

DAC Bond®

In the opinion of Bond Counsel, under existing law interest on the Series 2002-C Warrants (i) will be excluded from gross income for federal income tax purposes if the County complies with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Series 2002-C 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 Series 2002-C Warrants will be exempt from State of Alabama income taxation. See "TAX STATUS" herein for further information and certain other federal tax consequences arising with respect to the Series 2002-C Warrants.

\$839,500,000**JEFFERSON COUNTY, ALABAMA****Sewer Revenue Refunding Warrants,****Series 2002-C****Consisting of:**

\$74,450,000 Series 2002-C-1-A Warrants initially issued as MSTARS	CUSIP: 472682 KA0
\$74,450,000 Series 2002-C-1-B Warrants initially issued as MSTARS	CUSIP: 472682 KB8
\$74,450,000 Series 2002-C-1-C Warrants initially issued as MSTARS	CUSIP: 472682 KC6
\$75,450,000 Series 2002-C-1-D Warrants initially issued as MSTARS	CUSIP: 472682 KD4
\$73,700,000 Series 2002-C-2 Warrants	CUSIP: 472682 KE2
\$98,300,000 Series 2002-C-3 Warrants	CUSIP: 472682 KF9
\$73,700,000 Series 2002-C-4 Warrants	CUSIP: 472682 KG7
\$98,300,000 Series 2002-C-5 Warrants	CUSIP: 472682 KH5
\$147,600,000 Series 2002-C-6 Warrants	CUSIP: 472682 KJ1
\$49,100,000 Series 2002-C-7 Warrants	CUSIP: 472682 KK8

Dated: Date of original issuance**Due: February 1, 2040**

The Series 2002-C Warrants are issuable as fully registered warrants and, when issued, each subseries of Series 2002-C Warrants will be registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases of the Series 2002-C Warrants will be made in book-entry form only, and individual purchasers ("Beneficial Owners") of the Series 2002-C Warrants will not receive physical delivery of warrant certificates. Payments of principal of, redemption premium, if any, and interest on the Series 2002-C Warrants will be paid by The Bank of New York, Birmingham, Alabama, as trustee for the Series 2002-C Warrants (the "Trustee"), to DTC or its nominee. So long as DTC or its nominee is the registered owner of the Series 2002-C Warrants, disbursements of such payments to DTC is the responsibility of the Trustee, disbursements of such payments to DTC Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants or indirect Participants as more fully described herein.

The Series 2002-C Warrants are not general obligations of the County. The Series 2002-C Warrants will be 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 Series 2002-C Warrants will be 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 Series 2002-C Warrants and such outstanding sewer revenue warrants.

The payment of the principal of and interest on the Series 2002-C Warrants when due will be insured by a municipal bond insurance policy to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Series 2002-C Warrants.



The Series 2002-C-1 Warrants will consist of four subseries: Series 2002-C-1-A Warrants, Series 2002-C-1-B Warrants, Series 2002-C-1-C Warrants and Series 2002-C-1-D Warrants. The Series 2002-C-1 Warrants will initially bear interest at an Auction Rate. J.P. Morgan Securities, Inc. will serve as Remarketing Agent and Broker-Dealer for the Series 2002-C-1 Warrants.

The Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants, the Series 2002-C-4 Warrants, the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants (together, the "Variable Rate Demand Warrants") will initially bear interest at the Weekly Rate. The purchase price of each subseries of Variable Rate Demand Warrants tendered or deemed tendered for purchase and interest due thereon will be further secured by a liquidity facility in the form of a Standby Warrant Purchase Agreement (each, a "Standby Purchase Agreement") dated as of October 1, 2002 by and among JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), the Bank (as defined herein), the County and the Trustee, with the Bank committing to pay the purchase price of tendered or deemed tendered Variable Rate Demand Warrants under the terms and conditions of the Standby Purchase Agreement.

J.P. Morgan Securities, Inc. will serve as Remarketing Agent for the Series 2002-C-1 Warrants. UBS PaineWebber Inc. will serve as Remarketing Agent for the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants and the Series 2002-C-4 Warrants. Morgan Keegan & Company, Inc. will serve as Remarketing Agent for the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants. The Bank of New York will act as Auction Agent for the Series 2002-C-1 Warrants.

The Interest Rate Mode applicable to all or a portion of the Series 2002-C Warrants may be changed from one Interest Rate Mode to another Interest Rate Mode as determined in accordance with the Indenture. Upon a change in Interest Rate Mode applicable to all or a portion of the Series 2002-C Warrants as described herein, such Warrants will be subject to a mandatory tender for purchase and remarketing in accordance with the Indenture.

The Series 2002-C Warrants are subject to mandatory and optional tender and redemption as described herein.

Price of all Series 2002-C Warrants: 100%

This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2002-C Warrants are offered when, as and if issued by the County and received by the Underwriters, subject to approval of validity by Haskell Slaughter Young & Rediker, L.L.C., Birmingham, Alabama, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Maynard, Cooper & Gale, P.C. and Deborah B. Walker, Esq., and for the Banks by their counsel, Greenberg Traurig, LLP, Philadelphia, Pennsylvania.

It is expected that the Series 2002-C Warrants in definitive form will be available for delivery in New York, New York on or about October 25, 2002.

JPMorgan
Underwriter for
Series 2002-C-1 Warrants

UBS PaineWebber Inc.
Underwriter for
Series 2002-C-2 Warrants
Series 2002-C-3 Warrants
Series 2002-C-4 Warrants

Morgan Keegan & Company, Inc.
Underwriter for
Series 2002-C-5 Warrants
Series 2002-C-6 Warrants
Series 2002-C-7 Warrants

The date of this Official Statement is October 24, 2002.

Auction Rate Provisions Applicable to 2002-C-1 Warrants

The initial interest rate applicable to the Series 2002-C-1 Warrants will be set forth in the Indenture and will apply to the period commencing on and including the date of the delivery of the Series 2002-C-1 Warrants to and including the initial Auction Date (as defined herein) for such subseries of Series 2002-C-1 Warrants. Thereafter, each subseries of the Series 2002-C-1 Warrants will bear interest at an Auction Rate that the Auction Agent (as defined herein) advises has resulted from an Auction (as defined herein) conducted on each Auction Date for each such subseries in accordance with the Auction Procedures (as defined herein), subject to certain conditions and exceptions. Interest on each subseries of the Series 2002-C-1 Warrants will accrue from the date of the delivery of such subseries of Series 2002-C-1 Warrants and will be payable commencing on the initial Interest Payment Date (as defined herein) for such subseries of Series 2002-C-1 Warrants, and on each Interest Payment Date thereafter. The initial Auction Date, Standard Auction Period and the initial Interest Payment Date are set forth below for each subseries of Series 2002-C-1 Warrants:

Series 2002-C-1-A Warrants

Initial Pricing Date:	October 24, 2002
Settlement Date:	October 25, 2002
First Auction Date:	November 18, 2002
First Interest Payment Date:	November 19, 2002
Standard Auction Period:	35 days

Series 2002-C-1-B Warrants

Initial Pricing Date:	October 24, 2002
Settlement Date:	October 25, 2002
First Auction Date:	November 25, 2002
First Interest Payment Date:	November 26, 2002
Standard Auction Period:	35 days

Series 2002-C-1-C Warrants

Initial Pricing Date:	October 24, 2002
Settlement Date:	October 25, 2002
First Auction Date:	December 2, 2002
First Interest Payment Date:	December 3, 2002
Standard Auction Period:	35 days

Series 2002-C-1-D Warrants

Initial Pricing Date:	October 24, 2002
Settlement Date:	October 25, 2002
First Auction Date:	December 9, 2002
First Interest Payment Date:	December 10, 2002
Standard Auction Period:	35 days

The length of a single Auction Period (as defined herein) and a Standard Auction Period (as defined herein) may be changed in accordance with the Indenture. The Series 2002-C-1 Warrants will not be subject to mandatory tender for purchase upon a change in the length of a single Auction Period or a Standard Auction Period, however, notice of such change will be given as further described herein and

any 2002-C-1 Warrants that are not the subject of a specific Order (as defined herein) shall be deemed to be subject to a Sell Order (as defined herein).

Prospective purchasers of the Series 2002-C-1 Warrants should carefully review the Auction Procedures described in Appendix D hereto, and should note that such procedures provide that (i) a Bid (as defined herein) or Sell Order constitutes a commitment to purchase or sell 2002-C-1 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 defined herein) following an Auction. Beneficial interests in Series 2002-C-1 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 (as defined herein).

JEFFERSON COUNTY, ALABAMA

JEFFERSON COUNTY COMMISSION

Gary White, President
Mary M. Buckelew, Commissioner
Betty Fine Collins, Commissioner
Jeff Germany, Commissioner
Steve Small, Commissioner

DIRECTOR OF FINANCE

Steve Saylor

COUNTY ATTORNEY

Edwin A. Strickland

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Birmingham, Alabama

SWAP ADVISOR

Morgan Keegan & Company, Inc.
Birmingham, Alabama

This Official Statement does not constitute an offering of any securities other than the Series 2002-C Warrants specifically offered hereby. No dealer, broker, salesman or other person has been authorized by the County or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon or deemed to have been authorized by any of the foregoing named parties. Certain information contained herein has been obtained from the County and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed to be the representation of the County or of the Underwriters. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sales of the Series 2002-C Warrants by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain statements contained in this Official Statement including, without limitation, statements containing the words "believes", "anticipates", "expects", and words of similar import, constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the County or the System to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: (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, (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. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The County disclaims any obligation to update any such factors or to publicly announce the results of any revision to any of the forward-looking statements contained herein to reflect future events or developments.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 2002-C Warrants offered hereby at a level above that which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

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APPENDIX B - Financial Statements of the County for Fiscal Year 2000-01

APPENDIX C - Proposed Opinion of Bond Counsel

APPENDIX D - Auction Procedures

APPENDIX E - Specimen XL Capital Assurance Inc. Insurance Policy

**OFFICIAL STATEMENT
Regarding**

**\$839,500,000
JEFFERSON COUNTY, ALABAMA
Sewer Revenue Refunding Warrants,
Series 2002-C**

Consisting of the following subseries:

**\$74,450,000 Series 2002-C-1-A Warrants initially issued as MSTARS
\$74,450,000 Series 2002-C-1-B Warrants initially issued as MSTARS
\$74,450,000 Series 2002-C-1-C Warrants initially issued as MSTARS
\$75,450,000 Series 2002-C-1-D Warrants initially issued as MSTARS
\$73,700,000 Series 2002-C-2 Warrants
\$98,300,000 Series 2002-C-3 Warrants
\$73,700,000 Series 2002-C-4 Warrants
\$98,300,000 Series 2002-C-5 Warrants
\$147,600,000 Series 2002-C-6 Warrants
\$49,100,000 Series 2002-C-7 Warrants**

INTRODUCTION

This Official Statement is being furnished in connection with the issuance of the warrants referred to above (the "Series 2002-C Warrants") by Jefferson County, Alabama (the "County"). The County owns and operates a sanitary sewer system (the "System"), which is located in the County and certain contiguous territory in Shelby County and St. Clair County. The Series 2002-C Warrants will be issued pursuant to that certain 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 Series 2002-C Warrants are being issued for the purpose of (i) refunding certain outstanding sewer revenue warrants of the County and (ii) paying the costs of issuing the Series 2002-C Warrants. See "THE PLAN OF FINANCING".

The Series 2002-C Warrants will not constitute general obligations of or 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 Series 2002-C Warrants will be limited obligations of the County payable solely out of and secured by a pledge and assignment of the revenues from the System (other than tax revenues that are received by the County) remaining after payment of operating expenses (the "Pledged Revenues"). Under the Indenture, after giving effect to the refunding to be accomplished by the Series 2002-C Warrants, the pledge of the Pledged Revenues in favor of the Series 2002-C Warrants will be on a parity with the pledge thereof in favor of (a) certain outstanding obligations of the County issued in

calendar year 1997 (collectively, the (the "Series 1997 Warrants"), which consist 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 will be 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 will be 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"); and (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. See "SECURITY AND SOURCE OF PAYMENT".

The Series 2002-C Warrants are being offered as ten subseries bearing the designations 2002-C-1-A (the "Series 2002-C-1-A Warrants"), 2002-C-1-B (the "Series 2002-C-1-B Warrants"), 2002-C-1-C (the "Series 2002-C-1-C Warrants"), 2002-C-1-D (the "Series 2002-C-1-D Warrants"), 2002-C-2 (the "Series 2002-C-2 Warrants"), 2002-C-3 (the "Series 2002-C-3 Warrants"), 2002-C-4 (the "Series 2002-C-4 Warrants"), 2002-C-5 (the "Series 2002-C-5 Warrants"), 2002-C-6 (the "Series 2002-C-6 Warrants") and 2002-C-7 (the "Series 2002-C-7 Warrants") in the respective amounts first set forth above.

SUMMARY OF SUBSERIES OF SERIES 2002-C BONDS

Subseries	Initial Interest Rate	Insurer	Liquidity Facility	Remarketing Agent and Underwriter
2002-C-1-A	Auction	XL Capital	None	JPMorgan
2002-C-1-B	Auction	XL Capital	None	JPMorgan
2002-C-1-C	Auction	XL Capital	None	JPMorgan
2002-C-1-D	Auction	XL Capital	None	JPMorgan
2002-C-2	Weekly	XL Capital	JPMorgan Chase Bank	UBS PaineWebber Inc.
2002-C-3	Weekly	XL Capital	Bank of America, N.A.	UBS PaineWebber Inc.
2002-C-4	Weekly	XL Capital	The Bank of Nova Scotia	UBS PaineWebber Inc.
2002-C-5	Weekly	XL Capital	Bayerische Hypo- und Vereinsbank	Morgan Keegan & Company, Inc.
2002-C-6	Weekly	XL Capital	Société Générale, New York Branch	Morgan Keegan & Company, Inc.
2002-C-7	Weekly	XL Capital	Regions Bank	Morgan Keegan & Company, Inc.

The payment of the principal of and interest on the Series 2002-C Warrants when due will be insured by a municipal bond insurance policy to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Series 2002-C Warrants. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC."

The Series 2002-C-1 Warrants will consist of four subseries: the Series 2002-C-1-A Warrants, the Series 2002-C-1-B Warrants, the Series 2002-C-1-C Warrants and the Series 2002-C-1-D Warrants. The Series 2002-C-1 Warrants will initially bear interest at an Auction Rate. J.P. Morgan Securities, Inc.

will serve as Remarketing Agent and Broker-Dealer for the Series 2002-C-1 Warrants, also known as MSTARS.

The Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants, the Series 2002-C-4 Warrants, the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants (together, the "Variable Rate Demand Warrants") will initially bear interest at the Weekly Rate. The purchase price of each subseries of Variable Rate Demand Warrants tendered or deemed tendered for purchase will be further secured by a liquidity facility in the form of a Standby Warrant Purchase Agreement (each, a "Standby Purchase Agreement") dated as of October 1, 2002 by and among JPMorgan Chase Bank, as liquidity agent (the "Liquidity Agent"), a Bank (as defined herein), the County and the Trustee, with the Bank committing to pay the purchase price of tendered or deemed tendered Variable Rate Demand Warrants under the terms and conditions of the Standby Purchase Agreement.

J.P. Morgan Securities, Inc. will serve as Remarketing Agent for the Series 2002-C-1 Warrants. UBS PaineWebber Inc. will serve as Remarketing Agent for the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants and the Series 2002-C-4 Warrants. Morgan Keegan & Company, Inc. will serve as Remarketing Agent for the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants.

The Series 2002-C Warrants are subject to optional and mandatory tender and redemption as described in the Indenture. See "DESCRIPTION OF THE SERIES 2002-C WARRANTS – Redemption and Purchase of Series 2002-C Warrants".

Following the issuance of the Series 2002-C Warrants, the County will have no outstanding sewer revenue indebtedness other than 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 (the "Outstanding Sewer Revenue Indebtedness"). See "SECURITY AND SOURCE OF PAYMENT", "THE PLAN OF FINANCING" and "OUTSTANDING DEBT". The County has reserved the right in the Indenture to issue additional parity securities payable from and secured by a pledge of the Pledged Revenues on a parity of lien with the Outstanding Sewer Revenue Indebtedness, subject to the terms and conditions of the Indenture. See "Appendix A - SUMMARY OF THE INDENTURE".

Neither the delivery of this Official Statement nor any sale made pursuant hereto implies that there will be no change with respect to the System or the County at any time subsequent to the date hereof.

For further information contact Steve Saylor, Director of Finance, Jefferson County, Suite 810, County Courthouse, 716 North 21st Street, Birmingham, Alabama 35263 (telephone (205) 325-5055).

GLOSSARY OF TERMS USED IN OFFICIAL STATEMENT

Certain capitalized terms used frequently in this Official Statement are defined in this section of the Official Statement. In addition, certain capitalized terms used in this Official Statement and not defined in this section are defined in Appendix A - "SUMMARY OF THE INDENTURE".

"Additional Parity Securities" means additional bonds, warrants or other obligations secured on a parity of lien with the Outstanding Sewer Revenue Indebtedness.

"Bank" means (i) with respect to the Series 2002-C-2 Warrants, JPMorgan Chase Bank, (ii) with respect to the Series 2002-C-3 Warrants, Bank of America, N.A. (iii) with respect to the Series 2002-C-4 Warrants, The Bank of Nova Scotia, (iv) with respect to the Series 2002-C-5 Warrants, Bayerische Hypo- und Vereinsbank AG, (v) with respect to the Series 2002-C-6 Warrants, Société Générale, New York

Branch and (vi) with respect to the Series 2002-C-7 Warrants, Regions Bank, and their respective successors and assigns.

"County" means Jefferson County, Alabama.

"Depreciation Fund" means the fund by such name established pursuant to the Indenture.

"Enabling Law" means Chapter 28, Title 11 (Section 11-28-1 et seq.) of the Code of Alabama (1975).

"Fifth Supplemental Indenture" means the Fifth Supplemental Indenture dated as of September 1, 2002, pursuant to which the Series 2002-B Warrants were issued.

"First Supplemental Indenture" means the First Supplemental Indenture dated as of March 1, 1997, pursuant to which the 1997-D Warrants were issued.

"Fourth Supplemental Indenture" means the Fourth Supplemental Indenture dated as of February 1, 2002, pursuant to which the Series 2002-A Warrants were issued.

"General Fund" means the General Fund of the County.

"Indenture" means the Original Indenture, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended.

"Liquidity Agent" means, with respect to the Variable Rate Demand Warrants, JPMorgan Chase Bank, together with its permitted successors and assigns under the Standby Purchase Agreement.

"1997-A Warrants" means the County's \$211,040,000 Sewer Revenue Refunding Warrants, Series 1997-A.

"1997-B Warrants" means the County's \$48,020,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-B.

"1997-C Warrants" means the County's \$52,880,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-C.

"1997-D Warrants" means the County's \$296,395,000 Sewer Revenue Warrants, Series 1997-D.

"Operating Expenses" means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the System, including, without limitation, the costs of all items of labor, materials, supplies, equipment (other than equipment chargeable to fixed capital account), premiums on insurance policies and fidelity bonds maintained with respect to the System (including casualty, liability and any other types of insurance), fees for engineers, attorneys and accountants (except where such fees are chargeable to fixed capital account) and all other items, except depreciation, amortization, interest and payments made pursuant to Qualified Swaps, that by generally accepted accounting principles are properly chargeable to expenses of administration and operation and are not characterized as extraordinary items, (b) the expenses of maintaining the System in good repair and in good operating condition, but not including items that by generally accepted accounting principles are properly chargeable to fixed capital account, and (c) the fees and charges of the Trustee.

"Original Indenture" means the Trust Indenture dated as of February 1, 1997, pursuant to which the 1997-A Warrants, 1997-B Warrants and 1997-C Warrants were issued.

"Outstanding Sewer Revenue Indebtedness" means 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.

"Parity Securities" means the Outstanding Sewer Revenue Indebtedness and any Additional Parity Securities issued pursuant to the Indenture.

"Pledged Revenues" means the System Revenues (other than revenues derived from the Sewer Tax and any other tax revenues that constitute System Revenues) that remain after the payment of Operating Expenses.

"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.

"Rate Stabilization Fund" means the fund by such name established pursuant to the Indenture.

"Remarketing Agent" means (i) with respect to the Series 2002-C-1 Warrants, J.P. Morgan Securities, Inc., (ii) with respect to the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants and the Series 2002-C-4 Warrants, UBS PaineWebber Inc. and (iii) with respect to the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants, Morgan Keegan & Company, Inc.

"Second Supplemental Indenture" means the Second Supplemental Indenture dated as of March 1, 1999, pursuant to which the Series 1999-A Warrants were issued.

"Series 1997 Warrants" means, collectively, the 1997-A Warrants, the 1997-B Warrants, the 1997-C Warrants and the 1997-D Warrants.

"Series 1999-A Warrants" means the County's \$952,695,000 Sewer Revenue Capital Improvement Warrants, Series 1999-A, dated March 1, 1999.

"Series 2001-A Warrants" means the County's \$275,000,000 Sewer Revenue Capital Improvement Warrants, Series 2001-A, dated March 1, 2001.

"Series 2002-A Warrants" means the County's \$110,000,000 Sewer Revenue Capital Improvement Warrants, Series 2002-A, dated March 6, 2002.

"Series 2002-B Warrants" means the County's \$540,000,000 Sewer Revenue Capital Improvement Warrants, Series 2002-B, dated September 1, 2002.

"Series 2002-C Warrants" means the County's Series 2002-C-1 Warrants, the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants, the Series 2002-C-4 Warrants, the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants offered by this Official Statement.

"Series 2002-C-1 Warrants" means the Series 2002-C-1-A Warrants, the Series 2002-C-1-B Warrants, the Series 2002-C-1-C Warrants and the Series 2002-C-1-D Warrants.

"Series 2002-C-1-A Warrants" means the County's \$74,450,000 Sewer Revenue Refunding Warrants, Series 2002-C-1-A, offered by this Official Statement.

“Series 2002-C-1-B Warrants” means the County’s \$74,450,000 Sewer Revenue Refunding Warrants, Series 2002-C-1-B, offered by this Official Statement.

“Series 2002-C-1-C Warrants” means the County’s \$74,450,000 Sewer Revenue Warrants, Series 2002-C-1-C, offered by this Official Statement.

“Series 2002-C-1-D Warrants” means the County’s \$75,450,000 Sewer Revenue Warrants, Series 2002-C-1-D, offered by this Official Statement.

“Series 2002-C-2 Warrants” means the County’s \$73,700,000 Sewer Revenue Refunding Warrants, Series 2002-C-2, offered by this Official Statement.

“Series 2002-C-3 Warrants” means the County’s \$98,300,000 Sewer Revenue Refunding Warrants, Series 2002-C-3, offered by this Official Statement.

“Series 2002-C-4 Warrants” means the County’s \$73,700,000 Sewer Revenue Refunding Warrants, Series 2002-C-4, offered by this Official Statement.

