, Section 39-2-2 (b), (Alabama Public Works Law) states, that "an awarding authority may let contracts for public works." During the audit period, there was an emergency sewer repair project that exceeded the $50,000 public works threshold and was required to be bid. The Jefferson County Department of Environmental Services, and not the Jefferson County Commission (the awarding authority), awarded the bid.

SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL

The Commission appeared to have complied, in all material respects, with applicable federal laws and regulations governing its major programs. There were no material weaknesses noted in the internal controls related to major federal programs.

STATUS OF PRIOR AUDIT

Findings contained in the prior audit have been resolved except as follows:

- Procedures were not in place to assure that all certificates of deposit for retainage on construction contracts were recorded in the financial statements.

- Procedures were not in place to assure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.

- At September 30, 2002, the following funds had deficit fund balances:

Road Fund	$ 7,460,000
Senior Citizens Fund	$ 1,040,000
Capital Improvements Fund	$30,959,000
Road Construction Fund	$ 2,463,000

RECOMMENDATIONS

- The County should comply with the Alabama Public Works Law when designing public works contracts.

- The County should comply with the Alabama Public Works Law by contracting with vendors to provide professional services and not allow the vendor to engage in the repair and maintenance of the public works.

- The County should comply with the Alabama Public Works Law by assuring that the awarding authority, the Commission, awards all bids.

- Procedures should be implemented to assure that all certificates of deposit for retainage on construction contracts are properly recorded.

- Procedures should be implemented to assure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.

- The Commission should eliminate the deficit fund balances.

Sworn to and subscribed before me this the 12 day of March, 2003.

Kim W. Reynolds
Notary Public

Sworn to and subscribed before me this the 18th day of March, 2003.

Cheryl S. McAlister
Notary Public

Sworn to and subscribed before me this the 18th day of March, 2003.

Cheryl S. McAlister
Notary Public

Sworn to and subscribed before me this the 18th day of March, 2003.

Cheryl S. McAlister
Notary Public

Respectfully submitted,

Larry S. McPherson
Examiner of Public Accounts

Cathy M. Cook

Cathy M. Cook
Examiner of Public Accounts

Roderick Edwards

Roderick Edwards
Examiner of Public Accounts

Elizabeth L. Crowson

Elizabeth L. Crowson
Examiner of Public Accounts

rb

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jefferson County Commission, as of and for the year ended September 30, 2002, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents as Exhibits 1 though 11. These financial statements are the responsibility of the Jefferson County Commission'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 and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. 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.

The financial statements referred to above include only the primary government, the Jefferson County Commission, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Commission's legal entity. The financial statements do not include financial data of the County's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Jefferson County, as of September 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, each major fund, and the aggregate remaining fund information for the primary government, the Jefferson County Commission, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Jefferson County Commission has implemented a new reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement Number 34, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments***, GASB Statement Number 37, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus***, and GASB Statement Number 38, ***Certain Financial Statement Note Disclosures***. This resulted in a change in the format and content of the primary government financial statements.

In accordance with ***Government Auditing Standards***, we have also issued our report dated February 21, 2003 on our consideration of the Jefferson County Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information, Exhibits 12 through 14, are not a required part of the basic financial statements but are 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 25) as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and the combining financial statements (Exhibits 15 through 24) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

February 21, 2003

Management Discussion and Analysis
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Jefferson County, Alabama's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2002. Please read it in conjunction with the County's basic financial statements, which begin on page 1. In this first year of presentation, no comparisons of government-wide data will be presented, but such comparisons will be presented in future years.

FINANCIAL HIGHLIGHTS

- Jefferson County's governmental fund type fund balances decreased approximately $33 million, or 14.8%, while the enterprise fund type fund equity decreased approximately $101 million, or 6.9%. The governmental funds decrease was mainly the result of over $22 million expended for courthouse and jail renovations and $4 million for road construction, all coming from the Capital Projects Funds, with only $4 million in revenue provided from charges for services and amounts received from other governments. Interest expense of $114 million on sewer revenue bonds, combined with $43 million additional depreciation expense on municipal sewer assets taken over by the County, were the main reasons for the enterprise fund equity decrease.

- Total assets for governmental funds decreased approximately $25 million, or 8%, while total assets for enterprise funds increased approximately $439 million, or 12.7%. The governmental funds decrease is almost entirely the result of funds expended from Capital Projects Funds, as noted above. Enterprise funds assets increased mainly from additional cash and investments provided by new revenue bond issues.

- Total revenues for governmental funds increased approximately $10 million, or 3%, while total operating revenues for enterprise funds increased approximately $14 million, or 11%.

- Total expenditures for governmental funds decreased approximately $58 million, or 15%, while total operating expenses for enterprise funds increased approximately $41 million, or 24%. The key factor in the governmental funds decrease was an $81 million decrease in general obligation warrants principal payments. The enterprise fund expense increase relates primarily to a $43 million increase in depreciation expense, resulting from the $1.4 billion in additional municipal sewer assets which were taken over by the County.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (pages 1 through 4) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements (pages 5 through 20) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the County as a Whole

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. The County's net assets – the difference between assets and liabilities – can be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors need to be considered, such as changes in the County's property tax base and the condition of the County's roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

- Governmental activities – Most of the County's basic services are reported here, including general government, public safety, highways and streets, health and welfare, and culture and recreation. Property and sales taxes, occupation license fees, and state grants finance most of these activities.

- Business-type activities – The County charges fees to users to help it cover all or most of the cost of certain services it provides. The County's indigent care hospital, nursing home, landfill, sanitary operations, and parking facilities are reported here.

Reporting the County's Most Significant Funds

The fund financial statements begin on page 5 and provide detailed information about the most significant funds – not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Commission established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's three types of funds – governmental, proprietary, and fiduciary – use different accounting approaches.

- Governmental funds – Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom or immediately following the fund financial statements.

- Proprietary funds – When the County charges users for the services it provides – whether to outside users or to other departments of the County – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact the County's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities – such as the County's Building Services Fund.

- Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the County's own programs.

THE COUNTY AS A WHOLE

Since the prior year was not restated, the following condensed financial information for governmental and business-type activities is for the current year only. In future years, a comparative analysis will be presented.

Net Assets
September 30, 2002
($000 omitted)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	$ 355,379	$ 883,969	$ 1,239,348
Capital assets	257,260	3,006,408	3,263,668
Total assets	612,639	3,890,377	4,503,016
Long-term liabilities	(286,338)	(2,450,485)	(2,736,823)
Other liabilities	(141,335)	(85,326)	(226,661)
Total liabilities	(427,673)	(2,535,811)	(2,963,484)
Net assets:			
Invested in capital assets, net of related debt	(10,970)	591,284	580,314
Restricted	203,958		203,958
Unrestricted	(8,022)	763,282	755,260
Total net assets	$ 184,966	$ 1,354,566	$ 1,539,532

Changes in Net Assets
For the Year Ended September 30, 2002
($000 omitted)

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
Program Revenues:			
Charges for services	$ 44,041	$ 137,046	$ 181,087
Operating grants and			-
contributions	49,568		49,568
Capital grants and			-
contributions	1,250		1,250
General Revenues:			-
Property taxes	73,117	3,128	76,245
Sales taxes	62,834		62,834
Other taxes	9,343		9,343
Occupational license	54,698		54,698
Investment earnings	14,083	43,900	57,983
Miscellaneous	10,238	606	10,844
Total revenues	319,172	184,680	503,852
Program Expenses			
General government	104,496		104,496
Public safety	65,936		65,936
Highways and streets	41,716		41,716
Welfare	14,766		14,766
Culture and recreation	16,187		16,187
Education	200		200
Interest and fiscal charges	15,809		15,809
Hospital		73,375	73,375
Nursing operations		15,279	15,279
Landfill		7,352	7,352
Sanitary operations		234,463	234,463
Parking		326	326
Total expenses	259,110	330,795	589,905
Excess (deficiency) before			
transfers	60,062	(146,115)	(86,053)
Transfers	(45,296)	45,296	-
Increase (decrease) in			
net assets	14,766	(100,819)	(86,053)
Net assets, beginning of year	170,200	1,455,385	1,625,585
Net assets, end of year	$ 184,966	$ 1,354,566	$ 1,539,532

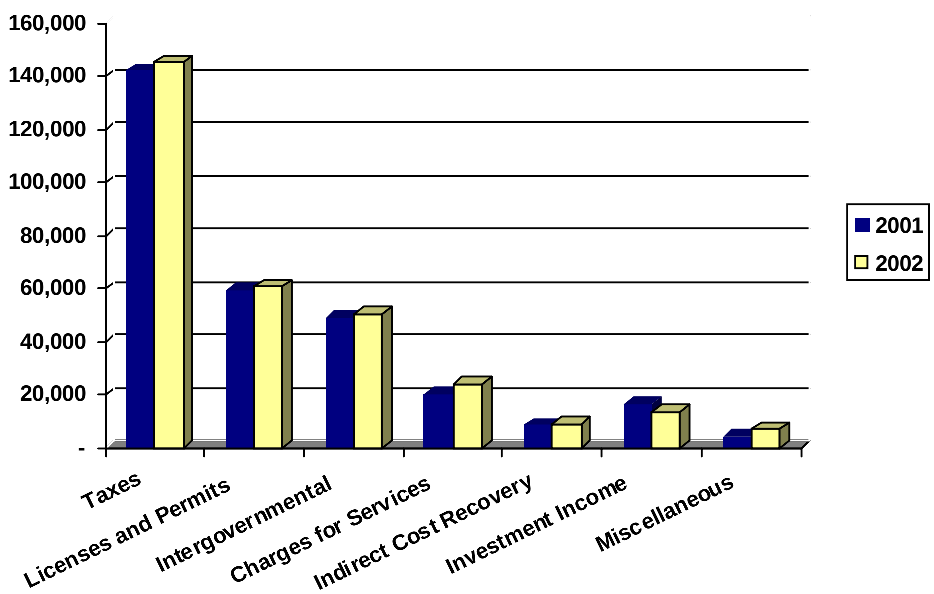
THE COUNTY'S FUNDS

Governmental Funds

Information below compares revenues and expenditures for all governmental fund types for fiscal years ended September 30, 2002 and 2001.

($000 omitted)

Revenues by Source:	2002	2001	$ change	% change
Taxes	$ 145,295	$ 142,261	$ 3,034	2.13%
Licenses and Permits	60,903	59,846	1,057	1.77%
Intergovernmental	50,817	48,974	1,843	3.76%
Charges for Services	24,478	20,460	4,018	19.64%
Indirect Cost Recovery	9,088	8,704	384	4.41%
Investment Income	13,888	16,893	(3,005)	-17.79%
Miscellaneous	7,394	4,838	2,556	52.83%
Total Revenues	$ 311,863	$ 301,976	$ 9,887	3.27%



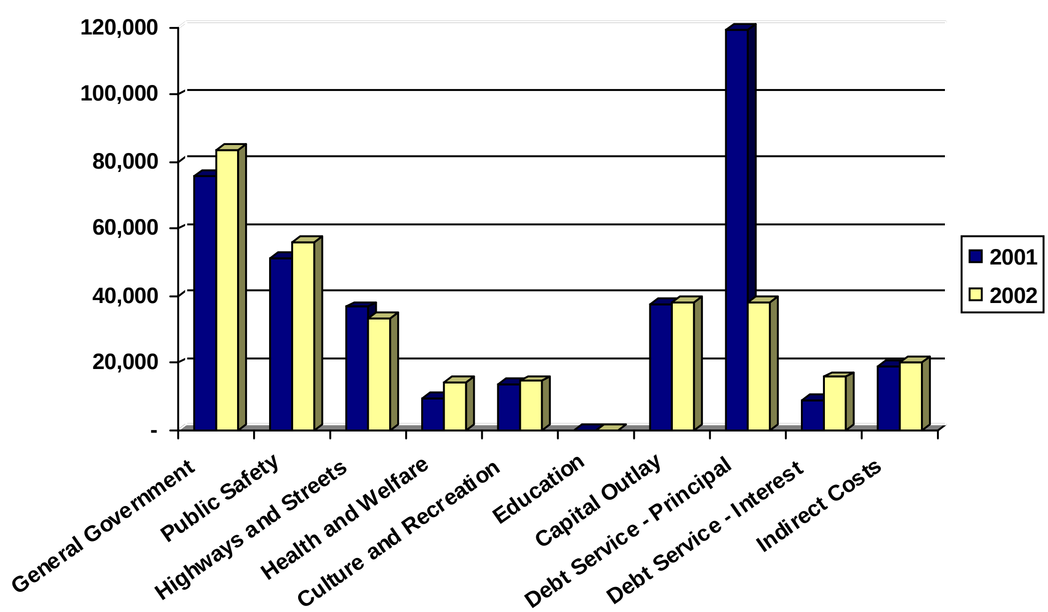
The large increase in charges for services was the result of $2.5 million received into the Road Construction Capital Projects Fund for construction of the Barber Motorsport Parkway.

The decrease in investment income was due to less funds being available for investment, a reduction in the rates of return, and more funds available in the previous fiscal year from the issuance of the 2001-A General Obligation Warrants in the amount of $82 million.

The increase in miscellaneous revenue was the result of an additional $2.7 million received related to the County's contract with Children's Hospital for care of indigent pediatric patients.

($000 omitted)

Expenditures by Function:	**2002**	**2001**	**$ change**	**% change**
General Government	$ 83,525	$ 75,665	$ 7,860	10.39%
Public Safety	56,337	51,314	5,023	9.79%
Highways and Streets	33,554	36,718	(3,164)	-8.62%
Health and Welfare	14,209	9,604	4,605	47.95%
Culture and Recreation	14,684	13,758	926	6.73%
Education	200	197	3	1.52%
Capital Outlay	38,242	37,872	370	0.98%
Debt Service - Principal	38,143	119,345	(81,202)	-68.04%
Debt Service - Interest and Fiscal Charges	15,948	9,201	6,747	73.33%
Indirect Cost	20,399	19,092	1,307	6.85%
Total Expenditures	$ 315,241	$ 372,766	$ (57,525)	-15.43%



The increase in general government expenditures was the result of an approximately $1 million increase paid to Children's Hospital for care of indigent pediatric patients, $1.6 million for a digital tax system, plus a large increase in employees' health care premiums.

Public safety experienced a large increase in personnel costs due to increased security at County facilities. In addition, $1.3 million was paid for a contract to provide health services to jail inmates.

The large increase in health and welfare expenditures was the result of approximately $4.6 million paid to United Way for services under a youth grant.

During 2001, the 1996 and 1999 general obligation warrants were refunded, which accounted for the unusually large principal payment amount.

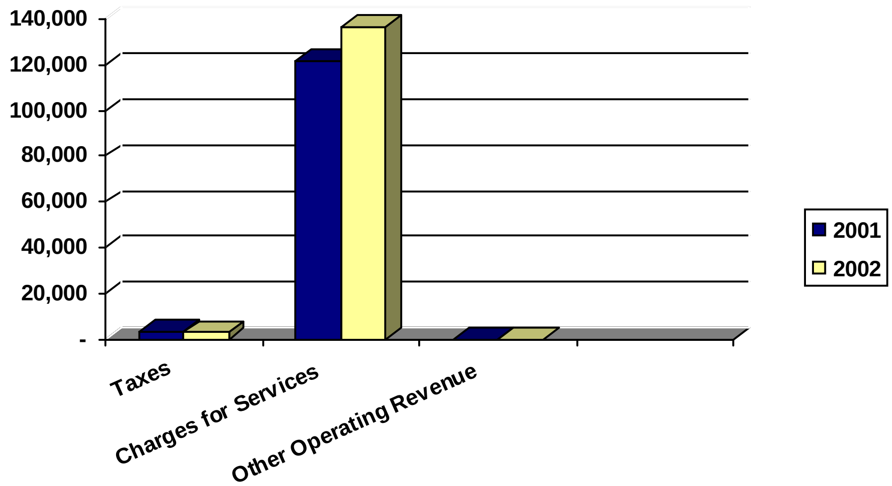
During 2002, approximately $7 million of interest expense was paid on interest rate swap transactions. Interest earned on swap transactions is recorded in interest income.

($000 omitted) **Fund Balance**	
Revenues	$ 311,863
Expenditures	(315,241)
Net Other Financing Sources (Uses)	(29,842)
Net Change in Fund Balance	$ (33,220)

Enterprise Funds

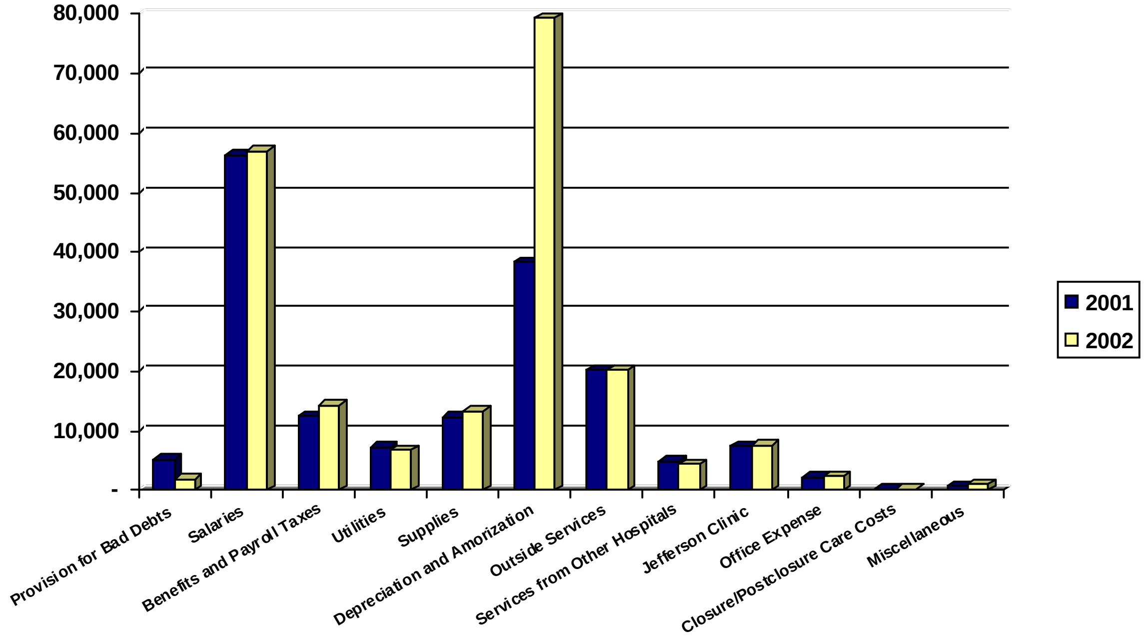
Information below compares revenues and expenses for all enterprise funds for fiscal years ended 2002 and 2001.

($000 omitted) **Operating Revenues**	**2002**	**2001**	**$ change**	**% change**
Taxes	3,128	3,806	(678)	-17.81%
Charges for Services	136,391	121,653	14,738	12.11%
Other Operating Revenue	244	219	25	11.42%
Total Operating Revenues	139,763	125,678	14,085	11.21%



On January 1, 2002, the sewer rate increased from $3.01 per hundred cubic feet of water used to $3.53 per hundred cubic feet, or 17.3%, thereby resulting in a significant increase in charges for services for fiscal year 2002.

($000 omitted) Operating Expenses	2002	2001	$ change	% change
Provision for Bad Debts	$ 1,869	$ 5,224	$ (3,355)	-64.22%
Salaries	56,920	56,393	527	0.93%
Benefits and Payroll Taxes	14,276	12,491	1,785	14.29%
Utilities	6,743	7,173	(430)	-5.99%
Supplies	13,209	12,417	792	6.38%
Depreciation and Amorization	79,274	38,280	40,994	107.09%
Outside Services	20,146	20,157	(11)	-0.05%
Services from Other Hospitals	4,426	4,963	(537)	-10.82%
Jefferson Clinic	7,672	7,495	177	2.36%
Office Expense	2,454	2,151	303	14.09%
Closure/Postclosure Care Costs	273	134	139	103.73%
Miscellaneous	1,013	738	275	37.26%
Total Operating Expenses	$ 208,275	$ 167,616	$ 40,659	24.26%



The County is doing a better job of collecting its overdue accounts, thereby reducing the balance of the bad debt allowance.

The increase in employee health insurance premiums accounted for the increase in benefits.

Depreciation expense increased $43 million due to the $1.4 billion in additional municipal sewer assets that were taken over by the County.

($000 omitted)

Fund Equity	
Operating Revenues	$ 139,763
Operating Expenses	(208,275)
Net Nonoperating Revenues (Expenses)	(77,605)
Net Operating Transfers	45,296
Net Change in Fund Equity	$ (100,821)

BUDGETS

Throughout the year, the original budget is amended to reflect changes in funding needs. The County has established policies and procedures for amending the budget.

Statements reflecting original and final budgets, plus actual compared to final budget amounts, are shown on pages 64 through 66 for the general fund and all major governmental funds. The original budget for state intergovernmental revenue in the general fund was reduced $3.4 million for a digital tax system which state funds were initially budgeted to fund. The digital tax system increased the expenditure budgets of the Board of Equalization and Tax Assessor by a combined total of $1.6 million. The nondepartmental original budget was increased by $1.3 million for retirement credit and health insurance increases, $400,000 for Treatment Alternatives to Street Crime grant, and $180,000 for a Department of Justice mental health grant. The Sheriff's budget was increased $1.4 million to fund the jail inmate health services program. A $1 million increase was made to the Culture and Recreation budget for a biomedical grant to the University of Alabama at Birmingham.

CAPITAL ASSET AND DEBT ADMININSTRATION

Capital Assets

At the end of fiscal year 2002, the County had $468 million invested in a broad range of general fixed assets, including buildings, roads, bridges, and public safety equipment. This amount represents a net increase (including additions and deductions) of $77 million, or 19.5%, over the previous year. In addition, capital assets invested in enterprise funds was $3.5 billion, a net increase over the previous year of $359 million, or 11.2%.

Debt

At fiscal year end, the County had $268 million outstanding in general obligation warrants and $2.437 billion outstanding in sewer revenue bonds. The general obligation warrants are currently-issued warrants or refundings of previously-issued warrants, proceeds of which were used to finance various general County construction projects and capital equipment purchases. The proceeds of the sewer revenue bonds are being used to upgrade and expand the sanitary sewer system.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Office of the Finance Director, 716 Richard Arrington, Jr. Boulevard North, Suite 810, Birmingham, Alabama 35203.

This Page Intentionally Blank

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

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash and Investments	$ 84,188	$ 13,304	$ 97,492
Accounts Receivable, Net	131	14,653	14,784
Patient Accounts Receivable, Net		7,843	7,843
Loans Receivable, Net	3,359		3,359
Property Taxes Receivable, Net	62,788	3,434	66,222
Interest Receivable	10	667	677
Due from Other Governments	37,714	1,139	38,853
Inventories	3,424	1,380	4,804
Prepaid Expenses	217	1,777	1,994
Total Current Assets	191,831	44,197	236,028
Noncurrent Assets:			
Deferred Charges	109	39,965	40,074
Deferred Loss on Early Retirement of Debt		2,322	2,322
Advances Due from Other Funds	19,489	(19,489)	
Restricted Assets - Noncurrent	143,950	816,974	960,924
Capital Assets, Net of Depreciation	257,260	3,006,408	3,263,668
Total Noncurrent Assets	420,808	3,846,180	4,266,988
Total Assets	612,639	3,890,377	4,503,016
Liabilities			
Current Liabilities:			
Cash Deficit	36,757	5,680	42,437
Accounts Payable	20,573	43,619	64,192
Deposits Payable		30	30
Due to Other Governments	4,775		4,775
Deferred Revenue	68,590	3,662	72,252
Accrued Wages Payable	2,991	1,423	4,414
Accrued Interest Payable	6,242	18,407	24,649
Retainage Payable	1,407	12,505	13,912
Long-Term Liabilities:			
Portion Due or Payable Within One Year:			
Warrants Payable	17,145	13,300	30,445
Estimated Liability for Compensated Absences	1,366	609	1,975
Estimated Claims Liability	3,038		3,038
Total Current Liabilities	162,884	99,235	262,119
Noncurrent Liabilities:			
Portion Due or Payable After One Year:			
Arbitrage Rebate Payable		2,383	2,383
Warrants Payable	251,085	2,424,455	2,675,540
Estimated Liability for Landfill Closure/ Postclosure Care Costs		3,587	3,587
Estimated Liability for Compensated Absences	13,704	6,151	19,855
Total Noncurrent Liabilities	264,789	2,436,576	2,701,365
Total Liabilities	427,673	2,535,811	2,963,484
Net Assets			
Invested in Capital Assets, Net of Related Debt	(10,970)	591,284	580,314
Restricted for:			
Debt Service	194,388		194,388
Other Purposes	9,570		9,570
Unrestricted	(8,022)	763,282	755,260
Total Net Assets	$ 184,966	$ 1,354,566	$ 1,539,532

The accompanying Notes to the Financial Statements are an integral part of this statement.

This Page Intentionally Blank

Statement of Activities
For the Year Ended September 30, 2002
(In Thousands)

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General Government	$ 104,496	$ 37,312	$ 24,489
Public Safety	65,936	3,153	2,022
Highways and Roads	41,716	3,486	8,441
Welfare	14,766	90	14,616
Culture and Recreation	16,187		
Education	200		
Interest and Fiscal Charges	15,809		
Total Governmental Activities	259,110	44,041	49,568
Business-Type Activities:			
Hospital	73,375	32,832	
Nursing Operations	15,279	9,740	
Landfill	7,352	3,784	
Sanitary Operations	234,463	90,468	
Parking	326	222	
Total Business Type Activities	330,795	137,046	
Total Primary Government	$ 589,905	$ 181,087	$ 49,568

General Revenues:
Taxes:
Property Taxes
Sales Tax
Other Taxes
Occupational License
Unrestricted Investment Earnings
Miscellaneous
Transfers
Total General Revenues, Special Items and Transfers

Change in Net Assets

Net Assets Beginning of Year, as Restated (Note 22)

Net Assets End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities	Business-Type Activities	Totals
$	$ (42,695)	$	$ (42,695)
1,250	(59,511)		(59,511)
	(29,789)		(29,789)
	(60)		(60)
	(16,187)		(16,187)
	(200)		(200)
	(15,809)		(15,809)
1,250	(164,251)		(164,251)
		(40,543)	(40,543)
		(5,539)	(5,539)
		(3,568)	(3,568)
		(143,995)	(143,995)
		(104)	(104)
		(193,749)	(193,749)
$ 1,250	(164,251)	(193,749)	(358,000)
	73,117	3,128	76,245
	62,834		62,834
	9,343		9,343
	54,698		54,698
	14,083	43,900	57,983
	10,238	606	10,844
	(45,296)	45,296	
	179,017	92,930	271,947
	14,766	(100,819)	(86,053)
	170,200	1,455,385	1,625,585
	$ 184,966	$ 1,354,566	$ 1,539,532

Balance Sheet
Governmental Funds
September 30, 2002
(In Thousands)

	General Fund	Indigent Care Fund
Assets		
Cash and Investments	$ 39,746	$ 219
Accounts Receivable, Net	51	
Loans Receivable, Net		
Property Taxes Receivable, Net	27,470	
Interest Receivable		
Due from Other Governments	20,946	6,038
Inventories	183	
Prepaid Expenses	77	
Advances Due from Other Funds		
Total Assets	88,473	6,257
Liabilities and Fund Balances		
Liabilities:		
Cash Deficit		
Accounts Payable	10,896	
Due to Other Governments	121	
Deferred Revenue	29,336	
Retainage Payable		
Accrued Wages and Benefits Payable	2,042	
Accrued Interest Payable		
Estimated Liability for Compensated Absences	804	
Total Liabilities	43,199	
Fund Balances:		
Reserved for:		
Inventories	183	
Petty Cash	76	
Mapping and Reappraisal	2,652	
Cooper Green Hospital Foundation		186
Debt Service		
Encumbrances	1,785	
Prepaid Expenses	77	
Loans Receivable		
Advances Due from Other Funds		
Unreserved, Reported In:		
General Fund	40,501	
Special Revenue		6,071
Capital Projects		
Total Fund Balances	45,274	6,257
Total Liabilities and Fund Balances	$ 88,473	$ 6,257

The accompanying Notes to the Financial Statements are an integral part of this statement.

Road Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
$ 1,419	$ 161,095	$ 4,967	$ 207,446
		2	53
		3,359	3,359
10,301		25,017	62,788
		10	10
879		4,241	32,104
2,115			2,298
1		2	80
	19,489		19,489
14,715	180,584	37,598	327,627
		31,662	31,662
4,413		4,466	19,775
4,648		6	4,775
10,985		28,269	68,590
1,407			1,407
415		51	2,508
	6,241		6,241
307		1	1,112
22,175	6,241	64,455	136,070
2,115			2,298
1		1	78
			2,652
			186
	154,854		154,854
1,679		34,907	38,371
1		2	80
		3,359	3,359
	19,489		19,489
			40,501
(11,256)		(7,817)	(13,002)
		(57,309)	(57,309)
(7,460)	174,343	(26,857)	191,557
$ 14,715	$ 180,584	$ 37,598	$ 327,627

This Page Intentionally Blank

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets September 30, 2002 (In Thousands)

Total Fund Balances - Governmental Funds (Exhibit 3)		$	191,557
Amounts Reported for Governmental Activities in the Statement of Net Assets (Exhibit 1) are Different Because:			
Capital Assets Used in Governmental Activities are Not Financial Resources and Therefore are Not Reported as Assets in Governmental Funds. These Assets Were Added as Net Capital Assets in the Following Amount:			234,994
Deferred Charges Related to Issuance of Long-Term Liabilities are Not Reported in the Funds.			109
Internal Service Funds are Used by Management to Charge the Costs of Certain Activities and Risk Management to Individual Funds. The Assets and Liabilities of Certain Internal Service Funds are Included in the Statement of Net Assets.			37,667
Long-Term Liabilities are Not Due and Payable in the Current Period and Therefore are Not Reported as Liabilities in the Funds. Long-Term Liabilities at Year-End Consist of:			
General Obligation Warrants Payable	268,230		
Estimated Liability for Compensated Absences	11,131		
			(279,361)
Total Net Assets - Governmental Activities (Exhibit 1)		$	184,966

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2002
(In Thousands)

	General Fund	Indigent Care Fund
Revenues		
Taxes	$ 65,377	$ 38,436
Licenses and Permits	60,903	
Intergovernmental	19,460	
Charges for Services	20,557	
Indirect Cost Recovery	9,088	
Miscellaneous	389	6,632
Interest	8,450	4
Total Revenues	184,224	45,072
Expenditures		
Current:		
General Government	67,307	7,554
Public Safety	55,147	
Highways and Roads		
Welfare	703	
Culture and Recreation	14,684	
Education	200	
Capital Outlay	2,316	
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs		
Indirect Costs	15,893	13
Total Expenditures	156,250	7,567
Excess (Deficiency) of Revenues Over Expenditures	27,974	37,505
Other Financing Sources (Uses)		
Debt Issued		
Premiums on Debt Issued		
Proceeds from Sale of Capital Assets	31	
Transfers In	1	745
Transfers Out	(28,948)	(38,402)
Total Other Financing Sources (Uses)	(28,916)	(37,657)
Net Change in Fund Balances	(942)	(152)
Fund Balances at Beginning of Year, as Restated (Note 22)	46,216	6,409
Fund Balances at End of Year	$ 45,274	$ 6,257

The accompanying Notes to the Financial Statements are an integral part of this statement.

Road Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
$ 12,674	$	$ 28,808	$ 145,295
			60,903
7,739	798	22,822	50,819
204	8	3,708	24,477
			9,088
37		337	7,395
	5,091	344	13,889
20,654	5,897	56,019	311,866
		8,664	83,525
		1,189	56,336
32,224		1,330	33,554
		13,506	14,209
			14,684
			200
4,394		31,532	38,242
	40,700		40,700
	13,252		13,252
	139		139
3,776	61	658	20,401
40,394	54,152	56,879	315,242
(19,740)	(48,255)	(860)	(3,376)
	20,065		20,065
	728		728
231		26	288
15,812	31,457	3,858	51,873
(176)	(1,885)	(33,387)	(102,798)
15,867	50,365	(29,503)	(29,844)
(3,873)	2,110	(30,363)	(33,220)
(3,587)	172,233	3,506	224,777
$ (7,460)	$ 174,343	$ (26,857)	$ 191,557

This Page Intentionally Blank

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
(In Thousands)

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)		$	(33,220)
Amounts Reported for Governmental Activities in the Statement of Activities (Exhibit 2) 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. This is the Amount by Which Capital Outlays ($38,242) Exceeded Depreciation ($14,909) in the current period.			23,333
Bond Proceeds Provide Current Financial Resources to Governmental Funds, but issuing Debt Increases Long-Term Liabilities in the Statement of Net Assets. Repayment of Bond Principal is an Expenditure in the Governmental Funds, but the Repayment Reduces Long-Term Liabilities in the Statement of Net Assets. This is the Amount by Which Repayments Exceeded Proceeds.			
Debt Issued:			
Refunding Warrants	(20,065)		
Premium on Refunding Debt	(728)		
Repayments:			
Principal	40,700		
Net Adjustment			19,907
Some Expenditures Reported in the Governmental Funds are Deferred on the Statement of Net Assets, this Includes Bond Issuance Costs.			139
Some Expenses Reported in the Statement of Activities do not Require the Use of Current Financial Resources and Therefore are Not Reported as Expenditures in Governmental Funds. The Current Year Increases in Estimated Liability for Compensated Absences ($936) Exceeded Amortization of Deferred Charges ($2).			(934)
Internal Service Funds are Used by Management to Charge the Costs of Certain Activities, Such as Building Services and Risk Management to Individual Funds. The Net Revenue and Expense of Certain Internal Service Funds is Reported With Governmental Activities.			5,541
Change in Net Assets of Governmental Activities (Exhibit 2)		$	14,766

The accompanying Notes to the Financial Statements are an integral part of this statement.

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

	Cooper Green Hospital Fund	Sanitary Operations Fund
Assets		
Current Assets:		
Cash and Investments	$	$ 13,300
Accounts Receivable, Net	48	12,395
Patient Accounts Receivable, Net	6,058	
Interest Receivable		667
Due from Other Governments	576	563
Inventories	953	344
Prepaid Expenses	1,767	9
Property Taxes Receivable, Net		3,434
Total Current Assets	9,402	30,712
Noncurrent Assets:		
Deferred Loss on Early Debt Retirement		2,322
Deferred Charges		39,798
Restricted Assets - Noncurrent Cash		816,974
Capital Assets, Net Where Applicable	12,456	2,932,952
Total Noncurrent Assets	12,456	3,792,046
Total Assets	$ 21,858	$ 3,822,758

Other Enterprise Funds	Totals	Internal Service Funds
$ 4	$ 13,304	$ 20,692
2,210	14,653	79
1,785	7,843	
	667	
	1,139	5,613
83	1,380	1,126
1	1,777	136
	3,434	
4,083	44,197	27,646
	2,322	
167	39,965	
	816,974	
61,000	3,006,408	22,263
61,167	3,865,669	22,263
$ 65,250	$ 3,909,866	$ 49,909

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

	Cooper Green Hospital Fund	Sanitary Operations Fund
Liabilities		
Current Liabilities:		
Cash Deficit	$ 4,309	$
Accounts Payable	1,169	42,305
Deposits Payable		
Deferred Revenue		3,662
Accrued Wages and Benefits Payable	665	522
Accrued Interest Payable		18,384
Retainage Payable		12,505
Estimated Liability for Compensated Absences	210	310
Warrants Payable		13,300
Estimated Claims Liability		
Total Current Liabilities	6,353	90,988
Noncurrent Liabilities:		
Advances Due to Other Funds		
Arbitrage Rebate Payable		2,383
Warrants Payable		2,424,455
Estimated Liability for Landfill Closure/ Postclosure Care Costs		
Estimated Liability for Compensated Absences	2,118	3,131
Total Noncurrent Liabilities	2,118	2,429,969
Total Liabilities	8,471	2,520,957
Net Assets		
Invested in Capital Assets, Net of Related Debt	12,456	537,317
Unrestricted	931	764,484
Total Net Assets	$ 13,387	$ 1,301,801

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Enterprise Funds	Totals	Internal Service Funds
$ 1,371	$ 5,680	$ 5,095
145	43,619	798
30	30	
	3,662	
236	1,423	484
23	18,407	
	12,505	
89	609	254
	13,300	
		3,038
1,894	99,235	9,669
19,489	19,489	
	2,383	
	2,424,455	
3,587	3,587	
902	6,151	2,573
23,978	2,456,065	2,573
25,872	2,555,300	12,242
41,511	591,284	22,263
(2,133)	763,282	15,404
$ 39,378	$ 1,354,566	$ 37,667

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2002
(In Thousands)

		Cooper Green Hospital Fund		Sanitary Operations Fund
Operating Revenues				
Taxes	$		$	3,128.00
Intergovernmental				
Charges for Services		32,816		89,963
Other Operating Revenue		16		505
Total Operating Revenues		32,832		93,596
Operating Expenses				
Provision for Bad Debt		2,253		
Salaries		26,756		20,677
Employee Benefits and Payroll Taxes		5,935		5,865
Materials and Supplies		9,667		1,977
Utilities		913		4,965
Outside Services		10,268		6,019
Services from Other Hospitals		4,426		
Jefferson Clinic		7,672		
Office Expense		1,188		890
Depreciation and Amortization		1,789		74,943
Landfill Closure and Postclosure Care Costs				
Miscellaneous		818		162
Total Operating Expenses		71,685		115,498
Operating Income (Loss)		(38,853)		(21,902)
Nonoperating Revenues (Expenses)				
Interest Expense		(18)		(114,324)
Interest Revenue		13		43,816
Miscellaneous				635
Amortization of Bond Issue Costs				(1,660)
Indirect Costs		(1,672)		(2,981)
Gain/(Loss) on Sale of Capital Assets				(1,479)
Indirect Cost Recovery				
Total Nonoperating Revenues (Expenses)		(1,677)		(75,993)
Operating Transfers				
Transfers In		38,402		
Transfers Out				
Total Operating Transfers		38,402		
Change in Net Assets		(2,128)		(97,895)
Total Net Assets - Beginning of Year, as Restated (Note 22)		15,515		1,399,696
Total Net Assets - End of Year	$	13,387	$	1,301,801

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Enterprise Funds	Totals	Internal Service Funds
$	$ 3,128	$
		4,949
13,614	136,393	20,819
132	653	
13,746	140,174	25,768
25	2,278	
9,488	56,921	18,725
2,476	14,276	5,223
1,565	13,209	3,566
864	6,742	3,184
3,859	20,146	8,803
	4,426	
	7,672	
376	2,454	899
2,543	79,275	2,801
273	273	
33	1,013	470
21,502	208,685	43,671
(7,756)	(68,511)	(17,903)
(337)	(114,679)	
71	43,900	193
1,407	2,042	1,404
(9)	(1,669)	
(1,109)	(5,762)	(266)
43	(1,436)	(21)
		17,502
66	(77,604)	18,812
8,152	46,554	6,550
(1,258)	(1,258)	(921)
6,894	45,296	5,629
(796)	(100,819)	6,538
40,174	1,455,385	31,129
$ 39,378	$ 1,354,566	$ 37,667

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2002
(In Thousands)

	Cooper Green Hospital Fund	Sanitary Operations Fund
Cash Flows from Operating Activities		
Cash Received for Services	$ 33,671	$ 88,614
Other Operating Revenues	16	3,458
Cash Payments to Employees	(32,559)	(26,181)
Cash Payments for Goods and Services	(37,669)	(8,667)
Net Cash Provided (Used) by Operating Activities	(36,541)	57,224
Cash Flows from Non-Capital Financing Activities		
Operating Transfers Out		
Operating Transfers In	38,402	
Increase/(Decrease) in Cash Deficit	1,849	
Received from Auxiliary Services		635
Indirect Cost	(1,672)	(2,981)
Indirect Cost Recovery		
Net Cash Provided (Used) by Non-Capital Financing Activities	38,579	(2,346)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	(2,138)	(346,144)
Proceeds from Sale of Capital Assets	105	3,132
Interest Paid	(18)	(112,213)
Proceed from Bond Issues		650,000
Principal Payments on Warrants		(8,495)
Bond Issuance Costs		(7,416)
Retainage Payments		(616)
Arbitrage Payments		(2,082)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,051)	176,166
Cash Flows from Investing Activities		
Interest Received	13	43,502
Net Cash Flows Provided by Investing Activities	13	43,502
Net Increase (Decrease) in Cash		274,546
Cash and Investments, Beginning of Year		555,728
Cash and Investments, End of Year	$	$ 830,274

Other Enterprise Funds	Totals	Internal Service Funds
$ 11,961	$ 134,246	$ 20,745
132	3,606	2,630
(11,911)	(70,651)	(23,631)
(6,496)	(52,832)	(19,443)
(6,314)	14,369	(19,699)
(1,258)	(1,258)	(921)
8,152	46,554	6,550
1,338	3,187	2,503
1,407	2,042	1,404
(1,109)	(5,762)	(266)
		17,502
8,530	44,763	26,772
(2,279)	(350,561)	(6,246)
91	3,328	1,031
(315)	(112,546)	
	650,000	
	(8,495)	
	(7,416)	
	(616)	
	(2,082)	
(2,503)	171,612	(5,215)
71	43,586	193
71	43,586	193
(216)	274,330	2,051
220	555,948	18,641
$ 4	$ 830,278	$ 20,692

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2002
(In Thousands)

	Cooper Green Hospital Fund	Sanitary Operations Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income/(Loss)	$ (38,853)	$ (21,902)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	1,789	74,943
(Increase)/Decrease in Prepaid Expenses	209	(4)
(Increase)/Decrease in Accounts Receivable	(12)	(1,395)
(Increase)/Decrease in Patient Receivables	1,085	
(Increase)/Decrease in Due from Other Governments	(219)	47
(Increase)/Decrease in Inventories	(60)	152
Increase/(Decrease) in Accounts Payable	(612)	4,788
Increase/(Decrease) in Deferred Revenue		234
Increase/(Decrease) in Advances Due to Other Funds		
Increase/(Decrease) in Deposits Payable		
Increase/(Decrease) in Accrued Wages and Benefits Payable	119	96
Increase/(Decrease) in Estimated Liability for Compensated Absences	13	265
Increase/(Decrease) in Estimated Liability for Landfill Closure/Postclosure Care Costs		
Increase/(Decrease) in Estimated Claims Payable		
Total Adjustments	2,312	79,126
Net Cash Provided (Used) by Operating Activities	$ (36,541)	$ 57,224

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Enterprise Funds		Totals		Internal Service Funds
$	(7,756)	$ (68,511)	$	(17,903)
	2,543	79,275		2,801
		205		(62)
	(1,455)	(2,862)		(71)
	(197)	888		
		(172)		(2,321)
	9	101		7
	(13)	4,163		(863)
		234		
	289	289		
	(19)	(19)		
	38	253		120
	15	293		195
	232	232		
				(1,602)
	1,442	82,880		(1,796)
$	(6,314)	$ 14,369	$	(19,699)

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

	General Retirement System	Agency Funds
Assets		
Cash and Investments	$ 637,050	$ 3,112
Loans Receivable		465
Interest Receivable	5,010	
Total Assets	642,060	3,577
Liabilities		
Accounts Payable	377	
Due to External Organizations		2,228
Due to Other Governments		1,349
Total Liabilities	377	$ 3,577
Net Assets		
Reserved for Contingent Refunds	69,891	
Reserved for Retirement and Disability Benefits	571,792	
Total Net Assets	$ 641,683	

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Pension Trust Fund
For the Year Ended September 30, 2002
(In Thousands)

		General Retirement System
Additions		
Investment Income		
Net Appreciation in Fair Value of Investments	$	15,007
Interest		21,242
Dividends		3,796
Total Investment Income		40,045
Less: Investment Manager Fees		1,496
Sub-Total		38,549
Contributions		
Members		8,184
Employer		8,189
Total Contributions		16,373
Other		
Pistol Permits		240
Other Income		8
Sub-Total		248
Total Additions		55,170
Deductions		
Net Depreciation in Common Stocks		64,742
Participant Expenses		
Benefits Paid to Participants and Beneficiaries		17,611
Refunds of Member Contributions		1,245
Interest Paid on Refunds of Member Contributions		72
Sub-Total		18,928
Administrative Expenses		
Office Expenses		296
Other Expenses		67
Sub-Total		363
Total Deductions		84,033
Change in Net Assets		(28,863)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		670,546
End of Year	$	641,683

The accompanying Notes to the Financial Statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Jefferson County Commission (the "Commission"), except for the exclusion of the component units discussed below, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

In June 1999, the GASB approved Statement Number 34 ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments***. This Statement provides for significant changes in financial reporting for state and local governments. Some of the significant changes include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Jefferson County Commission's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting.
- Reporting infrastructure assets (roads, bridges, etc.).
- Recording of depreciation expense on all capital assets.
- A change in the fund financial statements to focus on major funds.
- Budget comparison schedules, containing the original budget and amended final budget, for the general fund and each major special revenue fund.

These and other changes are reflected in the accompanying government-wide and fund financial statements (including the notes to the financial statements). The Jefferson County Commission has implemented the provisions of the Statement in the current fiscal year. The Commission will retroactively report infrastructure (assets acquired prior to October 1, 2001) by or before the fiscal year ending September 30, 2006.

A. Reporting Entity

Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting the following criteria: 1) the primary government appoints a voting majority of the organization's governing body and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government or 2) the potential component unit is fiscally dependent on the primary government. A potential component unit is considered fiscally dependent if it does not have the authority to do all three of the following: 1) determine its own budget without another government having the authority to approve and modify that budget, 2) levy taxes or set rates or charges without approval by another government, and 3) issue bonded debt without approval by another government.

Based on the application of the above criteria, the following entities are component units of the Commission: Jefferson County Tax Collector - Birmingham and Bessemer Divisions, Tax Assessor - Birmingham and Bessemer Divisions, Revenue Department, Probate Judge - Birmingham and Bessemer Division, Sheriff, Treasurer - Birmingham Division and Deputy Treasurer - Bessemer Division. Separate legal compliance examination reports are issued for these component units and these reports can be obtained from the State of Alabama, Department of Examiners of Public Accounts.

The accompanying financial statements reflect the activity of the Commission (the primary government), and do not include all of the financial activities of the component units listed above as required by generally accepted accounting principles.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Commission reports the following major governmental funds:

- ***General Fund*** **–** The general fund is the primary operating fund of the County. It is used to account for financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes, occupational taxes, county sales taxes and revenues collected by the State of Alabama and shared with the County.

- ***Indigent Care Fund*** **–** This fund is used to account for the expenditure of beverage and sales taxes designated for indigent county residents.

- ***Road Fund*** **–** This fund is used to account for the County's share of the following taxes: 7-cent and 4-cent per gallon gasoline tax, the 5-cent per gallon supplemental excise tax, the 2-cent per gallon inspection fee, motor vehicle and truck license taxes and fees, and driver's license revenue. Revenues are earmarked for building and maintaining county roads and bridges.

- ***Debt Service Fund*** **–** This fund is used to account for the accumulation of resources for, and the payment of, the Commission's principal and interest on governmental bonds.

Other non-major governmental funds are as follows:

- ***Senior Citizens' Activities Fund*** **–** This fund is used to account for the expenditure of federal and county funds to provide social, nutritional, transportation, and other services to elderly residents of Jefferson County.

- ***Bridge and Public Building Fund*** – This fund is used to account for the expenditure of special county property taxes for building and maintaining public buildings, roads and bridges.

- ***Community Development Fund*** **–** This fund is used to account for the expenditure of federal block grant funds.

- ***CDBG/EDA Revolving Loan Fund*** – This fund is used to account for the Commission's administration of various loan programs for rental housing rehabilitation and economic development.

- ***Home Grant Fund*** – This fund is used to account for the expenditure of funds received from the U. S. Department of Housing and Urban Development.

- ***Emergency Management Fund*** – This fund is used to account for the expenditure of funds received for disaster assistance programs.

- ***Capital Improvements Fund*** – This fund is used to account for the financial resources used in the improvement of major capital facilities.

- ***Road Construction Fund*** – This fund is used to account for the financial resources used in the construction of roads.

The Commission reports the following major enterprise funds:

- ***Cooper Green Hospital Fund*** – The fund is used to account for the operations of the Cooper Green Hospital. Operating revenues are derived from net patient charges and reimbursements from third parties including Medicare and Medicaid.

- ***Sanitary Operations Fund*** – This fund is used to account for the operations of the County's sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated ad valorem taxes.

Other non-major enterprise funds are as follows:

- ***Landfill Operations Fund*** – This fund is used to account for the operations of the County's landfill systems. Revenues are generated primarily through user charges.

- ***County Home Fund*** – This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.

- ***Parking Deck Fund*** – This fund is used to account for the operations of the County parking deck. Revenues are generated through user charges.

Also reported on Exhibits 7 and 8 are internal service funds. These funds are used to account for the financing of goods and services provided by a county department or agency to other county departments and agencies or to other governmental units on a cost reimbursement basis and for a governmental entity's risk financing activities. These funds are as follows:

- ***Risk Management Fund*** – This fund is used to account for resources to provide insurance needs to county departments.

- ***Personnel Board Fund*** – This fund is used to account for resources for providing personnel to county departments and other governmental units by the Jefferson County Personnel Board.

- ***Elections Fund*** – This fund is used to account for resources for holding county elections.

- ***Information Services Fund*** – This fund is used to account for resources for providing data processing, microfilming and related services to the various county departments.

- ***Fleet Management Fund*** – This fund is used to account for resources for providing and maintaining vehicles to county departments.

- ***Central Laundry Fund*** – This fund is used to account for resources for providing laundry services to county departments.

- ***Printing Fund*** – This fund is used to account for resources for providing printing, postage and related services to county departments.

- ***Building Services Fund*** – This fund is used to account for resources for providing building maintenance and other related services for the County.

The Commission also reports the following fiduciary fund types:

Pension Trust Fund

- ***General Retirement System Fund*** – This fund is used to account for all transactions related to resources held in trust for the General Retirement System (GRS) for Employees of Jefferson County.

Agency Funds

- ***Stormwater Management Authority Fund*** **–** This fund is used to account for resources held by the Commission in a custodial capacity for Storm Water Management Authority, Inc.

- ***City of Birmingham Revolving Loan Fund*** **–** This fund is used to account for resources held by the Commission in a custodial capacity for the City of Birmingham's revolving loan program.

The Commission reports the following columns:

Proprietary Fund Types

- ***Enterprise Funds*** – These funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

- ***Internal Service Funds*** – These funds are used to account for the financing of goods and services provided by a county department or agency to other county departments and agencies or to other governmental units on a cost reimbursement basis and for a governmental entity's risk financing activities.

Fiduciary Fund Types

- ***Pension Trust Fund*** **–** This fund is used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

- ***Agency Funds*** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's enterprise function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Commission has not elected to follow subsequent private-sector guidance.

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

Cash include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary fund type considers all cash and investments to be cash.

State statutes authorize the County Commission to invest in obligations of the U. S. Treasury and securities of federal agencies and certificates of deposit.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Commission reports all money market investments - U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less - at amortized cost. Investments held in escrow for retainage on construction contracts and as surety for purchase commitments are stated at fair value.

2. Receivables

All trade, property tax, loans and patient receivables are shown net of an allowance for uncollectibles.

Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

Patient receivables in the proprietary funds are from patients, insurance companies and third-party reimbursement contractual agencies and are recorded less an allowance for uncollectible accounts, charity accounts and other uncertainties. Certain third-party insured accounts (Blue Cross, Medicare, and Medicaid) are based on contractual agreements, which generally result in collecting less than the established rates. Final determination of payments under these agreements are subject to review by appropriate authorities. Doubtful accounts are written off against the allowance as deemed uncollectible and recorded as recoveries of bad debts if subsequently collected.

	(In Thousands) Enterprise Funds
Patient Receivables	$17,462
Allowance Accounts	(9,619)
Net Patient Receivables	$ 7,843

Jefferson County issues long-term loans through the Community Development Office for house repairs of low and moderate-income homeowners and for firms that may not have access to sufficient long-term capital financing. These loans (net an allowance account) totaled $3,359,000 at September 30, 2002.

Jefferson County, as lead agency, administers a joint grant agreement with the City of Birmingham for Title IX Revolving Loans Funds to provide funding for qualifying private enterprises. At September 30, 2002, the balance of loans receivable (net of an allowance account) for the City of Birmingham totaled $465,000.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects and amounts due from the state and other local governments.

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer systems, and similar items), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings	$100,000	40 years
Equipment and Furniture	$ 1,000	5-10 years
Roads	$250,000	15 years
Bridges	$250,000	40 years
Sewer System Assets	$250,000	25 years

GASB Number 34 requires the Commission to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2002. These infrastructure assets are likely to be the largest asset class of the Commission. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period of up to four years. The Commission will retroactively report its infrastructure built or acquired since June 30, 1980 by the beginning of fiscal year 2006.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Bond discount/issue cost of the Series 2002-B Sewer Revenue Warrants contain deferred costs of $5,900,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 2002-A issue was $5,888,000.

Bond discount/issue cost of the Series 2002-A Sewer Revenue Warrants contain deferred costs of $1,607,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 2002-A issue was $1,583,000.

Bond discount/issue cost of the Series 2001-A Sewer Revenue Warrants contain deferred costs of $11,605,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 2001-A issue was $11,145,000.

Bond discount/issue cost of the Series 1999-A Sewer Revenue Refunding Warrants contain deferred costs of $8,003,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 1999-A issue was $7,286,000.

Bond discount/issue cost of the Series 1997-A Sewer Revenue Refunding Warrants contain deferred costs of $9,956,000 that are being amortized over 30 years. At September 30, 2002, the unamortized deferred cost of the 1997-A issue was $8,076,000.

Bond discount/issue cost of the Series 1997-B Sewer Revenue Refunding Warrants contain deferred costs of $509,000 that are being amortized over 6 years. At September 30, 2002, the unamortized deferred cost of the 1997-B issue was $28,000.

Bond discount/issue cost of the Series 1997-C Sewer Revenue Refunding Warrants contain deferred costs of $946,000 that are being amortized over 18 years. At September 30, 2002, the unamortized deferred cost of the 1997-C issue was $648,000.

Bond discount/issue cost of the Series 1997-D Sewer Revenue Warrants contain deferred costs of $6,320,000 that are being amortized over 30 years. At September 30, 2002, the unamortized deferred cost of the issue was $5,144,000.

Bond (premium)/issue cost of the Series 2002-A General Obligation Warrants contain deferred costs of ($589,000) that are being amortized over 5 years. At September 30, 2002, the unamortized deferred cost of the 2002-A issue was ($522,000).

Bond (premium)/issue cost of the Series 2001-A General Obligation Warrants contain deferred costs of ($682,000) that are being amortized over 10 years. At September 30, 2002, the unamortized deferred cost of the 2001-A issue was ($580,000).

Bond discount/issue cost of the Series 2001-B General Obligation Warrants contain deferred costs of $379,000 attributable to general governmental operations and $178,000 attributable to Landfill Operations that are being amortized over 20 years. At September 30, 2002, the unamortized deferred cost of the 2001-B issue was $356,000 for the governmental funds and $167,000 for enterprise funds.

Bond discount/issue cost of the Series 1993 General Obligation Warrants contain deferred costs of $1,898,000 that are being amortized over 17 years. At September 30, 2002, the unamortized deferred cost of the 1993 issue was $854,000.

7. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and vacation leave.

Vacation Leave

Length of Service	Vacation Leave Earned (Per Month)
0-12 years	1 day
12-25 years	1 1/2 days
Over 25 years	2 days

Vacation earned but not used during the calendar year may be accumulated up to a maximum of forty days. Vacation leave earned in excess of the maximum accumulation must be used by December 31 of each year or it shall be forfeited. A permanent employee terminating from county service in good standing shall be compensated by unused earned vacation not to exceed 40 days.

Sick Leave

Sick leave shall be earned at the rate of one day for each month of service. Sick leave earned but not used during the calendar year may be accumulated with no maximum limit. A permanent employee who resigns or retires from the County in good standing after five years of service may, subject to the approval of the appointing authority, receive pay for fifty percent of the accumulated sick leave not to exceed 30 days.