“Series 2002-C-5 Warrants” means the County’s \$98,300,000 Sewer Revenue Refunding Warrants, Series 2002-C-5, offered by this Official Statement.

“Series 2002-C-6 Warrants” means the County’s \$147,600,000 Sewer Revenue Refunding Warrants, Series 2002-C-6, offered by this Official Statement.

“Series 2002-C-7 Warrants” means the County’s \$49,100,000 Sewer Revenue Refunding Warrants, Series 2002-C-7, offered by this Official Statement.

“Sewer Tax” means that certain ad valorem tax levied by the County on an annual basis for the benefit of the System pursuant to Act No. 716 of the 1900-01 Session of the General Assembly of Alabama.

“Sixth Supplemental Indenture” means the Sixth Supplemental Indenture dated as of October 1, 2002, pursuant to which the Series 2002-C Warrants will be issued.

“Standby Purchase Agreement” means each Standby Warrant Purchase Agreement dated as of October 1, 2002 among the County, the Trustee, the Liquidity Agent and a Bank, as extended, modified or supplemented from time to time, pursuant to which such Bank has agreed to purchase any Eligible Warrant that is not remarketed after a tender of such Warrant for purchase pursuant to the optional or mandatory tender provisions of the Indenture.

“System” means the County's sanitary sewer system.

“System Revenues” means the revenues derived from the Sewer Tax and all revenues, receipts, income and other monies hereafter received by or on behalf of the County from whatever source derived from the operation of the System, including, without limitation, the fees, deposits and charges paid by users of the System and interest earnings on the special funds established pursuant to the Indenture (other than the Rate Stabilization Fund) and any other funds held by the County or its agents that are attributable to or traceable from monies derived from the operation of the System, but excluding, however, any federal or state grants to the County in respect of the System and any income derived from such grants.

“Tender Agent” means the Trustee, until a successor Tender Agent shall have become such pursuant to the applicable provisions of the Indenture, and thereafter “Tender Agent” means such successor.

"Third Supplemental Indenture " means the Third Supplemental Indenture dated as of March 1, 2001, pursuant to which the Series 2001-A Warrants were issued.

"Trustee" means The Bank of New York, in Birmingham, Alabama, in its capacity as trustee under the Indenture.

"Variable Rate Demand Warrants" means the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants, the Series 2002-C-4 Warrants, the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants, while any such subseries bears interest at the Weekly Rate or the Daily Rate.

"XL Capital" means XL Capital Assurance Inc.

"XL Capital Insurance Policy" means the municipal bond insurance policy issued by XL Capital Assurance Inc. with respect to the Series 2002-C Warrants.

REMARKETING AGENTS

Under a Broker-Dealer Agreement dated as of October 1, 2002 between the County and J.P. Morgan Securities Inc. ("JPMorgan"), JPMorgan is appointed as the initial Remarketing Agent for the Series 2002-C-1 Warrants. Under separate Remarketing Agreements dated as of October 1, 2002 between the County and each respective Remarketing Agent, (i) UBS PaineWebber Inc. ("UBS PaineWebber") is appointed as the initial Remarketing Agent for the Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants and the Series 2002-C-4 Warrants and (ii) Morgan Keegan & Company, Inc. ("Morgan Keegan") is appointed as the initial Remarketing Agent for the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants. Under the Indenture, the Remarketing Agent may be removed by the County, with the consent of the insurer for such subseries and the related Bank or Banks, providing liquidity for the subseries being remarketed by such Remarketing Agent, on 30 days' notice. A Remarketing Agent may resign and be discharged of its duties and obligations (i) at any time by giving at least 30 days' notice to the other Financing Participants, (ii) immediately upon notice to the other Financing Participants in the event that the Tender Agent resigns or is removed and a successor Tender Agent is appointed or (iii) on any Conversion Date upon notice to the other Financing Participants. A successor Remarketing Agent may be appointed by the County with the consent of the Trustee and, if the related Liquidity Facility is in effect, the respective insurer and Bank for such subseries of Series 2002-C Warrants.

DESCRIPTION OF THE SERIES 2002-C WARRANTS

General Description

THIS OFFICIAL STATEMENT PROVIDES CERTAIN INFORMATION CONCERNING THE VARIABLE RATE DEMAND WARRANTS PRIOR TO A DATE ON WHICH AN ALTERNATE LIQUIDITY FACILITY IS DELIVERED OR A STANDBY PURCHASE AGREEMENT EXPIRES, AND NOT DURING ANY AUCTION RATE PERIOD, TERM RATE PERIOD OR FIXED RATE PERIOD FOR SUCH WARRANTS. OWNERS AND PROSPECTIVE PURCHASERS OF THE VARIABLE RATE DEMAND WARRANTS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING THE VARIABLE RATE DEMAND WARRANTS ON AND AFTER ANY SUCH DATE OR DURING ANY SUCH PERIOD, BUT SHOULD LOOK TO THE REVISIONS, AMENDMENTS,

SUPPLEMENTS OR SUBSTITUTIONS HEREOF FOR INFORMATION CONCERNING THE VARIABLE RATE DEMAND WARRANTS ON OR AFTER ANY SUCH DATE.

The Series 2002-C Warrants will be issued initially in the form of ten separate, fully registered warrants, one for each subseries, each in a denomination equal to the aggregate principal amount of such subseries of Series 2002-C Warrants and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2002-C Warrants. See “Book-Entry Only System” below.

Payment of the principal of, and interest on, the Series 2002-C Warrants at maturity shall be made upon the presentation and surrender of the Series 2002-C Warrants as hereinafter described. All payments of interest (other than at maturity) and premium, if any, on, and of principal upon redemption of, the Series 2002-C Warrants shall be paid, except as set forth below under “Book-Entry Only System”, in accordance with DTC’s normal procedures, which provide for payment by DTC to its participants in same-day funds.

The Series 2002-C-1 Warrants will initially bear interest at the Auction Rate. The Variable Rate Demand Warrants will initially bear interest at the Weekly Rate.

Series 2002-C Warrants bearing a Commercial Paper Rate, a Daily Rate or a Weekly Rate shall be fully registered warrants in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof. Series 2002-C Warrants bearing an Auction Rate shall be fully registered warrants in the denomination of \$25,000 or any integral multiple thereof. Series 2002-C Warrants bearing a Term Rate or a Fixed Rate shall be fully registered warrants in the denomination of \$5,000 or any integral multiple thereof.

The Series 2002-C Warrants shall mature on February 1, 2040. The Series 2002-C Warrants shall be initially issued in fully registered form, without coupons, and dated their date of first authentication and delivery, and thereafter shall be dated their date of authentication.

Interest on Series 2002-C Warrants – General

Interest shall accrue on the Series 2002-C Warrants at the Daily Rate, the Weekly Rate, the Commercial Paper Rate, the Term Rate, the Fixed Rate or the Auction Rate.

Interest Payment Dates. “Interest Payment Date,” for any particular Series 2002-C Warrant, means:

- (a) for each Commercial Paper Rate Period, the Business Day immediately succeeding any Calculation Period, and for any Calculation Period of more than 180 days, also the Business Day immediately following the 180th day of such Calculation Period;
- (b) during an Auction Rate Period (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, each 13th Wednesday after the first day of such Auction Period and the Business Day immediately succeeding such Auction Period;
- (c) for each Daily Rate Period, the first Business Day of each month;
- (d) for each Weekly Rate Period, the first Business Day of each month (beginning in November 2002 for the Variable Rate Demand Warrants);

- (e) for each Term Rate Period, (i) the first day of the sixth calendar month following the month in which the first day of such Term Rate Period occurred, (ii) each anniversary of the date so determined, (iii) each anniversary of the first day of the first month of such Term Rate Period, and (iv) the Business Day immediately succeeding such Term Rate Period;
- (f) for the Fixed Rate Period, the February 1 or August 1 next succeeding the Fixed Rate Conversion Date and each February 1 and August 1 thereafter; but if the February 1 or August 1 next succeeding the Fixed Rate Conversion Date occurs less than 21 days after the Fixed Rate Conversion Date, the first Interest Payment Date shall be the second such date following the Fixed Rate Conversion Date;
- (g) the Fixed Rate Conversion Date;
- (h) any day on which Series 2002-C Warrants are subject to mandatory tender for purchase or redemption pursuant to the Indenture;
- (i) the Stated Maturity of the Series 2002-C Warrants; and
- (j) with respect to Bank Warrants, the first Business Day of each month and the date on which such Bank Warrants are remarketed and cease to be Bank Warrants;

but if any such date, other than a date specified in clause (e), (f) or (i) above, determined in any of the foregoing clauses is not a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day. If a date specified in clause (e), (f) or (i) above is not a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day and the payment on such postponed Interest Payment Date shall include interest accrued only to the originally scheduled Interest Payment Date.

Interest Accrual and Payment. While Series 2002-C Warrants bear interest at a Commercial Paper Rate, a Daily Rate or a Weekly Rate, interest accrued on such warrants shall be computed on the basis of a 365 or 366-day year, as applicable, for the number of days actually elapsed. While Series 2002-C Warrants bear interest at a Term Rate or the Fixed Rate, interest accrued on such warrants shall be computed on the basis of a 360-day year, consisting of twelve 30-day months. While Series 2002-C Warrants bear interest at an Auction Rate, interest accrued on such warrants shall be computed on the basis of a 360-day year for the number of days actually elapsed. The Series 2002-C Warrants shall bear interest from the date of initial issuance thereof payable on each Interest Payment Date. The Series 2002-C Warrants issued upon transfers or exchanges of Series 2002-C Warrants shall bear interest from such date of initial issuance or from the Interest Payment Date next preceding their date of authentication, unless the date of authentication is an Interest Payment Date in which case such warrants shall bear interest from such date, or unless the date of authentication is after the Regular Record Date next preceding the next succeeding Interest Payment Date, in which case such warrants shall bear interest from such next succeeding Interest Payment Date.

From and after any Change in the Interest Rate Mode pursuant to the applicable provisions of the Indenture, the Series 2002-C Warrants or any subseries thereof shall bear interest determined in accordance with the provisions of the Indenture pertaining to the new Adjustable Rate or at the Fixed Rate, as the case may be. Series 2002-C Warrants shall bear interest for each Calculation Period, Auction Period or Fixed Rate Period at the rate of interest per annum for such Calculation Period, Auction Period or Fixed Rate Period established in accordance with the Indenture. From and after a Fixed Rate Conversion Date, the affected Series 2002-C Warrants shall bear interest at the Fixed Rate until their Stated Maturity. Interest shall be payable on each Interest Payment Date by check mailed to the

registered owner at his or her address as it appears on the registration books kept by the Trustee pursuant to the Indenture at the close of business on the applicable Regular Record Date; provided that (i) while the Securities Depository or its nominee is the registered owner of any Series 2002-C Warrants, all payments of principal of, premium, if any, and interest on such warrants shall be paid to the Securities Depository or its nominee by wire transfer, (ii) if the Securities Depository, or its nominee, is no longer the registered owner of any Series 2002-C Warrants, prior to and including the Fixed Rate Conversion Date, interest on such warrants shall be payable to any registered owner of at least one million dollars (\$1,000,000) in aggregate principal amount of such warrants, by wire transfer, upon written notice received by the Trustee at least five Business Days prior to the applicable Regular Record Date, from such registered owner containing the wire transfer address (which shall be in the continental United States) to which such registered owner wishes to have such wire directed and (iii) during a Commercial Paper Rate Period, interest shall be payable on the Series 2002-C Warrants bearing interest at a Commercial Paper Rate only upon presentation and surrender thereof to the Tender Agent upon purchase thereof pursuant to the Indenture and if such presentation and surrender are made by 2:00 p.m. (New York City time) such payment shall be by wire transfer. If and to the extent that there shall be a default in the payment of the interest due on any Interest Payment Date, such interest shall cease to be payable to the person in whose name each Series 2002-C Warrant was registered on such applicable Regular Record Date and shall be payable, when and if paid, to the person in whose name each Series 2002-C Warrant is registered at the close of business on the record date fixed therefor by the Trustee, which shall be the fifth Business Day next preceding the date of the proposed payment, which also shall be a Business Day. Except as provided above, payment of the principal of, and premium, if any, on all Series 2002-C Warrants shall be made upon the presentation and surrender of such warrants at the principal office of the Trustee as the same shall become due and payable.

At or prior to 9:30 a.m. (New York City time) on the Determination Date for each Calculation Period or at or prior to 3:00 p.m. (New York City time) on each Auction Date, the applicable Remarketing Agent or the Auction Agent, as the case may be, shall determine the interest rate for such Calculation Period or Auction Period and shall make available to the County, the Trustee, the Tender Agent and each issuer of a Support Facility the interest rate determined on such Determination Date or Auction Date.

If for any reason on any Determination Date (A) any rate of interest or a Calculation Period and related Commercial Paper Rate is not determined by the applicable Remarketing Agent, (B) no Remarketing Agent is serving as such under the Indenture or (C) the rate so determined is held to be invalid or unenforceable by a final judgment of a court of competent jurisdiction, (i) during any Daily Rate Period, the interest rate for the Calculation Period with respect to such Determination Date shall be the last interest rate in effect, or, if a Daily Rate is not determined by the Remarketing Agent hereunder for five or more consecutive Business Days, on the next and each succeeding Determination Date, the Daily Rate shall be a rate per annum equal to 80% of the latest 30-day dealer taxable commercial paper rate published by the Federal Reserve Bank of New York on or immediately before such Determination Date, (ii) during any Weekly Rate Period, the interest rate for the Calculation Period with respect to such Determination Date shall be the last interest rate in effect, or, if a Weekly Rate is not determined by the Remarketing Agent for two or more consecutive Calculation Periods, the Weekly Rate shall be equal to 85% of the latest 30-day dealer taxable commercial paper rate published by the Federal Reserve Bank of New York on or before the day next preceding such Determination Date, (iii) during any Term Rate Period, the interest rate per annum for the Calculation Period with respect to such Determination Date shall be equal to 85% of the rate listed in the table most recently circulated by the United States Treasury Department known as "Table [applicable dates shown on the most recent Table], Maximum Interest Rate Payable on United States Treasury Certificates of Indebtedness, Notes and Bonds — State and Local Government Series Subscribed for During Period [applicable dates shown on the most recent Table]" or any substantially equivalent table circulated by the United States Treasury Department for the maturity

most closely approximating the Calculation Period, and (iv) during any Commercial Paper Rate Period, the Calculation Period with respect to such Determination Date and related Commercial Paper Rate shall be (A) a Calculation Period which shall consist of the period from and including the prior Interest Payment Date to, but excluding the first Business Day of the following calendar month, and thereafter each period from and including the first Business Day of the calendar month to but excluding the first Business Day of the following calendar month, and (B) a Commercial Paper Rate equal to 85% of the interest rate applicable to 90-day United States Treasury Bills determined on the basis of the average per annum discount rate at which such 90-day Treasury Bills shall have been sold at the most recent Treasury auction within the 30 days next preceding such Calculation Period, or if there shall have been no such auction within the 30 days next preceding such Calculation Period, a Commercial Paper Rate equal to the rate of interest during the immediately preceding Calculation Period.

The determination of any rate of interest by the Remarketing Agent in accordance with the Indenture or by the Auction Agent in accordance with the Auction Procedures applicable to 2002-C-1 Warrants or the establishment of Calculation Periods or Auction Periods by the Remarketing Agent as provided in the Indenture shall be conclusive and binding upon the County, the Trustee, the Tender Agent, the Remarketing Agent, the Auction Agent, each issuer of a Support Facility, and the registered and beneficial owners of the Series 2002-C Warrants. Failure of the Remarketing Agent, the Trustee, the Tender Agent, the Auction Agent, or the Securities Depository or any Securities Depository participant to give any of the notices described in the Indenture, or any defect therein, shall not affect the interest rate to be borne by any of the Series 2002-C Warrants or the applicable Calculation Period or Auction Period or in any way change the rights of the registered owners of the Series 2002-C Warrants to tender their Warrants for purchase or to have them redeemed in accordance with the Indenture.

Except as otherwise set forth above, interest on the Series 2002-C Warrants shall be paid to the registered owner thereof at his or her address as it appears on the registration books kept by the Trustee pursuant to the Indenture at the close of business on the applicable Regular Record Date. No transfer or exchange of Series 2002-C Warrants shall be required to be made by the Trustee after a Regular Record Date until the next succeeding Interest Payment Date.

Provisions with Respect to the Commercial Paper Rate

During any Commercial Paper Rate Period, at or prior to 9:30 a.m. (New York City time) on the Determination Date for each Calculation Period, the Remarketing Agent shall determine the Calculation Period and related Commercial Paper Rate, and shall notify the Trustee and the County of the Calculation Period. The Remarketing Agent shall select the Calculation Period and the applicable Commercial Paper Rate that, together with all other Calculation Periods and related Commercial Paper Rates, in the sole judgment of the Remarketing Agent, will result in the lowest overall borrowing cost on the Series 2002-C Warrants or are otherwise in the best financial interests of the County, as determined in consultation with the County.

The County may place such limitations upon the establishment of Calculation Periods as may be set forth in a written direction from the County, which direction must be received by the Trustee and the Remarketing Agent prior to 10:00 a.m. (New York City time) on the day prior to any Determination Date to be effective on such date, but only if the Trustee receives an Opinion of Bond Counsel to the effect that such action is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the Series 2002-C Warrants from gross income for federal income tax purposes.

Auction Rate

Interest Rate. In the initial Auction Period (i.e., the period commencing from and including the Closing Date and expiring on and including the initial Auction Date specified on the inside cover hereof), only the Series 2002-C-1 Warrants will bear interest at an Auction Rate as set forth in the Indenture.

The interest rate on each subseries of the Series 2002-C Warrants bearing interest at the Auction Rate for each Auction Period after the initial Auction Period shall, subject to certain exceptions described below, be equal to the rate per annum that the Auction Agent referred to below advises has resulted on the Auction Date therefor referred to below from the implementation of auction procedures set forth in the Indenture, and attached hereto as Appendix D (the "Auction Procedures"), in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Series 2002-C Warrants. Each periodic implementation of the Auction Procedures for each subseries of the Series 2002-C Warrants is hereinafter referred to as an "Auction". Separate Auctions will be conducted for each subseries of the Series 2002-C Warrants that bears interest at the Auction Rate.

During any Auction Rate Period, the Series 2002-C Warrants shall bear interest at the Auction Rate determined as set forth in the Indenture. The Auction Rate for any initial Auction Period immediately after any Change in the Interest Rate Mode to an Auction Rate for an Auction Rate Period shall be the rate of interest per annum determined and certified to the Trustee (with a copy to the County) by the Remarketing Agent on a date not later than the effective date of such Change in the Interest Rate Mode as the minimum rate of interest which, in the opinion of the Remarketing Agent, would be necessary as of such date to market 2002-C-1 Warrants in a secondary market transaction at a price equal to the principal amount thereof; provided that such interest rate shall not exceed 110% of the sum of the Index and .50% per annum. For any other Auction Period, the Auction Rate shall be the rate of interest per annum that results from implementation of the Auction Procedures. If on any Auction Date, the Auction Agent shall fail to take any action necessary to determine, or any action which effectively prevents the determination of, a rate of interest pursuant to the Auction Procedures, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate as provided in clause (i) of the definition thereof on and as of such Auction Date. Determination of the Auction Rate pursuant to the Auction Procedures shall be suspended upon a Change in the Interest Rate Mode, the occurrence of a Failure to Deposit or the occurrence of an Event of Default. 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 shall be of no effect and the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate on and as of such Auction Date. The Auction Rate for any Auction Period or remaining portion thereof following the occurrence of an Event of Default shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date. The Overdue Rate shall be redetermined by the Remarketing Agent on each Auction Date.

Auction Periods may be established pursuant to the Indenture at any time unless a Failure to Deposit or an Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established, and each Auction Period which immediately succeeds a non-Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established.

Auction Periods. The initial Auction Period shall commence from and include the Closing Date and shall expire on and include the initial Auction Date specified for the Series 2002-C-1 Warrants as shown on the inside cover hereof. Thereafter, each Auction Period immediately succeeding such initial Auction Period shall be a Standard Auction Period. The length of a single Auction Period or the Standard Auction Period may be changed at any time by the County in accordance with the Indenture unless a Payment Default has occurred and has not been cured or Sufficient Clearing Bids were not present in both

the Auction immediately prior to the date on which notice of the change was given and the Auction immediately prior to the change. It is presently anticipated that an Auction Period of generally 35 days will be maintained as the “Standard Auction Period” for each subseries of the Series 2002-C Warrants bearing interest at an Auction Rate. Each Standard Auction Period shall be maintained and each Auction Period which is not a Standard Auction Period shall automatically revert to a Standard Auction Period unless a different Auction Period is established by the County. See “—Changes in the Auction Terms”.

Auction Dates. An Auction to determine the Auction Rate for the Series 2002-C Warrants bearing interest at an Auction Rate for each Auction Period after the initial Auction Period, shall occur on each Auction Date (the “Auction Date”). The Auction Date for the Series 2002-C Warrants bearing interest at an Auction Rate for each Auction Period shall be the last Wednesday of the immediately preceding Auction Period; provided, if such day is not a Business Day, the Auction Date shall be the next succeeding Business Day. It is presently anticipated that an Auction Period of 35 days will be maintained as the Standard Auction Period. So long as such 35 day Auction Period is maintained as the Standard Auction Period for each subseries of the Series 2002-C Warrants bearing interest at an Auction Rate, the initial Auction and each Auction thereafter will generally be held on the days specified for each such subseries on the inside cover hereof.

Purchase Price. The purchase price of each Series 2002-C Warrant sold in any Auction shall be equal to the principal amount thereof.

Auction Agent. The Bank of New York will serve as the Auction Agent for the Series 2002-C 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.

Broker-Dealers. Each Auction requires the participation of one or more broker-dealers. The County and the Auction Agent will enter into an agreement with J.P. Morgan Securities, Inc. relating to the Series 2002-C Warrants and may enter into similar agreements (collectively, the “Broker-Dealer Agreements”) with one or more additional broker-dealers (collectively, the “Broker-Dealers”) selected by the County and the Auction Agent which provide for the participation of Broker-Dealers in Auctions.

Auction Procedures. For a description of procedures to be used in conducting Auctions, see Appendix D attached hereto.

Changes in the Auction Terms. Certain Auction provisions may be changed or certain actions may be taken under the Indenture if there is delivered an opinion (a “Series 2002-C Bond Counsel Opinion”) of a firm or firms of attorneys (“Series 2002-C Bond Counsel”), satisfactory to the County, the insurer of the Series 2002-C Warrants and the Trustee, to the effect that any such change or action is authorized by the Indenture, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the Series 2002-C Warrants from gross income for federal income tax purposes.

Change of Auction Period by County. During an Auction Rate Period, the County may change the length of a single Auction Period or the Standard Auction Period for any series by means of a written notice delivered at least 10 days prior to the Auction Date for such Auction Period to the Trustee, the Remarketing Agent, the Auction Agent and the Securities Depository in substantially the form furnished to the Trustee and the Auction Agent at the time of a Change in the Interest Rate Mode to an Auction Rate. Any Auction Period or Standard Auction Period established by the County may not exceed 365 days in duration. If such Auction Period will be of less than 35 days, such notice shall be effective only if it is accompanied by a written statement of the Trustee, the Remarketing Agent, the Auction Agent and

the Securities Depository to the effect that they are capable of performing their duties hereunder and under the Remarketing Agreement and the Auction Agency Agreement with respect to such Auction Period. If such notice specifies a change in the length of the Standard Auction Period, such notice shall be effective only if it is accompanied by the written consent of the Remarketing Agent 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 shall 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 County by telecopy, facsimile, or similar means in substantially the form furnished to the Trustee and the Auction Agent at the time of a Change in the Interest Rate Mode to an Auction Rate authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, and confirming that Bond Counsel expects to be able to give an Opinion of Bond Counsel referred to in (D) below on the first day of such Auction Period, (B) the Trustee shall not have 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 or the Standard 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 Series 2002-C 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 shall 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 is not met, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate as determined as of such Auction Date.

Change of Auction Date by Remarketing Agent. During an Auction Rate Period, the Remarketing Agent, with the written consent of the County, may change, in order to conform with then-current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date, the Auction Date for all future Auction Periods to a different day, so long as the first such Auction Date will be a Business Day in the calendar week in which the next succeeding Auction Date is then scheduled to occur. If a change in an Auction Date is undertaken in conjunction with a change in an Auction Period and the conditions for the establishment of such change in Auction Period are not met, the Auction Date may be, and the next succeeding Auction Period may be adjusted to end on, a Business Day in the calendar week in which such Auction Date was scheduled to occur and such Auction Period was scheduled to end to accommodate the change in the Auction Date. The Remarketing Agent shall deliver a written notice of its determination to change an Auction Date at least 10 days prior to the Auction Date immediately preceding such Auction Date to the County, the Trustee, the Auction Agent and the Securities Depository which shall state (i) the determination of the Remarketing Agent to change the Auction Date, (ii) the new Auction Date and (iii) the date on which such Auction Date shall be changed. If, as a result of any proposed change in the Auction Date, any Auction Period would be less than 28 days in duration, such notice shall be effective only if it is accompanied by a written statement of the Auction Agent, the Trustee, the Remarketing Agent and the Securities Depository to the effect that they are capable of performing their duties hereunder and under the Remarketing Agreement and Auction Agency Agreement with respect to any such Auction Period. In no event shall any Standard Auction Period be less than seven days.

Optional Conversion of Interest Rate Mode by County

Prior to the Fixed Rate Conversion Date, at the times specified below, the Series 2002-C Warrants, in whole or in part, shall cease to bear interest at the Adjustable Rate then borne by the Series 2002-C Warrants and shall bear interest at such different Adjustable Rate as shall be specified by the County in a written notice delivered at least 30 days prior to the proposed effective date of the Change in the Interest Rate Mode to the Trustee, the Remarketing Agent, any Securities Depository and the Tender Agent (and to the Auction Agent if such Change in the Interest Rate Mode is to or from an Auction Rate). A Change in the Interest Rate Mode to a different Adjustable Rate may only be effected on the last Interest Payment Date for a Daily Rate Period, a Weekly Rate Period, an Auction Rate Period, or a Term Rate Period, and a Change in the Interest Rate Mode from a Commercial Paper Rate to a different Adjustable Rate may only take effect on the Interest Payment Date immediately following the last day of a Calculation Period. A notice of a Change in the Interest Rate Mode as described in this paragraph shall be effective only if it is accompanied by the form of opinion that Bond Counsel expects to be able to give on the proposed 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 Series 2002-C Warrants from gross income for federal income tax purposes.

The Trustee shall mail, or cause the Tender Agent to mail, the notice received pursuant to the preceding paragraph on or before the third Business Day after receipt thereof to the Holders of the Series 2002-C Warrants.

A Change in the Interest Rate Mode to another Adjustable Rate shall be effective as described in the second preceding paragraph only if

(i) with respect to any Change in the Interest Rate Mode from an Auction Rate to another Adjustable Rate, the Trustee and the Auction Agent shall receive:

(1) 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 (A) that a written agreement between the County and the Remarketing Agent to remarket such Series 2002-C Warrants on such effective date at a price of 100% of the principal amount thereof has been entered into, which agreement (i) 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 (ii) must include a provision requiring payment by the Remarketing Agent in same-day funds for any 2002-C-1 Warrant, tendered or deemed tendered; and (B) that a Liquidity Facility is in effect or has been obtained by the County with respect to those of the Series 2002-C 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;

(2) 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 (x) authorizing the establishment of the new Adjustable Rate, (y) 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 Series 2002-C Warrants from gross income for federal income tax purposes and (z) 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

(3) 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 all of the Series 2002-C-1 Warrants during an Auction Rate Period tendered or deemed tendered have been purchased at a price equal to the principal amount thereof with funds provided from the remarketing of such Series 2002-C Warrants in accordance with the Remarketing Agreement, and that accrued and unpaid interest, if any, and premium, if any, on the Series 2002-C Warrants shall have been paid pursuant to the Indenture from funds deposited with the Trustee;

(ii) with respect to any Change in the Interest Rate Mode to a Commercial Paper Rate, an Auction Rate or a Term Rate, the Trustee (and the Auction Agent in the case of any Change in the Interest Rate Mode to an Auction Rate) shall receive by 4:00 p.m., New York City time, on the effective date of such Change in the Interest Rate Mode, a certificate from an Authorized County Representative that all of the Series 2002-C 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 Series 2002-C Warrants in accordance with the Remarketing Agreement, or from other funds deposited with the Tender Agent (other than proceeds from a draw on a Liquidity Facility), and that accrued and unpaid interest, if any, and premium, if any, have been paid in accordance with the Indenture from funds deposited with the Trustee;

(iii) with respect to any Change in the Interest Rate Mode, the Trustee (and the Auction Agent in the case of any Change in the Interest Rate Mode to an Auction Rate) shall receive, by 10:30 a.m. (New York City time) on the effective date of such Change in the Interest Rate Mode, an Opinion of Bond Counsel 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 Series 2002-C Warrants from gross income for federal income tax purposes;

(iv) with respect to any Change in the Interest Rate Mode to an Adjustable Rate (other than to an Auction Rate or, unless the County elects to provide a Liquidity Facility, a Term Rate), a Liquidity Facility that applies to all Series 2002-C Warrants subject to such change and that meets the requirements of the Sixth Supplemental Indenture has been delivered to the Trustee not less than one Business Day prior to the effective date of such Change in the Interest Rate Mode and is, by its terms, in effect prior to such effective date; and

(v) with respect to any Change in the Interest Rate Mode, the Trustee shall receive written confirmation from S&P, if the Series 2002-C Warrants are then rated by S&P, and from Moody's, if the Series 2002-C Warrants are then rated by Moody's, to the effect that such Change

in Interest Rate Mode will not result in a reduction or withdrawal of its long- or short-term rating of the Series 2002-C Warrants below the rating of S&P or Moody's, as the case may be, then in effect with respect to the Series 2002-C Warrants.

If any of the conditions referred to in (i)(1) or (i)(2) above is not met with respect to any Change in the Interest Rate Mode for any Series 2002-C Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Auction Procedures applicable to 2002-C-1 Warrants. If the condition referred to in (i)(3) above is not met with respect to any Change in the Interest Rate Mode for any Series 2002-C Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period for such Series 2002-C 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 Series 2002-C Warrants, if later. If any of the conditions referred to in (iii), (iv) or (v) above is not met with respect to any Change in the Interest Rate Mode for any Series 2002-C Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period for such Series 2002-C Warrants shall equal 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 Series 2002-C Warrants, if later. If any of the conditions referred to in (ii), (iii), (iv) or (v) above is not met with respect to any other Change in the Interest Rate Mode for any Series 2002-C Warrants, such warrants shall continue to bear interest at the Current Adjustable Rate and be subject to the provisions of the Indenture applicable thereto while such Series 2002-C Warrants bear interest at such Current Adjustable Rate. 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.

Optional Conversion to Fixed Rate. The rate of interest per annum which Series 2002-C Warrants will bear, in whole or in part, may be fixed, at the option of the County, for the balance of the term thereof. In the event the County exercises its Option to Convert, the selected Series 2002-C Warrants shall cease to bear interest at the Adjustable Rate then borne by the Series 2002-C Warrants and shall bear interest at the Fixed Rate until maturity, subject to the terms and conditions of the Indenture (the date on which the Fixed Rate shall take effect being herein called the "Fixed Rate Conversion Date"). 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, any Securities Depository, the Tender Agent and the Remarketing Agent (and to the Auction Agent if such Change in Interest Rate Mode to a Fixed Rate is from an Auction Rate). The Fixed Rate Conversion Date may only be the last Interest Payment Date for a Daily Rate Period, a Weekly Rate Period, an Auction Rate Period or a Term Rate Period, as applicable, and a Change in the Interest Rate Mode from a Commercial Paper Rate to the Fixed Rate may only take effect on the Interest Payment Date immediately following the last day of a Calculation Period. A notice of conversion to a Fixed Rate shall 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 the Series 2002-C Warrants from gross income for federal income tax purposes.

The Trustee shall mail, or cause the Tender Agent to mail, the notice received pursuant to the preceding paragraph on or before the third Business Day after receipt thereof to the Holders.

The Fixed Rate shall take effect only if

(i) with respect to a change to the Fixed Rate from an Auction Rate, the Trustee and the Auction Agent shall receive:

(1) a certificate of an Authorized County Representative by no later than the tenth day prior to the Fixed Rate Conversion Date stating that a written agreement has been entered into by the County and the Remarketing Agent to remarket the Series 2002-C Warrants affected on the Fixed Rate Conversion Date at a price of not less than 100% of the principal amount thereof, which written agreement (i) may be subject to reasonable terms and conditions imposed by the Remarketing Agent which in the judgment of the Remarketing Agent reflect current market standards regarding investment banking risk and (ii) must include a provision requiring payment by the Remarketing Agent in same-day funds for any 2002-C-1 Warrants tendered or deemed tendered; and

(2) by 11:00 a.m. (New York City time) on the second Business Day prior to the Fixed Rate Conversion Date, by telecopy, facsimile or other similar means, a certificate from the County (y) authorizing the establishment of the Fixed Rate and (z) confirming that Bond Counsel expects to be able to give an opinion on the Fixed Rate Conversion Date to the effect that the change to 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 the Series 2002-C Warrants from gross income for federal income tax purposes; and

(ii) with respect to any change to a Fixed Rate, the Trustee (and the Auction Agent in the case of any change to a Fixed Rate from an Auction Rate) receives on the Fixed Rate Conversion Date:

(1) by 10:30 a.m. (New York City time) an Opinion of Bond Counsel to the effect that the conversion to 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 the Series 2002-C Warrants from gross income for federal income tax purposes; and

(2) by 4:00 p.m. (New York City time) a certificate from an Authorized County Representative that all of the Series 2002-C 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 Series 2002-C Warrants in accordance with the Remarketing Agreement or from other funds deposited with the Tender Agent (other than proceeds from a draw on the Liquidity Facility), and that accrued and unpaid interest, if any, has been or shall be paid in accordance with the Indenture from funds deposited with the Trustee, and that the premium, if any, has been paid from funds deposited with the Trustee on terms permitting payment of such premium when due.

If any of the conditions referred to in (i) above are not met with respect to any change to a Fixed Rate for any Series 2002-C Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Auction Procedures applicable to the Series 2002-C-1 Warrants. If the conditions referred to in (ii) above are not met with respect to any change to a Fixed Rate for any Series 2002-C Warrants from an Auction Rate, the Auction Rate for the next succeeding Auction Period shall be equal to the Maximum Auction Rate on the date the condition is not met or the Auction Date for the current Auction Period for such Series 2002-C Warrants, if later. If the conditions referred to

in (ii) above are not met with respect to any change from any other Adjustable Rate to a Fixed Rate for any Series 2002-C Warrants, the Series 2002-C Warrants shall continue to bear interest at the Current Adjustable Rate and be subject to the provisions of the Indenture applicable thereto while the Series 2002-C Warrants bear interest at such Current Adjustable Rate. If any of the foregoing conditions to the establishment of the Fixed Rate (other than with respect to any attempted change from an Auction Rate to a Fixed Rate) are not met, 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 said conditions.

If the Series 2002-C Warrants commence to bear interest at the Fixed Rate as described above, the interest rate on such Series 2002-C Warrants may not thereafter be changed to an Adjustable Rate.

Conversion Generally. In the event of a Change in the Interest Rate Mode on less than all the Series 2002-C Warrants to or from an Auction Rate, the minimum aggregate principal amount of Series 2002-C Warrants that continue to bear, or are adjusted to bear, interest at an Auction Rate for an Auction Rate Period, shall not be less than \$10,000,000 for such Series 2002-C-1 Warrants.

Upon any Change in the Interest Rate Mode or upon any change to a new Calculation Period or Periods during a Commercial Paper Rate Period, the Remarketing Agent and the Trustee shall take all steps necessary to comply with any agreement entered into with a Securities Depository or its nominee with respect to such Change in the Interest Rate Mode or such change to a new Calculation Period or Periods during a Commercial Paper Rate Period, including, without limitation, the purchase (at the expense of the County) and designation of sufficient CUSIP numbers to comply with the requirements of such Securities Depository following any such Change in the Interest Rate Mode or such change to a new Calculation Period or Periods during a Commercial Paper Rate Period.

If the interest rate on less than all Series 2002-C Warrants of a particular subseries is to be converted to a new Adjustable Rate or to a Fixed Rate, the particular Series 2002-C Warrants of such subseries to be converted shall be chosen by the Trustee, or the Trustee shall direct the Tender Agent to so choose, in such manner as the Trustee or Tender Agent in its discretion may deem proper; provided, however, that the portion of any Series 2002-C Warrant to be converted shall be in an Authorized Denomination for the Interest Rate Mode to which such Series 2002-C Warrant is being converted (and the portion of such Series 2002-C Warrant that is not being converted shall be in an Authorized Denomination for the Interest Rate Mode then applicable thereto). If it is determined that a portion, but not all, of any Series 2002-C Warrant is to be converted, then upon notice of such conversion pursuant to the Indenture, the Holders of such Series 2002-C Warrants shall forthwith surrender such Series 2002-C Warrants to the Tender Agent for (1) payment of the purchase price (including the premium, if any, and accrued and unpaid interest to the date fixed for conversion) of the portions thereof chosen for conversion and (2) exchange for a new Series 2002-C Warrant or Warrants in the aggregate principal amount of the balance of the principal of such Series 2002-C Warrants not subject to conversion. If the Holders of any such Series 2002-C Warrant shall fail to present such Series 2002-C Warrant to the Tender Agent, for payment and exchange as aforesaid, such Series 2002-C Warrant shall, nevertheless, become due and payable on the date fixed for conversion to the extent of the portions thereof chosen for such conversion (and to that extent only).

Redemption And Purchase Of Series 2002-C Warrants

Optional Redemption. The Series 2002-C Warrants shall be subject to redemption, in whole or in part, at the option of the County, upon its written request delivered to the Trustee not less than forty-five (45) days (thirty (30) days for Series 2002-C Warrants bearing interest at an Adjustable Rate) prior to the date selected for redemption, from the proceeds of a draw on or payment under a Support Facility (if

available for such purpose), and any other money held by the Trustee and available to be applied to the redemption of Series 2002-C Warrants as provided in this section:

(a) For any Commercial Paper Rate Period, such Series 2002-C Warrants shall be subject to redemption (i) on each Interest Payment Date for such Commercial Paper Rate Period, as a whole or in part, at the principal amount thereof, and (ii) on any Business Day, as a whole or in part, at the principal amount thereof plus accrued interest, if any, to the date fixed for redemption.

(b) For any Auction Rate Period, such Series 2002-C Warrants shall be subject to redemption on the Business Day immediately preceding each Auction Date, as a whole or in part, at the principal amount thereof plus accrued interest, if any, to the date fixed for redemption.

(c) For any Daily Rate Period, such Series 2002-C Warrants shall be subject to redemption on any Business Day, as a whole or in part, at the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption.

(d) For any Weekly Rate Period, such Series 2002-C Warrants shall be subject to redemption on any Business Day, as a whole or in part, at the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption.

(e) For any Term Rate Period and after the Fixed Rate Conversion Date, such Series 2002-C Warrants shall be subject to redemption in whole on any Business Day or in part on any Interest Payment Date after the period shown in the column entitled "No Call Period" shown below (the "No Call Period"), which shall begin on the first day of the Calculation Period applicable to such Series 2002-C Warrants or on the Fixed Rate Conversion Date, as the case may be. The redemption price shall be equal to the principal amount thereof, plus the applicable premium, if any, determined as hereinafter provided, plus accrued interest, if any, to the date fixed for redemption. Such premium shall be equal, initially, to the percentage of the principal amount to be redeemed shown in the Initial Premium column. The premium percentage shall decline by the percentage shown in the Reduction in Premium column on each anniversary of the date on which such Series 2002-C Warrants are first redeemable, if the Calculation Period or period remaining to Stated Maturity after the Fixed Rate Conversion Date is equal to or greater than five years, and on each Interest Payment Date if the Calculation Period or period remaining to Stated Maturity after the Fixed Rate Conversion Date is less than five years, until the Series 2002-C Warrants shall be redeemable without premium.

<u>Calculation Period or Period to Maturity</u>		<u>No Call Period</u>	<u>Initial Premium</u>	<u>Reduction in Premium</u>
<u>Equal to or Greater Than</u>	<u>But Less Than</u>			
18 Years	N/A	10 Years	2%	1%
12 Years	18 Years	8 Years	1-1/2	3/4
7 Years	12 Years	6 Years	1	1/2
5 Years	7 Years	4 Years	1/2	1/2
4 Years	5 Years	3 Years	1/2	1/2
3 Years	4 Years	2 Years	1/2	1/2
0 Years	3 Years	Not Callable		

If upon establishment of a Term Rate Period, or on the Fixed Rate Conversion Date, as the case may be, the Remarketing Agent certifies to the Trustee, Bond Counsel and the County in writing that the

foregoing schedule is not consistent with then-prevailing market conditions, the County may revise the foregoing Initial Premiums, Reductions in Premium and No-Call Periods without the approval of the Holders to reflect then-prevailing market conditions, upon receipt of an Opinion of Bond Counsel to the effect that any revisions pursuant to this paragraph, either by themselves or in conjunction with the establishment of a Calculation Period or the Fixed Rate, as the case may be, are made in accordance with this Sixth Supplemental Indenture, are permitted under the Act and will not adversely affect the exclusion of interest on the Series 2002-C Warrants from gross income for federal income tax purposes.

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, in the case of Auction Rate Warrants, 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.

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.

Tender for and Purchase upon Election of Holder. (a) During any Daily Rate Period or Weekly Rate Period, any Series 2002-C Warrant or portion thereof (other than a Bank Warrant) in a principal amount equal to an Authorized Denomination (so long as the principal amount not purchased is an Authorized Denomination) shall be purchased on the demand of the Holder thereof on any Business Day at a price equal to the principal amount thereof plus accrued interest, if any, to (but not including) the date of purchase, upon delivery to the Tender Agent and the Remarketing Agent at their respective principal offices, by the close of business on any Business Day of a Notice of Election to Tender in substantially the form described in the Indenture; provided, however, that the substance of such Notice of Election to Tender must also be given telephonically to the Remarketing Agent prior to or simultaneously with delivery of such written Notice of Election to Tender to the Remarketing Agent. The date on which such Series 2002-C Warrant shall be purchased shall, at the request of the Holder thereof, (i) if the Series 2002-C Warrant then bears interest at a Daily Rate, be the date of delivery of such Notice of Election to Tender if such Notice of Election to Tender is delivered to the Tender Agent and the Remarketing Agent by 11:00 a.m. (New York City time) on such date or may be any Business Day thereafter, and (ii) if the Series 2002-C Warrant then bears interest at a Weekly Rate, shall be a Business Day not prior to the 7th day next succeeding the date of the delivery of such Notice of Election to Tender to the Tender Agent and the Remarketing Agent.

Any Notice of Election to Tender shall be irrevocable.

The right of a Holder to tender a Series 2002-C Warrant to the Tender Agent described in this subsection shall terminate after conversion of the Interest Rate Mode to a Commercial Paper Rate, an Auction Rate, a Term Rate or a Fixed Rate with respect to such Series 2002-C Warrant. Furthermore, any Series 2002-C Warrant tendered for purchase as described in this subsection after the date notice of redemption or mandatory tender is given shall not be remarketed except to a purchaser who agrees at the time of such purchase to tender such Series 2002-C Warrant for redemption or purchase on the applicable redemption or mandatory tender date.

Mandatory Tender for Purchase upon Change in the Interest Rate Mode and on a Business Day Following Certain Calculations. Upon a Change in the Interest Rate Mode (including any change to the Fixed Rate on the Fixed Rate Conversion Date), the Series 2002-C Warrants bearing an Auction Rate, a Daily Rate, a Weekly Rate, a Term Rate or a Commercial Paper Rate shall be subject to mandatory tender for purchase in accordance with the terms of the Indenture, on the effective date of such Change in the Interest Rate Mode at a price equal to the principal amount thereof.

For any Term Rate Period or Commercial Paper Rate Period, the Series 2002-C Warrants shall be subject to mandatory tender for purchase in accordance with the terms hereof on the Business Day immediately following each Calculation Period, at a price equal to the principal amount thereof.

Mandatory Tender for Purchase Upon Expiration, Termination, Substitution or Amendment of any Liquidity Facility. Except as otherwise set forth in the last sentence of this paragraph, the Series 2002-C Warrants shall be subject to mandatory tender for purchase at a price equal to the principal amount thereof, (i) on the second Business Day immediately preceding the substitution of an Alternate Liquidity Facility for an existing Liquidity Facility or the effective date of a Liquidity Facility Amendment which results in either case in a reduction or withdrawal of the short-term or long-term rating assigned to such Series 2002-C Warrants, as further described under the second paragraph of “Support

Facilities – Liquidity Facility” below, (ii) on the first anniversary of the initial failure by the Liquidity Provider to maintain its short-term ratings (unless sooner restored) as described in the third paragraph of “Support Facilities – Liquidity Facility” below, and (iii) on the second Business Day immediately preceding the date of expiration or termination of any Liquidity Facility (other than a termination that results from an event that permits termination of such Liquidity Facility without notice), unless on or prior to the 45th day prior to such date of expiration or termination or the effective date of such Liquidity Facility Amendment or such first anniversary of the initial failure of the Liquidity Provider to maintain its short-term ratings the County has furnished to the Trustee (a) an agreement by the Liquidity Provider to extend such Liquidity Facility in the case of an expiration, or (b) an Alternate Liquidity Facility in replacement of the expiring, terminating or amended Liquidity Facility or the Liquidity Facility whose Liquidity Provider has so failed to maintain its short-term ratings together with the confirmation of ratings referred to in the first paragraph under “Support Facilities – Liquidity Facility” below. No tender for purchase of any Series 2002-C Warrants shall be required as described in this paragraph if the Fixed Rate Conversion Date shall have occurred on a date prior to such date of expiration, termination, substitution or the effective date of a Liquidity Facility Amendment.