Compensatory Leave

Eligible county employees covered by provisions of the Fair Labor Standards Act are paid for overtime hours worked at the rate of time-and-one half. In some instances, the employee may be offered compensatory leave.

Maximum limitations of accumulated compensatory time are as follows:

- Public Safety employees may accrue a maximum of 480 hours
- All other employees may accrue a maximum of 240 hours

Any employee's accrual of overtime in excess of the maximum limitation shall, within the following pay period, be disposed of by either (a) payment at the current hourly pay step of the employee or (b) granting equivalent time off.

The Commission uses the termination method to accrue its sick leave liability. ***Termination Payment Method*** - Under this method an accrual for earned sick leave is made only to the extent it is probable that the benefits will result in termination payment, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

As of September 30, 2002, the liability for accrued vacation and compensatory leave is approximately $13,691,000. Of this amount $9,406,000 is reported in the government activities, $4,205,000 is reported in the business-type activities and $80,000 is reported in fiduciary funds.

As of September 30, 2002, the liability for accrued sick leave is approximately $8,265,000. Of this amount, $5,664,000 is reported in the government activities, $2,555,000 is reported in the business-type activities and $46,000 is reported in fiduciary funds.

8. Net Assets/Fund Equity

Net assets are reported on the government-wide and proprietary fund financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- ***Invested in Capital Assets, Net of Related Debt*** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.

- ***Restricted*** **–** Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ***Unrestricted*** **–** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Commission.

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds (Exhibit 5) and the Statement of Activities of Governmental Activities (Exhibit 2)

One element of the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 6) states that "The net revenue and expense of certain internal service funds is reported with governmental activities." The details of this are as follows:

	(In Thousands)
Revenues:	
Charges for Services	$ 4,270
Interest	194
Transfers In	6,548
Total Revenues	11,012
Expenses:	
General Government	5,266
Public Safety	(325)
Highways and Roads	(217)
Health and Welfare	(87)
Culture and Recreation	(87)
Transfers Out	921
Total Expenses	5,471
Total Revenues Over Expenses	$ 5,541

Note 3 – Stewardship, Compliance and Accountability

A. Budgets

Annual budgets are adopted for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

The State Legislature enacted the County Financial Control Act of 1935, which is the present statutory basis for county budgeting operations. Under the terms of the County Financial Control Act, each county commission, at some meeting in September of each year, but in any event not later than the first meeting in October must estimate the County's revenues and expenditures and appropriate for the various purposes the respective amounts that are to be used for each purpose. The appropriations must not exceed the total revenues available for appropriation. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

B. Deficit Fund Balances/Net Assets of Individual Funds

At September 30, 2002, the following governmental funds had a deficit fund balance:

	(In Thousands)
Road Fund	$ 7,460
Senior Citizens Fund	$ 1,040
Capital Improvement Fund	$30,959
Road Construction Fund	$ 2,463

The Jefferson County Commission supplements the operations from the general fund. The Commission transfers the supplementary cash at appropriate times during the fiscal year and will not overfund the cash account in order to eliminate the fund balance deficit. The Commission plans to maintain cash accounts with a zero balance for funds that are not self sustaining. The Commission will not overfund the fund's accounts in order to eliminate the fund balance deficits.

Note 4 – Deposits and Investments

The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Investments

Statutes authorize the Commission to invest in obligations of the U. S. Treasury and federal agency securities. The Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the Commission or its agent in the Commission'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 Commission's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or its trust department or agent but not in the Commission's name.

	(In Thousands)		
	Category 1	Reported Amount	Fair Value
U. S. Government Securities (**)	$ 468,159,000	$ 468,159,000	$ 468,159,000
Repurchase Agreements	503,737,000	503,737,000	503,737,000
Corporate Obligations (*)	166,103,000	166,103,000	166,103,000
Common Stocks (*)	276,900,000	276,900,000	276,900,000
Total Investments	$1,414,899,000	$1,414,899,000	$1,414,899,000

(*) Investments of General Retirement System for Employees of Jefferson County.

(**) Includes $157,318,000 investments of General Retirement System for Employees of Jefferson County

The County has entered into contracts for construction of various facilities within Jefferson County. Amounts were provided by some contractors that were used to purchase certificates of deposits and U. S. Government securities to be held by designated financial institutions in the name of the contractors and the Jefferson County Commission in lieu of retainage. These securities totaling $14,196,000 are included as part of Cash and Investments on Exhibit 1, but are not included in deposits and investments discussed above. They are not covered by collateral agreements between financial institutions and the Jefferson County Commission and the terms of collateralization agreements between the contractors and the financial institutions are not known at this time.

The Commission uses several methods for investing money. The investments managed by the Jefferson County Treasurer are reported at amortized cost. The Commission maintains a portfolio of short-term maturity investments, which are reported at amortized cost. The Commission also maintains a portfolio of intermediate maturity investments that are reported at fair value. The Commission's fiscal agent or custodian provides the fair value to the Commission of all intermediate maturity investments. The Commission is the only investor in its investment portfolios.

Note 5 – Capital Assets

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

	(In Thousands)				
	Balance 10/01/2001	Additions	Retirements	Reclassifications	Balance 9/30/2002
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	$ 10,385	$ 396	$	$	$ 10,781
Construction in Progress	111,197	29,013		(876)	139,334
General Infrastructure - C.I.P.	10,299	6,233			16,532
Total Capital Assets, Not Being Depreciated	131,881	35,642		(876)	166,647
Capital Assets Being Depreciated:					
Buildings	197,033	(552)	(2)		196,479
Improvements Other than Land/Building	8,434		(26)		8,408
Maintenance Equipment	4,576	127	(7)		4,696
Motor Vehicle (Non Fleet)	17,221	1,938	(275)		18,884
Office Furniture and Fixtures	3,731	242	(348)		3,625
Motor Vehicle Fleet	36,771	4,542	(3,087)		38,226
Miscellaneous Equipment	31,603	2,551	(1,890)	876	33,140
Total Capital Assets Being Depreciated	299,369	8,848	(5,635)	876	303,458
Less Accumulated Depreciation for:					
Buildings	(132,199)	(6,548)	2		(138,745)
Improvements Other than Land/Building	(3,532)	(567)	17		(4,082)
Maintenance Equipment	(3,571)	(530)	7		(4,094)
Motor Vehicle (Non Fleet)	(8,684)	(1,731)	175		(10,240)
Office Furniture and Fixtures	(2,384)	(198)	238		(2,344)
Motor Vehicle Fleet	(26,917)	(4,027)	2,925		(28,019)
Miscellaneous Equipment	(22,431)	(4,109)	1,219		(25,321)
Total Accumulated Depreciation	(199,718)	(17,710)	4,583		(212,845)
Total Capital Assets, Being Depreciated, Net	99,651	(8,862)	(1,052)	876	90,613
Governmental Activities Capital Assets, Net	$ 231,532	$ 26,780	$(1,052)	$	$ 257,260

	(In Thousands)				
	Balance 10/01/2001	Additions	Retirements	Reclassifications	Balance 9/30/2002
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	$ 31,118	$ 3,186	$ (133)	$ 2,717	$ 36,888
Construction In Progress	813,661	359,471		(253,504)	919,628
Total Capital Assets, Not Being Depreciated	844,779	362,657	(133)	(250,787)	956,516
Capital Assets Being Depreciated:					
Buildings	273,328	525	(692)	81,075	354,236
Improvements Other Than Land/Building	624,501	1,957	(5,945)	169,712	790,225
Infrastructure North	533,317				533,317
Infrastructure South	882,493				882,493
Maintenance Equipment	5,947	30	(34)		5,943
Motor Vehicle (Non Fleet)	7,237	141	(885)		6,493
Office Furniture And Equipment	10,193	7	(204)		9,996
Motor Vehicle Fleet	11,342	1,094	(1,141)		11,295
Miscellaneous Equipment	11,135	2,723	(852)		13,006
Total Capital Assets Being Depreciated	2,359,493	6,477	(9,753)	250,787	2,607,004
Less Accumulated Depreciation for:					
Buildings	(123,220)	(9,626)	464		(132,382)
Improvements Other Than Land/Building	(202,626)	(30,325)	1,858		(231,093)
Infrastructure North	(43,951)	(13,333)			(57,284)
Infrastructure South	(78,806)	(22,062)			(100,868)
Maintenance Equipment	(5,118)	(320)	30		(5,408)
Motor Vehicle (Non Fleet)	(3,987)	(654)	795		(3,846)
Office Furniture And Fixtures	(9,663)	(85)	201		(9,547)
Motor Vehicle Fleet	(7,511)	(1,460)	1,006		(7,965)
Miscellaneous Equipment	(8,001)	(1,410)	692		(8,719)
Total Accumulated Depreciation	(482,883)	(79,275)	5,046		(557,112)
Total Capital Assets, Being Depreciated, Net	1,876,610	(72,798)	(4,707)	250,787	2,049,892
Business-Type Activities Capital Assets, Net	$2,721,389	$289,859	$(4,840)	$	$3,006,408

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

	(In Thousands)
Governmental Activities:	
General Government	$ 7,188
Public Safety	3,249
Highway and Roads	4,343
Health and Welfare	129
Total Depreciation Expense - Governmental Activities	$14,909

	(In Thousands)
Business-Type Activities	
Hospital	$ 1,789
Nursing Operations	349
Landfill	2,181
Sanitary Operations	74,943
Parking Services	13
Total Depreciation Expense – Business-Type Activities	$79,275

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The General Retirement System for Employees of Jefferson County, Alabama (Retirement System) is the administrator of a single-employer, defined benefit pension plan (Plan) covering substantially all employees of Jefferson County, Alabama. The Retirement System was established by Act Number 497, Acts of Alabama 1965, page 717, and provides guidelines for benefits to retired and disabled employees of the County.

The Plan's financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County for the year ended September 30, 2002. The report may be obtained by writing: The General Retirement System for Employees of Jefferson County, Room 303-B Courthouse, Birmingham, Alabama 35263-0003.

B. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Plan are prepared under the accrual method of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Plan investments are stated at fair value. Quoted market prices are used for all investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized appreciation or depreciation is reflected in the financial statements, when applicable.

Reserves for Contingent Refunds and Retirement and Disability Benefits

Contingent refunds represent all contributions made by members into the Plan until refunded or transferred to the reserve for retirement and disability benefits. Such transfers occur when benefit payments equal or exceed the amount of member contributions, or when a terminated employee has not requested a refund of his personal contributions within five years of termination.

C. Actuarial Information

For the year ended September 30, 2002, The Commission's annual pension contribution of $8,189,000 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of October 1, 2002, the latest actuarial valuation date, were: (a) 7.0 percent investment rate of return on present and future assets, and (b) projected salary increases of 5.5 percent. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of October 1, 2002 was 13 years.

The following is three-year trend information for the Commission:

(In Thousands)			
Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2002	$8,189	100%	$0
9/30/2001	$7,543	100%	$0
9/30/2000	$7,752	100%	$0

Schedule of Funding Progress

(In Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as of Percentage of Covered Payroll [(b-a)/c]
9/30/2000	$595,364	$517,622	($77,742)	115.0%	$126,520	(61.4%)
9/30/2001	$642,487	$550,172	($92,315)	116.8%	$133,919	(68.9%)
9/30/2002	$676,094	$610,321	($65,773)	110.8%	$144,465	(45.5%)

Note 7 – Other Postemployment Benefits (OPEB)

In addition to the pension benefits described in Note 6, the Commission provides post employment health care benefits, in accordance with a resolution approved by the Commission on September 25, 1990, to employees who meet the following eligibility requirements. Employees must: (1) have been covered by the County group health care plan at the time of retirement, (2) immediately upon retirement begin receiving a retirement pension under the rules and regulations of the General Retirement System for the Employees of Jefferson County and the amount of the pension must be sufficient to cover the required retiree contributions, (3) be under 65 years of age, and (4) not be eligible for Medicare. The Commission adopted a resolution on September 22, 1992 to allow those retirees who are not eligible to receive a retirement pension to participate in the health care plan by prepaying to the Commission the semi-annual premium for the retiree contributions.

Dependents can be covered under an eligible retiree's family plan if the dependents: (1) meet the definition of "who can be covered" in each option's contract, (2) are under 65 years of age, and (3) are not eligible for Medicare.

Coverage ends for retirees and dependents when they become eligible for Medicare or reach age 65. When a retiree with dependent coverage becomes ineligible, the dependent(s) may continue coverage under the General Retirement System for the Employees of Jefferson County until they reach age 65 or become eligible for Medicare.

Currently 297 retirees meet eligibility requirements. The Commission subsidizes a portion of the retirees health care insurance premiums based on the total years of County service and age at retirement. The Commission's subsidy for each covered retired employee ranges from $197 to $545 per month and total insurance premiums range from $223 to $639. Expenditures for post-retirement health care benefits are made and recognized as premiums are paid. During the year, expenditures of $384,000 were recognized for post-retirement health benefits.

Note 8 – Construction and Other Significant Commitments

The following is a listing of the outstanding contracts entered into and commitments made for the fiscal year ended September 30, 2002:

Nature of Commitment	(In Thousands) Nature of Commitment
Cahaba River Sewer Improvements	$ 69,253
East Village Creek Sewer Improvement	5,821
United Way Grant for Youth Services	2,000
Integrated Tax System	3,239
Lower Valley Creek Sewer Projects	16,172
Professional Healthcare Services	8,161
Safety Buildings Birmingham and Bessemer	6,519
Shades Valley Sewer Improvements	7,409
Turkey Creek Sewer Improvements	4,958
Upper Valley Creek Sewer Improvements	16,032
Valley Creek Sewer Improvements	103,843
Village Creek Sewer Improvements	97,748
Miscellaneous Sewer Contracts	3,506
Totals	$344,661

Note 9 – Deferred Revenues

Governmental funds and proprietary funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2002, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

	(In Thousands)	
	Unavailable	Unearned
Ad Valorem Taxes Receivable	$70,661	$70,661
Grant Drawdowns Prior to Meeting All Eligibility Requirements		1,591
Total Deferred/Unearned Revenue for Governmental Funds	$70,661	$72,252

Note 10 – Lease Obligations

Operating Leases

The Commission is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Commission's capital assets. During the fiscal year ended September 30, 2002, total costs paid by the Commission were $747,000 for governmental activities and $179,000 for business-type activities.

Future minimum lease payments (in thousands) at September 30, 2002, were as follows:

	(In Thousands)	
Fiscal Year Ending	Governmental Activities	Business-Type Activities
September 30, 2003	$ 252	$24
2004	218	14
2005	205	
2006	203	
2007	198	
2008-2012	992	
2013-2015	512	
Totals	$2,580	$38

Note 11 – County Appropriation Agreement

During the 1989 fiscal year, the Birmingham-Jefferson Civic Center Authority (Authority) issued $132,380,000 in Capital Outlay Special Tax Bonds, Series 1989. The bonds are limited obligations of the Authority, payable solely out of certain tax proceeds to be received by the Authority pursuant to the separate Pledge and Appropriation Agreements between the City of Birmingham and the Authority and Jefferson County and the Authority.

The County levies a special privilege or license tax (the County Occupational Tax) at the rate of one-half of one percent of the gross receipts of each person following a vocation, occupation, calling or profession within the County. In the County Appropriation Agreement, the County agreed to pay the Authority, from proceeds of the County Occupation Tax, the first $10,000,000 collected in 1989 and in each year thereafter until and including 2008.

Note 12 – Long-Term Debt

The General Obligation Warrants Series 1993 dated August 1, 1993 were issued to refund various General Obligation Warrants.

The General Obligation Warrants Series 2001-A dated April 1, 2001 were issued for the purposes of acquiring, constructing and equipping various improvements to county facilities and to refund the Series 2000 general obligation warrants.

The General Obligation Warrants Series 2001-B dated April 1, 2001 were issued for the purpose of refunding the series 1996 and 1999 General Obligation Warrants.

The General Obligation Warrants Series 2002-A dated March 1, 2002 were issued for the purpose of refunding the County's Series 1992 General Obligation Warrants.

The Sewer Revenue Warrants Series 1997-D dated March 1, 1997 were issued for the purpose of funding various sewer improvements.

The Sewer Revenues Warrants Series 1997-C dated February 1, 1997 for the purpose of refunding the 1992 and 1995 A Sewer Revenue Warrants.

The Sewer Revenue Warrants Series 1997-A and 1997-B dated February 1, 1997 were issued to refund various Sewer Revenue Warrants.

The Sewer Revenue Warrants Series 1999-A dated March 1, 1999 were issued to for the purpose of funding various sewer improvements.

The Sewer Revenue Warrants Series 2001-A dated March 1, 2001 were issued for the purpose of funding various sewer improvements.

The Sewer Revenue Warrants Series 2002-A dated March 1, 2002 were issued for the purpose of funding various sewer improvements.

The Sewer Revenue Warrants Series 2002-B dated September 1, 2002 were issued for the purpose of funding various sewer improvements.

The following is a summary of general long-term debt transactions for the Commission for the year ended September 30, 2002:

	(In Thousands)				
	Debt Outstanding October 1, 2001	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2002	Amounts Due Within One Year
Governmental Activities:					
General Obligation Warrants	$ 288,865	$ 20,065	$40,700	$ 268,230	$17,145
Estimated Claims Liability	4,640	1,314	2,916	3,038	
Estimated Liability for Compensated Absences	11,511	3,559		15,070	1,366
Government Activity Long-Term Liabilities	305,016	24,938	43,616	286,338	18,511
Business-Type Activities:					
Revenue Warrants	1,796,250	650,000	8,495	2,437,755	13,300
Estimated Liability for Postclosure Landfill Costs	3,355	273	41	3,587	
Estimated Liability for Compensated Absences	9,101		2,950	6,151	
Business-Type Activity Long-Term Liabilities	$1,808,706	$650,273	$11,486	$2,447,493	$13,300

Payments on the warrants payable that pertain to the Commission's governmental activities are made by the debt service fund.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds and internal service funds.

The warrants payable that pertain to the Commission's business-type activities are paid by the Sanitary Operations Fund. These warrants are limited obligations of the County and are secured by a pledge and assignment of the revenues (other than tax revenues) from the County's sanitary sewer system.

The following is a schedule of debt service requirements to maturity:

	(In Thousands) Governmental Activities General Obligation Warrants	
Fiscal Year Ending	Principal	Interest
September 30, 2003	$ 17,145	$ 12,569
2004	18,025	11,847
2005	21,175	11,078
2006	15,980	10,056
2007	23,725	9,252
2008-2012	61,875	33,191
2013-2017	55,685	19,409
2018-2021	54,620	4,786
Totals	$268,230	$112,188

	(In Thousands) Business-Type Activities Revenue Warrants	
Fiscal Year Ending	Principal	Interest
September 30, 2003	$ 13,300	$ 125,475
2004	2,595	127,272
2005	8,575	127,018
2006	6,490	126,661
2007	3,730	126,427
2008-2012	21,140	629,631
2013-2017	44,245	624,272
2018-2022	187,925	591,348
2023-2027	300,325	524,264
2028-2032	339,080	437,686
2033-2037	438,670	338,094
2038-2042	1,071,680	139,947
Totals	$2,437,755	$3,918,095

Warrant Issuance Costs and Premiums

The Commission reports warrant issuance costs and premiums in the deferred charges account.

Balances in this account for the governmental-type activities are as follows:

	(In Thousands) Deferred Charges
Total Issuance Costs and Premium	$1,006
Balance Issuance Costs and Premium	$ 109

Balances in this account for business-type activities are as follows:

	(In Thousands) Deferred Charges
Total Issuance Costs and Premium	$45,024
Balance Issuance Costs and Premium	$39,965

Defeased Debt

On March 28, 2002, Jefferson County Commission issued $20,065,000.00 in General Obligation Warrants, Series 2002-A, for the purpose 1) of refunding outstanding Series 1992 General Obligation Warrants with a variable interest rate and 2) paying the costs of issuing the Series 2002-A warrants. The Series 1992 General Obligation Warrants were called on April 1, 2002; and, therefore, are legally defeased.

Prior Year Defeasance of Debt

In prior years, the Commission defeased certain revenue warrants by placing the proceeds of the new warrants in an irrevocable trust to provide for all future debt service payments of the old warrants. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Commission's financial statements. At September 30, 2002, the total of $108,315,000 of warrants outstanding are considered defeased.

Note 13 – Warrants Payable-Enterprise Funds

The Sanitary Operations Fund has bonds and warrants payable of $2,437,755,000 at September 30, 2002. This long-term liability represents 1) the 1997-A Sewer Revenue Refunding Warrants, 2) the 1997-B Taxable Sewer Revenue Refunding Warrants, 3) the 1997-C AWPCA Refunding Warrant, 4) the 1997-D Sewer Revenue Warrants, 5) the 1999-A Sewer Revenue Capital Improvement Warrants, 6) the 2001-A Sewer Revenue Capital Improvement Warrants, 7) the 2002-A Sewer Revenue Capital Improvement Warrants, and 8) 2002-B Sewer Revenue Capital Improvement Warrants.

In accordance with the bond indentures, the County uses 1) a debt service fund to which it deposits principal and interest amounts due, 2) a reserve fund which is required to be maintained at the lesser of (a) 125% of the average annual debt service on all outstanding parity securities, (b) the maximum annual debt service on all outstanding parity securities, or (c) 10% of the original principal amount of outstanding parity securities, 3) a rate stabilization fund which is maintained at a balance of 75% of the maximum annual debt service on the outstanding parity securities, 4) a depreciation fund which will grow to an amount equal to or greater than the accumulated depreciation of the Sanitary Operations Fund, 5) a debt service reserve fund to be established at an amount equal to 10% of the original principal amount.

The balances as of September 30, 2002, exceeded the bond indenture requirements and were as follows:

	(In Thousands)
Sewer Reserve Fund	$54,106
1999 Sewer Reserve Fund	$70,612
Sewer Rate Stabilization Fund	$75,545
Sewer Depreciation Fund	$47,551
2002-B Sewer Reserve Fund	$54,226

Note 14 – Continuing Disclosure

The following is information required for the benefit of the holders of the Series 1997 Sewer Revenue Warrants:

Fiscal Year Ending September 30,	2002	2001	2000
Active Accounts	143,038	142,305	142,277
Average Daily Treatment Volume (millions of gallons treated)	116	97	114
Sewer Charges	$84,470,770	$72,129,478	$66,834,206
% Revenues – Largest Customer	2.74%	2.66%	2.57%
% Revenues – Top 10 Customers	11.13%	12.53%	11.99%

2001 Top Ten Customers	Consumption	Amount
University of Alabama – Birmingham	865,776	$2,317,840
Birmingham Housing Authority	579,064	$1,932,577
U S Steel	494,880	$1,290,160
Barber Dairies	130,833	$ 997,964*
Golden Flake	153,314	$ 606,370*
Birmingham Board of Education	178,528	$ 592,021
Buffalo Rock	226,898	$ 518,781*
Brookwood Medical Center	124,574	$ 412,754
SMI Steel	123,197	$ 377,128
Baptist Medical Centers	150,439	$ 358,284

* Includes surcharge on same consumption

Effective March 1, 1999, January 1, 2000, January 1, 2001 and January 1, 2002, the County implemented sewer rate increases. The rate increases were implemented in accordance with the Commission's resolutions and the Indenture with the trustee for the Sewer Revenue Warrants.

Note 15 – Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require that the Commission place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year.

1999	1998	1997	1996	1995
142,042	141,606	140,324	140,146	140,361
119	132	127	130	123
$57,020,426	$49,531,824	$46,950,835	$44,387,013	$39,587,914
2.93%	2.91%	2.92%	3.08%	2.87%
11.62%	12.35%	10.37%	13.10%	10.37%

The estimated liability for landfill closure and postclosure care costs had a balance of $3,587,000, as of September 30, 2002. This estimate was based on 98% usage (filled) of the Jefferson County Landfill Number 1, and 71% usage (filled) of the Jefferson County Landfill Number 2, and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills which were both closed October 1997.

This estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of September 30, 2002. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Note 16 – Conduit Debt Obligations

The Commission issued Limited Obligation School Warrants, Series 2000 in order to finance the costs of acquiring certain public school facilities (the “Leased Property”) of the Jefferson County Board of Education (the “Board”), for lease back to the Board. The funds were used to retire the Board’s current revenue anticipation warrant dated May 3, 2000. The Board simultaneously executed a capital lease agreement for the aforementioned property and pledged tax proceeds for the lease payments which will approximate debt service requirements under the Jefferson County Commission’s Limited Obligation School Warrants, Series 2000. The warrants do not constitute a debt or pledge of the faith and credit of the Jefferson County Commission, and accordingly have not been reported in the accompanying financial statements. Upon repayment of the warrants ownership of the leased property will return to the Board.

As of September 30, 2002, the principal amount outstanding was $42,625,000.

Note 17 – Risk Management

The Commission 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 Commission maintains a risk management program in order to minimize its exposures to loss. Risk financing for these various exposures is accomplished through the following methods:

- ***General and Auto Liability*** – Self-insured with an established internal service fund to finance losses.

- ***Workers' Compensation*** – Self-insured with a retention of $350,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

- ***Property Insurance*** – Commercial insurance coverage purchased in the amount of $100 million per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sub-limits: 1) $20 million per occurrence as respects to property in the course of construction, builder's risks and installation or erection; 2) $10 million per occurrence separately as respects to demolition, increased cost of construction and building ordinance; 3) $5 million as respects to extra expense and 4) $1 million as respects to transit.

- ***Boiler and Machinery Insurance*** – Commercial insurance coverage purchased in the amount of $30 million per occurrence.

- ***Hospital and Nursing Home Medical Malpractice and General Liability*** – Insured through the County's participation in the Alabama Hospital Association Trust Fund with limits of $1 million per occurrence with a $3 million per report year aggregate.

Risk Management negotiates with private providers and administers health, life, accidental death and dismemberment, and dental insurance for its employees and dependents. Jefferson County Commission pays approximately 86% of health, 100% of basic life and accidental death and dismemberment, and the employees pay 100% of dental insurance and other voluntary insurance plans.

The schedule below presents the changes in claims liabilities for the past two years for the three types of self-insured activities; general liability, auto liability, and workers' compensation:

	(In Thousands)							
	General Liability		Auto Liability		Workers' Compensation		Totals	
	2002	2001	2002	2001	2002	2001	2002	2001
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$1,234	$ 685	$383	$ (25)	$3,023	$1,999	$4,640	$2,659
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal Year	168	778	363	412	783	1,072	1,314	2,262
Increases in provision for insured events of prior fiscal years		94		155		1,436		1,685
Total incurred claims and claim adjustment expenses	168	872	363	567	783	2,508	1,314	3,947
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	1,142	323	42	159	1,732	1,484	2,916	1,966
Claims and claim adjustment expenses attributable to insured events of prior fiscal year								
Totals payments	1,142	323	42	159	1,732	1,484	2,916	1,966
Total unpaid claim and claim adjustment expenses at end of fiscal year	$ 260	$1,234	$704	$383	$2,074	$3,023	$3,038	$4,640

Note 18 – Advances to Other Funds

The amounts due to/from other funds at September 30, 2002, were as follows:

	(In Thousands)
	Advances From Other Funds
	Sanitary Landfill Operations Fund
Advances To Other Funds	
Debt Service Fund	$19,489

Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2002, were as follows:

	(In Thousands)			
	Transfers In			
	General Fund	Indigent Care Fund	Road Fund	Debt Service Fund
Transfers Out				
General Fund	$	$745	$15,812	$
Indigent Care Fund				
Road Fund				
Debt Service				
Nonmajor Governmental Funds				30,199
Internal Service	1			
Nonmajor Proprietary Funds				1,258
Totals	$1	$745	$15,812	$31,457

The Commission typically used transfers to fund ongoing operating subsidies and to transfer the portion from the Nonmajor Governmental Funds to the Debt Service Fund to service current-year debt requirements and from the Indigent Care Fund to Cooper Green Hospital Fund to provide for hospital operations.