Notice of the mandatory tender for purchase described under this subheading shall be given on or prior to the 30th day (or, in the case of any termination, such lesser number of days as may be practicable under the terms of the Liquidity Facility then in effect) before the expiration, termination, substitution or amendment date or the 30th day prior to the date of the first anniversary referred to in clause (ii) of the paragraph above by the Trustee in the name of the County (with copies thereof given to the County, the Remarketing Agent, each issuer of a Support Facility and the Tender Agent) by first-class mail to the Holders of the Series 2002-C Warrants subject to mandatory tender for purchase at their addresses shown on the books of registry. Such notice shall be in substantially the form attached to, or contain substantially the information contained in, the Indenture. Such notice may also state, if applicable, that such mandatory tender will not occur if the Trustee receives, on or before the date that is five (5) days preceding the mandatory tender date, an Alternate Liquidity Facility in replacement of the expiring, terminating or amended Liquidity Facility or of the Liquidity Facility whose Liquidity Provider failed to maintain the ratings required hereby, together with the confirmation of ratings referred to in the first paragraph under “Support Facilities – Liquidity Facility” below.

Bank Warrants or Series 2002-C Warrants held by or for the account of the County are not subject to mandatory tender for purchase pursuant to the provisions described under this subheading.

General Provisions Applicable to Mandatory and Optional Tenders for Purchase of Series 2002-C Warrants. If interest has been paid on the Series 2002-C Warrants, or an amount sufficient to pay interest thereon has been deposited in the Debt Service Fund, or an amount sufficient to pay accrued interest thereon, if any, has been set aside in the Warrant Purchase Fund, and the purchase price equal to the principal of, and premium, if any, on the Series 2002-C Warrants shall be available in the Warrant Purchase Fund for payment of Series 2002-C Warrants subject to tender for purchase pursuant to the provisions described above, and if any Holder fails to deliver or does not properly deliver the Series 2002-C Warrants to the Tender Agent for which a Notice of Election to Tender has been properly filed or which are subject to mandatory tender for purchase on the purchase date therefor, such Series 2002-C Warrants shall nevertheless be deemed tendered and purchased on the date established for the purchase thereof, interest on such Series 2002-C Warrants shall cease to be payable to the former Holders thereof from and after the date of purchase and such former Holders shall have no rights hereunder as the registered owners of such Series 2002-C Warrants, except the right to receive the purchase price of and interest to the purchase date, if any, on such Series 2002-C Warrants upon delivery thereof to the Tender Agent in accordance with the provisions hereof.

The purchaser of any Series 2002-C Warrants remarketed by the Remarketing Agent shall be the registered owner of such Series 2002-C Warrants; or, if the Series 2002-C Warrants are registered in the name of the Securities Depository or its nominee, any such purchaser shall be the beneficial owner of such Series 2002-C Warrants. To the extent Series 2002-C Warrants are purchased with the proceeds of a payment under a Liquidity Facility, the issuer of such Liquidity Facility shall be treated as the owner of such Series 2002-C Warrants. While Series 2002-C Warrants are held by or for the benefit of a Liquidity Provider, the Trustee shall not effect payment under such Liquidity Facility to pay principal, interest or premium on such Series 2002-C Warrants.

The payment of Series 2002-C Warrants pursuant to the tender provisions described above shall be subject to delivery of such Series 2002-C Warrants duly endorsed in blank for transfer or accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank for transfer at the principal office of the Tender Agent at or prior to 10:00 a.m. (11:30 a.m. for Series 2002-C Warrants bearing interest at a Weekly Rate and 12:00 noon for Series 2002-C Warrants bearing interest at a Daily Rate and being purchased pursuant to the provisions described above under the subheading "Tender for and Purchase upon Election of Holder") (New York City time), on a specified purchase date. The Tender Agent may refuse to make payment with respect to any Series 2002-C Warrants tendered for purchase pursuant to the tender provisions described above, not endorsed in blank or for which an instrument of transfer satisfactory to the Tender Agent has not been provided.

The purchase price of Series 2002-C Warrants subject to tender for purchase pursuant to the tender provisions described above in an aggregate principal amount of at least one million dollars (\$1,000,000) shall be payable in immediately available funds or by wire transfer upon written notice from the Holder thereof containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed, if such written notice is received by the Tender Agent not less than five Business Days prior to the related purchase date.

If a Liquidity Facility is in effect with respect to any Series 2002-C Warrants, the Trustee shall request a payment under the Liquidity Facility in accordance with its terms to enable the Trustee to effect a deposit of the proceeds of the Liquidity Facility into the Warrant Purchase Fund in an amount necessary to effect full and timely payment of the Purchase Price of all Series 2002-C Warrants for which such Liquidity Facility is in effect and for which remarketing proceeds are not available.

Support Facilities

The County agrees in the Sixth Supplemental Indenture to maintain a Liquidity Facility meeting the requirements of the Sixth Supplemental Indenture with respect to the Series 2002-C Warrants at all times except during any Auction Rate Period, Term Rate Period or Fixed Rate Period. A Liquidity Facility meeting the criteria set forth in the Sixth Supplemental Indenture may be provided during a Term Rate Period, at the option of the County. Each time the County obtains a Liquidity Facility with respect to Series 2002-C Warrants, the County shall submit such Liquidity Facility to Moody's, if the Series 2002-C Warrants are then rated by Moody's, and to S&P, if the Series 2002-C Warrants are then rated by S&P, and to another rating agency, if the Series 2002-C Warrants are then rated by such rating agency for the purposes of obtaining a rating on such Series 2002-C Warrants. The Trustee shall be furnished with any Liquidity Facility obtained together with evidence of any rating or ratings obtained on the Series 2002-C Warrants in connection therewith.

The initial Liquidity Facility with respect to each subseries of Variable Rate Demand Warrants is the Standby Purchase Agreement, which only covers interest at the Daily Rate and the Weekly Rate.

Liquidity Facility. At any time that Series 2002-C Warrants bear interest at an Adjustable Rate (other than an Auction Rate or a Term Rate), the County shall, and at any time that Series 2002-C

Warrants bear interest at a Term Rate, the County may, provide for the delivery to the Trustee of a Liquidity Facility that is issued by (1) a financial institution with ratings that are equivalent to or higher than the ratings of the provider of the Liquidity Facility being replaced or (2) a financial institution with a long term debt rating of at least A from S&P or Moody's and that supports ratings at least the equivalent of A-1 from S&P and VMIG1 from Moody's. The form of such Liquidity Facility shall be approved in writing by the Bond Insurer so long as the Bond Insurer has not denied in writing its obligations under the Policy and is not in default under the Policy. The Liquidity Facility shall satisfy the definition of "Liquidity Facility" herein and shall be, in case of an Alternate Liquidity Facility, the same as the Liquidity Facility it replaces in all respects material to the security for the Series 2002-C Warrants; provided that (i) the expiration date of such Liquidity Facility shall be a date not earlier than 364 days from its date of issuance (or the length of the Calculation Period with respect to any Series 2002-C Warrant bearing interest at a Term Rate to which such Liquidity Facility applies, if longer), subject to earlier termination upon the occurrence of (a) a Terminating Event or another event of default under the Standby Purchase Agreement, (b) the issuance of an Alternate Liquidity Facility, (c) payment in full of the Outstanding Series 2002-C Warrants which are secured by such Liquidity Facility or (d) a Change in the Interest Rate Mode to an Auction Rate, a Commercial Paper Rate, a Term Rate or a Fixed Rate; and (ii) if, between the effective date of a Liquidity Facility and the effective date of an Alternate Liquidity Facility, there occurs a Change in the Interest Rate Mode with respect to some or all of the Series 2002-C Warrants, such Alternate Liquidity Facility shall comply with the requirements applicable to a Liquidity Facility in effect with respect to the new Interest Rate Mode with respect to the Series 2002-C Warrants so affected. On or prior to the date of the delivery of an Alternate Liquidity Facility or an amendment to a Liquidity Facility (other than an amendment which only extends the expiration date of an existing Liquidity Facility) (a "Liquidity Facility Amendment") to the Trustee, the County shall furnish to the Trustee (a) an opinion of Bond Counsel stating that the delivery of such Alternate Liquidity Facility or Liquidity Facility Amendment to the Trustee is authorized under the Sixth Supplemental Indenture and complies with the terms hereof and (b) written confirmation from S&P, if the Series 2002-C Warrants are then rated by S&P, and from Moody's, if the Series 2002-C Warrants are then rated by Moody's, and from another rating agency, if the Series 2002-C Warrants are then rated by such rating agency, to the effect that such rating agency has reviewed the proposed Alternate Liquidity Facility or Liquidity Facility Amendment and that the substitution of the proposed Alternate Liquidity Facility for the existing Liquidity Facility or the delivery of the Liquidity Facility Amendment will not result in a reduction or withdrawal of its long- or short-term rating of the Series 2002-C Warrants below the rating of S&P or Moody's or such other rating agency, as the case may be, then in effect with respect to the Series 2002-C Warrants.

If the County delivers an Alternate Liquidity Facility in substitution for a Liquidity Facility or a Liquidity Facility Amendment which will result in a reduction in or withdrawal of the short-term or long-term rating (or both) assigned to such Series 2002-C Warrants by Moody's or S&P or such other rating agency as a result of the Alternate Liquidity Facility or Liquidity Facility Amendment, all affected Series 2002-C Warrants (unless the Series 2002-C Warrants bear interest at an Auction Rate or Fixed Rate) shall be subject to mandatory tender for purchase pursuant to the provisions of the Indenture. It shall be a condition to the delivery of such an Alternate Liquidity Facility or Liquidity Facility Amendment that the Opinion of Bond Counsel referred to in the preceding paragraph be obtained.

If the Liquidity Provider of a Liquidity Facility should fail to maintain short-term ratings equivalent to A-1 from S&P and P-1 from Moody's, and such Liquidity Provider is not replaced within 12 months, all Series 2002-C Warrants secured by such Liquidity Facility shall be subject to mandatory tender for purchase pursuant to the Indenture.

In any instance in which the Trustee accepts a new Liquidity Facility, or in which the existing Liquidity Facility is amended, under such circumstances that a mandatory tender of the Series 2002-C

Warrants to be covered by such Liquidity Facility is not required, the Trustee shall mail a written notice of such Liquidity Facility and the proposed effective date of such Liquidity Facility or such amendment) to the Holders of the affected Series 2002-C Warrants at least 15 days prior to the effective date of such new Liquidity Facility or of such amendment.

Alternate Credit Facility. The County may, at its option and consistent with this section, obtain an Alternate Credit Facility in substitution for or in addition to the initial Policy or other Alternate Credit Facility. On or prior to the date of delivery of such Alternate Credit Facility, the County shall deliver to the Trustee (a) an opinion of Bond Counsel stating that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Sixth Supplemental Indenture and complies with the terms thereof and (b) in the case of a substitution, written confirmation from S&P, if the Series 2002-C Warrants are then rated by S&P, and from Moody's, if the Series 2002-C Warrants are then rated by Moody's, and from another rating agency, if the Series 2002-C Warrants are then rated by such rating agency, to the effect that such rating agency has reviewed the proposed Alternate Credit Facility and that the substitution of the proposed Alternate Credit Facility for the existing Credit Facility will not, by itself, result in a reduction or withdrawal of its long- or short-term rating of the Series 2002-C Warrants below the rating of S&P or Moody's or such other rating agency, as the case may be, then in effect with respect to the Series 2002-C Warrants. If such substitution occurs when there is a Liquidity Facility in effect with respect to the Series 2002-C Warrants or any Bank Warrants are outstanding, or prior to the conversion of the interest rate for all of the Series 2002-C Warrants to the Fixed Rate, the prior written consent of the Liquidity Facility Provider shall be required with respect to the substitution of the Policy or Alternate Credit Facility with such Alternate Credit Facility.

Registration and Exchange

See "BOOK-ENTRY ONLY SYSTEM" for a description of provisions relating to the registration, transfer and exchange of the Series 2002-C Warrants.

Authority for Issuance

The Series 2002-C Warrants are being issued under the authority of the Constitution and laws of the State of Alabama, including particularly Chapter 28 of Title 11 of the Code of Alabama 1975, Section 11-28-1, *et seq.* (the "Enabling Law").

Section 11-28-4 of the Code of Alabama (1975) authorizes any county in the State of Alabama to issue, without an election, refunding warrants for the purpose of refunding refundable debt then outstanding. Such refundable debt includes any valid debt of such county that was initially incurred to pay the costs of public facilities or to refund debt that, through one or more prior refundings, was initially incurred to pay the costs of public facilities. Refunding warrants may be issued in such principal amount as shall be determined by the county commission of the issuing county, provided that such refunding warrants shall not be issued in an aggregate principal amount exceeding the sum of (a) the outstanding principal amount of such refundable debt, (b) the interest accrued or to accrue until the respective maturities or redemption dates thereof, (c) the amount of any redemption premium required and (d) the amount of any costs incurred in connection with such refunding.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2002-C Warrants. The Series 2002-C Warrants will be issued as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee. The Series 2002-C Warrants of each

subseries will be issued as a single fully-registered certificate per maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "Banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

Purchases of beneficial ownership interests in the Series 2002-C Warrants under the DTC system must be made by or through DTC Participants, which will receive a credit for the Series 2002-C Warrants on DTC's records. The ownership interest of each beneficial owner of a Series 2002-C Warrant (a "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 2002-C Warrants are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 2002-C Warrants, except in the event that use of the book-entry only system for the Series 2002-C Warrants is discontinued.

To facilitate subsequent transfers, all Series 2002-C Warrants deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2002-C Warrants with DTC and their registration in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002-C Warrants. DTC's records reflect only the identity of the DTC Participants to whose accounts such Series 2002-C Warrants are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC 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.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2002-C Warrants are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2002-C Warrants. Under its usual procedures, DTC mails an "Omnibus Proxy" to the County as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those DTC Participants

to whose accounts the Series 2002-C Warrants are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium and interest payments on the Series 2002-C Warrants will be made to DTC. DTC's practice is to credit DTC Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by DTC 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 DTC Participants and not of DTC, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium (if any) and interest to DTC is the responsibility of the Trustee. Disbursement of such payments to DTC Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of the DTC Participants and Indirect Participants.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2002-C WARRANTS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2002-C WARRANTS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN SERIES 2002-C WARRANTS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2002-C WARRANTS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 2002-C WARRANTS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2002-C WARRANTS; (4) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO SERIES 2002-C WARRANTHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2002-C WARRANTS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS SERIES 2002-C WARRANTHOLDER.

Discontinuation of Book-Entry Only System

DTC may determine to discontinue providing its service with respect to the Series 2002-C Warrants at any time by giving notice to the County and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry only system for the Series 2002-C Warrants will be discontinued unless a successor securities depository is appointed by

the County. In addition, the County may discontinue the book-entry only system for the Series 2002-C Warrants at any time by giving reasonable notice to DTC.

SECURITY AND SOURCE OF PAYMENT

General Information

The Series 2002-C 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 Series 2002-C Warrants will be 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-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 Official Statement under the captions "RESULTS OF OPERATIONS" and "JEFFERSON COUNTY SEWER SYSTEM".

Following the issuance of the Series 2002-C Warrants, there will be no outstanding indebtedness of the County payable out of Pledged Revenues other than the Outstanding Sewer Revenue Indebtedness. The Indenture permits the issuance of Additional Parity Securities, however, payable out of, and secured by a pledge of, the Pledged Revenues on a parity with the Outstanding Sewer Revenue Indebtedness. See Appendix A - "SUMMARY OF THE INDENTURE - Additional Parity Securities".

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 A - "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 Series 2002-C Warrants. However, the extent of the remedies afforded to the holders of the Series 2002-C 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 Series 2002-C 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 warrant holders.

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 Series 2002-C 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 Series 2002-C Warrants from the Pledged Revenues.

DESCRIPTION OF XL CAPITAL ASSURANCE INC.

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

XL Capital accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XL Capital and its affiliates set forth under this heading. In addition, XL Capital makes no representation regarding the Series 2002-C Warrants or the advisability of investing in the Series 2002-C Warrants.

General

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

XL Capital 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 XL Capital.**

XL Capital 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

XL Capital 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 XL Capital. Pursuant to this reinsurance agreement, XL Capital expects to cede up to 90% of its business to XLFA. XL Capital 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 XL Capital as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XL Capital'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 Insurance Policy.

As of December 31, 2001, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of US\$543,538,559 (audited), US\$244,403,576 (audited), US\$39,000,000 (audited) and US\$260,134,983 (audited) 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 Standard & Poor's and Fitch. In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to XL Capital 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 insurance financial strength is rated "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch.

Notwithstanding the capital support provided to XL Capital described in this section, the holders of the Series 2002-C Warrants will have direct recourse against XL Capital only, and neither XLFA nor XLI will be directly liable to the holders of the Series 2002-C Warrants.

Financial Strength and Financial Enhancement Ratings

XL Capital'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 XL Capital'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 Series 2002-C 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 Series 2002-C Warrants. XL Capital does not guaranty the market price of the Series 2002-C Warrants nor does it guaranty that the ratings on the Series 2002-C Warrants will not be revised or withdrawn.

Capitalization of XL Capital

As of December 31, 2000, XLCA had total admitted assets of \$86,959,000 (audited), total liabilities of \$5,275,000 (audited) and total capital and surplus of \$81,684,000 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities

("SAP"). As of December 31, 2001, XLCA had total admitted assets of \$158,442,157 (audited), total liabilities of \$48,899,461 (audited) and total capital and surplus of \$109,542,696 (audited) 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 Official Statement. 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 and Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series 2002-C Warrants, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd.'s reports filed with the Commission are 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 XL Capital

XL Capital is regulated by the Superintendent of Insurance of the State of New York. In addition, XL Capital 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, XL Capital 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. XL Capital 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 XL CAPITAL, INCLUDING THE XL CAPITAL 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 XL Capital are located at 250 Park Avenue, 19th Floor, New York, New York 10177 and its telephone number at this address is (646) 658-5900.

STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS

General

The purchase price of each subseries of Variable Rate Demand Warrants bearing interest at a Daily Rate or a Weekly Rate which are tendered or deemed tendered for purchase will be payable, to the

extent that remarketing proceeds are not sufficient therefor, from funds made available by the Bank pursuant to the Standby Purchase Agreement relating to such subseries. Each Standby Purchase Agreement will provide liquidity for the purchase of those Variable Rate Demand Warrants which are optionally tendered for purchase or are subject to mandatory purchase but not remarketed by the Remarketing Agent. Each Standby Purchase Agreement is scheduled to expire (absent certain events of default described herein) on October 24, 2003. The enforceability of each Standby Purchase Agreement may be limited by the bankruptcy, insolvency or reorganization of the Bank. No assurances can be given that in such event the obligation of the Bank under the Standby Purchase Agreement would survive.

Available Commitment

The obligation of each Bank is only to fund its available commitment under the Standby Purchase Agreement applicable to its respective subseries of the Variable Rate Demand Warrants. The initial principal commitment and the initial interest commitment of each Bank for each subseries of Variable Rate Demand Warrants is as follows:

Subseries	Bank	Initial Principal Commitment*	Initial Interest Commitment*
Series 2002-C-2	JPMorgan Chase Bank	\$73,700,000	\$706,713
Series 2002-C-3	Bank of America, N.A.	\$98,300,000	\$942,603
Series 2002-C-4	The Bank of Nova Scotia	\$73,700,000	\$706,713
Series 2002-C-5	Bayerische Hypo- und Vereinsbank	\$98,300,000	\$942,603
Series 2002-C-6	Société Générale, New York Branch	\$147,600,000	\$1,415,343
Series 2002-C-7	Regions Bank	\$49,100,000	\$470,822

Purchase of Tendered Warrants by the Bank

From time to time during the period prior to the expiration or earlier termination of the Standby Purchase Agreement (the "Purchase Period") each Bank will purchase Variable Rate Demand Warrants of its respective subseries (i) bearing interest at a Daily Rate or a Weekly Rate that have been optionally tendered for purchase pursuant to the Indenture under an optional tender but not remarketed or (ii) bearing interest at a Daily Rate or a Weekly Rate which are tendered pursuant to a mandatory tender under the Indenture and are not remarketed on the date specified for purchase (the "Purchase Date"). See "DESCRIPTION OF THE SERIES 2002-C WARRANTS--Mandatory Tender". The price to be paid by the Bank for such Variable Rate Demand Warrants will be equal to the aggregate principal amount of such Variable Rate Demand Warrants plus interest accrued thereon to but not including the Purchase Date calculated at the applicable interest rate for the Variable Rate Demand Warrants. The Bank's commitment with respect to interest shall be equal to 35 days' interest on the principal amount of Variable Rate Demand Warrants of such subseries outstanding (assuming an interest rate of 10% per annum).

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF A BANK TO PURCHASE VARIABLE RATE DEMAND WARRANTS OF ITS RESPECTIVE SUBSERIES TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED WITHOUT NOTICE. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE VARIABLE RATE DEMAND WARRANTS OF SUCH SUBSERIES TENDERED BY THE OWNERS THEREOF OR SUBJECT TO

MANDATORY PURCHASE. THE XL CAPITAL INSURANCE POLICY DOES NOT INSURE PAYMENT OF THE PURCHASE PRICE OF THE VARIABLE RATE DEMAND WARRANTS.

Events of Default and Remedies

The following constitute events of default under each Standby Purchase Agreement:

For purposes of this section, the following terms have the meanings ascribed to them:

"Bank Warrant" means each Variable Rate Demand Warrant purchased by the Bank pursuant to a Standby Purchase Agreement and held by or for the account of a Bank Warrantholder in accordance with the terms of such Standby Purchase Agreement, until purchased from or retained in accordance with such Standby Purchase Agreement or redeemed in accordance with such Standby Purchase Agreement or otherwise.

"Eligible Warrants" means any Variable Rate Demand Warrants of a subseries outstanding under and entitled to the benefits of the Indenture (other than any such Variable Rate Demand Warrant which (a) is a Bank Warrant, (b) is owned by or on behalf of or is held for the account or for the benefit of the County or any Affiliate of the County, or (c) is owned by or on behalf of or is held by the Tender Agent for the account or for the benefit of a purchaser of such Variable Rate Demand Warrants pursuant to the Indenture); and which (i) bear interest at a Daily Rate or a Weekly Rate and are optionally tendered or deemed tendered for purchase pursuant to the Indenture or (ii) bear interest at the Daily Rate or a Weekly Rate and are required to be tendered for purchase pursuant to the Indenture.

"Default" shall mean the occurrence of any event or the existence of any condition which constitutes an Event of Default and the occurrence of any event or the existence of any condition which, with the giving of notice, the passage of time, or both, would constitute an Event of Default.

"Event of Default" shall have the meaning described below.

"Insurer Event of Default" shall mean an Event of Default described in paragraph (a), (b)(i), (b)(iii), (c) or (d) below in the list of "Events of Default".

"Liquidity Agent" means JPMorgan Chase Bank, together with its permitted successors and assigns.

"Related Documents" means with respect to any subseries of Variable Rate Demand Warrants, the Standby Purchase Agreement, the Variable Rate Demand Warrants of such subseries, the Indenture, the Remarketing Agreement and the XL Capital Insurance Policy and any exhibits thereto, as the same may be amended from time to time in accordance with their respective terms and the terms of such Standby Purchase Agreement.

"Related Insurance Policy" means with respect to any subseries of Variable Rate Demand Warrants, any insurance policy issued by XL Capital which insures any swap or other interest rate hedge applicable to such subseries of Variable Rate Demand Warrants.

Each of the following events shall constitute an "Event of Default" under a Standby Purchase Agreement:

- (a) any principal or interest due on the respective subseries of Variable Rate Demand Warrants (including Bank Warrants) is not paid by the County when due and such principal or interest is not paid by XL Capital when, as, and in the amounts required to be paid pursuant to the

terms of the XL Capital Insurance Policy or the XL Capital Insurance Policy is surrendered, canceled, terminated, amended or modified in any material respect, or a new Insurer is substituted for XL Capital as the insurer of the Variable Rate Demand Warrants without the prior written consent of the Liquidity Agent; or

(b) (i) any material provision of the XL Capital Insurance Policy at any time for any reason ceases to be valid and binding on XL Capital in accordance with the terms of the XL Capital Insurance Policy or is declared to be null and void by a court or other governmental agency of appropriate jurisdiction, (ii) the validity or enforceability thereof is contested by XL Capital or any governmental agency or authority of appropriate jurisdiction, or (iii) XL Capital denies that it has any or further liability or obligation under the XL Capital Insurance Policy; or

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to XL Capital or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of 30 consecutive days or such court enters an order granting the relief sought in such proceeding or XL Capital shall institute or take any corporate action authorizing the institution of any such legal proceeding; or XL Capital shall become insolvent or unable to pay its debts as they mature or claims under any of its insurance policies as such claims are made, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of XL Capital or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(d) XL Capital shall default in any payment or payments of amounts payable by it under any municipal bond insurance policy or policies (other than the XL Capital Insurance Policy) or any financial guaranty insurance policy or policies (excluding any swap insurance policy other than a Related Insurance Policy), when due and such default shall continue for a period of 5 days (it being understood by the Bank that default, for the purposes of this paragraph, shall not mean a situation whereby XL Capital contests in good faith its liability under any such policy or policies in light of the claim or claims made thereunder); or

(e) Nonpayment of any facility fees payable under the Standby Purchase Agreement within five Business Days after the County has received notice from the Liquidity Agent that the same were not paid when due or nonpayment of any default interest under the Standby Purchase Agreement; or

(f) Nonpayment of any other amount when due under the Standby Purchase Agreement, if such failure to pay when due shall continue for five Business Days after written notice thereof to the County by the Liquidity Agent; or

(g) Any representation or warranty made by the County under or in connection with the Standby Purchase Agreement shall prove to be untrue in any material respect on the date as of which it was made; or

(h) The County shall have commenced a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy,

insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of its or any substantial part of its property; the County shall have consented to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it; the County shall have filed a petition seeking a composition of indebtedness or other protection as a debtor under the federal bankruptcy laws or under any other similar applicable law or statute of the United States of America or the State; the County shall have made a general assignment for the benefit of creditors; the County shall have failed generally to pay its debts as they become due; and the County shall have taken any action to authorize any of the foregoing; or an involuntary case or other proceeding shall have been commenced against the County seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, provided that, for so long as the federal bankruptcy laws do not provide for the commencement of an involuntary case or other proceeding against the County, any purported commencement of such an involuntary case or other proceeding against the County shall be deemed to constitute an involuntary case or other proceeding described in this clause (h) unless such involuntary case or other proceeding shall have been dismissed within 30 days of its purported commencement; and an order for relief shall have been entered against the County under the federal bankruptcy laws as now or hereafter in effect; or a moratorium shall have been declared or announced (whether or not in writing) with respect to any debt of the County by the County or the State (including, without limitation, any of the executive, legislative or judicial branches of government thereof) or any federal government agency or authority having jurisdiction over the County; or

(i) The County shall have failed to pay when due any amount (other than the Series 2002-C Warrants) payable under, or in respect of (including without limitation, premium) (i) any other Debt of the County payable from Pledged Revenues aggregating more than \$5,000,000 or (ii) any obligation owed to the Bank and payable from the Pledged Revenues, upon the expiration of any applicable notice or cure period; or

(j) The failure on the part of the County to perform or observe any other term, covenant or agreement contained in the Standby Purchase Agreement or any of the other Related Documents on its part to be performed or observed and (i) with respect to any such term, covenant or agreement contained herein, any such failure remains unremedied for 30 days; and (ii) with respect to any such term, covenant or agreement contained in any of the other Related Documents, any such failure remains unremedied after any applicable grace period specified in such Related Document; or

(k) Any of the Related Documents shall terminate or cease to be of full force and effect, other than as a result of any redemption or payment in full of the Variable Rate Demand Warrants; or

(l) The County shall have denied that it has any or any further obligation under the Series 2002-C Warrants or under the Standby Purchase Agreement, and any court, pursuant to a final judgment or order, shall have ruled or any governmental body, agency or official having jurisdiction over the County or over the transactions contemplated hereby or by any of the Related Documents, pursuant to an effective order or other proceeding, shall have determined that any of the payment obligations of the County under the Variable Rate Demand Warrants or under the Standby Purchase Agreement is not a valid and binding obligation or a moratorium shall have been declared with respect to the payment of any obligations of the County; or

(m) A final judgment or order for the payment of money in excess of \$5,000,000 shall have been rendered against the County, shall be payable from the Pledged Revenues, and such judgment or other order shall not have been satisfied, stayed or bonded pending appeal within a period of 60 days from the date on which it was first so rendered; or

(n) The long-term rating assigned to the County's sewer revenue obligations by Moody's shall be suspended, withdrawn or reduced below "Baa3" (or its equivalent) and the long-term rating assigned to the County's sewer revenue obligations by S&P shall be suspended, withdrawn or reduced below "BBB" (or its equivalent); or

(o) Either Moody's, S&P or Fitch shall have downgraded the long-term claims-paying ability of XL Capital to below Aa3, AA- or AA-, respectively or suspended or withdrawn its ratings on any claims paying ability of XL Capital; or

(p) An event of default or default occurs under any of the Related Documents; or

(q) XL Capital shall fail to make any payment or payments of amounts payable by it under any municipal bond insurance policy or policies (other than the XL Capital Insurance Policy) or any financial guaranty insurance policy or policies (excluding any swap insurance policy other than a Related Insurance Policy) when due and is disputing in good faith its liability under any such policy or policies in light of the claim or claims made thereunder.

If any Event of Default shall have occurred and be continuing under a Standby Purchase Agreement:

(a) In the case of an Insurer Event of Default, the available commitment and obligation of the Bank to purchase Eligible Warrants shall immediately terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase Eligible Warrants. Promptly after the Liquidity Agent receives written notice of such Insurer Event of Default, the Liquidity Agent shall give written notice of the same to the Trustee, the County, the Bank and the Remarketing Agent, provided that the Liquidity Agent shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Bank's available commitment and of its obligation to purchase Eligible Warrants pursuant to the Standby Purchase Agreement.

(b) In the case of any Event of Default under paragraph (e), (h), (i) (but only if the County is not contesting in good faith its liability for such Debt or obligation owed to the Bank), (k), (l) or (o) above, the Bank may terminate its available commitment by delivering a termination notice to the County, the Trustee, the Tender Agent, XL Capital and the Remarketing Agent, specifying the date on which at 2:00 p.m. New York City time the available commitment shall terminate (the "Termination Date"), which date shall be not less than 25 days from the date of receipt of such notice by the Trustee, and after the Termination Date, the Bank shall be under no further obligation to purchase Eligible Warrants under the Standby Purchase Agreement.

(c) In the case of an Event of Default specified in paragraph (b)(ii) above, the Bank may suspend its obligation to purchase Eligible Warrants under the Standby Purchase Agreement, effective immediately, upon written notice to the County, the Trustee, the Remarketing Agent and XL Capital until a final nonappealable order of court having jurisdiction in the premises shall be entered declaring that all material contested provisions of the XL Capital Insurance Policy are upheld in their entirety. In the event

such order is entered declaring any material provision of the XL Capital Insurance Policy null and void, or declaring that XL Capital does not have any further liability or obligation under the XL Capital Insurance Policy, then the Bank's obligation to purchase Eligible Warrants under the Standby Purchase Agreement shall immediately terminate. In the event such order is entered declaring that all material contested provisions of the XL Capital Insurance Policy are upheld in their entirety, the Bank's obligation under the Standby Purchase Agreement shall be automatically reinstated and the terms of the Standby Purchase Agreement will continue in full force and effect as if there had been no such suspension (unless the Standby Purchase Agreement shall otherwise have terminated by its terms or there has occurred and is continuing an Insurer Event of Default). Notwithstanding the foregoing, if, upon the expiration of the Purchase Period litigation is still pending and a judgment regarding the validity of the XL Capital Insurance Policy has not been obtained, then the available commitment and obligation of the Bank to purchase Eligible Warrants shall at such time terminate without notice or demand and thereafter, the Bank shall be under no obligation to purchase Eligible Warrants. Upon the occurrence and continuance of a Default as described above in (b)(ii), the Bank may suspend its respective obligations to purchase Eligible Warrants hereunder which are insured by XL Capital to which such event relates, upon written notice to the County, the Trustee and XL Capital until the proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the Bank's obligations under the Standby Purchase Agreement will continue in full force and effect (unless the Bank's obligation to purchase Eligible Warrants under the Standby Purchase Agreement shall otherwise have terminated or there has occurred an Insurer Event of Default) as if there had been no such suspension.

(d) Upon the occurrence of an Event of Default described under paragraphs (f), (g), (j), (m), (n), (p) or (q) above, the Bank shall have all remedies provided at law or equity, including, without limitation, specific performance; provided, however, that with respect to such defaults, the Bank shall not have the right to terminate its obligation to purchase Eligible Warrants, to declare any amount due under the Standby Purchase Agreement due and payable, or to accelerate the maturity date of any Variable Rate Demand Warrants of its respective subseries except as provided in the Standby Purchase Agreement and in the Indenture. This paragraph shall not limit the exercise of the Bank's other remedies.

(e) In the case of an Event of Default specified in paragraph (q) above, which Event of Default a Bank reasonably concludes could adversely affect XL Capital's ability to perform under the XL Capital Insurance Policy, a Bank may suspend its obligation to purchase Eligible Warrants under the Standby Purchase Agreement, effective immediately, upon written notice to the County, the Trustee, the Remarketing Agent and XL Capital. If a court or other ruling body of competent jurisdiction rules against XL Capital and XL Capital fails to comply in any respect with, or appeal in good faith, such adverse ruling, such suspension shall immediately become a permanent termination of the Bank's obligation to purchase Eligible Warrants under the Standby Purchase Agreement. If a court or other ruling body of competent jurisdiction either (i) rules in favor of XL Capital or (ii) rules against XL Capital and XL Capital complies in all respects with the terms of such ruling, the Bank's obligation to purchase Eligible Warrants under the Standby Purchase Agreement shall be automatically reinstated and the terms of Standby Purchase Agreement will continue in full force and effect as if there had been no such suspension (unless the Standby Purchase Agreement shall otherwise

have terminated by its terms or there has occurred and is continuing an Insurer Event of Default). Notwithstanding the foregoing, if, upon the expiration of the purchase period, the dispute regarding XL Capital's obligation to make payment under the municipal bond or financial guaranty insurance policy being disputed is not resolved, then the available commitment and obligation of the Bank to purchase Eligible Warrants shall at such time terminate without notice or demand and thereafter, the Bank shall be under no obligation to purchase Eligible Warrants. If during any such suspension period, an Event of Default described under paragraph (e), (h), (i) (but only if the County is not contesting in good faith its liability for such Debt or obligation owed to the Bank), (k), (l) or (o) above occurs and the Bank exercises its right to terminate its obligation to purchase Eligible Warrants on 25 days' notice pursuant to the terms of the Standby Purchase Agreement, the Bank's purchase obligation shall be reinstated during such notice period.

(f) In addition to the rights and remedies set forth in paragraphs (a), (b), (c), (d) and (e) above, in the case of any Event of Default described above, upon the election of the Bank: (i) all amounts payable under the Standby Purchase Agreement to the Bank shall upon notice to the County become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the County; and/or (ii) the Bank shall have all the rights and remedies available to it under the Standby Purchase Agreement, the Related Documents, the XL Capital Insurance Policy or otherwise pursuant to law or equity.

Extension, Reduction, Adjustment or Termination of the Standby Purchase Agreement

Upon any redemption, repayment or other payment of all or any portion of the principal amount of the Series 2002-C Warrants, each Bank's purchase commitment under the Standby Purchase Agreement with respect to principal of and interest on Series 2002-C Warrants shall automatically be reduced proportionally by the principal amount of the Series 2002-C Warrants so redeemed, repaid or otherwise paid, as the case may be.

The renewal or extension of each Standby Purchase Agreement is subject to agreement by the Liquidity Agent, the Bank and the County. No Bank has an obligation to extend or renew its respective Standby Purchase Agreement beyond its initial term. The County has the right under certain circumstances to terminate the Standby Purchase Agreement.

Alternate Liquidity Facility

The Indenture provides that, under certain circumstances, an Alternate Liquidity Facility may be substituted for any of the existing Liquidity Facility represented by the Standby Purchase Agreements, which comprise the initial Liquidity Facility. See "DESCRIPTION OF THE SERIES 2002-C WARRANTS – Support Facilities – Liquidity Facility".

THE BANKS

Each Bank described below will enter into a separate but identical (other than with respect to the amount of the available commitment) Standby Purchase Agreement with respect to a subseries of Variable Rate Demand Warrants. See "STANDBY PURCHASE AGREEMENTS FOR THE VARIABLE RATE DEMAND WARRANTS". The information set forth below has been provided by each Bank. The delivery of this Official Statement shall not create any implication that there will be no change in the affairs of any of the respective Banks after the date hereof, or that the information contained or referred to in this section of this Official Statement is correct as of any time subsequent to its date.

The County has not independently verified any financial information furnished by the Banks nor has it made an independent determination of the financial position of the Banks, determined whether the Banks are or will be financially capable of fulfilling their respective obligations under the Standby Purchase Agreements, nor ascertained the correctness, accuracy, or completeness of such information. There can be no assurance that such information is indicative of the future financial performance or financial condition of the Banks.

Series 2002-C-2 Warrants: JPMorgan Chase Bank

JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. JPMorgan Chase Bank resulted from the merger on November 10, 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of June 30, 2002, JPMorgan Chase Bank had total assets of \$581.4 billion, total net loans of \$176.6 billion, total deposits of \$287.8 billion, and total stockholder's equity of \$35.1 billion. As of December 31, 2001, JPMorgan Chase Bank had total assets of \$537.8 billion, total net loans of \$174.9 billion, total deposits of \$280.5 billion, and total stockholder's equity of \$33.3 billion.

Additional information, including the most recent Form 10-K for the year ended December 31, 2001 of J.P. Morgan Chase & Co. (formerly known as "The Chase Manhattan Corporation"), the 2001 Annual Report of J.P. Morgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by J.P. Morgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, J.P. Morgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in this subsection entitled "Series 2002-C-2 Warrants: JPMorgan Chase Bank" relates to and has been obtained from JPMorgan Chase Bank. This data has been taken from the Consolidated Reports of Condition and Income filed with the Board of Governors of the U.S. Federal Reserve System compiled in accordance with regulatory accounting principles. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date hereof, or that the information contained or referred to in this section entitled "Series 2002-C-2 Warrants: JPMorgan Chase Bank" is correct as of any time subsequent to its date.

Series 2002-C-3 Warrants: Bank of America, N.A.

Bank of America, N.A., is a national banking association organized under the laws of the United States, and its principal executive offices are located in Charlotte, North Carolina. Bank of America, N.A., is a wholly owned indirect subsidiary of Bank of America Corporation and is engaged in general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2002, Bank of America, N.A., had consolidated assets of \$562 billion, consolidated deposits of \$375 billion and stockholder's equity of \$50 billion based on regulatory accounting principles.

Bank of America Corporation is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding Bank of America Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2001, together with any subsequent

documents it filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Standby Purchase Agreement with respect to the Series 2002-C-3 Warrants has been issued by Bank of America, N.A. Moody's Investors Service, Inc. ("Moody's") currently rates Bank of America, N.A., long-term certificates of deposit as "Aa1" and short-term certificates of deposit as "P-1". Standard & Poor's Rating Services ("Standard & Poor's") rates Bank of America, N.A.'s long-term certificates of deposit as "AA-" and its short-term certificates of deposit as "A-1+". Fitch, Inc. ("Fitch") rates long-term certificates of deposit of Bank of America, N.A., as "AA" and short-term certificates of deposit as "F-1+." Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of Bank of America, N.A.'s instruments will be maintained.

Bank of America, N.A, will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Commission pursuant to the Exchange Act), and the most recent publicly available portions of the quarterly Call Reports of Bank of America, N.A., delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

Series 2002-C-4 Warrants: The Bank of Nova Scotia

The Bank of Nova Scotia ("Scotiabank") was founded in 1832 in Halifax and currently employs 46,804 people in 2,005 branches and offices throughout the world. Scotiabank is a Canadian chartered bank with its principal office located in Toronto, Ontario.

Scotiabank's activities include providing a full range of retail, commercial and corporate banking services through its extensive network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and/or associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2001, Scotiabank recorded total assets of CDN\$284.4 billion (US\$180.2 billion) and total deposits of CDN\$186.2 billion (US\$118.0 billion). Net income for the fiscal year ended October 31, 2001 equaled CDN\$2.169 billion (US\$1.374 billion), compared to CDN\$1.926 billion (US\$1.220 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2001 (1.0000 United States dollar equals 1.5785 Canadian dollars).

For the quarter ended July 31, 2002, Scotiabank recorded total assets of CDN\$299.7 billion (US\$189.2 billion) and total deposits of CDN\$197.5 billion (US\$124.6 billion). Net income for the quarter ended July 31, 2002 equaled CDN\$564 million (US\$356 million), compared to CDN\$554 million (US\$349.7 million) for the same period the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of July 31, 2002 (1.0000 United States dollar equals 1.5840 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26th Floor, New York, NY, 10006. Attention: Public Finance Department.

Series 2002-C-5 Warrants: Bayerische Hypo- und Vereinsbank AG, New York Branch

Bayerische Hypo- und Vereinsbank AG (“HypoVereinsbank”) together with its consolidated subsidiaries (the “HypoVereinsbank Group”) is the second largest bank in Germany and one of the largest financial institutions in Europe, as measured by total assets of €728.2 billion as of December 31, 2001.

The HypoVereinsbank Group had net interest income of €7.331 million for the year ended December 31, 2001. For the same period, the consolidated profit of the HypoVereinsbank Group was €457 million. The accounting principles applied in the preparation of the HypoVereinsbank Group’s financial statement (and therefore reflected herein) comply with the IAS International Accounting Standards. Certain of these standards differ from generally accepted accounting principles in the United States.

The HVB Group is one of the three biggest banks in Europe. It enjoys a leading position in the economic hub of Germany, Austria and Central and Eastern Europe, a market of some 160 million people. The HVB Group also has offices at all the world’s major financial centers.

HypoVereinsbank’s registered address is: Am Tucherpark 16, 80538 Munich, Germany. For a copy of the Annual Report of the HypoVereinsbank Group, please contact HypoVereinsbank, New York Branch, 150 E. 42nd Street, New York, NY 10017, (212) 672-6000.

HypoVereinsbank has supplied the information relating to it in the previous paragraphs. HypoVereinsbank does not accept responsibility for any information contained in the Preliminary Official Statement or the Official Statement other than the information supplied immediately above under the caption “Series 2002-C-7 Warrants: Bayerische Hypo- und Vereinsbank AG”.

Note: 1 Euro = \$0.8855 as of 12/28/01

Series 2002-C-6 Warrants: Société Générale, New York Branch

Société Générale, New York Branch is a licensed New York branch of Société Générale, a French banking corporation. The executive offices of Société Générale, New York Branch are located at 1221 Avenue of the Americas, 6th Floor, New York, New York 10020, Telephone (212) 278-6000.

Société Générale (“SocGén”) is a French banking corporation and the most important constituent entity of the Société Générale Group (the “Group”). The Group is an international banking and financial services group based in France that includes approximately 300 French and foreign banking and non-banking companies. The Group also holds (for investment) minority interests in industrial and commercial companies. In this Official Statement, the term “SocGén” refers to Société Générale (the parent company) only and the term “Group” refers to Société Générale and its domestic and foreign subsidiaries and affiliates which are consolidated in full or under the equity method.

SocGén was originally incorporated in 1864 and was nationalized along with other major French commercial banks in 1945. In July 1987, SocGén was returned to the private sector through offerings of shares in France and abroad. SocGén and other French financial institutions of the Group are subject to laws and regulations which are applicable generally to financial institutions doing business in the relevant

jurisdictions and which cover such matters as liquidity and asset coverage, reserve requirements, risk diversification and limitations on equity investments in non-financial companies, all of which require compliance with numerous reporting and accounting requirements.

The Group is engaged in a broad range of banking and financial services activities, including deposit-taking, lending and leasing, securities brokerage services, investment management, investment banking, capital markets activities and foreign exchange transactions. The Group's customers are served by its extensive network of domestic and international branches, agencies and other offices, which at December 31, 2001 consisted of approximately 2,600 offices in France and approximately 500 offices in 75 foreign countries.

The registered office of SocGén is 29, Boulevard Haussmann, 75009 Paris, France. Its headquarters are at Tour Société Générale, 92987 Paris, La Défense Cedex, France. Its telephone number is 42 14 20 00.

The Group has had operations in the United States since 1940. SocGén maintains offices in New York, Chicago, Dallas, Greenwich (CT), Houston, San Francisco, Boston, Cleveland and Denver. The Group also conducts business in the United States through a number of subsidiaries.

At December 31, 2001, the Group had total consolidated assets of 512.5 billion Euros and total consolidated shareholders' equity of 15.8 billion Euros, and SocGén had total consolidated assets of 412.0 billion Euros and total consolidated shareholders' equity of 13.5 billion Euros. At December 31, 2001, the buying rate expressed in U.S. dollars per Euro was .8813 U.S. dollars.