Note 19 – Subsequent Events

In October 2002, the Commission issued $839,500,000 in Sewer Revenue Refunding Warrants, Series 2002-C. The proceeds of the Series 2002-C Warrants will be used to advance refund all or a portion of selected maturities of the County's outstanding 1997-D Warrants, Series 1999-D Warrants and Series 2001-A Warrants. In connection with the issuance of the Series 2002-C Warrants, the County has entered into separate swap transactions with JP Morgan Chase Bank, Bank of America, N.A. and Lehman Brothers with an aggregate notional amount equal to the par amount of the Series 2002-C Warrants, an effective date of October 23, 2002, and a termination date of February 1, 2040. Under such transactions, the County is obligated to make semiannual payments calculated by reference to said notional amount and a fixed rate of 3.92% and is entitled to receive monthly payments calculated by reference to the same notional amount and an interest rate equal to 67% of one-month LIBOR (London InterBank Offered Rate).

(In Thousands)				
Transfers In				
Cooper Green Hospital	Nonmajor Governmental Funds	Internal Service Funds	Nonmajor Proprietary Funds	Totals
$	$3,042	$3,192	$6,157	$ 28,948
38,402				38,402
	176			176
			1,885	1,885
		3,143	45	33,387
	640	215	65	921
				1,258
$38,402	$3,858	$6,550	$8,152	$104,977

In November 2002, the Commission issued $475,000,000 in Sewer Revenue Capital Improvement Warrants, Series 2002-D. In January 2003, the Commission issued $41,820,000 Sewer Revenue Refunding Warrants, Series 2003-A. The proceeds will be used to purchase the Taxable Sewer Revenue Warrants, Series 1997-C for cancellation.

Note 20 – Deficit Cash Balance

As of September 30, 2002, the following funds had deficit cash balances:

	(In Thousands)
Senior Citizens Fund	$ 1,327
Capital Improvements Fund	28,099
Road Construction Fund	2,236
Personnel Board Fund	5,095
Total Governmental Activities	36,757
Cooper Green Hospital	4,309
County Home Fund	1,371
Total Business-Type Activities	$ 5,680

Note 21 – Franchise Taxes

Several counties of the State of Alabama receive a portion of the revenues received by the State for the franchise taxes levied by the State of Alabama on in-state and out-of-state companies under the provisions of the ***Code of Alabama 1975***, Section 40-14-41. The State is currently involved in litigation that challenges the constitutionality of the State's franchise tax based on the premise that it violates the Commerce Clause of the U. S. Constitution. The potential liability to the State of Alabama exceeds $300,000,000. The State has received an unfavorable ruling; however, a settlement order has not been issued by the courts. Several counties of this State may have to refund all the franchise taxes they have received over a period of years or forego the receipt of revenues from this tax until the liability is satisfied.

Note 22 – Accounting Changes and Restatements

Changes in Accounting Principles

During the fiscal year 2002, the Commission implemented GASB Statement Number 34, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments***, as amended by GASB Statement Number 37, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus***, and GASB Statement Number 38, ***Certain Financial Statement Note Disclosures***. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statement split the Commission's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business type activities equals fund equity for the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at September 30, 2001 caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balances

GASB Statement Number 34 eliminated the use of expendable trust funds to account for assets held by the County in a trustee capacity for other governmental units.

The impact of the restatements on the fund balances as previously reported is as follows:

	(In Thousands)					
	General Fund	Indigent Care Fund	Road Fund	Debt Service Fund	Non Major Governmental Funds	Total
Fund Balance, September 30, 2001, as Previously Reported	$48,013	$6,409	($2,927)	$172,233	$5,108	$228,836
Restatement for Deferred Revenue	(1,797)		(660)		(1,602)	(4,059)
Fund Balance, September 30, 2001, as Restated	$46,216	$6,409	($3,587)	$172,233	$3,506	$224,777
Capital Assets Beginning Balance						$211,660
Long-Term - Liabilities Beginning Balance						(288,865)
Compensated Absences						(10,193)
Balance Internal Service Funds						37,667
Effect of Internal Service Fund Eliminations						(5,541)
Beginning Balance Deferred Charges						695
Governmental Activities Net Assets September 30, 2001						$170,200

The impact of restatements on the fund equity of enterprise funds is as follows:

	(In Thousands)			
	Cooper Green Hospital	Sanitary Operations	Non-Major Enterprise	Total
Fund Equity, September 30, 2001, as Previously Reported	$15,515	$1,522,674	$40,174	$1,578,363
Restatement for Deferred Revenue		(221)		(221)
Accumulated Depreciation Infrastructure		(122,757)		(122,757)
Fund Equity, September 30, 2001, as Restated	$15,515	$1,399,696	$40,174	$1,455,385

Expendable trust funds were reclassified as agency funds as follows:

	(In Thousands)		
	Storm Water Management Authority Fund	City of Birmingham Revolving Loan Fund	Total
Fund Equity, September 30, 2001, as Previously Reported	$1,335	$1,379	$2,714
Reclassification	(1,335)	(1,379)	(2,714)
Fund Equity, September 30, 2001, as Restated	$	$	$

Note 23 – Interest Rate Swap Agreements

Under the County's Liability Management Policy, the County has the power to enter into interest rate swap transactions from time to time.

The County and JP Morgan Chase, as successor to Morgan Guaranty Trust Company of New York are parties to a rate swap that is referable to General Obligation Warrants, Series 2001-B. The notional amount is $120,000,000 effective April 19, 2001 and a termination date of April 1, 2011. The County receives monthly payments calculated using the BMA Municipal Swap Index and makes semiannual payments at the fixed rate of 4.295% per annum. Morgan has the option to cancel the swap on April 1, 2008, or any April 1 or October 1, thereafter.

The following rate swaps are referable to selected Sewer Revenue Warrants.

The County and JP Morgan Chase, as successor to Morgan Guaranty Trust Company of New York are parties to two outstanding variable payments swaps: One has a notional amount of $200,000,000 effective February 1, 2001, a termination date of January 1, 2016. The County makes monthly payments calculated using the BMA Municipal Swap Index and receives semiannual payments at the fixed rate of 5.069% per annum. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.524% to said notional amount. The other swap has a notional amount of $175,000,000 effective February 1, 2002, a termination date of January 1, 2016 and a fixed rate (for determining payments to be made by Morgan) of 5.2251%. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.4551% to said notional amount. For each transaction, Morgan has the option to cancel on the first calendar day of any month occurring after January 31, 2004. In addition, if Morgan exercises such cancellation option with respect to a transaction, Morgan will then have the option to reinstate such transaction on the first calendar day of any month occurring after January 31, 2009.

A third variable payment swap is between the County and JP Morgan Chase Bank, as successor to The Chase Manhattan Bank. The transaction has a notional amount of $70,000,000, an effective date of February 1, 2002, and a termination date of February 1, 2031, and a fixed rate (for determining payments to be made by Chase) of 5.17%. Chase has the option to cancel on the first calendar day of any month occurring after January 31, 2007. Because of the related Interim Reversal transaction, until February 1, 2007, the only scheduled payments are payments from Chase to the County determined by applying a net fixed rate of 1.225% to said notional amount (provided that Chase has an option to cancel the Interim Reversal transaction on February 1, 2005, and semiannually thereafter until February 1, 2007.)

In addition, the County has entered into a swap transaction that can be characterized as a fixed payment swap. In connection with the issuance of the Series 2002-A Warrants, the County and Chase entered into a swap transaction with a notional amount of $110,000,000, an effective date of February 15, 2002, and a termination date of February 1, 2042. Under such transactions, the County is obligated to make semiannual payments at a fixed rate of 5.06% and will receive monthly payments calculated using the BMA Municipal Swap Index.

Note 24 – Jointly Governed Organization

The Jefferson County Commission, along with numerous municipalities and other counties, participates in the Storm Water Management Authority, Inc. (the “Authority”). This organization provides storm water analysis services to the citizenry of these governments. The Commission does not have an ongoing financial interest or any responsibility in the management of the Authority. However, the Commission has entered in to an agreement to act in a custodial capacity relating to receipts and disbursements of funds for the Authority.

This Page Intentionally Blank

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2002 (In Thousands)

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues			
Taxes	$ 64,978	$ 65,230	$ 65,377
Licenses and Permits	61,684	61,134	60,903
Intergovernmental	22,492	18,738	19,460
Charges for Services	18,472	19,975	20,557
Indirect Cost Recovery	9,191	9,191	9,088
Miscellaneous	133	133	389
Interest	6,384	6,384	8,450
Total Revenues	183,334	180,785	184,224
Expenditures			
Current:			
General Government	69,912	74,641	67,307
Public Safety	51,073	52,859	55,147
Welfare	592	703	703
Culture and Recreation	13,553	14,643	14,684
Education	216	203	200
Capital Outlay	35	2,560	2,316
Indirect Costs	14,194	15,910	15,893
Total Expenditures	149,575	161,519	156,250
Excess (Deficiency) of Revenues Over Expenditures	33,759	19,266	27,974
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	45	69	31
Transfers In		6,215	1
Transfers Out	(97)	(30,508)	(28,948)
Total Other Financing Sources (Uses)	(52)	(24,224)	(28,916)
Change in Net Assets	33,707	(4,958)	(942)
Net Assets Beginning of Year, as Restated (Note 22)	46,217		46,216
Net Assets End of Year	$ 79,924	$ (4,958)	$ 45,274

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Indigent Care Fund
For the Year Ended September 30, 2002
(In Thousands)

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues			
Taxes	$ 38,310	$ 38,490	$ 38,436
Miscellaneous	7,874	6,874	6,632
Interest	6	6	4
Total Revenues	46,190	45,370	45,072
Expenditures			
Current:			
General Government	7,954	7,954	7,554
Indirect Costs	13	13	13
Total Expenditures	7,967	7,967	7,567
Excess (Deficiency) of Revenues Over Expenditures	38,223	37,403	37,505
Other Financing Sources (Uses)			
Transfers In		745	745
Transfers Out		(40,623)	(38,402)
Total Other Financing Sources (Uses)		(39,878)	(37,657)
Net Change in Fund Balances	38,223	(2,475)	(152)
Fund Balances at Beginning of Year	6,409	6,409	6,409
Fund Balances at End of Year	$ 44,632	$ 3,934	$ 6,257

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Road Fund
For the Year Ended September 30, 2002
(In Thousands)

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues			
Taxes	$ 11,829	$ 12,576	$ 12,674
Intergovernmental	7,548	7,678	7,739
Charges for Services	130	160	204
Miscellaneous	18	18	37
Total Revenues	19,525	20,432	20,654
Expenditures			
Current:			
Highways and Roads	34,516	35,119	32,224
Capital Outlay		4,512	4,394
Indirect Costs	3,776	3,776	3,776
Total Expenditures	38,292	43,407	40,394
Excess (Deficiency) of Revenues Over Expenditures	(18,767)	(22,975)	(19,740)
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets		235	231
Transfers In		15,812	15,812
Transfers Out		(176)	(176)
Total Other Financing Sources (Uses)		15,871	15,867
Net Change in Fund Balances	(18,767)	(7,104)	(3,873)
Fund Balances at Beginning of Year, as Restated (Note 22)			(3,587)
Fund Balances at End of Year	$ (18,767)	$ (7,104)	$ (7,460)

Supplementary Information

Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2002
(In Thousands)

	Senior Citizens' Activities Fund	Bridge and Public Building Fund	Community Development Fund
Assets			
Cash and Investments	$	$ 2,184	$ 272
Accounts Receivable, Net			
Loans Receivable, Net			153
Property Taxes Receivable, Net		25,017	
Interest Receivable			10
Due from Other Governments	489	435	1,988
Prepaid Expenses			
Total Assets	489	27,636	2,423
Liabilities and Fund Balances			
Liabilities:			
Cash Deficit	1,327		
Accounts Payable	187		859
Due to Other Governments			
Deferred Revenue		26,678	1,100
Accrued Wages and Benefits Payable	15		27
Estimated Liability for Compensated Absences			
Total Liabilities	1,529	26,678	1,986
Fund Balances:			
Reserved for:			
Petty Cash			
Encumbrances	77		10,865
Prepaid Expenses			
Loans Receivable			153
Unreserved Reported In:			
Special Revenue Funds	(1,117)	958	(10,581)
Capital Projects Funds			
Total Fund Balances	(1,040)	958	437
Total Liabilities and Fund Balances	$ 489	$ 27,636	$ 2,423

CDBG/EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Capital Improvements Fund	Road Construction Fund	Totals
$ 1,496	$ 200	$ 815	$	$	$ 4,967
				2	2
2,432	774				3,359
					25,017
					10
	943	163		223	4,241
		2			2
3,928	1,917	980		225	37,598
			28,099	2,236	31,662
	77	31	2,860	452	4,466
6					6
	491				28,269
	1	8			51
		1			1
6	569	40	30,959	2,688	64,455
		1			1
		78	21,708	2,179	34,907
		2			2
2,432	774				3,359
1,490	574	859			(7,817)
			(52,667)	(4,642)	(57,309)
3,922	1,348	940	(30,959)	(2,463)	(26,857)
$ 3,928	$ 1,917	$ 980	$	$ 225	$ 37,598

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended September 30, 2002
(In Thousands)

	Senior Citizens' Activities Fund	Bridge and Public Building Fund	Community Development Fund
Revenues			
Taxes	$	$ 28,808	$
Intergovernmental	4,873	702	13,506
Charges for Services			90
Miscellaneous	189		
Interest	5	200	
Total Revenues	5,067	29,710	13,596
Expenditures			
Current:			
General Government	7,306		1,273
Public Safety			
Highways and Roads			
Welfare			11,991
Capital Outlay	159		403
Indirect Costs	265	34	236
Total Expenditures	7,730	34	13,903
Excess (Deficiency) of Revenues Over Expenditures	(2,663)	29,676	(307)
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets			
Transfers In	1,658		623
Transfers Out		(30,199)	
Total Other Financing Sources (Uses)	1,658	(30,199)	623
Net Change in Fund Balances	(1,005)	(523)	316
Fund Balances at Beginning of Year, as Restated (Note 22)	(35)	1,481	121
Fund Balances at End of Year	$ (1,040)	$ 958	$ 437

CDBG/EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Capital Improvements Fund	Road Construction Fund	Totals
$	$	$	$	$	$ 28,808
	1,110	1,381	1,250		22,822
		336		3,282	3,708
3	97	48			337
106	18	9		6	344
109	1,225	1,774	1,250	3,288	56,019
	85				8,664
		1,189			1,189
			661	669	1,330
19	1,496				13,506
	3	27	24,707	6,233	31,532
32	34	57			658
51	1,618	1,273	25,368	6,902	56,879
58	(393)	501	(24,118)	(3,614)	(860)
		2	24		26
32	507	145	837	56	3,858
			(3,188)		(33,387)
32	507	147	(2,327)	56	(29,503)
90	114	648	(26,445)	(3,558)	(30,363)
3,832	1,234	292	(4,514)	1,095	3,506
$ 3,922	$ 1,348	$ 940	$ (30,959)	$ (2,463)	$ (26,857)

Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2002
(In Thousands)

	County Home Fund	Landfill Operations Fund
Assets		
Current Assets:		
Cash and Investments	$	$ 3
Accounts Receivable, Net	1,469	741
Patient Accounts Receivable, Net	1,785	
Inventories	83	
Prepaid Expenses	1	
Total Current Assets	3,338	744
Noncurrent Assets:		
Deferred Charges		167
Capital Assets, Net Where Applicable	9,285	51,708
Total Noncurrent Assets	9,285	51,875
Total Assets	12,623	52,619
Liabilities		
Current Liabilities:		
Cash Deficit	1,371	
Accounts Payable	140	5
Deposits Payable	30	
Accrued Wages and Benefits Payable	184	51
Accrued Interest Payable		23
Estimated Liability for Compensated Absences	47	42
Total Current Liabilities	1,772	121
Noncurrent Liabilities:		
Advances Due to Other Funds		19,489
Estimated Liability for Landfill Closure/Postclosure Care Costs		3,587
Compensated Absences	477	420
Total Noncurrent Liabilities	477	23,496
Total Liabilities	2,249	23,617
Net Assets		
Invested in Capital Assets Net of Related Debt	9,285	32,219
Unrestricted	1,089	(3,217)
Total Net Assets	$ 10,374	$ 29,002

Parking Deck Fund	Totals
$ 1	$ 4
	2,210
	1,785
	83
	1
1	4,083
	167
7	61,000
7	61,167
8	65,250
	1,371
	145
	30
1	236
	23
	89
1	1,894
	19,489
	3,587
5	902
5	23,978
6	25,872
7	41,511
(5)	(2,133)
$ 2	$ 39,378

Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Enterprise Funds
For the Year Ended September 30, 2002
(In Thousands)

	County Home Fund	Landfill Operations Fund
Operating Revenues		
Charges for Services	$ 9,677	$ 3,715
Other Operating Revenue	63	69
Total Revenues	9,740	3,784
Operating Expenses		
Provision for Bad Debt		25
Salaries	7,203	2,256
Employee Benefits and Payroll Taxes	1,870	600
Materials and Supplies	1,226	337
Utilities	592	221
Outside Services	3,199	494
Office Expense	347	29
Depreciation and Amortization	349	2,181
Closure and Postclosure Care Costs		273
Miscellaneous	20	13
Total Operating Expenses	14,806	6,429
Operating Income (Loss)	(5,066)	(2,645)
Nonoperating Revenues (Expenses)		
Interest Expense		(337)
Interest Revenue	62	9
Miscellaneous	1,407	
Amortization of Bond Issue Costs		(9)
Indirect Costs	(473)	(577)
Gain/(Loss) on Sale of Capital Assets		43
Total Nonoperating Revenues (Expenses)	996	(871)
Operating Transfers		
Transfers In	3,902	4,185
Transfers Out		(1,258)
Total Operating Transfers	3,902	2,927
Changes in Net Assets	(168)	(589)
Total Net Assets - Beginning of Year	10,542	29,591
Total Net Assets - End of Year	$ 10,374	$ 29,002

Parking Deck Fund	Totals
$ 222	$ 13,614
	132
222	13,746
	25
29	9,488
6	2,476
2	1,565
51	864
166	3,859
	376
13	2,543
	273
	33
267	21,502
(45)	(7,756)
	(337)
	71
	1,407
	(9)
(59)	(1,109)
	43
(59)	66
65	8,152
	(1,258)
65	6,894
(39)	(796)
41	40,174
$ 2	$ 39,378

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended September 30, 2002
(In Thousands)

	County Hone Fund	Landfill Operations Fund
Cash Flows from Operating Activities		
Cash Received for Services	$ 8,010	$ 3,728
Other Operating Revenues	63	69
Cash Payments to Employees	(9,036)	(2,840)
Cash Payments for Goods and Services	(5,380)	(897)
Net Cash Provided (Used) by Operating Activities	(6,343)	60
Cash Flows from Non-Capital Financing Activities		
Operating Transfers Out		(1,258)
Operating Transfers In	3,902	4,185
Increase/(Decrease) in Cash Deficit	1,371	(33)
Received from Auxiliary Services	1,407	
Indirect Cost	(473)	(577)
Net Cash Provided (Used) by Non-Capital Financing Activities	6,207	2,317
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	(152)	(2,127)
Proceeds from Sale of Capital Assets	32	59
Interest Paid		(315)
Net Cash Provided (Used) by Capital and Related Financing Activities	(120)	(2,383)
Cash Flows from Investing Activities		
Interest Received	62	9
Net Cash Flows Provided by Investing Activities	62	9
Net Increase/(Decrease) in Cash	(194)	3
Cash and Investments, Beginning of Year	194	
Cash and Investments, End of Year	$	$ 3

Parking Deck Fund	Totals
$ 223	$ 11,961
	132
(35)	(11,911)
(219)	(6,496)
(31)	(6,314)
	(1,258)
65	8,152
	1,338
	1,407
(59)	(1,109)
6	8,530
	(2,279)
	91
	(315)
	(2,503)
	71
	71
(25)	(216)
26	220
$ 1	$ 4

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended September 30, 2002
(In Thousands)

	County Hone Fund	Landfill Operations Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income/(Loss)	$ (5,066)	$ (2,645)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	349	2,181
(Increase)/Decrease in Prepaid Expenses		
(Increase)/Decrease in Accounts Receivable	(1,469)	14
(Increase/Decrease in Patient Receivables	(197)	
(Increase)/Decrease in Inventories	9	
Increase/(Decrease) in Accounts Payable	13	(26)
Increase/(Decrease) in Advances Due to Other Funds		289
Increase/)Decrease) in Deposits Payable	(19)	
Increase/(Decrease) in Accrued Wages and Benefits Payable	36	2
Increase/(Decrease) in Estimated Liability for Compensated Absences	1	13
Increase/(Decrease) in Landfill Closure/Postclosure Care Costs		232
Total Adjustments	(1,277)	2,705
Net Cash Provided (Used) by Operating Activities	$ (6,343)	$ 60

Parking Deck Fund	Totals
$ (45)	$ (7,756)
13	2,543
	(1,455)
	(197)
	9
	(13)
	289
	(19)
	38
1	15
	232
14	1,442
$ (31)	$ (6,314)

Combining Statement of Net Assets
Internal Service Funds
September 30, 2002
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Assets			
Current Assets:			
Cash and Investments	$ 8,311	$	$
Accounts Receivable, Net			
Due from Other Governments		5,561	18
Inventories			
Prepaid Expenses	125		
Total Current Assets	8,436	5,561	18
Noncurrent Assets:			
Capital Assets, Net Where Applicable	126	133	819
Total Noncurrent Assets	126	133	819
Total Assets	8,562	5,694	837
Liabilities			
Current Liabilities:			
Cash Deficit		5,095	
Accounts Payable	42	203	99
Accrued Wages and Benefits Payable	14	60	5
Estimated Liability for Compensated Absences	5	30	3
Estimated Claims Liability	3,038		
Total Current Liabilities	3,099	5,388	107
Noncurrent Liabilities:			
Estimated Liability for Compensated Absences	53	306	28
Total Noncurrent Liabilities	53	306	28
Total Liabilities	3,152	5,694	135
Net Assets			
Invested in Capital Assets Net of Related Debt	126	133	819
Unrestricted	5,284	(133)	(117)
Total Net Assets	$ 5,410	$	$ 702

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals
$ 1	$ 320	$ 196	$ 99	$ 11,765	$ 20,692
2				77	79
		2		32	5,613
	292	6	149	679	1,126
9				2	136
12	612	204	248	12,555	27,646
4,835	2,102	6,748	41	7,459	22,263
4,835	2,102	6,748	41	7,459	22,263
4,847	2,714	6,952	289	20,014	49,909
					5,095
62	147		43	202	798
90	68	12	7	228	484
40	39	6	3	128	254
					3,038
192	254	18	53	558	9,669
406	396	57	33	1,294	2,573
406	396	57	33	1,294	2,573
598	650	75	86	1,852	12,242
4,835	2,102	6,748	41	7,459	22,263
(586)	(38)	129	162	10,703	15,404
$ 4,249	$ 2,064	$ 6,877	$ 203	$ 18,162	$ 37,667

Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the Year Ended September 30, 2002
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Operating Revenues			
Intergovernmental	$	$ 4,400	$ 549
Charges for Services	1,415		
Total Revenues	1,415	4,400	549
Operating Expenses			
Salaries	534	2,485	628
Employee Benefits and Payroll Taxes	576	584	50
Materials and Supplies	20	72	58
Utilities	1		9
Outside Services	268	2,323	31
Office Expense	101	237	25
Depreciation and Amortization	54	28	41
Miscellaneous	10	41	
Total Operating Expenses	1,564	5,770	842
Operating Income (Loss)	(149)	(1,370)	(293)
Nonoperating Revenues (Expenses)			
Interest Revenue	89		1
Miscellaneous	439		
Indirect Costs		(112)	(107)
Gain/(Loss) on Sale of Capital Assets			
Indirect Cost Recovery		1,119	
Total Nonoperating Revenues (Expenses)	528	1,007	(106)
Operating Transfers			
Transfers In		416	503
Transfers Out	(135)		
Total Operating Transfers	(135)	416	503
Changes in Net Assets	244	53	104
Total Net Assets Beginning of Year	5,166	(53)	598
Total Net Assets End of Year	$ 5,410	$	$ 702

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals
$	$	$	$	$	$ 4,949
545	1,465	841	720	15,833	20,819
545	1,465	841	720	15,833	25,768
2,928	2,690	482	262	8,716	18,725
660	799	156	68	2,330	5,223
255	1,448	37	315	1,361	3,566
1	116	73		2,984	3,184
3,845	114	109	22	2,091	8,803
165	23	2	9	337	899
1,980	236	19	29	414	2,801
109	15		51	244	470
9,943	5,441	878	756	18,477	43,671
(9,398)	(3,976)	(37)	(36)	(2,644)	(17,903)
	5	2		96	193
	1			964	1,404
(43)		(4)			(266)
	18	(40)		1	(21)
5,188	3,869		75	7,251	17,502
5,145	3,893	(42)	75	8,312	18,812
3,631		1,253		747	6,550
(1)				(785)	(921)
3,630		1,253		(38)	5,629
(623)	(83)	1,174	39	5,630	6,538
4,872	2,147	5,703	164	12,532	31,129
$ 4,249	$ 2,064	$ 6,877	$ 203	$ 18,162	$ 37,667

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2002
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Cash Flows from Operating Activities			
Cash Received for Services	$ 1,416	$	$
Other Operating Revenues		2,057	573
Cash Payments to Employees	(1,100)	(3,053)	(694)
Cash Payments for Goods and Services	(2,394)	(2,852)	(37)
Net Cash Provided (Used) by Operating Activities	(2,078)	(3,848)	(158)
Cash Flows from Non-Capital Financing Activities			
Operating Transfers Out	(135)		
Operating Transfers In		416	503
Received from Auxiliary Services	439		
Increase/(Decrease) in Cash Deficit		2,503	
Indirect Cost		(112)	(107)
Indirect Cost Recovery		1,119	
Net Cash Provided (Used) by Non-Capital Financing Activities	304	3,926	396
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(13)	(78)	(581)
Proceeds from Sale of Capital Assets			
Net Cash Provided (Used) by Capital and Related Financing Activities	(13)	(78)	(581)
Cash Flows from Investing Activities			
Interest Received	89		1
Net Cash Flows Provided by Investing Activities	89		1
Net Increase/(Decrease) in Cash	(1,698)		(342)
Cash and Investments, Beginning of Year	10,009		342
Cash and Investments, End of Year	$ 8,311	$	$

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals
$ 544	$ 1,465	$ 840	$ 720	$ 15,760	$ 20,745
					2,630
(3,526)	(3,454)	(634)	(324)	(10,846)	(23,631)
(4,638)	(1,721)	(235)	(382)	(7,184)	(19,443)
(7,620)	(3,710)	(29)	14	(2,270)	(19,699)
(1)				(785)	(921)
3,631		1,253		747	6,550
	1			964	1,404
					2,503
(43)		(4)			(266)
5,188	3,869		75	7,251	17,502
8,775	3,870	1,249	75	8,177	26,772
(2,142)	(308)	(1,252)	(6)	(1,866)	(6,246)
973	54			4	1,031
(1,169)	(254)	(1,252)	(6)	(1,862)	(5,215)
	5	2		96	193
	5	2		96	193
(14)	(89)	(30)	83	4,141	2,051
15	409	226	16	7,624	18,641
$ 1	$ 320	$ 196	$ 99	$ 11,765	$ 20,692

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2002
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
<u>Reconciliation of Operating Income to</u>			
<u>Net Cash Provided (Used) by Operating Activities</u>			
Operating Income/(Loss)	$ (149)	$ (1,370)	$ (293)
<u>Adjustments to Reconcile Operating Income to</u>			
<u>Net Cash Provided (Used) by Operating Activities</u>			
Depreciation and Amortization	54	28	41
(Increase)/Decrease in Prepaid Expenses	(70)		
(Increase)/Decrease in Accounts Receivable			
(Increase)/Decrease in Due from Other Governments		(2,343)	24
(Increase)/Decrease in Inventories			
Increase/(Decrease) in Accounts Payable	(321)	(179)	87
Increase/(Decrease) in Accrued Wages and Benefits Payable	4	10	
Increase/(Decrease) in Estimated Liability for Compensated Absences	6	6	(17)
(Decrease) in Estimated Claims Liability	(1,602)		
Total Adjustments	(1,929)	(2,478)	135
Net Cash Provided (Used) by Operating Activities	$ (2,078)	$ (3,848)	$ (158)

Information Services Fund		Fleet Management Fund		Central Laundry Fund		Printing Fund		Building Services Fund		Totals
$	(9,398)	$	(3,976)	$	(37)	$	(36)	$	(2,644)	$	(17,903)
	1,980		236		19		29		414		2,801
	10								(2)		(62)
	(1)								(70)		(71)
					1				(3)		(2,321)
			2		5		15		(15)		7
	(272)		(8)		(20)				(150)		(863)
	33		13		3		2		55		120
	28		23				4		145		195
											(1,602)
	1,778		266		8		50		374		(1,796)
$	(7,620)	$	(3,710)	$	(29)	$	14	$	(2,270)	$	(19,699)

Combining Statement of Fiduciary Net Assets
All Agency Funds
September 30, 2002
(In Thousands)

	Storm Water Management Authority Fund	City of Birmingham Revolving Loan Fund	Totals
Assets			
Cash and Investments	$ 2,228	$ 884	$ 3,112
Loans Receivable, Net		465	465
Total Assets	2,228	1,349	3,577
Liabilities			
Due to External Organizations	2,228		2,228
Due to Other Governments		1,349	1,349
Total Liabilities	$ 2,228	$ 1,349	$ 3,577

Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Year Ended September 30, 2002
(In Thousands)

	Balance October 1, 2001	Additions	Deductions	Balance September 30, 2002
Storm Water Management Authority Fund				
Assets				
Cash and Investments	$ 1,301	$ 2,773	$ 1,846	$ 2,228
Total Assets	1,301	2,773	1,846	2,228
Liabilities				
Due to External Organizations	1,301	2,773	1,846	2,228
Total Liabilities	1,301	2,773	1,846	2,228
City of Birmingham Revolving Loan Fund				
Assets				
Cash and Investments	743	197	56	884
Loans Receivable, Net	636		171	465
Total Assets	1,379	197	227	1,349
Liabilities				
Due to Other Governments	1,379	26	56	1,349
TOTALS - ALL AGENCY FUNDS				
Assets				
Cash and Investments	2,044	2,970	1,902	3,112
Loans Receivable, Net	636		171	465
Total Assets	2,680	2,970	2,073	3,577
Liabilities				
Due to External Organizations	1,301	2,773	1,846	2,228
Due to Other Governments	1,379	26	56	1,349
Total Liabilities	$ 2,680	$ 2,799	$ 1,902	$ 3,577

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of Housing and Urban Development		
Direct Programs		
Community Development Block Grants/Entitlement Grants	14.218	B95-UC-01-0001
	14.218	B96-UC-01-0001
	14.218	B98-UC-01-0001
	14.218	B99-UC-01-0001
	14.218	B00-UC-01-0001
	14.218	B01-UC-01-0001
Related Revolving Loan Funds	14.218	
Sub-Total Community Development Block Grants/Entitlement Grants (M)		
HOME Investment Partnerships Program	14.239	M96-UC-01-0202
	14.239	M97-UC-01-0202
	14.239	M98-UC-01-0202
	14.239	M99-UC-01-0202
	14.239	M00-UC-01-0202
	14.239	M01-UC-01-0202
Sub-Total HOME Program (M)		
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	ALLAGOO65-97
Emergency Shelter Grants Program	14.231	S-00-UC-01-0006
	14.231	S-01-UC-01-0006
Sub-Total Emergency Shelter Grants Program (Direct Programs)		
U. S. Department of Housing and Urban Development		
Passed Through Alabama Department of Economic and Community Affairs		
Emergency Shelter Grants Program	14.231	ESG-00-036
	14.231	ESG-01-036
Sub-Total Emergency Shelter Grants Program (Passed Through)		
Total Emergency Shelter Grants Program		
Community Development Block Grants/State's Program	14.228	DRI-98-001
Total U. S. Department of Housing and Urban Development		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
10-01-95 to 09-30-02	$ 3,219,000	$ 3,219,000	$	$ 7,891
10-01-96 to 09-30-02	3,118,000	3,118,000		9,113
10-01-98 to 09-30-02	2,729,000	2,729,000	4,919	217,552
10-01-99 to 09-30-02	2,745,000	2,745,000	764,491	414,247
10-01-00 to 09-30-02	2,724,000	2,724,000	1,350,297	524,181
10-01-01 to 09-30-02	2,809,000	2,809,000	533,831	1,480,555
10-01-01 to 09-30-02				2,597,337
	17,344,000	17,344,000	2,653,538	5,250,876
10-01-96 to 09-30-02	1,145,000	916,000	45,963	45,963
10-01-97 to 09-30-02	1,118,750	895,000	85,409	85,409
10-01-98 to 09-30-02	1,176,250	941,000	156,298	156,298
10-01-99 to 09-30-02	1,272,500	1,018,000	585,764	585,764
10-01-00 to 09-30-02	1,240,675	1,023,000	175,975	175,975
10-01-00 to 09-30-02	1,274,331	1,051,000	59,682	59,682
	7,227,506	5,844,000	1,109,091	1,109,091
06-18-97 to 09-30-02	1,116,255	1,014,778	2,400	2,400
10-01-00 to 09-30-02	97,000	97,000	446	446
10-01-01 to 09-30-02	97,000	97,000	86,035	86,035
	194,000	194,000	86,481	86,481
06-02-00 to 06-02-02	250,000	125,000	4,130	4,130
06-04-01 to 06-04-03	216,500	111,500	89,835	89,835
	466,500	236,500	93,965	93,965
	660,500	430,500	180,446	180,446
10-04-99 to 12-31-02	2,611,653	1,500,000	330,666	330,666
	28,959,914	26,133,278	4,276,142	6,873,479
	$ 28,959,914	$ 26,133,278	$ 4,276,142	$ 6,873,479

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
U. S. Department of Agriculture		
Passed Through State Department of Education		
Nutrition Cluster:		
School Breakfast Program	10.553	
National School Lunch Program	10.555	
Sub-Total Nutrition Cluster		
Food Donation (N)	10.550	
Sub-Total Passed Through Alabama Department of Education		
Passed Through Alabama Commission on Aging		
Nutrition Services Incentive	10.570	
Total U. S. Department of Agriculture		
U. S. Department of Health and Human Services		
Direct Programs:		
Health Care and Other Facilities (M)	93.887	1C76HF00096-01
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	6H76HA00098-09-01
Passed Through Alabama Department of Senior Services		
Aging Cluster:		
Special Programs for the Aging		
Title III, Part B - Grants for Supportive Services and Senior Centers - Administrative	93.044	03-01-01-03a
Title III, Part B - Grants for Supportive Services and Senior Centers - Social Services	93.044	03-01-01-03a
Sub-Total Title III, Part B		
Title III, Part C - Congregate Nutrition Services	93.045	03-01-01-03a
Title III, Part C - In Home Nutrition Services	93.045	03-01-01-03a
Sub-Total Title III, Part C		
Total Aging Cluster		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 28,959,914	$ 26,133,278	$ 4,276,142	$ 6,873,479
10-01-01 to 09-30-02	39,343	39,343	39,343	39,343
10-01-01 to 09-30-02	72,585	72,585	72,585	72,585
	111,928	111,928	111,928	111,928
10-01-01 to 09-30-02	4,017	4,017	4,017	4,017
	115,945	115,945	115,945	115,945
10-01-01 to 09-30-02	251,334	251,334	251,334	251,334
	367,279	367,279	367,279	367,279
10-01-01 to 09-30-02	2,111,440	2,111,440	2,111,440	2,111,440
01-01-02 to 12-31-02	940,955	940,955	940,955	940,955
10-01-01 to 09-30-02	114,084	114,084	114,084	114,084
10-01-01 to 09-30-02	497,644	497,644	467,304	467,304
	611,728	611,728	581,388	581,388
10-01-01 to 09-30-02	582,311	582,311	628,931	628,931
10-01-01 to 09-30-02	495,780	495,780	375,942	375,942
	1,078,091	1,078,091	1,004,873	1,004,873
	1,689,819	1,689,819	1,586,261	1,586,261
	$ 34,069,407	$ 31,242,771	$ 9,282,076	$ 11,879,414

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
National Family Caregiver Support	93.052	03-01-01-03a
Center for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	03-01-01-03a
Title III, Part D - Disease Prevention and Health Promotion Services	93.043	03-01-01-03a
Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	03-01-01-03a
Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	03-01-01-03a
Sub-Total Passed Through Alabama Department of Senior Services		
Total U. S. Department of Health and Human Services		
U. S. Department of Labor		
Direct Programs:		
Homeless Veterans Reintegration Project	17.805	E-9-5-0-0039
Youth Opportunity Grants (M)	17.263	AZ-10126-00-60
Senior Community Service Employment Program	17.235	AD-11706-01-55
Passed Through Alabama Department of Senior Services		
Senior Community Service Employment Program	17.235	03-01-02-03a
Sub-Total Senior Community Service Employment Program		
Passed Through Alabama Department of Economic and Community Affairs		
Welfare-to-Work Grants to States and Localities (M)	17.253	84WtW
Workforce Investment Act		
Employment Service	17.207	6N308303
Employment and Training Assistance - Dislocated Worker (M)	17.246	92
Job Training Partnership Act (M)	17.250	92
Workforce Investment Act (M)	17.255	02
WIA Cluster:		
WIA Adult Program	17.258	12
WIA Youth Activities	17.259	12
WIA Dislocated Workers	17.260	12
Total WIA Cluster (M)		
Total U. S. Department of Labor		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 34,069,407	$ 31,242,771	$ 9,282,076	$ 11,879,414
10-01-01 to 09-30-02	272,996	272,996	278,461	278,461
10-01-01 to 09-30-02	18,532	18,532	9,728	9,728
10-01-01 to 09-30-02	40,790	40,790	47,418	47,418
10-01-01 to 09-30-02	10,635	10,635	10,728	10,728
10-01-01 to 09-30-02	25,305	25,305	25,527	25,527
	2,058,077	2,058,077	1,958,122	1,958,122
	5,110,472	5,110,472	5,010,517	5,010,517
04-01-00 to 09-30-02	718,750	715,750	276,103	276,103
03-20-00 to 06-30-03	10,000,000	10,000,000	4,648,325	4,648,325
07-01-01 to 06-30-02	350,706	350,706	356,367	356,367
07-01-01 to 06-30-02	171,284	171,284	167,261	167,261
	521,990	521,990	523,628	523,628
07-01-00 to 06-30-03	2,291,268	2,291,268	1,546,426	1,546,426
05-01-02 to 06-30-02	250,475	250,475	250,475	250,475
07-01-00 to 06-30-02	236,404	236,404	201,486	201,486
07-01-00 to 06-30-02	164,363	164,363	135,096	135,096
07-01-00 to 06-30-02	2,093,112	2,093,112	676,430	676,430
07-01-01 to 06-30-03	921,195	921,195	416,813	416,813
07-01-01 to 06-30-03	981,391	981,391	281,578	281,578
07-01-01 to 06-30-03	660,622	660,622	191,415	191,415
	2,563,208	2,563,208	889,806	889,806
	18,839,570	18,836,570	9,147,774	9,147,775
	$ 53,277,235	$ 50,447,599	$ 18,801,712	$ 21,399,051

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Federal Emergency Management Agency		
Passed Through State Emergency		
Management Agency		
Hazard Mitigation Grant Program	83.548	HMGP1250-0020
Hazard Mitigation Grant Program	83.548	HMGP1214-0023
Hazard Mitigation Grant Program	83.548	HMGP1208-0025
Hazard Mitigation Grant Program	83.548	FMA-PJ-04AL-2000001
Sub-Total Hazard Mitigation Grant Program (M)		
Total Emergency Management Agency		
U. S. Department of Justice		
Direct Programs		
Public Safety Partnership and Community Policing Grants	16.710	1999SHWX0529
Public Safety Partnership and Community Policing Grants	16.710	1999 CLWX0262
Sub-Total Public Safety Partnership and Community Policing Grants		
Bulletproof Vest Partnership Program	16.607	2009175
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2001-DD-BX-00016
Passed Through Alabama Department of		
Economic and Community Affairs		
Part E - State Challenge Activities	16.549	00-JE-JH-002
Total U. S. Department of Justice		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 53,277,235	$ 50,447,599	$ 18,801,712	$ 21,399,051
12-18-00 to 03-30-03	1,942,191	1,463,791	553,548	553,548
12-18-00 to 03-30-03	344,091	259,755	259,755	259,755
12-18-00 to 03-30-03	349,189	263,353	41,555	41,555
01-14-02 to 09-30-03	33,866	25,400	2,500	2,500
	2,669,337	2,012,299	857,358	857,358
	2,669,337	2,012,299	857,358	857,358
09-01-99 to 08-31-02	1,035,670	1,035,670	293,130	293,130
04-01-99 to 06-30-02	2,001,925	1,801,732	1,250,403	1,250,403
	3,037,595	2,837,402	1,543,533	1,543,533
03-01-99 to 02-28-03	995	995	995	995
01-01-01 to 06-30-02	150,000	150,000	150,000	150,000
06-01-01 to 05-31-02	70,628	70,628	70,628	70,628
	3,259,218	3,059,025	1,765,156	1,765,156
	$ 59,205,790	$ 55,518,923	$ 21,424,227	$ 24,021,565

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
U. S. Department of Education		
Passed Through Alabama Department of		
Economic and Community Affairs		
Safe and Drug-Free Schools and Communities - State Grants	84.186	01-GV-DR-027
		01-GV-DR-039
		01-GV-DR-040
		01-GV-DR-041
		01-GV-DR-042
		01-GV-DR-043
		01-GV-DR-044
		01-GV-DR-045
		01-GV-DR-046
		01-GV-DR-047
		01-GV-DR-048
		01-GV-DR-049
		01-GV-DR-050
Total U. S. Department of Education		
U. S. Department of Treasury		
Direct Program:		
Gang Resistance Education and Training	21.053	ATC010100
Gang Resistance Education and Training	21.053	ATC020090
Total U. S. Department of Treasury		
U. S. Department of Commerce		
Direct Program:		
Economic Development-Technical Assistance	11.303	04-39-03391.02
Total U. S. Department of Commerce		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 59,205,790	$ 55,518,923	$ 21,424,227	$ 24,021,565
10-01-01 to 09-30-02	2,500	2,500	1,932	1,932
10-01-01 to 09-30-02	2,500	2,500	2,468	2,468
10-01-01 to 09-30-02	2,500	2,500	2,365	2,365
10-01-01 to 09-30-02	2,500	2,500	2,406	2,406
10-01-01 to 09-30-02	1,170	1,170	1,170	1,170
10-01-01 to 09-30-02	2,500	2,500	2,461	2,461
10-01-01 to 09-30-02	1,760	1,760	1,760	1,760
10-01-01 to 09-30-02	1,380	1,380	1,380	1,380
10-01-01 to 09-30-02	2,213	2,213	2,213	2,213
10-01-01 to 09-30-02	2,500	2,500	2,388	2,388
10-01-01 to 09-30-02	2,335	2,335	2,335	2,335
10-01-01 to 09-30-02	2,500	2,500	2,443	2,443
10-01-01 to 09-30-02	1,813	1,813	1,813	1,813
	28,171	28,171	27,134	27,134
01-16-01 to 01-15-02	33,370	33,370	24,494	24,494
01-16-02 to 01-15-03	49,525	49,525	27,700	27,700
	82,895	82,895	52,194	52,194
07-25-86 to 09-30-02				541,310
				541,310
	$ 59,316,856	$ 55,629,989	$ 21,503,555	$ 24,642,203

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Appalachian Regional Commission		
Direct Program:		
Appalachian Area Development	23.002	
Total Appalachian Regional Commission		
Corporation for National and Community Service		
Direct Programs:		
Volunteers in Service to America	94.013	1636001579 A5
AmeriCorps	94.006	00ASFAL0011401
Total Corporation for National and Community Service		
Total Expenditures of Federal Awards		

(M) = Major Program
(N) = Non-cash assistance

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 59,316,856	$ 55,629,989	$ 21,503,555	$ 24,642,203
10-20-99 to 09-30-02	400,000	200,000	180,000	180,000
	400,000	200,000	180,000	180,000
07-01-01 to 06-30-02	5,000	5,000	1,657	1,657
10-01-01 to 09-30-02	340,180	340,180	178,328	178,328
	345,180	345,180	179,985	179,985
	$ 60,062,036	$ 56,175,169	$ 21,863,540	$ 25,002,188

This Page Intentionally Blank

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2002

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Jefferson County Commission and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the primary government financial statements.

Note 2 – Subrecipients

Of the federal expenditures presented in the schedule, Jefferson County Commission provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Welfare-to-Work Grants to States and Localities	17.253	$1,714,628
Employment Service	17.207	$ 250,475
Workforce Investment Act:		
Employment and Training Assistance - Dislocated Worker	17.246	
Job Training Partnership Act	17.250	
Workforce Investment Act	17.255	
WIA Cluster:		
WIA Adult Program	17.258	
WIA Youth Activities	17.259	
WIA Dislocated Workers	17.260	
Total Workforce Investment Act		$1,457,263
Youth Opportunity Grant	17.263	$4,600,968
Community Development Block Grant – Entitlement Grants	14.218	$1,976,266
Emergency Shelter Grants Program	14.231	$ 170,597
Homeless Veterans Reintegration Project	17.805	$ 273,179

Note 3 – Workforce Investment Act

Pursuant to instructions from the pass-through entity, CFDA Number 17.246, 17.250 and 17.255 are being separately displayed in the schedule. These programs have been consolidated into the WIA Cluster (CFDA Number 17.258, 17.259 and 17.260). The WIA Cluster, including the funds expended under CFDA Number 17.246, 17.250 and 17.255, are being considered a major program for compliance testing. The compliance requirements of the WIA Cluster (CFDA Number 17.258, 17.259 and 17.260) were used for compliance testing.

Note 4 – Other

Jefferson County issues loans through the Community Development Office for eligible recipients. The following loans were outstanding at September 30, 2002:

	CFDA Number	Loans Outstanding	Less: Allowance for Doubtful Accounts	Net Loans Outstanding
Community Development Block Grants/Entitlement Grants	14.218	$2,734,071	$(121,587)	$2,612,484
Economic Development Technical Assistance	11.303	$ 329,857	$ (29,710)	$ 300,147
HOME Investment Partnership Program	14.239	$ 774,345		$ 774,345

Additional Information

Commission Members and Administrative Personnel
October 1, 2001 through September 30, 2002

Commission Members		**Term Expires**
Hon. Gary White, President	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2002
Hon. Bettye Fine Collins, Member	Suite 220 Jefferson County Courthouse Birmingham, AL 35263	2002
Hon. Jeff Germany, Member	927 Brandy Lane Birmingham, AL 35214	2002
Hon. Mary M. Buckelew, Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2002
Hon. Steve Small, Jr., Member	401 19th Street South, Unit 404 Birmingham, AL 35233	2002

Administrative Personnel

Mr. Steve Sayler, Finance Director	Room 810 Jefferson County Courthouse Birmingham, AL 35263
Mr. Travis Hulsey, Assistant Finance Director	Room 810 Jefferson County Courthouse Birmingham, AL 35263
Mr. Danny Panos, Chief Accountant	Room 820 Jefferson County Courthouse Birmingham, AL 35263

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the Jefferson County Commission as of and for the year ended September 30, 2002, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Jefferson County Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Jefferson County Commission in the Report to the Chief Examiner.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jefferson County Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Jefferson County Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 2001-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

February 21, 2003

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of the Jefferson County Commission with the types of compliance requirements described in the ***U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*** that are applicable to each of its major federal programs for the year ended September 30, 2002. The Jefferson County Commission's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Jefferson County Commission's management. Our responsibility is to express an opinion on the Jefferson County Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States***, ***Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Jefferson County Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Jefferson County Commission's compliance with those requirements.

In our opinion, the Jefferson County Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002.

Internal Control Over Compliance

The management of the Jefferson County Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Jefferson County Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

February 21, 2003

Section I - Summary of Examiner's Results

Financial Statements

Type of opinion issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	__X__ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	__X__ Yes	______ None reported
Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	__X__ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	______ Yes	__X__ None reported
Type of opinion issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes	__X__ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program
93.887	Health Care and Other Facilities
17.263	Youth Opportunity Grants
17.253	Welfare-to-Work Grants to States and Localities
17.246	Employment and Training Assistance – Dislocated Worker
17.250	Job Training Partnership Act
17.255	Workforce Investment Act
17.258, 17.259 and 17.260	WIA Cluster
83.548	Hazard Mitigation Grant Program

Dollar threshold used to distinguish Between Type A and Type B programs:	$672,146	
Auditee qualified as low-risk auditee?	__X__ Yes	______ No

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
99-1	Internal Control	**Finding:** Procedures were not in place to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services. **Recommendation:** Procedures should be implemented to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.	
2001-1	Internal Control	**Finding:** Procedures were not present to assure that all certificates of deposit for retainage on construction contracts were recorded in the financial statements. **Recommendation:** Procedures should be implemented to assure that all certificates of deposit for retainage on construction contracts are properly recorded.	

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	

Summary Schedule of Prior Audit Findings

JEFFERSON COUNTY COMMISSION

LARRY P. LANGFORD - PRESIDENT
MARY M. BUCKELEW
BETTYE FINE COLLINS
SHELIA SMOOT
GARY WHITE

LARRY P. LANGFORD–COMMISSIONER
Finance and General Services

STEVE F. SAYLER
Finance Director
TRAVIS A. HULSEY
Assistant Finance Director
Finance Department
Suite 810 Courthouse
716 Richard Arrington, Jr. Blvd. N.
Birmingham, Alabama 35203
Telephone (205) 325-5762

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2002

As required by the Office of Management and Budget (OMB) Circular No. A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section ___.315(b), the Jefferson County Commission has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2002.

Finding Ref. No.	Status of Prior Audit Finding
2001-2	Corrective action was taken.

Steve Sayler

Auditee Response/Corrective Action Plan

JEFFERSON COUNTY COMMISSION

LARRY P. LANGFORD - PRESIDENT
MARY M. BUCKELEW
BETTYE FINE COLLINS
SHELIA SMOOT
GARY WHITE

LARRY P. LANGFORD–COMMISSIONER
Finance and General Services

STEVE F. SAYLER
Finance Director
TRAVIS A. HULSEY
Assistant Finance Director
Finance Department
Suite 810 Courthouse
716 Richard Arrington, Jr. Blvd. N.
Birmingham, Alabama 35203
Telephone (205) 325-5762

Corrective Action Plan
For the Year Ended September 30, 2002

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organization*, Section .315(c), the Jefferson County Commission has prepared and hereby submits the following Correction Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2002.

Finding #1999-1: Procedures were not in place to ensure compliance with all provisions between the Commission and Bessemer Water Service for sewer billing services.

Response: The County test checks various transactions with the Water Service. Although we cannot force them to improve their operations, we feel these compensating controls will help uncover most material problems with the Water Service.

Finding #2001-1 Procedures were not present to assure that all certificates of deposit for retain age on construction contracts were recorded in financial records.

Response: The Finance Department and Sewer Department are working to institute proper procedures. Sewer Department records are vastly improved for 2002. Roads and Transportation will be complete during 2003.

Other Matters in Report to the Chief Examiner
For the Year

Finding: At September 30, 2002, the following funds had deficit fund balances:

Road Fund	$ 7,460,000
Senior Citizen's Activities Fund	$ 1,040,000
Capital Improvements Fund	$30,959,000
Road Construction Fund	$ 2,463,000

Response: The Jefferson County Commission supplements the operations from the General Fund. The Commission transfers the supplementary cash at appropriate times during the fiscal year and we will not overfund the cash account in order to eliminate the fund balance deficit. We will maintain cash accounts with a zero balance for funds that are not self sustaining. We will not overfund the fund's accounts in order to eliminate the fund balance deficits.

Finding: It appears that manhole adjustment and installation projects were split in such a manner that cash project would be less than the fifty thousand dollar ($50,000) threshold established under the Alabama Public Works Law.

Response: All $50,000 manhole projects have been stopped and the Commission plans to never enter into any other such projects. Investigations are ongoing for all old previous $50,000 manhole projects. We will reveal all investigation results to you at the appropriate time.

Finding: It appears that the County is not complying with the Alabama Public Works Law by contracting with a vendor to provide professional services and then allowing the vendor to engage in the repair and maintenance of the public works.

Response: The Commission is now bidding all contracts that have joint professional and maintenance provisions. The Commission's independent consultant is also reviewing all old contracts to determine the old contracts' efficacy.

Finding: The ***Code of Alabama 1975***, Section 39-2-2 (b) (Alabama Public Works Law) states that "an awarding authority may let contracts for public works." During the audit period, there was an emergency sewer repair project that exceeded the $50,000 public works threshold and was required to be bid. The Jefferson County Department of Environmental Services, and not the Jefferson County Commission (the awarding authority), awarded the bid.

Response: The one emergency award that was improperly awarded is an isolated situation, but the Commission has implemented procedures to insure that another occurrence never happens.

Larry Langford, President of County Commission

APPENDIX C

SUMMARY OF THE INDENTURE

The following constitutes a summary of certain portions of the Indenture pursuant to which the Series 1997 Warrants, the Series 1999-A Warrants, the Series 2001-A Warrants, the Series 2002-A Warrants, the Series 2002-B Warrants, the Series 2002-C Warrants have been issued and any Additional Parity Securities will be issued. This summary should be qualified by reference to other provisions of the Indenture referred to elsewhere in this Reoffering Circular, and all references and summaries pertaining to the Indenture in this Reoffering Circular qualified by reference to the exact terms of the Indenture, a copy of which may be obtained from the Trustee.

Please note that while this Appendix C makes reference to other outstanding revenue warrants issued by the County, this Offering Circular is for the sole purpose of reoffering the Warrants described on the cover hereto.

Definitions

Capitalized terms used in this Appendix C without being defined herein shall have the meanings assigned to such terms elsewhere in this Reoffering Circular.

"Adjustable Rate" means a Commercial Paper Rate, an Auction Rate, a Daily Rate, a Weekly Rate or a Term Rate.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Alternate Credit Facility" means any Credit Facility obtained pursuant to the provisions of the Indenture in substitution for or in addition to an existing Credit Facility or Facilities.

"Alternate Liquidity Facility" means an agreement for the purchase of Series 2002-C Warrants not remarketed that is accepted by the Trustee pursuant to the terms and conditions of the Indenture.

"Auction Rate" means, with respect to Auction Rate Warrants and each Auction Period for such Auction Rate Warrants, the rate of interest per annum determined for the Series 2002-C Warrants pursuant to the procedures described in Appendix F, which shall not in any case exceed the Maximum Auction Rate.

"Auction Rate Interest Payment Date", when used with respect to any Series 2002-C Warrant in the Auction Rate Mode, means a date on which interest calculated at the Auction Rate is payable on such Series 2002-C Warrant.

"Auction Rate Mode" means the Interest Rate Mode in which a Series 2002-C Warrant bears interest at the Auction Rate.

"Authorized Denominations" means (i) for Series 2002-C Warrants bearing interest at the Weekly Rate, the Daily Rate or the Commercial Paper Rate, $100,000 or any larger amount that is a multiple of $5,000, (ii) for Series 2002-C Warrants bearing interest at the Auction Rate, $25,000 or any integral multiple thereof, and (iii) for Series 2002-C Warrants bearing interest at a Term Rate or a Fixed Rate, $5,000 or any multiple thereof.

"Bank Rate" has the meaning assigned to such term in a Liquidity Facility.

"Bank Warrant" means a Series 2002-C Warrant owned by a Liquidity Provider after purchase pursuant to a Liquidity Facility.

"Calculation Period" means (a) during any Commercial Paper Rate Period, the period from and including the effective date of the Change in the Interest Rate Mode to a Commercial Paper Rate Period to but not including any day not more than 270 days thereafter which is a day immediately preceding a Business Day established by the Remarketing Agent; (b) during any Daily Rate Period, the period from and including a Business Day to but not including the next succeeding Business Day; (c) during any Weekly Rate Period, initially the period from and including the effective date of the Change in the Interest Rate Mode to a Weekly Period to and including the following Wednesday (but not less than two days) and, thereafter, the period from and including the Thursday of each week to and including the following Wednesday; provided, however, that, if such Thursday is not a Business Day, the next succeeding Calculation Period shall begin on the Business Day next succeeding such Thursday and shall end on the day before the next succeeding Calculation Period; and (d) during any Term Rate Period, any period of not less than 270 days from and including a Business Day to and including any day (established by the County) not later than the day prior to the Stated Maturity of the Series 2002-C Warrants.