The foregoing financial figures have been derived from, and are qualified by reference to, the Group's audited consolidated financial statements and notes (including note 1 which contains a discussion of the significant accounting principles applied) and SocGén's audited financial statements and notes (including note 1 which contains a discussion of the significant accounting principles applied) that are contained in the Group's 2001 Annual Report (the "Annual Report"). Such financial statements are prepared in accordance with French generally accepted accounting principles, which differ in certain significant respects from generally accepted accounting principles in the United States.

Copies of the English version of the Annual Report (translated in full from the underlying French document) will be mailed to each person to whom this Official Statement is delivered, upon written request mailed to Société Générale, New York Branch, 1221 Avenue of the Americas, New York, New York 10020, Attention: Corporate Communications Department.

Series 2002-C-7 Warrants: Regions Bank

Regions Bank, is a wholly-owned subsidiary of Regions Financial Corporation ("Regions"), Alabama's first multi-bank holding company. Regions also offers securities brokerage services through its subsidiary, Morgan Keegan & Company, Inc. and mortgage banking services and credit-related insurance through its subsidiary, Regions Mortgage, Inc. Regions Bank comprises a substantial portion of the assets of Regions. Regions, through its subsidiary banks, operates over 670 banking offices located throughout Alabama, Arkansas, Florida, Georgia, Louisiana, South Carolina, Tennessee, and Texas offering traditional banking services. Regions Bank has principal offices in Alabama located in Birmingham, Montgomery, Mobile, Huntsville, Tuscaloosa and Dothan. Regions Bank is a commercial bank offering a wide range of banking services to its customers. Regions Bank is an Alabama banking corporation, and its business is subject to examination and regulation by state and federal banking authorities. As of June 30, 2002, Regions Bank has total assets of approximately \$42,994,419,000. As of June 30, 2002, Regions Bank had total deposits of approximately \$31,709,357,000. Total loans net of

unearned income as of that date were approximately \$30,994,136,000. As of June 30, 2002, stockholders' equity totaled approximately \$3,419,213,000.

Regions is a publicly held company and is required to file various reports with the Securities and Exchange Commission ("SEC"). Copies of such reports may be obtained by contacting the SEC. In addition, Regions' annual report to shareholders and Form 10-K filed with the SEC will be provided without charge to each person to whom this Official Statement is delivered, on the written request of any such person to: Ronald C. Jackson, Vice President and Director of Investor Relations, Regions Financial Corporation, Post Office Box 10247, Birmingham, Alabama 120202-0247. A copy of Regions Bank's Annual Report of Disclosure may be obtained from the same source.

ALTHOUGH REGIONS BANK ACCOUNTS FOR A SUBSTANTIAL PORTION OF THE ASSETS AND INCOME OF REGIONS FINANCIAL CORPORATION, REGIONS FINANCIAL CORPORATION HAS NO OBLIGATION WITH RESPECT TO THE STANDBY PURCHASE AGREEMENT.

THE PLAN OF FINANCING

Advance Refunding

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 aggregating \$724,600,000 in principal amount (the "Refunded Warrants"), and pay the costs of issuance of the Series 2002-C Warrants. Simultaneously with the issuance of the Series 2002-C Warrants, the County and the Trustee will enter into an Escrow Trust Agreement dated October 1, 2002 (the "Escrow Agreement"). Pursuant to the Escrow Agreement, the County will deposit the net proceeds of the Series 2002-C Warrants into an escrow fund and will apply such proceeds to the purchase of certain U.S. government securities (the "Escrow Securities"). The principal of and interest on the Escrow Securities will be sufficient to pay debt service on the Refunded Warrants from February 1, 2003 until and including February 1, 2011, and the redemption price of Refunded Warrants that will be called for redemption on February 1 in the years 2007, 2009 and 2011.

The Refunded Warrants will consist of the following portions of the principal amounts maturing or subject to mandatory redemption in the years indicated for each series:

Maturity (2/1)	Series		
	1997-D	1999-A	2001-A
2022	\$28,000,000		
2023	27,055,000		
2024	28,650,000		
2025	30,450,000		
2026	32,250,000		
2027	34,250,000		
2028			
2029			\$2,410,000
2030			2,550,000
2031			2,695,000
2032			
2033			
2034		\$79,705,000	
2035		84,105,000	3,305,000
2036		88,750,000	3,490,000
2037		93,835,000	3,690,000
2038		99,390,000	3,900,000
2039			4,120,000
2040			72,000,000

Fixed Payer Swap Transactions

In connection with the issuance of the Series 2002-C Warrants, the County will enter into interest rate swap transactions with JPMorgan Chase Bank, Bank of America, N.A. and Lehman Brothers Special Financing Inc. (together, the "Counterparties") with an aggregate notional amount equal to the par amount of the Series 2002-C Warrants (the "Fixed Payer Swap Transactions"). Under the Fixed Payer Swap Transactions, the County (a) will be obligated to make semiannual fixed payments to the Counterparties calculated by reference to the applicable notional amount and a fixed rate of 3.92% and (b) will be entitled to receive monthly floating payments from the Counterparties calculated by reference to the same notional amount and 67% of one-month LIBOR. The Fixed Payer Swap Transactions will have a termination date of February 1, 2040. Upon an early termination of the Fixed Payer Swap Transactions, the County may owe a termination payment to the Counterparties or vice-versa. The County expects that the payments that the County will receive pursuant to the Fixed Payer Swap Transactions will approximate (both in amount and date of payment) the payments of interest due on the Series 2002-C Warrants. The Fixed Payer Swap Transactions will be Qualified Swaps and Secured Related Obligations for purposes of the Indenture.

SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of funds for the plan of financing with respect to the issuance of the Series 2002-C Warrants. Amounts in this table have been rounded to the nearest whole dollar.

Sources of Funds

Principal amount of Series 2002-C Warrants	\$839,500,000
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TOTAL SOURCES

Uses of Funds

Deposit to Escrow Fund	\$825,919,397
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Issuance expenses (including underwriting discount, bond insurance premium, liquidity facility fees, legal fees, printing costs, Trustee acceptance, CUSIP services and miscellaneous)	<u>13,580,603</u>
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TOTAL USES	<u>\$839,500,000</u>
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DEBT SERVICE REQUIREMENTS AND COVERAGE

The following table presents the actual debt service requirements on the Outstanding Sewer Revenue Indebtedness after giving effect to the Plan of Financing, which will be the only indebtedness of the County secured by Pledged Revenues after the Series 2002-C Warrants are issued.

Fiscal Year Ending September 30	Series 2002-C Warrants ⁽¹⁾		Outstanding Sewer Revenue Indebtedness (other than Series 2002-C Warrants) ⁽²⁾	Total Debt Service
	Principal	Interest		
2003		\$25,229,773	\$94,164,329	\$119,394,102
2004		32,908,400	85,259,734	118,168,134
2005		32,908,400	90,982,984	123,891,384
2006		32,908,400	88,542,468	121,450,868
2007	\$ 2,700,000	32,855,480	85,545,815	121,101,295
2008	2,800,000	32,747,680	85,544,253	121,091,933
2009	3,000,000	32,634,000	85,546,003	121,180,003
2010	3,100,000	32,514,440	85,545,953	121,160,393
2011	3,200,000	32,390,960	85,544,103	121,135,063
2012	3,400,000	32,261,600	85,545,340	121,206,940
2013	3,600,000	32,124,400	85,546,828	121,271,228
2014	3,700,000	31,981,320	85,543,328	121,224,648
2015	3,900,000	31,832,360	85,547,078	121,279,438
2016	4,000,000	31,677,520	85,547,828	121,225,348
2017	4,200,000	31,516,800	111,559,325	147,276,125
2018	4,400,000	31,348,240	112,932,673	148,680,913
2019	4,600,000	31,171,840	114,353,391	150,125,231
2020	4,700,000	30,989,560	115,915,195	151,604,755
2021	5,000,000	30,799,440	114,125,209	149,924,649
2022	33,200,000	30,050,720	92,391,953	155,642,673
2023	32,100,000	28,770,840	94,544,094	155,414,934
2024	33,250,000	27,489,980	96,878,388	157,618,368
2025	34,800,000	26,156,200	99,452,903	160,409,103
2026	36,300,000	24,762,640	102,277,772	163,340,412
2027	37,900,000	23,308,320	105,380,709	166,589,029
2028	3,600,000	22,494,920	125,271,750	151,366,670
2029	6,100,000	22,304,800	122,925,078	151,329,878
2030	6,400,000	22,059,800	122,920,381	151,380,181
2031	6,700,000	21,803,040	122,920,631	151,423,671
2032	4,200,000	21,589,400	125,688,631	151,478,031
2033	4,300,000	21,422,800	125,691,881	151,414,681
2034	83,800,000	19,696,040	48,127,131	151,623,171
2035	90,900,000	16,271,920	44,913,756	152,085,676
2036	94,600,000	12,636,120	44,913,756	152,149,876
2037	98,750,000	8,846,460	44,913,756	152,510,216
2038	103,000,000	4,892,160	140,029,006	247,921,166
2039	2,950,000	2,815,540	242,274,672	248,040,212
2040	70,350,000	1,378,860	163,864,088	235,592,948
2041			237,843,147	237,843,147
2042			235,001,603	235,001,603

(1) The County will enter into variable-to-fixed interest rate swap transactions referable to the Series 2002-C Warrants. See "THE PLAN OF FINANCING". For purposes of the foregoing table, interest on the Series 2002-C Warrants has been calculated on the basis of the fixed rate (3.92%) that will determine the amounts payable by the County under such 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. See "OUTSTANDING DEBT – Outstanding Swap Transactions". 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.

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. An additional automatic annual increase under the Rate Ordinance raised the sewer service charge to \$3.53 effective January 1, 2002.

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:

<u>Fiscal Year Ended September 30</u>	<u>Excess of Revenues over Expenditures (000's)</u>	<u>Net Revenues Available for Debt Service (unaudited)¹</u>	<u>Current Year Debt Service (000's)</u>	<u>Current Year Debt Service Coverage Ratio²</u>
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

¹Net Revenues Available for Debt Service calculated pursuant to the Indenture excludes certain items that are included in excess of revenues over expenditures. See Appendix A for definition of Net Revenue Available for Debt Service.

²Ratio produced by dividing Current Year Debt Service into Net Revenues Available for Debt Service.

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 2002-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, 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 Warranholders and may be modified at any time by the Commission at its sole discretion.

The automatic rate increases under the Rate Ordinance have been implemented five times, resulting in rate increases effective January 1 in the years 1998, 1999, 2000, 2001 and 2002. 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 a standby warrant purchase agreement pursuant to its rights described in the preceding paragraphs. See "OUTSTANDING DEBT - Outstanding Swap Transactions." Also, the obligations of the County under the Standby Purchase Agreements will constitute Secured Related Obligations.

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 began in late 1996.

The total estimated cost of the remedial plan is approximately \$1.971 billion. Between fiscal year 1996 and fiscal year 2002, approximately \$1.062 billion had been expended under this plan, leaving approximately \$909 million to be expended in future years. As of August 1, 2002, approximately \$650.29 million of these costs were under contract. See "JEFFERSON COUNTY SEWER SYSTEM -- Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures to comply with the Consent Decree.

Clean Water Act Compliance

The County has undertaken a number of projects that, while not required by the Consent Decree, are necessary for compliance with the Clean Water Act. Approximately \$173 million was spent on Clean Water Act compliance projects between fiscal years 1996 and 2002, leaving approximately \$409 million in projects to be funded through fiscal year 2007. As of August 1, 2002, approximately \$156.63 million of these costs was under contract. See "JEFFERSON COUNTY SEWER SYSTEM -- Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures for the County's Clean Water Act compliance efforts.

Ongoing Sewer Improvement Program

In addition to the capital improvement program necessitated by the Consent Decree and to Clean Water Act compliance efforts, the County has an ongoing sewer improvement program. Approximately \$174 million was spent on such projects between fiscal years 1996 and 2002. The County estimates that an additional \$441 million will be spent on this portion of the capital improvement program through fiscal year 2007. As of August 1, 2002, approximately \$85.02 million of these costs was under contract. See "JEFFERSON COUNTY SEWER SYSTEM -- Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures for the County's ongoing capital improvement program.

Sources of Funding

The County expects that the remaining costs of the remedial plan, Clean Water Act compliance and the ongoing capital improvement program will be funded from remaining proceeds of the Series

2002-A Warrants and Series 2002-B Warrants and future borrowings. The estimated future costs and sources of funding are summarized in the following table:

Future Costs

	(in millions)
Remaining costs of the remedial plan (from beginning of current fiscal year through completion)	\$909.0
Clean Water Act compliance	409.0
Ongoing capital improvement program through the fiscal year ending September 30, 2007	<u>441.0</u>
TOTAL	<u>\$1,759.0</u>

Sources of Funding

Remaining proceeds of Series 2001-A Warrants (as of July 21, 2002)	2.0
Remaining proceeds of Series 2002-A Warrants (as of July 21, 2002)	109.0
Remaining proceeds of Series 2002-B Warrants	450.0
Proceeds of future borrowings	<u>1,198.0</u>
TOTAL	<u>\$1,759.0</u>

The County expects that available proceeds of the Series 2002-A Warrants and Series 2002-B Warrants will be sufficient to pay costs of the combined program through August 2003. The County expects to borrow again for the combined capital improvement program in this calendar year. However, the timing of any additional borrowing 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 cash reserves to cover costs in excess of available Series 2002-A Warrants and Series 2002-B Warrant proceeds until an additional borrowing can be completed.

Revenue Forecast

In accordance with the Indenture, the County's consulting engineer, Paul B. Krebs & Associates, Inc., Birmingham, Alabama, prepared a Revenue Forecast in connection with the issuance of the Series 2002-B Warrants, which were issued on September 30, 2002. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Additional Debt". This Revenue Forecast projected that a significant rate increase would result under the County's automatic rate adjustment ordinance in order to pay the required debt service on the Series 2002-B Warrants. A copy of such Revenue Forecast is available from the County upon request. No Revenue Forecast is required under the Indenture in connection with the issuance of the Series 2002-C Warrants because the issuance of the Series 2002-C Warrants will result in no increase in Maximum Annual Debt Service or total debt service on Outstanding Sewer Revenue Indebtedness. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Additional Debt – Restrictions on Additional

Debt". However, if the County incurs additional indebtedness in connection with its capital improvement program, the County expects that sewer rates will have to be increased in order to pay the debt service on any such additional borrowings.

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 bonds 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.

Generally, areas of future growth are expected to concentrate along the major transportation corridors radiating outward from the center of the Birmingham area. Growth characteristics and potentials of the area major corridors are summarized in the following paragraphs.

Interstate 65 and U. S. Highway 31 South — One of the strongest growth corridors in the urban area is formed by Interstate 65 and U. S. Highway 31 South. The combination of a limited access facility with a roughly parallel highway providing access to adjoining property greatly strengthens the development of this corridor. Where this corridor passes south from Red Mountain, it is further strengthened by other parallel routes including the Green Springs Highway and the Elton B. Stephens Expressway, which passes through the centers of Homewood, Vestavia Hills and Hoover. While the relatively rugged terrain in this corridor forces development into low density patterns, it also hinders the development of minor arterial routes that could relieve traffic on major arteries. This has forced most commercial development to locations along U. S. Highway 31.

Interstate 459 — This southern beltway connecting Interstate 20 and Interstate 59 has attracted substantial commercial and residential development. With the construction of sewers, major development has occurred where I-459 interchanges with I-59 North, U. S. Highway 280 East, Acton Road, U. S. Highway 31 South, Highway 150, Morgan Road and I-59 South. It is expected that further development along this corridor should continue to increase based on sewer availability.

Interstate 59 and U. S. Highway 11 South — Extending southwest from Bessemer, this corridor is strengthened by a mainline of the Norfolk Southern Railroad and U. S. Highway 11. Relatively level land along this corridor offers potential for a development pattern which includes housing, commercial and public services. The Jefferson County Economic and Industrial Development Authority has recently developed an industrial park in this area. The location of the Mercedes Benz assembly plant in nearby Vance in Tuscaloosa County has greatly increased demand for sewer services in the area.

U. S. Highway 78 West — This corridor runs northwest from the central Birmingham area through Forestdale, Westwood, Adamsville and Graysville. It passes through the rugged terrain of the Warrior River Basin. The completion in 1990 of the Prudes Creek Treatment Plant in the Graysville/Adamsville area has contributed to the growth of this corridor. Recent growth in this area is projected to continue with the extension of Corridor X from Memphis to Birmingham. Corridor X is a project intended to replace existing U.S. Highway 78 with a limited access expressway from Memphis to Birmingham.

Interstate 65 and U.S. Highway 31 North — This corridor passes north from the central Birmingham area through Fultondale and Gardendale. The completion of I-65 north from downtown Birmingham through Gardendale has greatly strengthened the development potential of this corridor by permitting U. S. Highway 31 to function as a high capacity service road while through traffic uses the interstate. Recent construction of sewers located at the Fieldstown Road Interchange has provided for major development.

State Highways 75 and 79 — These two highways form a broad corridor beginning in the northeastern section of Birmingham and following a wide path to the northeast through Tarrant City, Center Point and Pinson. Highway 79 connects Tarrant City to Pinson through the Pinson Valley north to Bradford. Highway 75 follows a somewhat parallel course to the east, connecting the Woodlawn area, through Center Point and Pinson, to Palmerdale. Only small portions of this corridor are held in large tracts for mineral reserves, and significant amounts of buildable land remain available. The industrial potential of the Pinson Valley portion of this corridor is enhanced by a main line of the CSX Railroad which parallels Highway 79 leaving sufficient width for good industrial sites. Recent development has occurred due to the construction of a sanitary sewer trunk in the Pinson area.

Interstate 59 and U. S. Highway 11 East — This corridor begins in Huffman and extends east through a gap in Red Mountain, then northeast through Trussville and Argo. Recent completion of the Deerfoot Parkway has further stimulated large residential development in this area. East of Red Mountain land bordering the corridor is generally characterized by rough terrain and low lying flood plains. The construction of the Trussville Industrial Park Collection System and Pinchgut Creek Trunk Sewer has spurred interest for continued development along U. S. Highway 11 in the Trussville area.

Interstate 20 and U. S. Highway 78 East — This corridor will have the transportation facilities essential for strong corridor development, but such development will be severely limited by rugged terrain and large mineral land holdings. The corridor extends east from Irondale to Leeds, crossing the Cahaba River. It is paralleled by a main line of the Norfolk Southern Railway which provides some industrial potential. Most urban development will be limited to portions of the corridor lying west of the Cahaba River and in the immediate Leeds area. Significant commercial and residential developments are currently underway in Leeds.

U. S. Highway 280 East — This corridor experienced limited development pressure during the 1970's. However, major changes have taken place in recent years. With the completion of Interstate 459, which now provides access to this area from north and south, the corridor has attracted major office and retail development. Further growth in the corridor appears likely to continue.

Lakeshore Extension — This corridor begins in Homewood near Interstate 65, extends southwesterly through the Oxmoor Valley toward Highway 150 near Morgan Road and will connect to Interstate 459. Significant residential, office, research, and retail development is underway in this area. Additional sewers are planned at the Interstate 459 interchange.

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 design 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 design 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.

Cahaba River Wastewater Treatment Plant. The Cahaba River Plant is located in Hoover just downstream of the I65 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 12 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 design 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 design for expansion to accommodate growth within the service area of this plant.

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 design for expansion to accommodate growth in the service area.

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, 2002, the effective charge for sewer service in the County became \$3.53 per 100 cubic feet of water consumed, an increase from the rate of \$3.01 which had become effective on April 1, 2001. 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 system development charge of \$100.00 for each new plumbing fixture added to the System.

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

<u>Rate Increase Date</u>	<u>Per 100 Cubic Feet</u>	<u>Average Residential Bill¹</u>	<u>Average Comparative Rates²</u>
January 1, 2002	\$3.53	\$30.01	NA
April 1, 2001	3.01	25.59	NA
January 1, 2001	2.74	23.29	\$21.80
January 1, 2000	2.48	21.08	NA
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

¹The 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.

²Sources: Raftelis Environmental Consulting Group, Inc., *Raftelis Environmental Consulting Group 1996, 1998 and 2000 Water and Wastewater Rate Survey*, Charlotte, N.C.; and Ernst & Young, 1994 Rate Survey.

The County expects that a significant increase in sewer rates 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. See "CAPITAL IMPROVEMENT PROGRAM – Revenue Forecast". 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 at various points during calendar year 2001. Other than the charges referable to the County, the following charges have been extracted from a rate study conducted by Raftelis Environmental Consulting Group.

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**Residential Sewer Charge Comparisons
Per 1000 Cubic Feet of Water Metered**

Charleston SC	\$42.16
Richmond, VA	33.45
Asheville, NC	33.00
Jacksonville, FL	32.40
Austin, TX	31.69
Tampa, FL	31.49
Knoxville, TN	29.66
Greenville, SC	27.96
Greenville, NC	26.96
Jefferson Co., AL	25.59
Spartanburg, SC	24.95
High Point, NC	23.60
Dallas, TX	23.59
Baton Rouge, LA	22.94
Mobile, AL	22.89
Miami, FL	22.12
All Systems	21.80
Charlotte, NC	21.55
Cleveland, OH	21.10
Augusta, GA	20.16
Tulsa, OK	18.95
Greensboro, NC	18.00
Anniston, AL	11.70
Memphis, TN	4.39

Note: The information shown is for calendar year 2001. Jefferson County's average residential sewer charge for calendar year 2002 is \$30.01.

Source: Raftelis Environmental Consulting Group, Inc., *Raftelis Environmental Consulting Group 2002 Water and Wastewater Rate Survey*, Charlotte, N.C.

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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 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.
2. To comply with current stringent stream standards sufficiently to prevent future moratoriums.
3. To accommodate some areas of the County which have been without sewer systems and that show an imminent need.
4. To achieve compliance with the Consent Decree. See "LITIGATION -Consent Decree".

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.

Between October 1, 2000 and September 30, 2002, the County spent approximately \$951 million on various consent decree and ongoing capital sewer improvement projects. The County expects that it will spend in excess of \$1.5 billion on capital expenditures for sewer purposes between October 1, 2002 and September 30, 2005. The following table sets forth the amount 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**

<u>Period</u>	<u>Consent Decree Projects (millions)</u>	<u>Clean Water Act Compliance (millions)</u>	<u>Ongoing Capital Improvements (millions)</u>	<u>Total Expenditures (millions)</u>
10/1/97 through 9/30/02	\$1,062	\$173	\$174	\$1,409
10/1/02 through 9/30/03	323	77	50	450
10/1/03 through 9/30/04	291	113	166	570
10/1/04 and thereafter	<u>295</u> ¹	<u>219</u> ²	<u>225</u>	<u>739</u>
TOTALS	<u>\$1,971</u>	<u>\$582</u>	<u>\$615</u>	<u>\$3,168</u>

¹ Includes projected expenditures for fiscal years 2006 and 2007 plus anticipated but not yet identified rehabilitation projects required to comply with Consent Decree.

² Includes projected expenditures for fiscal years 2006 and 2007.

Although the foregoing table reflects the County's best estimates based on current plans of the Environmental Services Department for constructing improvements to the System, the County may modify its plans by eliminating or delaying certain projects or by altering the order in which the foregoing projects are undertaken. No assurance can be given that the amounts shown 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, 2001, the revenues derived from the Sewer Tax were approximately \$3.8 million and it is expected that the annual revenues from such tax will continue to approximate that amount.

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RESULTS OF OPERATIONS

This section of the Official Statement 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 five fiscal years.

	Fiscal Year Ended September 30				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Active Accounts	142,305	142,277	142,042	141,606	140,324
Avg. daily treatment volume (millions of gallons treated)	116	97	114	116	not available
Sewer Rate Charges (in thousands)	\$70,560	\$68,268	\$60,705	\$49,532	\$46,951
% Revenues - Largest Customer	2.66%	2.57%	2.93%	2.91%	2.92%
% Revenues - Top 10 Customers	12.53%	11.99%	11.62%	12.35%	10.37%

Source: Jefferson County

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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				
	<u>2002</u> (unaudited)	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Revenues</u>					
Sewer Rate Charges	\$82,859,048	\$70,560,676	\$68,267,995	\$60,705,297	\$49,531,824
Other Operating Revenue	6,542,583	6,491,136	6,776,612	5,552,947	5,837,746
Ad Valorem Taxes	3,075,915	3,805,666	4,486,818	3,151,127	3,009,938
Interest income	23,486,505	51,359,876	46,564,365	34,367,637	21,504,762
Miscellaneous Revenue	<u>527,128</u>	<u>28,874</u>	<u>155,674</u>	<u>53,655</u>	<u>244,054</u>
TOTAL REVENUES	\$116,491,179	\$132,246,228	\$126,251,464	\$103,830,663	\$80,128,324
<u>Expenses</u>					
Salaries and Wages	\$26,128,588	\$24,548,763	\$22,369,514	\$19,610,265	\$17,100,926
Contract Services	5,779,241	6,091,616	4,386,205	3,538,821	3,495,947
Other	<u>15,151,958</u>	<u>13,519,821</u>	<u>14,419,350</u>	<u>10,714,865</u>	<u>9,123,806</u>
TOTAL EXPENSES	47,059,787	44,160,200	41,175,069	33,238,685	31,311,738
Excess of Revenues Over Expenditures	<u>\$69,431,392</u>	<u>\$88,086,028</u>	<u>\$85,076,395</u>	<u>\$70,591,978</u>	<u>\$48,816,586</u>
<u>Other Financing Sources (Uses)</u>					
Transfers	-0-	(336,568)	(57,695)		
Depreciation	(41,264,491)	(33,576,394)	(31,503,295)	(24,920,608)	(22,525,436)
Interest Expense	(98,563,447)	<u>(90,390,904)</u>	<u>(82,904,264)</u>	<u>(62,504,352)</u>	<u>(33,546,331)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(139,827,938)	(124,303,866)	(114,465,254)	(87,424,960)	(56,071,767)
Net Income (Loss)	(70,396,546)	(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	<u>-0-</u>	<u>1,415,828,230</u>	<u>0</u>	<u>0</u>	<u>0</u>
Adjusted Retained Earnings Beginning of Year	1,522,673,586	1,558,891,424	172,452,053	189,285,035	196,540,505
Retained Earnings, End of Year	<u>\$1,452,277,040</u>	<u>\$1,522,673,586</u>	<u>\$143,063,194</u>	<u>\$172,452,053</u>	<u>\$189,285,324</u>

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				
	<u>2002</u> (unaudited)	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>					
Cash and Investments	\$291,783,980	\$555,728,032	\$688,401,358	\$972,410,540	\$217,577,359
Accounts Receivable, Net	11,341,546	10,998,922	12,008,486	11,063,769	7,576,355
Interest Receivable	-0-	352,821	0	0	0
Due From Other Governmental Units	503,680	4,036,862	489,659	465,039	325,510
Inventories	496,768	496,768	546,885	534,599	514,939
Prepaid Items	8,580	4,874	0	0	0
Warrant Issue Costs	33,893,947	33,497,709	22,941,539	23,821,583	16,615,610
Fixed Assets, Net	3,054,591,755	2,770,619,883	1,005,837,887	755,595,701	576,175,647
Deferred Loss on Early Debt Retirement	<u>2,321,981</u>	<u>2,775,870</u>	<u>3,229,759</u>	<u>3,683,648</u>	<u>4,137,537</u>
TOTAL ASSETS	<u>\$3,394,942,237</u>	<u>\$3,378,511,741</u>	<u>\$1,733,455,573</u>	<u>\$1,767,574,879</u>	<u>\$822,922,957</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 7,196,194	\$18,700,513	\$26,955,667	\$25,478,133	\$19,860,553
Interest Payable	17,980,325	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	13,645,084	13,121,124	6,114,742	3,684,049	3,044,758
Accrued Vacation and Sick Leave	2,810,681	2,810,681	2,562,982	2,340,363	2,137,551
Accrued Compensatory Leave	364,934	364,934	324,028	263,741	224,989
Due to Other Funds	8,475				
Deferred Revenue	-0-	3,427,014			
Arbitrage Rebate Payable	2,382,875	4,464,970	3,461,275	603,360	
Warrants Payable	<u>1,897,755,000</u>	<u>1,796,250,000</u>	<u>1,536,885,000</u>	<u>1,547,975,000</u>	<u>602,100,000</u>
TOTAL LIABILITIES	1,942,665,197	1,855,838,155	1,590,392,379	1,595,122,826	633,637,633
<u>FUND EQUITY</u>					
Retained Earnings	<u>1,452,277,040</u>	<u>1,522,673,586</u>	<u>143,063,194</u>	<u>172,452,053</u>	<u>189,285,324</u>
TOTAL FUND EQUITY	<u>1,452,277,040</u>	<u>1,522,673,586</u>	<u>143,063,194</u>	<u>172,452,053</u>	<u>189,285,324</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$3,394,942,237</u>	<u>\$3,378,511,741</u>	<u>\$1,733,455,373</u>	<u>\$1,767,574,879</u>	<u>\$822,922,957</u>

OUTSTANDING DEBT

General

The principal forms of indebtedness that the County is authorized to incur include general obligation bonds, general obligation warrants, general obligation bond anticipation notes, special or limited obligation warrants and various revenue anticipation bonds 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 bonds 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. Act No. 83-75 enacted at the 1983 First Special Session of the Legislature of Alabama, as amended by Act No. 83-921 of the 1983 Fourth Special Session of the Legislature of Alabama (such acts being codified as §§ 11-28-1 through 11-28-7, inclusive, of Code of Alabama 1975), pursuant to which the Series 2002-A Warrants are being 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 Series 2002-C Warrants, 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 are variable rate demand obligations that may be put to the County at the option of the holders. To provide for the purchase of Series 2002-A Warrants tendered for purchase but not remarketed, the County, the Trustee and JPMorgan Chase Bank have entered into a Standby Warrant Purchase Agreement dated as of February 1, 2002 (the "Series 2002-A Liquidity Facility"). The County has covenanted that it will, under certain specified circumstances, redeem in accordance with applicable optional redemption provisions Series 2002-A Warrants that have been purchased pursuant to the Series 2002-A Liquidity Facility and not subsequently remarketed or otherwise transferred. The obligations of the County under the Series 2002-A Liquidity Facility are Secured Related Obligations for purposes of the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Related Obligations". Also, the obligations of the County are Secured Related Obligations for purposes of the Indenture.

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 four of those transactions. Under three of those 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 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 The Chase Manhattan Bank ("Chase"). That transaction (the "Chase Variable Payment 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 Chase) of 5.17%. Chase has the option to cancel the Chase Variable Payment 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 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, in connection with the issuance of the Series 2002-A Warrants, the County and Chase have entered into a fixed payer 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 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.

The County will enter into a fixed payer swap transaction or transactions with respect to the Series 2002-C Warrants. See "THE PLAN OF FINANCING—Fixed Payer Swap Transactions".

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 expects to issue substantial additional indebtedness within the next three 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, will require additional borrowings of approximately \$1.2 billion. 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 of such additional financing is expected to occur prior to the end of calendar year 2002. 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 1993, maturing annually April 1, 2003 through April 1, 2010	\$53,035,000
General Obligation Warrants, Series 2001-A, maturing annually April 1, 2003 through April 1, 2011	75,130,000
General Obligation Warrants, Series 2001-B, maturing April 1, 2021	120,000,000
General Obligation Warrants, Series 2002-A, maturing annually April 1, 2003 through April 1, 2007	<u>20,065,000</u>
TOTAL	<u>\$268,230,000</u>

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 bonds 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 bonds 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 bonds (the "JCEIDA Bonds") 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 Bonds 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 Bonds in any year does not exceed approximately \$2 million.

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 Gary White and Commissioners Mary M. Buckelew, Bettye Fine Collins, Jeff Germany and Steve Small, Jr., will end in November 2002.

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 2001 fiscal year, the County employed 4,701 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 Community and Economic 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". For the most part, the activities of the department are supported with moneys from the General Fund of the County. The President of the Commission, Gary White, has been assigned the responsibility of the Department of Finance and General Services.

The Department of Community and Economic Development

The Department of Community and Economic Development is responsible for the activities of the County in a number of different areas related to the growth and development of the County. Commissioner Bettye Fine Collins has been assigned the responsibility for this department, which includes the County's offices for land development and inspection services. The department also supervises the Office of Community Development, which administers federal community development funds for capital improvements in the County, and the Office of Senior Citizens' Activities, which is responsible for the development and implementation of programs to provide services for the elderly residents of the County.

The Department of Health and Human Services

The Department of Health and Human Services, which is the responsibility of Commissioner Jeff Germany, supervises certain health care institutions and agencies of the County. Two of the institutions subject to the supervision of the department are the County nursing home in Ketona, Alabama (the "County Home") and Cooper Green Hospital, which provides medical care for indigent residents of the County. Cooper Green Hospital is supported from the Indigent Care Fund of the County and the County Home is supported by the General 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 Steve Small, Jr. has been assigned the responsibility for this department.

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 Mary M. Buckelew 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.

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 Saylor.

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, 2001. 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 Series 2002-C 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 Activities 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 bonds, 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 County Home, 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 October 1, 2001, there were 4,899 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 October 1, 2001, by Bucks Consultants (the "Actuary"). According to that valuation, the Pension System had as of October 1, 2001, actuarial accrued liabilities of \$550,171,592. The assets of the Pension System as of October 1, 2001, consisted of actuarial value of assets valued at \$642,486,683. 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 242,820 in 2000. Forty-five other incorporated municipalities and places are located within the County's 1,141 square miles. The County, which had a population of 662,047 in 2000, is the center of the four-county Birmingham Metropolitan Statistical Area (MSA), which covers 3,188 square miles. The Birmingham MSA's population was 921,106 in 2000, making it the 65th-most populated area among the 280 metropolitan areas in the U.S.¹

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 Includes Metropolitan Statistical Areas (MSAs) and Consolidated MSAs (CMSAs), as defined by the Office of Management and Budget.

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 four-county 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 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

<u>Year</u>	<u>Jefferson County</u>	<u>City of Birmingham</u>	<u>MSA*</u>
2000	662,047	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

*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 government designation became the Birmingham Metropolitan Statistical Area (MSA). Walker County was removed from the Birmingham MSA in 1993.

Source: Bureau of the Census, U.S. Department of Commerce.

As previously stated, in addition to the City of Birmingham, there are 45 places and cities 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			
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: Cities, towns and places without population figures for 1980 or 1990 were not designated places in those Census counts.

Source: Birmingham Area 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)

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

Source: State of Alabama, Department of Industrial Relations.

BIRMINGHAM MSA PERCENTAGE DISTRIBUTION OF NON-AGRICULTURAL EMPLOYMENT (2001 Annual Averages)

<u>Category</u>	<u>Birmingham MSA</u>	<u>United States</u>
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%

Source: State of Alabama, Department of Industrial Relations.

COMPARATIVE EMPLOYMENT TRENDS
Annual Averages
(000's)

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

Source: State of Alabama, Department of Industrial Relations. Based on place of residence.

RECENT EMPLOYMENT DATA
April 2002
(thousands)

	<u>Number Employed</u>	<u>Number Unemployed</u>	<u>Unemployment Rate</u>
Birmingham	123.7	7.6	5.8%
Jefferson County	325.0	13.7	4.1
Birmingham MSA	461.5	18.4	3.8
Alabama ⁽¹⁾	2,032.5	120.9	5.6
United States ⁽¹⁾	133,976.0	8,594.0	6.0

(1) 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**

<u>Employer</u>	<u>Service or Product</u>	<u>Number of Employees</u>
University of Alabama at Birmingham	Education, medical research	16,271
U.S. Government	Federal government	9,690 *
BellSouth	Telecommunications	7,500
State of Alabama	Government	6,784
Baptist Health System, Inc.	Healthcare	6,000
Bruno's, Inc.	Retail grocery	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	Retail stores	4,320
Jefferson County Government	County government	4,191
HealthSouth Corporation	Healthcare	3,960
AmSouth Bank	Banking and financial services	3,624
Southern Company Services	Utilities	3,207
SouthTrust Bank	Banking and financial services	3,094
Alabama Power Company	Utilities	3,000
Regions Financial	Banking	3,000
Drummond Company	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, castings	2,400
USX	Steel	2,400
Compass Bank	Banking and financial services	2,371

*Includes 4,200 U.S. Postal Service employees, 1,662 Social Security Administration employees and 1,260 Veterans Administration Hospital employees.

Note: Employment figures reflect both full-time and part-time employees.

Source: Birmingham Area Chamber of Commerce.

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

	<u>Jefferson County</u>		<u>Birmingham MSA</u>		<u>State of Alabama</u>		<u>United States</u>	
	% of		% of		% of		% of	
	<u>Income</u>	<u>Average</u>	<u>Income</u>	<u>Average</u>	<u>Income</u>	<u>Average</u>	<u>Income</u>	<u>Average</u>
2000	\$29,895	101%	\$29,057	99%	\$23,521	80%	\$29,469	100%
1999	28,753	101%	27,896	98%	22,972	80%	28,546	100%
1998	27,595	101%	26,732	98%	22,118	81%	27,321	100%
1997	26,339	102%	25,505	99%	21,129	82%	25,874	100%
1996	25,356	103%	24,547	100%	20329	82%	24,651	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%

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000*</u>	<u>2001*</u>	<u>2002*</u>	<u>% Change, 97-02</u>
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.

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	-5.0%	2.8%
Jefferson County	288,162	273,097	259,805	5.5%	5.1%
Birmingham MSA	395,295	376,897	340,968	4.9%	10.5%

Source: Bureau of the Census, U. S. Department of Commerce, Birmingham Area Chamber of Commerce.

RESIDENTIAL CONSTRUCTION ACTIVITY BIRMINGHAM MSA

Year	Single-Family		Multi-Family	
	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

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**

<u>Name</u>	<u>Type</u>	<u>Enrollment Spring 2001</u>
Four-Year		
Birmingham School of Law	Private	475
Birmingham-Southern College	Private	1,550
Miles College	Private	1,346
Samford University	Private	4,485
Southeastern Bible College	Private	200
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	30
Jefferson State Junior College	State Supported	6,723
Lawson State Community College	State Supported	2,100
Virginia College	Private	700

*Includes advanced professional degree students, such as residents and interns.
Source: Birmingham Area 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

<u>Category</u>	2001 Rank Among All 323 United States <u>Metro Markets</u> ¹
Population	66
Effective Buying Income (EBI)	66
Households with EBI of \$150,000 and over	57
Retail Sales	66
Households	65
Buying Power Index ²	65

1 Metro markets as defined by Sales & Marketing Management.

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

Source: "2001 Survey of Buying Power". *Sales & Marketing Management*.

Jefferson County, Alabama Statistical Comparison to City of Birmingham, Birmingham MSA and State of Alabama (2001)

<u>Area</u>	<u>Population</u>	<u>Percent of Alabama</u>	<u>Households (000)</u>	<u>Percent of Alabama</u>
Birmingham	244,400	5.5%	99.6	5.8 %
Jefferson County	662,800	14.8%	264.9	15.3%
Birmingham MSA	927,100	20.7%	364.0	21.1%
Alabama	4,477,700	100.0%	1,726.8	100.0%

<u>Area</u>	<u>Total Retail Sales (000s)</u>	<u>Percent of Alabama</u>	<u>Household Median EBI</u>	<u>Percent of Alabama</u>	<u>Percent of National Average</u>
Birmingham	\$ 3,893,161	7.9%	\$27,473	86.0%	70.2%
Jefferson County	9,959,962	20.1%	35,726	111.8%	91.3%
Birmingham MSA	11,946,551	24.1%	37,452	117.3%	95.7%
Alabama	49,493,912	100.0%	31,934	100.0%	81.6%

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.

Source: "2001 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 Coast, Atlantic Southeast, Comair, Skywest, Northwest AirlinK, United Express and U.S. Airways Express. Air cargo service is provided by Airborne Express, Federal Express and United Parcel Service. Domestic passengers boarded at the Airport were 1.51 million for the year ended December 31, 2001.

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

<u>Year</u>	<u>Number of Passengers</u>
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 Area 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

Litigation Concerning Series 2002-B Warrants

The following lawsuit relates to the issuance of the County's Series 2002-B Warrants, which were issued on September 30, 2002. No lawsuit has been filed that challenges the issuance of the Series 2002-C Warrants.

In a case styled Gary White et al. v. The Jefferson County Commission, filed July 15, 2002 in the Circuit Court of Jefferson County, Alabama, as Civil Action No. 02-4253-JSV, plaintiffs brought suit for declaratory relief challenging the procedure by which the Jefferson County Commission adopted a resolution declaring its intent to issue the Series 2002-B Warrants and appointing a financing team to proceed. Plaintiffs include Gary White, the President of the County Commission. Plaintiffs also include two individual taxpayers, Larry P. Langford and Shelia Smoot, who won their party primaries for the general election for the County Commission to be held in November 2002.

In White, plaintiffs claimed that the County Commission failed to follow its procedures for special meetings when its "official intent" resolution was approved on July 11, 2002. On July 29, 2002, plaintiffs filed an application for a preliminary injunction seeking to prevent the County Commission from authorizing the issuance of the Series 2002-B Warrants. In the application, plaintiffs reiterated their claim with respect to the County Commission approval process, and also claimed that significant "negative arbitrage" in the construction fund for the Series 2002-B Warrants (i.e., construction fund earnings would be well below the arbitrage yield on the Series 2002-B Warrants) would make the issuance of the Series 2002-B Warrants imprudent.

On July 30, 2002 the County Commission, at its regular meeting, adopted another "official intent" resolution in substantially similar form to its prior resolution. On August 12, 2002, the County Commission removed the White case to the United States District Court for the Northern District of Alabama, where it was assigned the docket number CV 02-HGD-1974-S. The County Commission has sought its transfer to or consolidation with the Clean Water Act litigation discussed below on the grounds, among other things, that the federal district court had retained jurisdiction over the Clean Water Act litigation, and that the resolution of the White case would necessarily require the court to construe the Consent Decree. See "LITIGATION – The Consent Decree".

In addition, the County Commission has filed an answer in federal court denying the allegations of the complaint and seeking dismissal of the suit. The County Commission believes that the claims with respect to the "official intent" resolution are not valid, but that if such claims were ever valid, they are now moot in light of the July 30, 2002 County Commission approval at its regular meeting. On August 23, 2002, the United States District Court entered an order to show cause, within twenty (20) days, why the complaint should not be dismissed.

On September 6, 2002, plaintiffs filed an Amended and Restated Complaint in White, alleging fraud, corruption and unfair dealing by the County Commission with respect to (i) the purpose for which the County intended to borrow funds, (ii) the State's competitive bid laws, which the plaintiffs claim the County Commission had violated in awarding certain contracts as a part of the County's Sanitary Sewer Capital Improvement Program, and (iii) the award by the County Commission of certain prior contracts to

an engineering firm not licensed to do business in the State. In this filing, the plaintiffs contend that the County's borrowing is not necessary to comply with the Consent Decree, but rather that a significant amount of the proceeds of the borrowing will be used for other projects not required by the Consent Decree. Plaintiffs request that the financing of the County's Program be enjoined.

In the Amended Complaint, plaintiffs abandon their earlier claim with respect to the procedure for adoption of the July 11, 2002 resolution approving the Series 2002-B Warrants. The County Commission believes that the remaining claims of the White case, as recast by the plaintiffs, are without merit.

On September 18, 2002, immediately following the adoption by the Jefferson County Commission of a resolution formally authorizing the issuance and sale of the Series 2002-B Warrants, plaintiffs filed a second lawsuit (the "Second Lawsuit") in Jefferson County Circuit Court which asserts essentially the same allegations made in the Amended Complaint. In addition, plaintiffs alleged that the proceeds of the Series 2002-B Warrants will be used to pay contracts awarded in violation of Alabama's competitive bid law and thus, the issuance of the Series 2002-B Warrants should be enjoined. The complaint in the Second Lawsuit failed to acknowledge that the Jefferson County Commission had adopted on September 18, 2002, a companion resolution prohibiting the use of Series 2002-B Warrant proceeds to pay for any contracts unless and until the County Attorney first had reviewed the underlying contract and had opined that such contract had been lawfully awarded in accordance with applicable law.

On September 18, 2002, the County removed the Second Lawsuit to the United States District Court for the Northern District of Alabama, where it was assigned the docket number 02-JEO-2307-S, and consolidated with the original White lawsuit. The County has filed a motion to dismiss on various grounds, including, among other things, the statutory bar against prosecuting two actions at the same time for the same cause and against the same party.

On September 24, 2002, the federal magistrate assigned to the consolidated cases granted the plaintiffs' motion to remand the consolidated cases to state court on the grounds that the court lacked federal jurisdiction. The federal magistrate did not express any opinion regarding the merits of plaintiffs' claims. The County has appealed the order to remand to a United States District Court judge, who will consider the jurisdictional question *de novo*. The *de novo* appeal has been assigned to Judge Sharon Blackburn who has stayed any remand until she has had an opportunity to rule on whether federal jurisdiction exists.

On September 26, 2002, plaintiffs amended the prayer for relief in the complaint in the Second Lawsuit requesting that the Series 2002-B Warrants be declared null and void. The County has moved to strike the Amended Complaint, which motion is now pending before the federal district judge.

In connection with the issuance of the Series 2002-B Warrants, Bond Counsel delivered an opinion that, based upon the pleadings in the White case and the Second Lawsuit and the applicable law as of the date of such issuance, the claims asserted by the plaintiffs in those cases are without merit and the final disposition of those cases will not adversely affect the validity of the Series 2002-B Warrants or the obligation of the County to provide for the payment thereof as herein described.