"Commercial Paper Rate" means, with respect to each Calculation Period during a Commercial Paper Rate Period, a rate of interest equal to the rate of interest per annum, established and certified to the Trustee by the Remarketing Agent no later than 9:30 a.m. (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Series 2002-C Warrants in a secondary market transaction at a price equal to the principal amount thereof; provided that such rate of interest shall not exceed 10% per annum.

"Commercial Paper Rate Interest Payment Date", when used with respect to any Series 2002-C Warrant in the Commercial Paper Rate Mode, means a date on which interest calculated at the Commercial Paper Rate is payable on such Series 2002-C Warrant.

"Commercial Paper Rate Mode" means the Interest Rate Mode in which a Series 2002-C Warrant bears interest at the Commercial Paper Rate.

"Commercial Paper Rate Period", when used with respect to any Series 2002-C Warrant in the Commercial Paper Rate Mode, means a period established pursuant to the

Indenture during which such Series 2002-C Warrant bears interest at a Commercial Paper Rate established for such period.

"Conversion Date" means the day on which conversion from one Interest Rate Mode to a different Interest Rate Mode becomes effective.

"Credit Facility" means the XL Capital Insurance Policy and any other bond insurance policy or other instrument that provides for the payment when due of the principal of and interest on the Series 2002-C Warrants to substantially the same extent as the XL Capital Insurance Policy.

"Daily Rate" means, with respect to each Calculation Period during a Daily Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee by the Remarketing Agent no later than 9:30 a.m. (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Series 2002-C Warrants in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon; provided that such rate of interest shall not exceed 10% per annum.

"Daily Rate Interest Payment Date", when used with respect to any Series 2002-C Warrant in the Daily Rate Mode, means a date on which interest calculated at the Daily Rate is payable on such Series 2002-C Warrant.

"Daily Rate Mode" means the Interest Rate Mode in which a Series 2002-C Warrant bears interest at the Daily Rate.

"Daily Rate Period", when used with respect to any Series 2002-C Warrant in the Daily Rate Mode, means a period established pursuant to the Indenture during which such Series 2002-C Warrant bears interest at a Daily Rate established for such period.

"Determination Date" means, for any Calculation Period (other than the Calculation Period or Periods commencing on and including the closing date for the Series 2002-C Warrants), the first Business Day occurring during such Calculation Period.

"Eligible Bank Obligations" means demand and time deposits (whether or not interest-bearing and whether or not evidenced by certificates of deposit) in banks and acceptances by banks, provided that the banks obligated with respect to such deposits or acceptances, as the case may be, are organized under the laws of the United States of America or any state thereof and have, at the time any moneys are invested in such deposits or acceptances pursuant to the provisions of the Indenture, combined capital, surplus and undivided profits of not less than $50,000,000; provided that the bank obligated with respect to any such deposit or acceptance shall continuously secure such deposit or acceptance, to the extent not insured by the Federal Deposit Insurance Corporation (or any department, agency or instrumentality of the United States of America that may succeed to the functions of such corporation), by depositing with an independent third party, as collateral security therefor, Federal Obligations having a market value (exclusive of accrued interest) not less than the amount of the deposit or acceptance being secured.

"Eligible Investments" means any of the following: (i) Federal Obligations; (ii) Eligible Bank Obligations; (iii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P and Aaa by Moody's; (iv) any share or other investment unit representing a beneficial interest in an investment company or investment trust which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of federal law), provided that the investment portfolio of such investment company or investment trust consists exclusively of obligations or securities that would independently qualify as Eligible Investments if directly acquired by the County; (v) to the extent at the time permitted by applicable law, either of the following: (A) any repurchase agreement or collateralized investment agreement issued or guaranteed by any financial institution which has a long-term rating of at least A- by S&P or A3 by Moody's, provided that (1) the obligations or securities subject to any such agreement shall be of the kind described in clauses (i), (ii) and (iii) of this definition, (2) no transfer of moneys shall be made by the County to invest in any such agreement unless the County obtains a security interest in all obligations and securities covered by such agreement that shall be perfected, prior to or simultaneously with the transfer of such moneys, through the physical delivery of such obligations and securities to the County or to an independent third party, and (3) such obligations and securities shall be supplemented by additional collateral from time to time to the extent required to continuously maintain collateral having an aggregate market value (exclusive of accrued interest) that is not less than the amount invested pursuant to such agreement; or (B) any investment agreement issued or guaranteed by any financial institution which has a long-term rating of at least AA- by S&P or AA3 by Moody's; and (vi) any other investments at the time permitted by applicable law.

"Expiration Date", when used with respect to any Liquidity Facility, means the date on which the commitment of the related Liquidity Provider to purchase Series 2002-C Warrants actually terminates.

"Federal Obligations" means (i) any direct general obligations of the United States of America, (ii) obligations the payment of the principal of and the interest on which is unconditionally and irrevocably guaranteed by, or entitled to the full faith and credit of, the United States of America, and (iii) Treasury Receipts.

"Financing Participants" means the County, the Liquidity Providers, the Insurer, the Trustee, the Remarketing Agents and the Tender Agent.

"Fiscal Year" means any twelve-month period ending on September 30 or any other period of twelve consecutive calendar months that may hereafter be adopted as the fiscal year of the County.

"Fitch" means Fitch Investors Service, L.P., and any successor thereto.

"Fixed Rate" means, with respect to the Fixed Rate Conversion Date for any Series 2002-C Warrants, the rate of interest per annum established and certified to the Trustee by the Remarketing Agent no later than 9:30 a.m. (New York City time) on and as of such date as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such date to remarket the Series 2002-C Warrants in a secondary market transaction at a price equal to the principal amount thereof, provided that such rate of interest shall not exceed 12% per annum.

"Fixed Rate Conversion Date" means the effective date of a conversion of the interest rate on Series 2002-C Warrants to a Fixed Rate.

"Fixed Rate Period" means the period, if any, during which Series 2002-C Warrants bear interest at a Fixed Rate, which period shall commence on the Fixed Rate Conversion Date therefor and extend to the stated maturity date therefor.

"Independent Counsel" means counsel having no continuing employment or business relationship or other connection with the County which, in the opinion of the Trustee, might compromise or interfere with the independent judgment of such counsel in the performance of any services to be performed under the Indenture as Independent Counsel.

"Interest Payment Date", when used with respect to any installment of interest on a Series 2002-C Warrant, means the date specified in the Indenture and in such Series 2002-C Warrant as the fixed date on which such installment of interest is due and payable.

"Interest Rate Mode" means the Auction Rate Mode, the Daily Rate Mode, the Weekly Rate Mode, the Commercial Paper Rate Mode, the Term Rate Mode or the Fixed Rate Mode.

"Liquidity Facility" means any Standby Purchase Agreement and any Alternate Liquidity Facility.

"Liquidity Provider" means each Bank and each provider of an Alternate Liquidity Facility.

"Mandatory Tender" means a required tender of a Series 2002-C Warrant for purchase pursuant to the Indenture.

"Mandatory Tender Date" means a date on which a Series 2002-C Warrant is to be purchased pursuant to a Mandatory Tender.

"Maturity", when used with respect to any Series 2002-C Warrant, means the date specified herein and in such Series 2002-C Warrant as the fixed date on which principal of such Series 2002-C Warrant is due and payable.

"Maximum Annual Debt Service" means the maximum amount payable in a Fiscal Year as principal of and interest on the Parity Securities then outstanding and, if applicable, any Additional Parity Securities with respect to which a Revenue Certificate or Revenue Forecast (as those terms are defined and used in this Appendix C under "Additional Parity Securities") is prepared and delivered, subject to the following assumptions and adjustments:

(1) the principal amount of any such securities required by the terms thereof to be redeemed or prepaid during any Fiscal Year shall, for purposes of this

definition, be considered as maturing in the Fiscal Year during which such redemption or prepayment is required and not in the Fiscal Year in which their stated maturity or due date occurs;

(2) for purposes of determining the amounts of principal and interest due in any Fiscal Year on any Parity Securities that constitute Tender Indebtedness, the options or obligations of the owners of such Parity Securities to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Parity Securities may or are required to tender such Parity Securities for purchase or payment, except that any such option or obligation to tender Parity Securities shall be ignored and not treated as a principal maturity, and such Parity Securities shall be deemed to mature in accordance with their stated maturity schedule, if such Parity Securities are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies or such Parity Securities are rated in the highest short-term, note or commercial paper rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies;

(3) the interest rate on any Variable Rate Securities subsequent to the date of calculation shall be assumed to be the lowest of (A) the maximum rate of interest that may be applicable to such Parity Securities, under the provisions thereof, (B) for so long as any hedging agreement that establishes a cap rate for such Parity Securities is in effect, such cap rate, and (C) the highest of (i) the actual interest rate on the date of calculation, or if the Variable Rate Securities in question are not yet outstanding, the initial rate (if established and binding), (ii) if the Variable Rate Securities in question have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Variable Rate Securities in question is excludable from gross income under the applicable provisions of the Code, the average of the various rates published as the BMA Municipal Swap Index (or comparable index if no longer published) during the ten year period ending on the last day of the month immediately preceding the date of determination, plus fifty (50) basis points, or (y) if interest on such Variable Rate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities;

(4) the debt service payable with respect to any Parity Securities for which the County has entered into a Qualified Swap pursuant to which the County has agreed to make payments calculated by reference to a fixed rate of interest shall be calculated as if the Parity Securities bore interest at such fixed rate during the term of such Qualified Swap;

(5) the debt service payable with respect to any Parity Securities for which the County has entered into a Qualified Swap pursuant to which the County has agreed to make payments calculated by reference to variable interest rates shall be calculated as if the Parity Securities in question bore interest, during the term of such Qualified Swap, at a rate equal to the lowest of (A) for so long as any hedging agreement that establishes a cap rate with respect to such Qualified Swap remains in effect, such cap rate, or (B) the highest of (i) the actual rate of such Qualified Swap on the date of

calculation, or if such Qualified Swap is not yet in effect, the initial rate (if established and binding), (ii) if the Qualified Swap has been in effect for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Securities to which such Qualified Swap is referable is excludable from gross income under the applicable provisions of the Code, the average of the various rates published as the BMA Municipal Swap Index (or comparable index if no longer published) during the ten year period ending on the last day of the month immediately preceding the date of determination, plus fifty (50) basis points, or (y) if interest on such Parity Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities;

(6) there shall be excluded any principal of or interest on any Parity Securities to the extent there are available and held in escrow or under a trust agreement (i) moneys sufficient to pay such principal or interest, (ii) Permitted Defeasance Obligations which, if the principal thereof and the interest thereon are paid according to their tenor, will produce moneys sufficient to pay such principal or interest, or (iii) both moneys and such Permitted Defeasance Obligations which together will produce funds sufficient to pay such principal or interest; and

(7) the County may assume that all or any portion of outstanding Parity Securities that are subject to optional redemption provisions will be redeemed in one or more installments that are consistent with such provisions and may adjust the expected payment schedule with respect to such Parity Securities to reflect such assumed redemptions.

In any case where, for purposes of determining Maximum Annual Debt Service, a portion of the principal of any Parity Securities is to be excluded, there shall also be excluded interest on the principal so excluded.

"Moody's" means Moody's Investors Service and any successor thereto.

"Net Revenues Available for Debt Service" means, for any period, the difference between (A) the sum of (i) the total amount of System Revenues accrued during such period, and (ii) the amount of interest earned during such period on moneys held in the Indenture Funds (to the extent that such interest is not taken into account pursuant to the preceding clause (i)) and (B) the total amount of Operating Expenses incurred during such period (determined in accordance with generally accepted accounting principles).

"Optional Tender" means a tender of a Series 2002-C Warrant for purchase at the option of the Holder thereof pursuant to the Indenture.

"Optional Tender Date" means a date on which a Series 2002-C Warrant is to be purchased pursuant to an Optional Tender.

"Permitted Defeasance Obligations" means any combination of (i) Federal Obligations and (ii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that bear interest exempt from federal income taxation, that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P or Aaa by Moody's.

"Prior Years' Surplus" means, with respect to any particular Fiscal Year, the aggregate amount on deposit in the Rate Stabilization Fund and the Depreciation Fund at the beginning of such Fiscal Year.

"Purchase Price", when used with respect to a Tendered Warrant, means 100% of the principal amount of such Series 2002-C Warrant plus accrued interest to the Tender Date. If the Tender Date for a Series 2002-C Warrant is also an Interest Payment Date for such Series 2002-C Warrant, the interest due on such date shall not be considered part of the Purchase Price; rather, such interest shall be paid in accordance with the provisions of the Indenture governing regular interest payments.

"Qualified Swap" means, with respect to a series of Parity Securities or any portion thereof, any financial arrangement (i) that is entered into by the County with an entity that is a Qualified Swap Provider at the time of the execution and delivery of the documents governing such arrangement; (ii) that provides (a) that the County shall pay to such entity an amount based on the interest accruing at a fixed rate on a notional amount equal to all or a portion of the principal amount of the outstanding Parity Securities of such series, and that such entity shall pay to the County an amount based on the interest accruing on the same notional amount, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Parity Securities), or that one shall pay to the other any net amount due under such arrangement, or (b) that the County shall pay to such entity an amount based on the interest accruing on a notional amount equal to all or a portion of the principal amount of the outstanding Parity Securities of such series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the County an amount based on interest accruing on the same notional amount at an agreed fixed rate, or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by the County as a Qualified Swap with respect to any of the Parity Securities.

"Qualified Swap Provider" means an entity whose senior long term debt obligations, other senior unsecured long-term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least A- by S&P and A3 by Moody's.

"Rate Stabilization Fund Requirement" means, as of the date of any determination thereof, 75% of the Maximum Annual Debt Service on the then outstanding Parity Securities.

"Rating Agency" means Moody's, S&P, Fitch or any other nationally recognized securities rating agency.

"Regular Record Date" means (i) with respect to Series 2002-C Warrants in the Auction Rate Mode, Daily Rate Mode, Weekly Rate Mode or Commercial Paper Rate Mode, the day immediately prior to the related Interest Payment Date (whether or not a Business Day), and

(ii) with respect to Series 2002-C Warrants in the Term Rate Mode or Fixed Rate Mode, the 15th day (whether or not a Business Day) of the month next preceding the Term Rate Interest Payment Date.

"Remarketing Agent" means any entity that shall have become a remarketing agent for the Series 2002-C Warrants (or a portion thereof) pursuant to the applicable provisions of this Indenture.

"Remarketing Agreement" means an agreement entered into by the County and a Remarketing Agent.

"Reserve Fund Requirement" means, as of the date of any determination thereof, the lesser of (a) 125% of the average annual debt service on all Parity Securities at the time outstanding and secured by the Reserve Fund, (b) the maximum annual debt service on all Parity Securities at the time outstanding and secured by the Reserve Fund, or (c) an amount equal to the aggregate of 10% of the original principal amount (or, in the case of any series of Parity Securities sold with original issue discount in an amount greater than 2% of its original principal amount, the issue price) of each series of Parity Securities at the time outstanding and secured by the Reserve Fund. Any calculation of average annual debt service or maximum annual debt service for the purpose of determining the applicable Reserve Fund Requirement shall be made in accordance with the requirements and limitations imposed by the provisions of the Internal Revenue Code and the regulations promulgated thereunder that pertain to reasonably required reserve or replacement funds.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"Stated Expiration Date", when used with respect to any Liquidity Facility, means the date on which the obligation of the related Liquidity Provider to purchase Series 2002-C Warrants thereunder will expire by its terms. The Stated Expiration Date of any Liquidity Facility may be extended as provided in the Indenture.

"Stated Maturity" means February 1, 2040.

"Support Facility" means any Credit Facility or Liquidity Facility.

"Tender Date" means an Optional Tender Date or a Mandatory Tender Date, as the case may be.

"Tender Indebtedness" means any Parity Securities that are payable, at the option of the holder thereof, prior to their stated maturity or due date, or that the County (or an agent thereof) is required, at the option of such holder, to purchase prior to their stated maturity or due date.

"Tendered Warrants" means Series 2002-C Warrants tendered for purchase pursuant to the Optional or Mandatory Tender provisions of the Indenture.

"Term Rate" means, with respect to each Calculation Period for a Term Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the

Trustee by the Remarketing Agent no later than 9:30 a.m. (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Series 2002-C Warrants in a secondary market transaction at a price equal to the principal amount thereof; provided that such rate of interest shall not exceed 12% per annum.

"Term Rate Mode" means the Interest Rate Mode in which the Series 2002-C Warrants bear interest at the Term Rate.

"Term Rate Period", when used with respect to any Series 2002-C Warrant in the Term Rate Mode, means a period established pursuant to the Indenture during which such Series 2002-C Warrant bears interest at a Term Rate established for such period.

"Terminating Event" means any event or events under the terms of a Support Facility or any agreement providing for the issuance of such Support Facility (provided such Support Facility is not a financial guaranty insurance policy) which would cause the termination or expiration of such Support Facility but would specifically allow for the mandatory tender of Series 2002-C Warrants pursuant to the Indenture with a draw on or borrowing or payment under such Support Facility prior to such termination or expiration.

"Treasury Receipts" means custodial receipts evidencing ownership in future principal or interest payments, or both, with respect to United States Treasury obligations that have been deposited with a custodian pursuant to a custody agreement which provides for the United States Treasury obligations underlying such custodial receipts to be held in a separate account and for all payments of principal and interest received by such custodian with respect to such underlying obligations to be immediately paid to the holders of such custodial receipts in accordance with their respective ownership interests in such underlying obligations, provided that (i) the custodian issuing such custodial receipts shall be a bank that is acceptable to the Trustee, that is organized under the laws of the United States of America or any state thereof, and that, at the time of the issuance of such custodial receipts, shall have capital, surplus and undivided profits in excess of $100,000,000 and (ii) the custody agreement pursuant to which such custodial receipts are issued shall be acceptable to Bond Counsel.

"Variable Rate Security" means any Parity Security that bears interest at a rate that is subject to change prior to the maturity of such security to one or more other interest rates that cannot be determined in advance.

"Weekly Rate" means, with respect to each Calculation Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee by the Remarketing Agent no later than 9:30 a.m. (New York City time) on and as of the first day of such Calculation Period as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Series 2002-C Warrants in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon; provided that such rate of interest shall not exceed 10% per annum.

"Weekly Rate Interest Payment Date", when used with respect to any Series 2002-C Warrant in the Weekly Rate Mode, means a date on which interest calculated at the Weekly Rate is payable on such Series 2002-C Warrant.

"Weekly Rate Mode" means the Interest Rate Mode in which a Series 2002-C Warrant bears interest at the Weekly Rate.

Flow of Funds

General. The Indenture provides for the creation and maintenance of a number of special funds, which include the Revenue Account, the Debt Service Fund, the Reserve Fund, the Subordinate Debt Fund, the Rate Stabilization Fund, the Depreciation Fund, the Redemption Fund and the Warrant Purchase Fund. The Commission has the right to designate from time to time the depository or depositories for the Revenue Account, the Subordinate Debt Fund, the Rate Stabilization Fund and the Depreciation Fund. The Trustee is the depository, custodian and disbursing agent for all of the other special funds created in the Indenture.

Revenue Account. The County is required to deposit in the Revenue Account, as received by it, all of the System Revenues and all amounts received by the County pursuant to the Qualified Swaps. Moneys in the Revenue Account are applied first for the payment of Operating Expenses. From the moneys that remain after payment of Operating Expenses, the County is required to make periodic transfers to the Debt Service Fund, the Reserve Fund, the Subordinate Debt Fund, the Rate Stabilization Fund and the Depreciation Fund in accordance with the provisions of the Indenture and as hereinafter summarized. Any moneys that remain in the Revenue Account on any February 15 or August 15 after all required transfers therefrom have been made shall be deemed "surplus revenues" and may be withdrawn from the Revenue Account and used by the County for any lawful purpose related to the County's ownership and operation of the System.

Debt Service Fund. On or before each Interest Payment Date for any of the Parity Securities, the County will be required to transfer from the Revenue Account to the Debt Service Fund an amount equal to the sum of the debt service on the Parity Securities becoming due and payable on each such date. The County will also be required to transfer into the Debt Service Fund certain payments in the event of the issuance of any Additional Parity Securities or the incurrence of any Secured Related Obligations. The obligations of the County under the Liquidity Facilities, under a standby purchase agreement pertaining to the Series 2002-A Warrants and under those interest rate swap transactions described in this Reoffering Circular under "OUTSTANDING DEBT — Outstanding Swap Transactions" constitute Secured Related Obligations payable from the Debt Service Fund. Until the Parity Securities have been paid in full, moneys on deposit in the Debt Service Fund are to be used only for the payment of the principal of and the interest and premium (if any) on the Parity Securities or for the payment of Secured Related Obligations.

Reserve Fund. Simultaneously with the issuance of the Series 2002-C Warrants, approximately $197,689,591 (which includes two surety warrants with an aggregate face amount of $19,884,478) were held in the Reserve Fund. Upon the issuance of any Additional Parity Securities that are to be secured by the Reserve Fund, moneys in an aggregate amount equal to the increase in the Reserve Fund Requirement resulting from the issuance of such Additional Parity Securities must be added to the Reserve Fund. The moneys to be so added to the Reserve

Fund may be proceeds of such Additional Parity Securities or System Revenues. Any such addition of moneys to the Reserve Fund may be effected through (i) a single deposit to the Reserve Fund made at the time of the issuance of such Additional Parity Securities, (ii) a series of equal deposits to the Reserve Fund over a period that shall not exceed five years, or (iii) any other series of deposits that will result in a faster accumulation of moneys than described in clause (ii). If, upon the issuance of any Additional Parity Securities, the required addition of moneys to the Reserve Fund is not effected through the method described in clause (i), a separate account shall be established within the Reserve Fund for such Additional Parity Securities.

Moneys forming a part of the Reserve Fund are held as a reserve for the payment of the principal of and the interest on the Parity Securities secured thereby, but shall be used for such purpose only when moneys are not otherwise available. In the event that moneys are withdrawn from the Reserve Fund to provide for the payment of the principal of or the interest on any of the Parity Securities, the County will restore the moneys so withdrawn within six months of the date of such withdrawal by making transfers from the Revenue Account into the Reserve Fund.

In lieu of all or any portion of the required amount to be on deposit in the Reserve Fund, the County may deposit with the Trustee to the credit of such fund (i) a surety bond or insurance policy issued by a municipal bond insurer whose claims-paying ability is rated "AAA" by S&P or "Aaa" by Moody's, (ii) a surety bond or insurance policy issued by an entity other than a municipal bond insurer if such entity and the form and substance of such instrument are approved by the Bond Insurer, or (iii) an irrevocable letter of credit issued by a bank that is rated at least "AA" by S&P or "Aa" by Moody's.

The Series 2003-A Warrants are not secured by moneys in the Reserve Fund.

Subordinate Debt Fund. On or before each February 15 and each August 15, the County may pay into the Subordinate Debt Fund from the Revenue Account, after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund and the Reserve Fund (but before any transfers have been made with respect to such date into the Rate Stabilization Fund or the Depreciation Fund), an amount equal to the lesser of (i) one-half (1/2) of twenty-five percent (25%) of the Maximum Annual Debt Service determined as of the date of such deposit, or (ii) the aggregate debt service becoming due and payable during the then next succeeding six months with respect to obligations secured by a pledge of the Pledged Revenues that is subject and subordinate to the pledge made in the Indenture to secure the payment of Parity Securities.

Rate Stabilization Fund. At any time when the total amount held in the Rate Stabilization Fund is less than the Rate Stabilization Fund Requirement, the County shall pay into the Rate Stabilization Fund from the Revenue Account, on or before each February 15 and each August 15 and after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund and the Reserve Fund, an amount equal to 10% of the then effective Rate Stabilization Fund Requirement (or such lesser amount as shall result in the amount held in the Rate Stabilization Fund being equal to the Rate Stabilization Fund Requirement). In addition, the County may from time to time deposit into the Rate Stabilization Fund other moneys that do not constitute System Revenues.

The County may, from time to time at the election of the County's Director of Finance, transfer moneys from the Rate Stabilization Fund into the Revenue Account.

Depreciation Fund. At any time when the total amount held in the Depreciation Fund is less than the amount of accumulated depreciation referable to the System (as shown in the then most recent audited financial statements of the County), the County shall pay into the Depreciation Fund from the Revenue Account, on or before each February 15 and each August 15 and after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund, the Reserve Fund and the Rate Stabilization Fund, the sum of $5,000,000. If on any such date the moneys available in the Revenue Account are not sufficient to permit a deposit of said sum into the Depreciation Fund, such shortfall shall not increase the required amount of any subsequent deposit to the Depreciation Fund. Moneys held in the Depreciation Fund may be withdrawn from time to time by the County, but only to pay the costs of capital improvements to the System or to purchase or redeem Parity Securities.

Redemption Fund. The Indenture establishes a Redemption Fund into which the Trustee is required to deposit certain insurance proceeds and certain proceeds derived from the disposition of portions of the System. Moneys in the Redemption Fund may be used only for the redemption of Parity Securities prior to maturity, for the purchase of Parity Securities for retirement at a price not greater than par plus accrued interest or, if the amounts in the Debt Service Fund and the Reserve Fund are not sufficient to pay any debt service coming due with respect to any of the Parity Securities, for the payment of such debt service in order to prevent a default. The Indenture provides that if there are at any time on deposit in the Redemption Fund moneys sufficient to redeem at least $5,000 principal amount of Parity Securities then subject to redemption, the County will thereupon take such action as may be necessary, under the provisions of the Indenture, to exhaust the moneys on deposit in the Redemption Fund by redeeming or purchasing Parity Securities for retirement as aforesaid (or both) as soon as practicable thereafter.

Warrant Purchase Fund. The Sixth Supplemental Indenture establishes a special trust fund designated the "Jefferson County Sewer System Series 2002-C Warrant Purchase Fund". The Tender Agent shall be the depository, custodian and disbursing agent for the Warrant Purchase Fund.

There shall be deposited in the Warrant Purchase Fund, as and when received:

(a) the proceeds of any remarketing of Series 2002-C Warrants by a Remarketing Agent,

(b) money received by the Tender Agent from a Liquidity Provider pursuant to a Liquidity Facility with respect to the Purchase Price of Series 2002-C Warrants payable on the related Tender Date,

(c) all other money required to be deposited in the Warrant Purchase Fund pursuant to the Indenture, and

(d) all other money received by the Tender Agent when accompanied by directions that such money is to be deposited in the Warrant Purchase Fund.

The Indenture authorizes the Tender Agent to withdraw sufficient money from the Warrant Purchase Fund to pay the Purchase Price of Series 2002-C Warrants due on any Tender Date.

Funds for the payment of the Purchase Price of Series 2002-C Warrants shall be derived from the following sources in the order of priority indicated:

First, proceeds from the remarketing of Series 2002-C Warrants.

Second, money advanced under the related Liquidity Facility.

Third, any other money on deposit in the Warrant Purchase Fund.

Any money advanced under a Liquidity Facility shall be held in a separate, segregated account in the Warrant Purchase Fund and shall not be commingled with other money in the Warrant Purchase Fund. Such money shall be used only to pay the Purchase Price of Series 2002-C Warrants.

On each Tender Date money in the Warrant Purchase Fund from any source other than a Liquidity Facility remaining after payment of the Purchase Price of all Series 2002-C Warrants (or after segregating money for such purpose as provided in the Indenture) shall be applied by the Tender Agent for the following purposes in the order of priority indicated:

First, the Tender Agent shall reimburse the appropriate Liquidity Provider or Providers, prior to the close of business on such Tender Date, for the amount advanced under the applicable Liquidity Facility or Facilities for payment of the Purchase Price of Series 2002-C Warrants.

Second, the balance, if any, shall be paid to the County.

If money is on deposit in the Warrant Purchase Fund on any Tender Date sufficient to pay the Purchase Price of the Series 2002-C Warrants to be paid on such Tender Date, but the Holder of any Series 2002-C Warrant fails to deliver such warrant to the Tender Agent for payment of such Purchase Price on such Tender Date, the Tender Agent shall segregate and hold in trust for the benefit of the person entitled thereto money sufficient to pay such Purchase Price due and payable on such Series 2002-C Warrant on such Tender Date. Money so segregated and held in trust shall not be a part of the Trust Estate and shall not be invested, but shall constitute a separate trust fund for the benefit of the persons entitled to such Purchase Price.

Any money held in trust by the Tender Agent for the payment of the Purchase Price of any Series 2002-C Warrant as described in the preceding paragraph and remaining unclaimed for three years after such Purchase Price has become due and payable shall be paid to the County upon request of an Authorized County Representative; and the Holder of such Series 2002-C Warrant shall thereafter, as an unsecured general creditor, look only to the County for payment thereof, and all liability of the Tender Agent with respect to such trust money, and all liability of the County with respect thereto, shall thereupon cease; provided, however, that the Tender Agent, before being required to make any such payment to the County, may at the expense of the County cause to be published once, in a newspaper of general circulation in the city where the Office of the Tender Agent is located, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be paid to the County.

Investment of Funds. The County may at its option from time to time cause any or all of the moneys on deposit in the Debt Service Fund to be invested in Federal Obligations having a specified maturity, or being redeemable at the option of the holder, prior to the date when such moneys will be needed to pay principal of or interest on the Parity Securities. Similarly, the County may at its option from time to time cause any or all of the moneys on deposit in any of the other special funds established under the Indenture to be invested in any Eligible Investments which have a specified maturity, or which are redeemable at the option of the holder thereof, prior to the date on which it is anticipated by the County that such moneys will be needed; provided, however, that money held in the Warrant Purchase Fund in trust for the benefit of the holders of any Unsurrendered Warrants shall not be invested. Any investment acquired with moneys from one of the funds established under the Indenture, together with all income therefrom, shall become a part of the fund from which moneys were used to make such investment, and shall be held by the depository for such fund to the same extent as if it constituted moneys on deposit therein. So long as the amount on deposit in the Reserve Fund is not reduced to an amount less than the then applicable Reserve Fund Requirement, any income derived from the investment of moneys on deposit in the Reserve Fund shall be transferred to the Debt Service Fund.

Additional Parity Securities

Upon the satisfaction of certain conditions, the County may issue Additional Parity Securities under the Indenture. Such conditions include the adoption by the Commission of a resolution approving the issuance of the proposed Additional Parity Securities, the execution and delivery of a supplemental indenture setting forth the terms of such Additional Parity Securities, the delivery of appropriate approving legal opinions and the delivery of a Revenue Certificate or a Revenue Forecast (as hereinafter defined).

"Revenue Certificate" means a certificate signed by an Independent Accountant, the President of the Commission or the County's Director of Finance that satisfies whichever of the following is applicable:

(I) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued prior to October 1, 2007, such certificate shall state the following:

> (i) the sum of (A) the Prior Years' Surplus as of the beginning of the Fiscal Year that immediately preceded the Fiscal Year in which such certificate is delivered and (B) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; and
>
> (ii) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive

months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 75% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; or

(II) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, such certificate shall state that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

If rates and charges for services furnished by the System were increased and put into effect by the County after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an Independent Engineer may certify the amount of gross revenues from the System that would have been received by the County had such increased rates and charges been in effect during the entire Fiscal Year or other twelve-month period, and the Independent Accountant, the President of the Commission or the County's Director of Finance, as the case may be, preparing and signing the Revenue Certificate, may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer.

"Revenue Forecast" means a report prepared by an Independent Engineer with respect to a period that shall begin on the first day of the Fiscal Year that succeeds the Fiscal Year in which the proposed Additional Parity Securities are issued and that shall not be longer than five Fiscal Years (such period being herein called the "Forecast Period"), which report shall make the following projections with respect to the last Fiscal Year in the Forecast Period (such year being herein called the "Test Year"):

(I) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued prior to October 1, 2007,

(i) the sum of (A) the projected Prior Years' Surplus as of the beginning of the Test Year and (B) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made; and

(ii) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 75% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

(II) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

In preparing its Revenue Forecast, the Independent Engineer shall be entitled (a) to make projections with respect to the rates and charges to be imposed for services furnished by the System during each of the Fiscal Years in the Forecast Period (so long as such Independent Engineer certifies, with respect to any projected rates and charges that are higher than the actual rates and charges in effect as of the date of the Revenue Forecast, that such projected rates and charges would be reasonable for public sanitary sewer systems similar in size and character to the System) and (b) to rely upon estimates prepared by an independent investment advisor with respect to the aggregate amount of debt service on the Parity Securities to become due and payable during each of the Fiscal Years in the Forecast Period.

For purposes of any Revenue Certificate or Revenue Forecast prepared and delivered to the Trustee in connection with the issuance of a series of Additional Parity Securities, the date for determining Maximum Annual Debt Service may be any date that occurs during the period of thirty (30) days that immediately precedes the issuance date for such series of Additional Parity Securities (provided that, in any event, the debt service on such series of Additional Parity Securities shall be taken into account and included in calculating Maximum Annual Debt Service).

The County shall not be required to deliver a Revenue Certificate or Revenue Forecast in connection with the issuance of a series of Additional Parity Securities for refunding purposes if, in lieu thereof, the County delivers a certificate signed by the County's Director of Finance or an Independent Investment Advisor stating (i) that the Maximum Annual Debt Service immediately after the issuance of such Additional Parity Securities will not be greater than the Maximum Annual Debt Service immediately prior to the issuance of such Additional Parity Securities and (ii) that the total debt service expected to be due and payable on such Additional Parity Securities will be less than the total debt service that would be due and payable after the issuance date of such Additional Parity Securities on those of the Parity Securities being refunded if such refunding did not occur.

Particular Covenants of the County

The Indenture contains the following covenants of the County, among others:

Maintenance of Books and Records. The County will maintain complete and separate books and records pertaining to the System and all receipts and disbursements with respect thereto.

Annual Audits. Within 90 days following the close of each Fiscal Year, the County will provide the Trustee with financial statements respecting the System prepared by the County's financial officers. The County will also provide the Trustee with audited financial statements prepared by the State Examiner of Public Accounts of the State of Alabama or an independent certified public accountant within 180 days after the end of each Fiscal Year.

No Free Service. The County will not furnish or permit to be furnished from the System any free service of any kind to the State of Alabama, any county or incorporated municipality or to any other Person. All services furnished from the System will be charged at the rates at the time established therefor.

Maintenance of Rates. The County will make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall result in compliance with each of the following two requirements (such requirements being referred to herein collectively as the "Rate Covenant"):

(i) the sum of (A) Net Revenues Available for Debt Service for a given Fiscal Year and (B) the Prior Years' Surplus as of the beginning of such Fiscal Year shall not be less than 110% of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities; and

(ii) the Net Revenues Available for Debt Service for a given Fiscal Year shall not be less than 80% (or, in the case of any Fiscal Year beginning on or after October 1, 2007, 100%) of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities.

For purposes of the Rate Covenant, (a) debt service on the Parity Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Parity Securities, (b) debt service shall be reduced by any amounts received by the County during the Fiscal Year in question pursuant to Qualified Swaps, and (c) debt service shall be increased by any amounts paid by the County during such Fiscal Year pursuant to Qualified Swaps. The County will from time to time make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

Priority of Pledge. The pledge of the Pledged Revenues for the benefit of the Series 2002-C Warrants, the Series 2002-A Warrants, the Series 2002-B Warrants, the Series 2001-A Warrants, the Series 1999-A Warrants and the Series 1997 Warrants shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the County, other than any of the Additional Parity Securities or any Secured Related Obligation.

Continued Operation of System. The County will not sell or lease the whole or any part of the System, will continuously operate the System in an economical and efficient manner, and will keep the System in good repair and efficient operating condition. The County may, however, sell or otherwise dispose of portions of the System which, in its opinion, are no longer necessary for the continued efficient and economical operation of the System. The County may transfer the System as an entirety to a public corporation if the property and income of such public corporation are not subject to taxation and, upon any such transfer, the due and punctual payment of the principal of and interest on the Parity Securities and the observance of the agreements contained in the Indenture are expressly assumed in writing by the corporation to which the System shall be transferred as an entirety, provided that a condition to any such transfer shall be the delivery to the Trustee of an opinion of nationally recognized bond counsel to the effect that such transfer will not result in the interest on the Parity Securities becoming subject to federal income taxation.

Insurance Required

The County will keep all portions of the System that are of the character and type customarily insured by governmental entities operating utility systems similar to the System insured against loss by fire or other casualty to the extent of the full insurable value thereof. The County will also carry workmen's compensation insurance and public liability insurance in such amounts as are customarily carried with respect to utility systems similar in size and character to the System, provided that the County may, at its election, be self-insured for such risks to the extent customary at the time for such utility systems.

Damage and Destruction Provisions

If the System is damaged or partially destroyed to such extent that the loss thereto is not greater than $25,000,000, the County is required by the Indenture promptly to repair, replace or restore the property damaged or destroyed, applying for such purposes the insurance proceeds referable thereto, as well as providing any other funds required therefor. The County is required to pay into the Revenue Account established under the Indenture any of such insurance proceeds not needed for such repair, replacement or restoration. The Indenture further provides that if the System is damaged or destroyed to such extent that the loss thereto is greater than $25,000,000, the insurance proceeds shall be paid to the Trustee and the Trustee will, in accordance with the directions of the Commission, cause such insurance proceeds to be applied either for the repair, replacement or restoration of the property damaged or destroyed, or for the retirement of Parity Securities prior to maturity through the redemption thereof, or for any combination of such applications. Any insurance proceeds to be applied for the redemption of Parity Securities prior to maturity shall be deposited in the Redemption Fund established under the Indenture. The Indenture obligates the County to pay any costs of repairing, replacing or restoring any property damaged or destroyed that are in excess of the insurance proceeds available therefor, and any insurance proceeds intended to be used for the payment of the costs of such repair, replacement or restoration but not needed therefor shall be deposited in the Revenue Account.

Events of Default and Remedies

Events of Default. The following constitute events of default under the Indenture:

(a) failure by the County to pay the principal of or the interest or premium (if any) on any of the Parity Securities when such principal, interest and premium respectively become due and payable, whether at maturity or otherwise;

(b) failure by the County to satisfy the Rate Covenant, provided that any such failure shall not constitute an event of default if (i) the Trustee receives evidence satisfactory to it that an increase in the rates charged for services furnished by the System has occurred pursuant to the provisions of the ordinance of the County that governs such rates, or (ii) the County employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant;

(c) failure by the County to perform or observe any agreement, covenant or condition required by the Indenture to be performed or observed by it [other than the Rate Covenant and its agreement to pay the principal of and the interest and premium (if any) on the Parity Securities] after thirty (30) days' written notice to it of such failure given by the Trustee or by the holders of not less than twenty-five percent (25%) in aggregate principal amount of any series of the Parity Securities then outstanding under the Indenture, unless during such period or any extension thereof the County has commenced and is diligently pursuing appropriate corrective action;

(d) any material warranty, representation or other statement by or on behalf of the County contained in the Indenture, or in any document furnished by the County in connection with the issuance and sale of any of the Parity Securities, being false or misleading in any material respect at the time made; or

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction (i) appointing a receiver, trustee or liquidator for the System, (ii) approving a petition filed against the County under the federal or any state bankruptcy laws, (iii) granting relief to the County under federal or state bankruptcy laws or relief substantially similar to that afforded under the said laws or (iv) assuming the custody or control of the System (or any part thereof) under the provisions of any other law for the relief or aid of debtors, and such order, judgment or decree shall not be vacated or set aside or stayed within 90 days from the date of the entry thereof, or the County shall file a petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of the whole or any substantial part of its properties or shall file a petition or answer seeking relief under the federal or any state bankruptcy laws.

Remedies on Default. Upon the occurrence of an event of default under the Indenture, the Trustee shall have the following rights and remedies:

(a) Acceleration. In the event of a failure by the County to pay the principal of or the interest or premium (if any) on the Parity Securities, as and when the same shall become due and payable, the Trustee shall, and upon the occurrence and continuation of any other event of default under the Indenture, the Trustee may, declare the principal of and the interest accrued on all the Parity Securities forthwith due and payable, and thereupon they shall so be, anything in the Indenture or in the Parity Securities to the contrary notwithstanding. If, however, the County shall thereafter make good that default and every other default under the Indenture (except for those installments of principal and interest so declared due and payable that would, absent such declaration, not be due and payable), with interest on all overdue payments of principal and interest, and cover the compensation and reimbursement of all reasonable expenses of the Trustee, then such event of default shall be deemed waived and such declaration and its consequences rescinded and annulled, but no such waiver, rescission and annulment shall affect any subsequent default or right relative thereto.

(b) Suits at Law or in Equity. The Trustee may, by civil action, mandamus or other proceedings, protect, enforce and compel performance of all duties of the officials of the County, including the fixing of sufficient rates, the collection of revenues, the proper segregation of the revenues of the System and the proper application thereof.

(c) Receivership. The Trustee shall be entitled upon or at any time after the commencement of any proceedings instituted with respect to an event of default, as a matter of strict right, upon the order of any court of competent jurisdiction, to the appointment of a receiver to administer and operate the System, with power to fix and charge rates and collect revenues sufficient to provide for the payment of the Parity Securities and any other obligations outstanding against the System or the revenues thereof and for the payment of expenses of operating and maintaining the System and with power to apply the income and revenues of the System in conformity with the Act and the Indenture.

Application of Moneys Collected. All moneys collected by the Trustee pursuant to any of the aforesaid remedies, together with all other moneys derived from the System and held by the County or the Trustee, shall, after payment of all charges and expenses of the Trustee under the Indenture, be applied to the payment of the following items in the following order:

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

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Parity Securities, with interest on overdue installments of interest, and, if the amount available shall not be sufficient to pay in full all such installments plus said interest thereon, then to the proportionate payment of all such installments and the interest thereon, according to the amounts thereof, without preference or priority of any installment of interest over any other installment or any discrimination or privilege among the persons entitled thereto;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Parity Securities which shall have become due (other than Parity Securities matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on overdue installments of principal and premium, if any, and, if the amount available shall not be sufficient to pay in full all such principal and premium, if any, together with such interest, then to the proportionate payment of such principal, premium, if any, and interest, according to the amounts thereof, without preference or priority of any installment of principal over any other installment or any discrimination or privilege among the persons entitled thereto;

THIRD: the surplus, if any, to the Revenue Account.

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

FIRST: to the payment of the principal and interest then due and payable upon the Parity Securities (with interest on overdue principal and interest), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Parity Security over any other Parity

Security, in proportion to the amounts for both principal and interest due respectively to the persons entitled thereto, without any discrimination or privilege among such persons; and

SECOND: the surplus, if any, to the County or to whomsoever may be entitled thereto.

Remedies Vested in Trustee for Benefit of Parity Securityholders. All remedies under the Indenture are vested exclusively in the Trustee for the equal and pro rata benefit of all holders of the Parity Securities, unless the Trustee refuses or neglects to act within thirty days after written request so to act addressed to the Trustee by the holders of not less than 25% in principal amount of the Parity Securities of any series then outstanding, accompanied by indemnity satisfactory to the Trustee, in which event the holder of any of the Parity Securities may thereupon so act in the name and behalf of the Trustee or may so act in his own name and behalf in lieu of action by or in the name and behalf of the Trustee. Except as provided in the preceding sentence, no holder of any of the Parity Securities shall have the right to enforce any remedy under the Indenture. Any action taken by any Parity Securityholder to enforce any provision of the Indenture shall be for the equal and pro rata benefit of the holders of all the Parity Securities.

Concerning the Trustee

Limitation of Liability. The Trustee shall not be liable under the Indenture except for its noncompliance with the provisions thereof, its willful misconduct or its gross negligence. The Trustee may consult with Independent Counsel (which may be Bond Counsel), and the written advice or opinion of Independent Counsel shall be a full and complete authorization and protection in respect of any action taken, suffered, or omitted by it under the Indenture in good faith and in reliance thereon. Moreover, in entering into a Supplemental Indenture (including the Sixth Supplemental Indenture) the Trustee shall be fully protected in relying upon an opinion of Independent Counsel as conclusive evidence that the Supplemental Indenture complies with the Indenture and that the Trustee is authorized under the Indenture to join in the execution of or to consent to the Supplemental Indenture.

Institution of Suit. The Trustee may, in its own name and at any time, institute or intervene in any suit for the enforcement of all rights under the Indenture without the necessity of joining as parties to such suit or proceedings any holders of the Parity Securities. The holders of the Parity Securities, by their acceptance of the provisions of the Indenture, will appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment will not include the power to agree to accept new securities of any nature in lieu of the Parity Securities or to alter or amend the terms of the Indenture except as therein provided.

Resignation and Discharge. The Trustee may resign at any time by giving written notice to the County. The Trustee may at any time be removed by a written instrument signed by the holders of a majority in principal amount of the Parity Securities or, if no Event of Default exists, by the County. No resignation or removal of the Trustee shall become effective until the acceptance of appointment by a successor Trustee.

Appointment of Successor Trustee. If the Trustee resigns, is removed or is otherwise incapable of acting, a successor may be appointed by the holders of a majority in principal amount of the Parity Securities and, in the interim, by the County.

Modification of the Indenture

Without the consent of the holders of any Parity Securities, the County and the Trustee may amend the Indenture for any of the following purposes: (a) to add to the covenants and agreements of the County; (b) to provide for the surrender by the County of any right or power conferred upon the County in the Indenture; (c) to cure any ambiguity or defect or for any other purpose if the County and the Trustee consider such provisions to be necessary or desirable and such provisions are not inconsistent with the provisions of the Indenture and do not adversely affect the interests of the holders of the Parity Securities; (d) to subject to the lien and pledge of the Indenture additional revenues, properties and collateral; (e) to amend the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute or the qualification of the Parity Securities for sale under the securities laws of any state; (f) to authorize the issuance of Additional Parity Securities; (g) to grant to or confer upon the Trustee any additional rights, remedies, powers, liabilities or duties which are not inconsistent with the Indenture as theretofore in effect; and (h) to amend the Indenture in any other respect which is not materially adverse to the Parity Securityholders and which does not involve a change described in the succeeding paragraph.

With the written consent of the holders of not less than a majority in principal amount of the outstanding Parity Securities, the County and the Trustee may amend the Indenture for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained therein; provided, however, that no such amendment shall, without the consent of the holder of each outstanding Parity Security adversely affected thereby,

(1) change the security for, the stated maturity or mandatory redemption date of the principal of, or any installment of interest on, any Parity Security, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, change the coin or currency in which any Parity Security or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or

(2) reduce the percentage in principal amount of the outstanding Parity Securities, the consent of whose holders is required for any such amendment, or

(3) eliminate or modify any provision of the Indenture, the elimination or modification of which by its terms requires the consent of the holder of each Parity Security affected thereby, or

(4) create a lien or charge on the revenues from the System ranking prior to or on a parity of lien with the lien and pledge thereon contained in the Indenture (other than for Additional Parity Securities), or

(5) establish any preference or priority as between the Parity Securities.

Satisfaction of the Indenture

Whenever the entire indebtedness secured by the Indenture, including all proper charges of the Trustee thereunder, shall have been fully paid, the Trustee shall cancel, satisfy and discharge the lien of the Indenture. For purposes of the Indenture (including, without limitation, the provisions pertaining to the issuance of Additional Parity Securities), any of the Parity Securities shall be deemed to have been paid when there shall have been irrevocably deposited with the Trustee for payment thereof the entire amount (principal and interest) due or to be due thereon until and at maturity, and, further, any Parity Security subject to redemption shall also be deemed to have been paid when the County shall have deposited with the Trustee the applicable redemption price of such Parity Security (including any applicable redemption premium), together with evidence that such Parity Security has been called for redemption in accordance with the Indenture.

In addition, the Parity Securities shall for all purposes of the Indenture be deemed fully paid if the County and the Trustee enter into a trust agreement making provision for the retirement of all the Parity Securities by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of all such Parity Securities (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (a) Permitted Defeasance Obligations which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient to provide for the payment and retirement of such Parity Securities, or (b) both cash and Permitted Defeasance Obligations which together will produce funds sufficient for such purpose, or (c) cash sufficient for such purpose.

Miscellaneous Rights of Insurer

So long as XLCA has not failed to comply with its payment obligations under the Insurance Policy:

(a) any acceleration of the maturity of the Series 2002-C Warrants upon the occurrence of an event of default (or any annulment of any such acceleration) shall be subject to the prior written consent of the Insurer;

(b) any amendment or supplement to the Indenture shall be subject to the prior written consent of the Insurer; and

(c) the Insurer shall be deemed to be the holder of all outstanding Series 2002-C Warrants insured by such Insurer for the purpose of consenting to any proposed amendment or supplement to the Indenture (except for any such amendment or supplement that, under the provisions of the Indenture, requires the consent of the holder of each outstanding Parity Security).

Financial Guaranty Insurance Company ("FGIC") has heretofore issued insurance policies (the "Outstanding Policies") that insure payment of the Series 1997 Warrants (other than the 1997-C Warrants), the Series 1999-A Warrants, the Series 2001-A Warrants, the Series 2002-A Warrants and the Series 2002-B Warrants. So long as FGIC has not failed to comply with its payment obligations under the Outstanding Policies, it will have rights parallel to those described in the preceding paragraph with respect to the various series of Parity Securities insured by the respective Outstanding Policies.

APPENDIX D

COPY OF APPROVING OPINION OF BOND COUNSEL
DELIVERED ON THE ORIGINAL ISSUE DATE OF THE WARRANTS

October 25, 2002

Jefferson County Commission
Birmingham, Alabama

Dear Sirs:

We have examined certified copies of proceedings, certificates and other documents relating to JEFFERSON COUNTY, ALABAMA (herein called the "County"), and to the authorization, sale and issuance by the County of

$839,500,000
JEFFERSON COUNTY, ALABAMA
Sewer Revenue Refunding Warrants
Series 2002-C

(said warrants being herein called the "Series 2002-C Warrants"). The statements herein made and the opinions herein expressed are based upon our examination of the said proceedings, certificates and other documents. In our examination of all documents pertaining to the issuance of the Series 2002-C Warrants, we have assumed the genuineness of all signatures, the authenticity of documents submitted to us as originals, the conformity to the original documents of documents submitted to us as copies, the authenticity of such latter documents and the correctness of any facts stated in such documents.

The documents submitted to us show as follows:

(a) the Series 2002-C Warrants have been issued under a Trust Indenture dated as of February 1, 1997, as supplemented and amended by a First Supplemental Indenture dated as of March 1, 1997, by a Second Supplemental Indenture dated as of March 1, 1999, by a Third Supplemental Indenture dated as of March 1, 2001, by a Fourth Supplemental Indenture dated as of February 1, 2002, by a Fifth Supplemental Indenture dated as of September 1, 2002, and by a Sixth Supplemental Indenture dated as of October 1, 2002 (said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the County and The Bank of New York (as successor to AmSouth Bank of Alabama), as trustee (herein called the "Trustee"), pursuant to which the County has pledged to the Trustee, to secure the payment of the principal of and the interest and premium (if any) on the obligations of the County issued pursuant to the Indenture, certain revenues (herein called the "Pledged Revenues") derived by the County from the operation of its sanitary sewer system (herein called the

"System") that remain after payment of the expenses of operating and maintaining the System;

(b) the County has heretofore issued under the Indenture (i) $211,040,000 aggregate principal amount of its Sewer Revenue Refunding Warrants, Series 1997-A, (ii) $48,020,000 aggregate principal amount of its Taxable Sewer Revenue Refunding Warrants, Series 1997-B, (iii) $52,880,000 aggregate principal amount of its Taxable Sewer Revenue Refunding Warrants, Series 1997-C, (iv) $296,395,000 aggregate principal amount of its Sewer Revenue Warrants, Series 1997-D, (v) $952,695,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 1999-A, (vi) $275,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2001-A, (vii) $110,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2002-A, and (viii) $540,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2002-B (those of said warrants which are now outstanding being herein together called the "Outstanding Parity Securities");

(c) the Series 2002-C Warrants have been issued on a parity with the Outstanding Parity Securities with respect to the pledge of the Pledged Revenues contained in the Indenture; and

(d) in the Indenture the County has reserved (i) the privilege of issuing from time to time additional warrants, warrants, notes or other forms of indebtedness (herein called "Additional Parity Securities"), in one or more series, without limitation as to principal amount and secured by the Indenture on a parity with the Outstanding Parity Securities and the Series 2002-C Warrants, but only upon compliance with the conditions set forth in the Indenture, and (ii) the right to secure the payment of certain contractual obligations incurred by the County and referable to warrants issued under the Indenture with a pledge of the Pledged Revenues, which security may, in certain circumstances, be on a parity with the pledge of the Pledged Revenues made in the Indenture (all such contractual obligations that are so secured being herein called "Secured Related Obligations").

Based upon and subject to the foregoing, we are of the following opinion:

(1) The County is duly organized and existing as a county of the State of Alabama and has the power and authority to sell and issue the Series 2002-C Warrants and to enter into the Indenture.

(2) The Series 2002-C Warrants have been duly authorized, sold, executed, authenticated and delivered as provided by the Indenture and in accordance with the applicable provisions of the constitution and laws of the State of Alabama, are in due and legal form, and evidence valid special obligations of the County payable, as to principal, interest and premium (if

any), solely from (i) the Pledged Revenues, and (ii) certain other moneys provided under the Indenture.

(3) Under the Indenture the payment of the principal of and the interest and premium (if any) on the Series 2002-C Warrants is secured, pro rata and without preference or priority of one over another or of any of the Series 2002-C Warrants over any of the Outstanding Parity Securities, any Additional Parity Securities that may be issued hereafter or any Secured Related Obligations heretofore or hereafter incurred, by a valid pledge and assignment of the Pledged Revenues.

(4) The Indenture has been duly authorized, executed and delivered on behalf of the County and constitutes a legal, valid and binding agreement of the County which is legally enforceable in accordance with its terms, except that (i) the enforceability of any of the agreements contained in the Indenture may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally, and (ii) any court before which any enforcement proceeding may be brought will have discretion, in accordance with general equitable principles, to deny or limit the remedy of specific performance or other equitable relief with respect to contractual obligations other than for the payment of money.

(5) The County is authorized by the constitution and laws of the State of Alabama to levy and collect the sewer charges and rentals which are required to be levied and collected by the Indenture and which constitute part of the Pledged Revenues.

(6) Neither the registration of any security under the Securities Act of 1933, as amended, nor the qualification of any trust indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offering, sale and issuance of any of the Series 2002-C Warrants.

(7) Under existing statutes, the interest income on the Series 2002-C Warrants is exempt from income taxation in the State of Alabama.

(8) Under existing statutes, regulations, rulings and court decisions, the interest on the Series 2002-C Warrants is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the next preceding sentence are subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2002-C Warrants in order that the interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2002-C Warrants to be so included in gross income retroactive to the date of issuance of the Series 2002-C Warrants. The County has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2002-C Warrants.

The Indenture provides that the interest rate on the Series 2002-C Warrants, or a portion thereof, may not be converted to a different interest rate mode and certain other changes may not be made to the terms of the Series 2002-C Warrants or the related documents or to the security for the Series 2002-C Warrants unless the Trustee receives an opinion of nationally recognized bond counsel stating in effect that such conversion or change will not cause the interest on the Series 2002-C Warrants to be included in gross income for purposes of federal income taxation. We express no opinion herein about the effect of any such future events.

The Indenture provides that, in the event the County should default in any of the provisions thereof in the manner and for the time therein provided, the Trustee may declare all obligations then outstanding under the Indenture to be forthwith due and payable, whereupon the same shall immediately become due and payable and the Trustee shall be entitled to exercise the rights specified in the Indenture. The Indenture does not, however, establish a mortgage lien on the System that will be subject to foreclosure. We have not examined the title of the County to the System as it presently exists, and we therefore express no opinion thereon.

The opinions hereinabove expressed respecting the Series 2002-C Warrants are subject to all applicable bankruptcy, insolvency, moratory and other laws respecting the enforcement of creditors' rights, including specifically, but without limitation, the provisions of Chapter 9 of the United States Bankruptcy Code, as amended, relating to the adjustment of debts of political subdivisions and public agencies and instrumentalities of the several states.

We have been employed solely for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 2002-C Warrants have been authorized to be issued and rendering an opinion in conventional form relating solely to the essential validity and legality of the Series 2002-C Warrants, to the legal security for their payment, to the exclusion of the interest on the Series 2002-C Warrants from gross income for federal income tax purposes, to the exemption of the interest on the Series 2002-C Warrants from income taxation by the State of Alabama and to certain related matters. While we have participated in the preparation of the County's Official Statement respecting the Series 2002-C Warrants, we have not made or participated in any investigation or inquiry into the financial condition of the County, nor have we reviewed any documents relating thereto, and we express no opinion whatever as to the accuracy or completeness of any factual information respecting the financial condition of the County contained in such Official Statement.

Very truly yours,

HASKELL SLAUGHTER YOUNG
& REDIKER, L.L.C.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

TO BE DELIVERED ON THE EFFECTIVE DATE OF THE CHANGE IN THE INTEREST RATE MODE TO A AUCTION RATE

August 1, 2003

Jefferson County
Birmingham, Alabama

The Bank of New York,
as Trustee
Birmingham, Alabama

Re: $98,300,000 Sewer Revenue Refunding Warrants, Series 2002-C-5, issued by Jefferson County

Dear Sirs:

We acted as Bond Counsel in connection with the issuance of the above-referenced warrants (the "Series 2002-C-5 Warrants") by Jefferson County, a political subdivision of the State of Alabama (the "County"). In connection with the issuance of the Series 2002-C-5 Warrants, the County and The Bank of New York, as Trustee (the "Trustee"), entered into a Sixth Supplemental Indenture dated as of October 1, 2002 (the "Sixth Supplemental Indenture"). Capitalized terms not otherwise defined in this opinion shall have the meanings assigned in the Sixth Supplemental Indenture.

We have examined the following:

(a) an executed counterpart of the Sixth Supplemental Indenture;

(b) a notice dated July 1, 2003, from the County to the Trustee respecting a change of the interest rate on the Series 2002-C-5 Warrants from the Weekly Rate to an Auction Rate (such change being referred to herein as the "Change in Interest Rate Mode"); and

(c) such other documents and other matters as we have deemed necessary or appropriate in connection with the opinions hereinafter set forth.

Based upon and subject to the foregoing, we are of the following opinion:

(1) The Change in Interest Rate Mode is authorized by the Sixth Supplemental Indenture and permitted under the provisions of the Act.

(2) The Change in Interest Rate Mode will not adversely affect the exclusion of interest on the Series 2002-C-5 Warrants from gross income for federal income tax purposes.

Very truly yours,

HASKELL SLAUGHTER YOUNG
& REDIKER, LLC

APPENDIX F

AUCTION RATE PROVISIONS

The following is a summary of definitions of certain terms relating to the Auction Procedures. Capitalized terms used in this Appendix F that are not defined herein or elsewhere in the Reoffering Circular have the meanings given to them in the Indenture.

"After Tax Equivalent Rate" means, on any date of determination, the interest rate per annum equal to the product of (x) the Commercial Paper/Treasury Rate on such date and (y) 1.00 minus the Statutory Corporate Tax Rate on such date.

"Agent Member" means a member of, or participant in, the Securities Depository.

"All Hold Rate" means, on any date of determination, the rate per annum equal to 65% (as such percentage may be adjusted pursuant to the Indenture) of the lesser of (i) the Index on such date and (ii) the After-Tax Equivalent Rate on such date; provided, however, that in no event shall such All Hold Rate exceed the maximum rate, if any, permitted by law.

"Applicable Percentage" means, on any date of determination, the percentage determined asset forth below (as such percentage may be adjusted in accordance with the provisions of the Indenture) based on the prevailing long-term rating of the Auction Rate Warrants in effect at the close of business on the Business Day immediately preceding such date of determination:

Prevailing Rating	Applicable Percentage
AAA/Aaa	125%
AA/Aa	150%
A/A	200%
BBB/Baa	250%
Below BBB/Baa	275%

For purposes of this definition, the "prevailing rating" of the Auction Rate Warrants will be (a) AAA/Aaa, if the Auction Rate Warrants have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below, (b) if not AAA/Aaa, then AA/Aa if the Auction Rate Warrants have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below, (c) if not AAA/Aaa or AA/Aa, then A/A if the Auction Rate Warrants have a rating of A- or better by S&P and a rating of A3 or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below, (d) if not AAA/Aaa, AA/Aa or A/A, then BBB/Baa, if the Auction Rate Warrants have a rating of BBB- or better by S&P and a rating of Baa3 or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as provided below, and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa, then below BBB/Baa, whether or not the Auction Rate Warrants are rated by any securities rating agency.

If (x) the Auction Rate Warrants are rated by a rating agency or agencies other than Moody's or S&P and (y) the Company has delivered on behalf of the Authority to the Trustee and the Auction Agent an instrument designating one or two of such rating agencies to replace Moody's or S&P, or both, then for purposes of the definition of "prevailing rating" Moody's or S&P, or both, will be deemed to have been replaced in accordance with such instrument; provided, however, that such instrument must be accompanied by the consent of the Market Agent. For purposes of this definition, S&P's rating categories of AAA, AA-, A- and BBB-, and Moody's rating categories of Aaa, Aa3, A3 and Baa3, refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies have changed or modified their generic rating categories. If the prevailing ratings for the Warrants are split between the categories set forth above, the lower rating will determine the prevailing rating.

"Auction" means each periodic implementation of the Auction Procedures for the Auction Rate Warrants.

"Auction Agency Agreement" means the Auction Agency Agreement dated the Closing Date, to be entered into between the County and the Auction Agent, as from time to time amended and supplemented.

"Auction Agent" means The Bank of New York and its successors and assigns or any other entity appointed as such pursuant to the Indenture and its successors and assigns.

"Auction Date" means, with respect to each Auction Period, the last Monday of the immediately preceding Auction Period (or such other day that the Remarketing Agent shall establish as the Auction Date therefor pursuant to the Indenture); provided, that if such day is not a Business Day, the Auction Date shall be the next succeeding Business Day.

"Auction Period" means a Standard Auction Period applicable to the Series 2002-C Warrants, provided that each Auction Period shall begin on an Interest Payment Date and end on, but exclude, the next succeeding Interest Payment Date.

"Auction Procedures" means the procedures contained in the Indenture and described in this Appendix F.

"Auction Rate" means, with respect to Auction Rate Warrants and each Auction Period, the rate of interest per annum determined for the Series 2002-C Warrants pursuant to the Indenture, which shall not exceed the Maximum Auction Rate.

"Auction Rate Period" means any period during which the Series 2002-C Warrants bear interest at an Auction Rate determined pursuant to the implementation of Auction Procedures established under the Indenture, which period shall commence on the effective date of a Change in the Interest Rate Mode to an Auction Rate and shall extend through the day immediately preceding the earlier of (a) the effective date of a Change in the Interest Rate Mode, (b) the Fixed Rate Conversion Date, or (c) the Stated Maturity.

"Auction Rate Warrants" means any Series 2002-C Warrants or subseries of Series 2002-C Warrants that bear interest at an Auction Rate.

"Available Auction Rate Warrants" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as a holder of the Auction Rate Warrants.

"Bid" shall have the meaning set forth herein under the caption "Orders by Existing Holders and Potential Holders".

"Bidder" shall have the meaning set forth herein under the caption "Orders by Existing Holders and Potential Holders".

"Bond Insurer" means XLCA and any successor thereto.

"Broker-Dealer" means any broker-dealer (as such term is defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), (ii) that has been selected by the Auction Agent with the consent of the Remarketing Agent, and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"Broker-Dealer Agreement" means each agreement applicable to the Series 2002-C Warrants between a Broker-Dealer and the Auction Agent pursuant to which the Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended and supplemented.

"Business Day" means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or any city in which is located the principal corporate trust office of the Trustee or the office of the Bond Insurer at which demands for payment under the Insurance Policy will be made.

"Change in the Interest Rate Mode" means any change in the type of interest rate borne by the Series 2002-C Warrants pursuant to certain provisions of the Indenture.

"Closing Date" means the date on which the Series 2002-C Warrants are paid for and delivered to the Underwriters.

"Commercial Paper Dealers" means J.P. Morgan Securities, Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated or their respective affiliates or successors, provided that any such entity is a commercial paper dealer and, if not, as replaced by the Substitute Commercial Paper Dealer.

"Commercial Paper/Treasury Rate" means, on any date of determination, (i) in the case of any Auction Period of less than 49 days, the interest equivalent of the 30-day rate, (ii) in the case of any Auction Period of 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, (iii) in the case of any Auction Period of 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (iv) in the case of any Auction Period of 85 days or more but less than 99 days, the interest equivalent of the 90-day rate; (v) in the case of any Auction Period of 99 days or more but less than 120 days, the arithmetic average of the interest equivalent of the 90-day and 120-day rates, (vi) in the case of any Auction Period of 120 days or more but less than 141 days, the interest equivalent of the 120-day rate, (vii) in the case of any Auction Period of 141 days or more but less than 162 days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates, (viii) in the case of any Auction Period of 162 days or more but less than 183 days, the interest equivalent of the l80-day rate, and (ix) in the case of any Auction Period of 183 days or more, the Treasury Rate for such Auction Period. The foregoing rates shall in all cases, except with respect to the Treasury Rate, be rates on commercial paper placed on behalf of issuers whose corporate warrants are rated" AA" by S&P, or the equivalent of such rating by Moody's, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or in the event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers, to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Commercial Paper/Treasury Rate, the Commercial Paper/Treasury Rate shall be determined on the basis of a commercial paper quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the County to provide such quotation or quotations not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the County does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decima1s) divided by (y) the difference between (1) 1.00 and (2) a fraction the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360.

"Existing Holder" means a Broker-Dealer that is listed as the holder of Auction Rate Warrants in the records of the Auction Agent.

"Hold Order" shall have the meaning set forth herein under the caption "Orders by Existing Holders and Potential Holders".

"Failure to Deposit" means any failure to deposit into the Debt Service Fund on or before an Interest Payment Date for Auction Rate Warrants an amount sufficient to pay in full the interest and principal (if any) becoming due and payable on such warrants on such date.

"Index" means (i) with respect to Auction Rate Warrants in any Auction Period of thirty-five (35) days or less, the One Month LIBOR Rate, and (ii) with respect to any Auction Rate Warrants in an Auction Period greater than thirty-five (35) days, the Treasury Rate for securities having a maturity which most closely approximates the length of the Auction Period. If either rate is unavailable, the Index for the Auction Rate Warrants shall be an index or rate agreed to by all Broker-Dealers and consented to by the County.

"Insurance Policy" means the insurance policy issued by the Bond Insurer on the Closing Date insuring the regularly scheduled payment of principal of and interest on the Series 2002-C Warrants as provided therein.

"Interest Payment Date" means (i) for an Auction Period of 91 days or less, the Business Day immediately succeeding such Auction Period and (ii) for an Auction Period of more than 91 days, (a) each 13th Tuesday after the first day of such Auction Period or the next Business Day if such Tuesday is not a Business Day and (b) the Business Day immediately succeeding such Auction Period.

"Maximum Allowed Rate" means, as of any date, 18% per annum; provided, however, that such Maximum Allowed Rate shall not exceed the maximum rate, if any, permitted by applicable law.

"Maximum Auction Rate" means on any date of determination the lesser of the Maximum Allowed Rate and the following: (i) in all cases other than as provided in (ii) or (iii) below, the interest rate per annum equal to the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to a Standard Auction Period, (ii) with respect to any change in an Auction Period and/or the Standard Auction Period pursuant to the Indenture, including any automatic reversion to a Standard Auction Period pursuant to the Indenture, the interest rate per annum equal to the highest of (a) the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to a Standard Auction Period, (b) the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to the Auction Period which is proposed to be established, and (c) the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to the Auction Period in effect immediately prior to such proposed change in the Auction Period, or (iii) with respect to any Change in the Interest Rate Mode from an Auction Rate pursuant to the Indenture or any change from an Auction Rate to a Fixed Rate pursuant to the Indenture, the interest rate per annum equal to the higher of (a) the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to a Standard

Auction Period, and (b) the Applicable Percentage of the higher of the After-Tax Equivalent Rate and the Index, as each is determined on such date with respect to the Auction Period in effect immediately prior to such proposed change.

"Moody's" means Moody's Investors Service, Inc., and its successor or successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency or if Moody's shall be replaced, subject to the definition of "prevailing rating" in the definition of Applicable Percentage, by some other nationally recognized rating agency by the County, "Moody's" shall be deemed to refer to such other nationally recognized rating agency designated by the County.

"Order" shall have the meaning set forth herein under the caption "Orders by Existing Holders and Potential Holders".

"Overdue Rate" means on any date of determination 300% of the Index on such date of determination; provided that in no event shall the Overdue Rate exceed the maximum rate, if any, permitted by applicable law.

"Potential Holder" means a Broker-Dealer that is not an Existing Holder or that is an Existing Holder that wishes to become an Additional Holder of an additional principal amount of Auction Rate Warrants.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and its successor or successors, and if such corporation shall for any reason no longer perform the functions of a securities rating agency or if S&P shall be replaced, subject to the definition of "prevailing rating" in the definition of Applicable Percentage, by some other nationally recognized rating agency by the County, "S&P" shall be deemed to refer to such other nationally recognized rating agency designated by the County.

"Securities Depository" means The Depository Trust Company and its successors and assigns or if (i) the then Securities Depository resigns from its functions as depository of the Series 2002-C Warrants or (ii) the County discontinues use of the then Securities Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a Securities Depository in connection with the Series 2002-C Warrants and which is selected by the County, with the consent of the Trustee, the Auction Agent and the Remarketing Agent pursuant to the Indenture.

"Sell Order" shall have the meaning set forth herein under the caption "Orders by Existing Holders and Potential Holders".

"Standard Auction Period" initially shall mean an Auction Period of 35 days, and after the establishment of a different Standard Auction Period pursuant to the Indenture, shall mean such different Standard Auction Period; provided that, so long as the Standard Auction is 35 days and ends initially on a Wednesday, in the event the last Wednesday of the Auction Period is not a Business Day, with the result that the Auction Date is the next succeeding Business Day, the Standard Auction Period following such Auction Date shall be reduced to a shorter number of days so that the last day of the Auction Period following such Auction Date is the fifth Wednesday following such Auction Date.

"Stated Maturity" means February 1, 2040.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Internal Revenue Code of 1986 or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is 35%. Any change in the Statutory Corporate Tax Rate shall be evidenced by a certificate of an Authorized County Representative and delivered to the Trustee.

"Submission Deadline" means 1:00 p.m., New York City time, on the applicable Auction Date or such other time on any such Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Submitted Hold Order" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Submitted Order" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Submitted Sell Order" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Substitute Commercial Paper Dealer" means Lehman Brothers Inc., or its affiliates or successors, if such person is a commercial paper dealer, provided that no such person nor any of their affiliates or successors shall be the same entity as either of the initial Commercial Paper Dealers.

"Substitute U.S. Government Securities Dealer" means the dealer or dealers in U.S. government securities specified by the County at any time when the initial U.S. Government Securities Dealer is unable or unwilling to perform in such capacity; provided that any such substitute shall be a dealer in U.S. Government securities and shall not be the same entity as the initial U.S. Government Securities Dealer.

"Sufficient Clearing Bids" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate".

"Treasury Rate" on any date means (i) the yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligations of the U.S. Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, as quoted in The Wall Street Journal on such date for the Business Day next preceding such date; or (ii) in the event that any such rate is not published in The Wall Street Journal, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the U.S. Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, based on bid price quotations on such date obtained by the Auction Agent from a U.S. Government Securities Dealer. If any U.S. Government Securities Dealer does not quote a rate required to determine the Treasury Rate, the Treasury Rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer or Dealers and any Substitute U.S. Government Securities Dealer or Dealers selected by the County to provide such rate or rates not being supplied by any U.S. Government Securities Dealer or U.S. Government Securities Dealers, as the case may be, or, if the County does not select any such Substitute U.S. Government Securities Dealer or Substitute U.S. Government Securities Dealers, by the remaining U.S. Government Securities Dealer or U.S. Government Securities Dealers.

"Trustee" shall mean The Bank of New York, a corporation organized and existing under the laws of the State of New York, in its capacity as trustee under the Indenture and any surviving, resulting or transferee corporation as provided in the Indenture. References to the principal office of the Trustee shall mean the principal corporate trust office of the Trustee.

"U.S. Government Securities Dealers" means J.P. Morgan Securities, Inc. or, in lieu thereof, its affiliates or successors, provided that any such entity is a U.S. Government securities dealer.

"Winning Bid Rate" shall have the meaning set forth herein under the caption "Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rates".

The following is a summary of the procedures to be used in conducting Auctions. As a summary, it does not purport to be complete and is qualified in its entirety by reference to the Auction Procedures set forth in the Indenture.

Orders by Existing Holders and Potential Holders

Prior to the Submission Deadline on each Auction Date, the following orders may be submitted:

(i) each Beneficial Owner of Auction Rate Warrants may submit to the Broker-Dealer by telephone or otherwise information as to:

(A) the principal amount of outstanding Auction Rate Warrants, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;

(B) the principal amount of outstanding Auction Rate Warrants, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell if the Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Beneficial Owner; and/or

(C) the principal amount of outstanding Auction Rate Warrants, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Period;

(ii) one or more Broker-Dealers may contact Potential Beneficial Owners by telephone or otherwise to determine the principal amount of Auction Rate Warrants which each such Potential Beneficial Owners offers to purchase if the Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Beneficial Owners.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (i)(A), (i)(B) or (i)(C) or clause (ii) above is hereinafter referred to as an "Order" and collectively as "Orders" and each Beneficial Owner and each Potential Beneficial Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders"; an Order containing the information referred to in clause (i)(B) or clause (ii) above is hereinafter referred to as a "Bid" and collectively as "Bids"; and an Order containing the information referred to in clause. (i) (C) above is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders." The submission by a Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order" and collectively as "Orders" and an Existing Holder or Potential Holder who places an order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder" and collectively as "Bidders."

Orders may be submitted only in principal amounts of $25,000 or any integral multiple thereof.

Subject to the provisions set forth herein under the caption "Submission of Orders by Broker-Dealers to Auction Agent", a Bid by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of outstanding Auction Rate Warrants specified in such Bid if the Auction Rate determined on such Auction Date shall be less than the interest rate per annum specified therein; or

(B) such principal amount or a lesser principal amount of outstanding Auction Rate Warrants to be determined as set forth in clause (iv) of the second paragraph under the caption "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Rate Warrants" if the Auction Rate determined on such Auction Date shall be equal to the interest rate per annum specified therein; or

(C) such principal amount of outstanding Auction Rate Warrants if the interest rate per annum specified therein shall be higher than the Maximum Auction Rate, or such principal amount or a lesser principal amount of outstanding Auction Rate Warrants to be determined as set forth in clause (iii) of the third paragraph under the caption "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Rate Warrants" if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

Subject to the provisions set forth herein under the caption "Submission of Orders by Broker-Dealers to Auction Agent", a Sell Order by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(A) the principal amount of outstanding Auction Rate Warrants specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of outstanding Auction Rate Warrants as set forth in clause (iii) of the third paragraph under the below caption" Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Rate Warrants" if Sufficient Clearing Bids do not exist.

Subject to the provisions set forth herein under the caption "Submission of Orders by Broker-Dealers to Auction Agent", a Bid by a Potential Beneficial Owner or a Potential Holder shall constitute an irrevocable offer to purchase:

(A) the principal amount of outstanding Auction Rate Warrants specified in such Bid if the Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of outstanding Auction Rate Warrants as set forth in clause (v) of the second paragraph under the caption "Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Rate Warrants" if the Auction Rate determined on such Auction Date shall be equal to such specified rate.

Submission of Orders by Broker-Dealers to Auction Agent

Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer, designating itself (unless otherwise permitted by the County) as an Existing Holder in respect of the principal amount of the Auction Rate Warrants subject to orders submitted or deemed submitted to it by Potential Beneficial Owners and shall specify with respect to each such Order:

(i) the name of the Bidder placing such Order (which shall be the Broker-Dealer);

(ii) the aggregate principal amount of Auction Rate Warrants that are subject to such Order;

(iii) to the extent that such Bidder is an Existing Holder:

(A) the principal amount of Auction Rate Warrants, if any, subject to any Hold Order placed by such Existing Holder;

(B) the principal amount of Auction Rate Warrants, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(C) the principal amount of Auction Rate Warrants, if any, subject to any Sell Order placed by such Existing Holder; and

(iv) to the extent such Bidder is a Potential Holder, the principal amount of Auction Rate Warrants subject to any Bid placed by such Potential Holder and the rate specified in such Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

If an Order or Orders covering all or a portion of outstanding Auction Rate Warrants held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Auction Rate Warrants held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

Neither the County, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder, Beneficial Owner, Potential Holder or Potential Beneficial Owner.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of outstanding Auction Rate Warrants held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid, but only up to and including the principal amount of Auction Rate Warrants held by such Existing Holder, and, if the aggregate principal amount of Auction Rate Warrants subject to such Hold Orders exceeds the aggregate principal amount of outstanding Auction Rate Warrants held by such Existing Holder, the aggregate principal amount of Auction Rate Warrants subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Auction Rate Warrants held by such Existing Holder;

(ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Warrants held by such Existing Holder over the aggregate principal amount of Auction Rate Warrants subject to any Hold Orders referred to in clause (i) above;

(B) subject to subclause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of outstanding Auction Rate Warrants subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Auction Rate Warrants subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Auction Rate Warrants equal to such excess;

(C) subject to subclauses (A) and (B) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of outstanding Auction Rate Warrants, if any, subject to any portion of Bids not valid under this clause (ii) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(iii) all Sell Orders shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Warrants held by such Existing Holder over the aggregate principal amount of Auction Rate

Warrants subject to valid Hold Orders referred to in clause (i) of this paragraph and valid Bids referred to in clause (ii) of this paragraph.

If more than one Bid for Auction Rate Warrants is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid for Auction Rate Warrants with the rate and principal amount therein specified.

Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Warrants not equal to $25,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Warrants not equal to $25,000 or an integral multiple thereof shall be rejected.

Any Bid submitted by an Existing Holder or a Beneficial Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate and will not be accepted if submitted by a Potential Beneficial Owner or Potential Owner.

Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order ," a "Submitted Bid" or a "Submitted Sell Order ,"as the case may be, or as a "Submitted Order") and shall determine:

(i) the excess of the total principal amount of outstanding Auction Rate Warrants over the aggregate principal amount of outstanding Auction Rate Warrants subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Warrants"); and

(ii) from the Submitted Orders whether the aggregate principal amount of outstanding Auction Rate Warrants subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of:

(A) the aggregate principal amount of outstanding Auction Rate Warrants subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate; and

(B) the aggregate principal amount of outstanding Auction Rate Warrants subject to Submitted Sell Orders

(in the event of such excess or such equality (other than because the sum of the principal amounts of Auction Rate Warrants in clauses (A) and (B) above is zero because all of the outstanding Auction Rate Warrants are subject to Submitted Hold Orders), such Submitted

Bids by Potential Holders are hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(A) (y) each Submitted Bid from Existing Holders specifying such lowest rate and (z) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Warrants that are the subject of such Submitted Bids; and

(B) (y) each Submitted Bid from Potential Holders specifying such lowest rate and (z) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

would result in such Existing Holders described in clause (A) above continuing to hold an aggregate principal amount of outstanding Auction Rate Warrants which, when added to the aggregate principal amount of outstanding Auction Rate Warrants to be purchased by such Potential Holders described in clause (B) above, would equal not less than the Available Auction Rate Warrants.

Promptly after the Auction Agent has made the determinations pursuant to the preceding paragraph, the Auction Agent, by telecopy, shall advise the County, the Trustee and the Broker-Dealers of the Maximum Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Period as follows:

(i) if Sufficient Clearing Bids exist, the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(ii) if Sufficient Clearing Bids do not exist (other than because all of the outstanding Auction Rate Warrants are the subject of Submitted Hold Orders), the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Auction Rate; and

(iii) if all of the Auction Rate Warrants are subject to Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period therefor shall be equal to the All Hold Rate.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Rate Warrants

Existing Holders shall continue to hold the principal amounts of Auction Rate Warrants that are subject to Submitted Hold Orders, and, based on the determinations made in the next paragraph below, the Submitted Bids and Submitted Sell Orders shall be accepted or rejected, and the Auction Agent shall take such other actions as are set forth below:

(a) If Sufficient Clearing Bids exist, all Submitted Sell Orders shall be accepted and, subject to the provisions of the sixth and seventh paragraphs of this section, Submitted Bids shall be accepted or rejected as follows in the following order of priority:

(i) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bids;

(ii) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bids;

(iii) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bids;

(iv) each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of outstanding Auction Rate Warrants subject to such Submitted Bid, unless the aggregate principal amount of Auction Rate Warrants subject to all such Submitted Bids shall be greater than the principal amount of Auction Rate Warrants (the "remaining principal amount") equal to the excess of Available Auction Rate Warrants over the aggregate principal amount of the Auction Rate Warrants subject to Submitted Bids described in clauses (ii) and (iii) of this paragraph, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Auction Rate Warrants subject to such Submitted Bid, but only in an amount equal to the principal amount of Auction Rate Warrants obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of outstanding Auction Rate Warrants held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Auction Rate Warrants subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(v) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Auction Rate Warrants obtained by multiplying the excess of the Available Auction Rate Warrants over the aggregate principal amount of Auction Rate Warrants subject to Submitted Bids described in clauses (ii), (iii) and (iv) of this paragraph by a fraction the numerator of which shall be the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amount of outstanding Auction Rate Warrants subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(b) If Sufficient Clearing Bids do not exist (other than because all of the Auction Rate Warrants are subject to Submitted Hold Orders), subject to the provisions of the sixth paragraph of this section, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(i) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bids;

(ii) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Auction Rate Warrants subject to such Submitted Bids; and

(iii) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Warrants subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Warrants obtained by multiplying the aggregate principal amount of Auction Rate Warrants subject to Submitted Bids described above in clause (ii) of this paragraph by a fraction, the numerator of which shall be the aggregate principal amount of outstanding Auction Rate Warrants held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of outstanding Auction Rate Warrants subject to all such Submitted Bids and Submitted Sell Orders.

(c) If all Auction Rate Warrants are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(d) If (i) the Auction Agent shall fail to take any action necessary to determine, or shall take any action which effectively prevents the determination of an interest rate pursuant to the Auction Procedures or (ii) the conditions set forth in certain provisions of the Indenture to effect a change in the Auction Period are not met, all Submitted Bids and Submitted Sell Orders shall be rejected and the existence of Sufficient Clearing Bids shall be of no effect.

(e) If, as a result of the procedures described in paragraphs (a) or (b) of this section, any Existing Holder would be entitled or required to sell, or any Potential Holder would be required to purchase, a principal amount of Auction Rate Warrants that is not equal to $25,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such Auction Rate Warrants to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to $25,000 or an integral multiple thereof.

(f) If, as a result of the procedures described in paragraph (a) of this section, any Potential Holder would be entitled or required to purchase less than $25,000 in aggregate principal amount of Auction Rate Warrants, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Auction Rate Warrants for purchase among Potential Holders so that only Auction Rate Warrants in principal amounts of $25,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Auction Rate Warrants.

(g) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of Auction Rate Warrants to be purchased and the aggregate principal amount of Auction Rate Warrants to be sold by Potential Holders and Existing Holders and, with respect to each Potential Holder and Existing Holder, to the extent that such amounts differ, determine to which other Potential Holder(s) or Existing Holder(s) they shall deliver, or from which other Potential Holder(s) or Existing Holder(s) they shall receive, as the case may be, Auction Rate Warrants.

(h) The County may not submit an Order in any Auction.

APPENDIX G

FORM OF BOND INSURANCE POLICY

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ] **Policy No:** [ ]

BONDS: [ ] **Effective Date:** [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a 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, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. 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 Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title:

XLCAP-005
Form of Municipal Policy [Specimen]