The County is currently investigating claims that it awarded certain contracts for a portion of its Sanitary Sewer Capital Improvement Program without complying with state competitive bid laws. Such contracts total approximately \$20 million in the aggregate. State law provides that contracts for public works in excess of \$50,000 must, with certain exceptions, be let by competitive bid. Contracts found to be in violation of the competitive bid laws are null and void. While the County investigates these claims, the County has temporarily stopped work in progress on the contracts at issue.

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. The U.S. Department of Justice has not objected to the redistricting plan. The Knott case is set for trial in October 2002.

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 2001, the County has paid \$25 million into a trust fund for use in developing the SEP. The County is obligated to pay an additional \$5 million for the SEP at the end of 2002.

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.

LEGAL MATTERS

The legality and validity of the Series 2002-C Warrants will be approved by Haskell Slaughter Young & Rediker, L.L.C., Birmingham, Alabama, Bond Counsel. Bond Counsel has been employed primarily 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 as to the validity and legality of the Series 2002-C Warrants, and the exclusion of interest thereon from gross income for purposes of Federal income taxation and the exemption of interest thereon from State of Alabama income taxes. Although Bond Counsel assisted in the preparation of certain portions of this Official Statement and is of the opinion that the statements made herein under the captions "DESCRIPTION OF THE SERIES 2002-C WARRANTS", "SECURITY

AND SOURCE OF PAYMENT", and "TAX STATUS" fairly summarize the matters therein referred to, Bond Counsel has not been requested to check or verify, has not checked or verified, and will express no opinion with respect to the adequacy, accuracy, completeness or fairness of any other information contained in this Official Statement. It is anticipated that the approving opinion of Bond Counsel will be in substantially the form attached hereto as Appendix C.

Certain legal matters will be passed upon for the Underwriters by their counsel, Maynard, Cooper & Gale, P.C., Birmingham, Alabama and Deborah B. Walker, Esq., Birmingham, Alabama. Certain legal matters will be passed on for the Banks by their counsel, Greenberg Traurig, LLP, Philadelphia, Pennsylvania.

The various legal opinions to be delivered concurrently with the delivery of the Series 2002-B Warrants express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX STATUS

In the opinion of Bond Counsel, under existing law, interest on the Series 2002-C 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"), that must be satisfied subsequent to the issuance of the Series 2002-C Warrants in order that interest thereon be and remain excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Series 2002-C Warrants to be included in gross income, retroactively to the date of issuance of the Series 2002-C 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 Series 2002-C 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 Series 2002-C Warrants other than the opinions expressed in the two preceding paragraphs. The form of Bond Counsel's opinion with respect to the Series 2002-C Warrants is expected to be substantially as set forth in Appendix C to this Official Statement.

Prospective purchasers of the Series 2002-C 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 Series 2002-C 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 Series 2002-C Warrants, (iii) interest on the Series 2002-C 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 Series 2002-C 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 Series 2002-C Warrants. Any purchaser of the Series 2002-C 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 Series 2002-B Warrants will be exempt from State of Alabama income taxation.

VERIFICATION OF CERTAIN COMPUTATIONS RELATING TO SERIES 2002-C WARRANTS

The accuracy of (i) the arithmetical computations of the adequacy of the payments of principal and interest on the securities being held in the Escrow Fund, together with the initial cash balance in the Escrow Fund, to provide for the payment or redemption of the Refunded Warrants as contemplated by the Escrow Agreement, and (ii) the mathematical computations supporting the conclusion of Bond Counsel that the Series 2002-C Warrants are not "arbitrage bonds" under the applicable provisions of the Internal Revenue Code, will be verified by The Arbitrage Group, Inc. Such verification will be based, in part, upon information supplied to such accountants by the Underwriters.

RISK FACTORS

Limited Source of Payment

The Series 2002-C Warrants will be limited obligations of the County payable solely from the Pledged Revenues. See "SECURITY AND SOURCE OF PAYMENT". The Series 2000-C 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 Series 2002-C 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 Series 2002-C 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 Series 2002-C 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 Series 2002-C Warrants.

Termination or Suspension of Standby Purchase Agreement for Variable Rate Demand Warrants

Under certain circumstances, the obligation of the Banks under the Standby Purchase Agreement may be terminated or suspended without notice. In such event, sufficient funds may not be available to purchase Variable Rate Demand Warrants tendered by the owners thereof or subject to mandatory purchase. See "STANDBY PURCHASE AGREEMENT FOR VARIABLE RATE DEMAND WARRANTS – Purchase of Tendered Warrants by Banks" and "—Events of Default and Remedies".

Litigation Concerning Series 2002-B Warrants

The County is a party to certain litigation filed with respect to the issuance of the Series 2002-B Warrants. See "LITIGATION – Litigation Concerning Series 2002-B 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 "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 estimates that the total cost of compliance with the Consent Decree will be approximately \$2.0 billion, of which the County had spent approximately \$867 million between October 1, 1995 and September 30, 2001. 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 expects to issue substantial 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 will require substantial 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 Series 2002-C 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 Series 2002-C 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 Series 2002-C 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 Series 2002-C Warrants.
2. Non-payment related defaults under the proceedings of the County authorizing the Series 2002-C 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 Series 2002-C Warrants reflecting financial difficulties of the County.
5. Substitution of a credit enhancer for the one originally described in the Official Statement (if any), or the failure of any credit enhancer respecting the Series 2002-C 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 Series 2002-C Warrants or events affecting the tax-exempt status of interest on the Series 2002-C Warrants.
7. Any modification of the rights of the registered owners of the Series 2002-C Warrants.
8. Redemption of any of the Series 2002-C Warrants prior to the stated maturity or mandatory redemption date thereof.
9. Defeasance of the lien of any of the Series 2002-C Warrants or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 2002-C 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 Series 2002-C Warrants.
11. Any changes in published ratings affecting the Series 2002-C 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 Official Statement called "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 Official Statement 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 Series 2002-C 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 Series 2002-C 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 Series 2002-C 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.

UNDERWRITING

Series 2002-C-1 Warrants

The Series 2002-C-1 Warrants are being purchased from the County pursuant to a Warrant Purchase Agreement executed by J.P. Morgan Securities Inc. ("JPMorgan"). JPMorgan has agreed to purchase the such Series 2002-C Warrants for an aggregate purchase price of par. JPMorgan will be paid

a fee of \$1,551,728.13 for its services in underwriting such Series 2002-C Warrants. JPMorgan will purchase all such Series 2002-C Warrants if any are purchased.

Series 2002-C-2 Warrants, Series 2002-C-3 Warrants and Series 2002-C-4 Warrants

The Series 2002-C-2 Warrants, the Series 2002-C-3 Warrants and the Series 2002-C-4 Warrants are being purchased from the County pursuant to a Warrant Purchase Agreement executed by UBS PaineWebber Inc. (“UBS PaineWebber”). UBS PaineWebber has agreed to purchase such Series 2002-Warrants for an aggregate purchase price of par. UBS PaineWebber Inc. will be paid a fee of \$644,369.64 for its services in underwriting such Series 2002-C Warrants. UBS PaineWebber will purchase all such Series 2002-C Warrants if any are purchased.

Series 2002-C-5 Warrants, Series 2002-C-6 Warrants and Series 2002-C-7 Warrants

The Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants are being purchased from the County pursuant to a Warrant Purchase Agreement executed by Morgan Keegan & Company, Inc. (“Morgan Keegan”). Morgan Keegan has agreed to purchase such Series 2002-C Warrants for an aggregate purchase price of par. Morgan Keegan will be paid a fee of \$774,484.26 for its services in underwriting such Series 2002-C Warrants. Morgan Keegan will purchase all such Series 2002-C Warrants if any are purchased.

General

The County has agreed to indemnify the Underwriters against certain liabilities. The obligation of the Underwriters to accept delivery of the its respective subseries of Series 2002-C Warrants is subject to various conditions of the warrant purchase agreement between the County and each Underwriter.

STRUCTURING AGENT

Sterne, Agee & Leach, Inc., Birmingham, Alabama (“Sterne Agee”), is serving as structuring agent to the County with respect to the Series 2002-C Warrants. The structuring agent assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2002-C Warrants and provided other advice. Sterne Agee is regularly engaged in the business of providing financial services.

SWAP ADVISOR

Morgan Keegan & Company, Inc. (“Morgan Keegan”), Birmingham, Alabama, is serving as advisor to the County with respect to the Fixed Payer Swap Transactions. Morgan Keegan is regularly engaged in the business of providing such advisory services.

Morgan Keegan will act as Underwriter and Remarketing Agent with respect to the Series 2002-C-5 Warrants, the Series 2002-C-6 Warrants and the Series 2002-C-7 Warrants. Regions Bank, an affiliate of Morgan Keegan, will enter into a Standby Purchase Agreement with respect to the Series 2002-C-7 Warrants.

RATINGS

Series 2002-C-1 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa" and "AAA", respectively, to the Series 2002-C-1 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-1 Warrants when due will be issued by XL Capital. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC." herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-1 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 Series 2002-C-1 Warrants.

Series 2002-C-2 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1+", respectively, to the Series 2002-C-2 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-2 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-2 Warrants will be secured by a Standby Purchase Agreement with JPMorgan Chase Bank. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-2 Warrants: JPMorgan Chase Bank" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-2 Warrants make 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 Series 2002-C-2 Warrants.

Series 2002-C-3 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1+", respectively, to the Series 2002-C-3 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-3 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-3 Warrants will be secured by a Standby Purchase Agreement with Bank of America, N.A. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-3 Warrants: Bank of America, N.A." herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-3 Warrants make 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 Series 2002-C-3 Warrants.

Series 2002-C-4 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1", respectively, to the Series 2002-C-4 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-4 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-4 Warrants will be secured by a Standby Purchase Agreement with The Bank of Nova Scotia. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-4 Warrants: The Bank of Nova Scotia" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-4 Warrants make 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 Series 2002-C-4 Warrants.

Series 2002-C-5 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1", respectively, to the Series 2002-C-5 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-5 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-5 Warrants will be secured by a Standby Purchase Agreement with Bayerische Hypo- und Vereinsbank AG. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-5 Warrants: Bayerische Hypo- und Vereinsbank AG" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-5 Warrants make 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 Series 2002-C-5 Warrants.

Series 2002-C-6 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1+", respectively, to the Series 2002-C-6 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-6 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-6 Warrants will be secured by a Standby Purchase Agreement with Société Générale, New York Branch. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-6 Warrants: Société Générale, New York Branch" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-6 Warrants make 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 Series 2002-C-6 Warrants.

Series 2002-C-7 Warrants

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings of "Aaa/VMIG1" and "AAA/A-1", respectively, to the Series 2002-C-7 Warrants on the understanding that a standard policy of XL Capital insuring the timely payment of the principal of and interest on the Series 2002-C-7 Warrants when due will be issued by XL Capital and that the payment of the Purchase Price of the Series 2002-C-7 Warrants will be secured by a Standby Purchase Agreement with Regions Bank. See "DESCRIPTION OF XL CAPITAL ASSURANCE INC.", "STANDBY PURCHASE AGREEMENTS FOR VARIABLE RATE DEMAND WARRANTS", and "THE BANKS – Series 2002-C-7 Warrants: Regions Bank" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriter for the Series 2002-C-7 Warrants make 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 Series 2002-C-7 Warrants.

FINANCIAL STATEMENTS

The audited financial statements of the County contained in Appendix B have been included for general information purposes only. The Series 2002-C Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County. The Series 2002-C 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 initial offering period with respect to the Series 2002-C Warrants, contact Steve Sayler, Director of Finance, Jefferson County, Suite 810, 716 Richard Arrington Jr. Boulevard North, Birmingham, Alabama 35203, telephone: (205) 325-5055.

This Official Statement has been approved by the Commissioners of the County.

JEFFERSON COUNTY, ALABAMA

By: _____ s/ Gary White
President of the Commission

{819092.5}

APPENDIX A

Summary of the Indenture

APPENDIX A

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 and the Series 2002-B Warrants have been issued and the Series 2002-C Warrants 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 Official Statement, and all references and summaries pertaining to the Indenture in this Official Statement are qualified by reference to the exact terms of the Indenture, a copy of which may be obtained from the Trustee.

Definitions

Capitalized terms used in this Appendix A without being defined herein shall have the meanings assigned to such terms elsewhere in this Official Statement.

"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 D, 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 A 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 Official Statement 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 bonds with an aggregate face amount of \$19,884,478) will be 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 1997-C 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 in to 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 for 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 B

**Financial Statements of the County
for Fiscal Year 2000-2001**

Report on the

Jefferson County Commission

Jefferson County, Alabama

October 1, 2000 Through September 30, 2001

Filed: March 29, 2002



Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Ronald L. Jones, Chief Examiner

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Ronald L. Jones
Chief Examiner

State of Alabama
Department of
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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, 2000 through September 30, 2001.

SCOPE AND OBJECTIVES

This report encompasses an audit of 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 generally accepted government auditing standards for financial audits. The objectives of this 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. **Financial Section** – includes basic financial statements (Exhibits 1 through 6); Notes to the Financial Statements; required supplementary information (Exhibit 7); combining financial statements (Exhibits 8 through 19); a Schedule of Expenditures of Federal Awards (Exhibit 20), which details federal assistance received and expended during the audit period; Notes to the Schedule of Expenditures of Federal Awards; and the **Independent Auditor's Report**, which reports on whether the included financial information constitutes a fair presentation of the financial position and results of financial operations.
3. **Additional Information** – contains basic information related to the Commission (Exhibit 21) 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 22) – a report on internal control related to the financial statements and a report 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 23) – 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 24) – 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.

Auditee Response/Corrective Action Plan (Exhibit 25) – a response by the Commission on the results of the audit and 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, 2001, neither BWWB nor Bessemer Water Service engaged an auditor to provide a report on each entity's internal controls that may be relevant to the Commission's internal controls.

AUDIT FINDINGS

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

- ◆ Procedures were not present to assure that a complete and accurate listing of federal grants and programs was compiled for audit purposes. The list provided did not include all federal programs. Also, state programs and programs belonging to another entity were included on the list.

STATUS OF PRIOR AUDIT

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

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

- ◆ At September 30, 2001, the following funds had deficit fund balances:

Road Fund	\$2,927,000
Senior Citizens Activities Fund	\$ 35,000
Capital Improvements Fund	\$4,514,000

- ◆ The Alabama Competitive Bid Law requires that entities obtain competitive bids for purchases of goods and services costing \$7,500.00 or more. The Commission bid gasoline and fuel for a period of three years and awarded the bid to a local vendor. However, the Commission made purchases of gasoline totaling \$9,518.92 from another vendor.

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. However, the following reportable condition was noted:

- ◆ Procedures were not present in the County's Office of Community Development to assure that payroll and fringe benefits amounts used as administrative costs were correctly charged to the program for which they were claimed.

RECOMMENDATIONS

- ◆ 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 that a complete and accurate listing of federal grants and programs is compiled for audit purposes.
- ◆ Procedures should be implemented to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.
- ◆ The Commission should eliminate the deficit fund balances.
- ◆ The Commission should comply with the provisions of the Alabama Competitive Bid Law.
- ◆ Procedures should be implemented to assure that payroll and fringe benefits amounts are properly compiled for charges to grants as administrative costs.

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Sworn to and subscribed before me this
the 12th day of MARCH, 2002

Barbara P. Carter
Notary Public

rb

Respectfully submitted,

Elizabeth L. Crowson

Elizabeth L. Crowson
Examiner of Public Accounts

Cathy M. Cook

Cathy M. Cook
Examiner of Public Accounts

Larry S. McPherson

Larry S. McPherson
Examiner of Public Accounts

Melissa T. Johnson

Melissa T. Johnson
Examiner of Public Accounts

Independent Auditor's Report

We have audited the accompanying primary government financial statements of the Jefferson County Commission, as of and for the year ended September 30, 2001, as listed in the table of contents as Exhibits 1 through 6. These financial statements are the responsibility of the Jefferson County Commission's management. Our responsibility is to express an opinion 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 opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government, the Jefferson County Commission, as of September 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because they do not include the financial data of component units of Jefferson County, as discussed in Note 1, do not purport to, and do not, present fairly the financial position of Jefferson County, as of September 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 26 to the primary government financial statements, the Jefferson County Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement Number 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, an amendment of GASB Statement Number 33, for the year ended September 30, 2001. This resulted in a change to the Jefferson County Commission's method of accounting for certain nonexchange revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002 on our consideration of the Jefferson County Commission's internal control over financial reporting and 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.

Our audit was performed for the purpose of forming an opinion on the primary government financial statements of Jefferson County Commission, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 20) 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 8 through 19) are presented for purposes of additional analysis and are not required parts of the primary government 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.

The Schedule of Funding Progress (Exhibit 7) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

February 22, 2002

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Combined Balance Sheet
All Fund Types and Account Groups
September 30, 2001
(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash and Investments	\$ 37,410	\$ 5,571	\$ 158,894	\$ 1,148
Accounts Receivable, Net	28			
Loans Receivable, Net		3,890		
Patient Accounts Receivable, Net				
Interest Receivable		11		
Due from Other Governments	19,333	9,073		418
Advances to Other Funds			19,200	
Property Taxes Receivable, Net	27,416	35,249		
Inventories	252	2,169		
Prepaid Expenses	12	4		
Fixed Assets, Net Where Applicable				
Amount Available in Debt Service Fund				
Accreted Interest				
Warrant Issuance Cost				
Deferred Loss on Early Debt Retirement				
Amount to Be Provided for Payment of General Long-Term Debt				
Amount to Be Provided for Payment of Compensated Absences				
TOTAL ASSETS	\$ 84,451	\$ 55,967	\$ 178,094	\$ 1,566

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only) Current Year
\$ 555,948	\$ 18,641	\$ 666,714	\$	\$	\$ 1,444,326
11,790	7				11,825
		636			4,526
8,732					8,732
353		6,264			6,628
967	3,293				33,084
					19,200
3,427					66,092
1,480	1,133				5,034
1,981	75	2			2,074
2,844,146	19,871	201	391,205		3,255,423
				153,033	153,033
				4,314	4,314
33,673					33,673
2,776					2,776
				131,518	131,518
				10,193	10,193
<u>\$ 3,465,273</u>	<u>\$ 43,020</u>	<u>\$ 673,817</u>	<u>\$ 391,205</u>	<u>\$ 299,058</u>	<u>\$ 5,192,451</u>

Combined Balance Sheet
All Fund Types and Account Groups
September 30, 2001
(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Cash Deficit	\$		\$ 529	\$
Accounts Payable	3,247	2,140		4,985
Deposits Payable				
Advances from Other Funds				
Due to Other Governments	143	4,535		
Deferred Revenues	27,438	35,988		
Accrued Payroll and Taxes	4,808	371		
Accrued Interest Payable			5,861	
Retainage Payable				
Arbitrage Rebate Payable				
Estimated Liability for Compensated Absences	802	395		
Estimated Claims Liability				
Warrants Payable				
Estimated Liability for Landfill Closure/ Postclosure Care Costs				
TOTAL LIABILITIES	36,438	43,958	5,861	4,985
<u>FUND EQUITY</u>				
Retained Earnings				
Investment in General Fixed Assets				
Fund Balances:				
Reserved for Prepaid Expenses	12	4		
Reserved for Advances			19,200	
Reserved for Inventory	252	2,169		
Reserved for Petty Cash	76	2		
Reserved for Mapping and Appraisal	2,961			
Reserved for E-911	(1,088)			
Reserved for CGH Foundation		409		
Reserved for Loan Receivable		3,890		
Reserved for Debt Service			153,033	
Reserved for Trust Requirements				
Reserved for Encumbrances	1,688	17,270		24,356
Reserved for Contingent Refunds				
Reserved for Retirement/Disability Benefits				
Unreserved	44,112	(11,735)		(27,775)
TOTAL FUND EQUITY	48,013	12,009	172,233	(3,419)
TOTAL LIABILITIES AND FUND EQUITY	\$ 84,451	\$ 55,967	\$ 178,094	\$ 1,566

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only) Current Year
\$ 2,493	\$ 2,592	\$	\$	\$	\$ 5,614
20,639	1,662	418			33,091
48					48
19,200					19,200
					4,678
3,427					66,853
1,171	364	18			6,732
16,273					22,134
13,121					13,121
4,465					4,465
6,468	2,633	121		10,193	20,612
	4,640				4,640
1,796,250				288,865	2,085,115
3,355					3,355
1,886,910	11,891	557		299,058	2,289,658
1,578,363	31,129				1,609,492
			391,205		391,205
		2			18
					19,200
					2,421
					78
					2,961
					(1,088)
					409
		636			4,526
					153,033
		2,061			2,061
		15			43,329
		65,833			65,833
		604,713			604,713
					4,602
1,578,363	31,129	673,260	391,205		2,902,793
\$ 3,465,273	\$ 43,020	\$ 673,817	\$ 391,205	\$ 299,058	\$ 5,192,451

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds For the Year Ended September 30, 2001 (In Thousands)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
REVENUES			
Taxes	\$ 64,421	\$ 77,839	\$
Licenses and Permits	59,846		
Intergovernmental	22,040	24,626	812
Charges for Services	19,248	707	8
Indirect Cost Recovery	8,704		
Investment Income	12,021	532	4,265
Miscellaneous	265	4,413	
TOTAL REVENUES	186,545	108,117	5,085
EXPENDITURES			
Current:			
General Government	61,543	14,124	
Public Safety	50,217	1,096	
Highways and Roads		32,282	
Health and Welfare	1,104	8,500	
Culture and Recreation	13,758		
Education	197		
Capital Outlay	1,890	5,988	
Debt Service:			
Principal Retirement			119,345
Interest and Fiscal Charges			9,200
Indirect Cost	14,575	4,463	56
TOTAL EXPENDITURES	143,284	66,453	128,601
Excess of revenues over (under) expenditures	43,261	41,664	(123,516)
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Transaction			203,443
Bond Discount and Issuance Costs			(1,176)
Operating Transfers In	81	26,084	28,352
Proceeds from Sale of Fixed Assets	55	333	
Operating Transfers Out	(41,351)	(66,195)	(22,100)
TOTAL OTHER FINANCING SOURCES (USES)	(41,215)	(39,778)	208,519
Excess of revenues and other sources over (under) expenditures and other uses	2,046	1,886	85,003
Fund Balances at beginning of year, as restated (Note 27)	45,967	10,123	87,230
Fund Balances at end of year	\$ 48,013	\$ 12,009	\$ 172,233

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

Capital Projects	Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only) Current Year
\$	\$	\$
		142,260
		59,846
1,495	2,227	51,200
497		20,460
		8,704
74	65	16,957
160	155	4,993
<u>2,226</u>	<u>2,447</u>	<u>304,420</u>
	1,788	77,455
		51,313
4,436		36,718
		9,604
		13,758
		197
29,995		37,873
		119,345
		9,200
	72	19,166
<u>34,431</u>	<u>1,860</u>	<u>374,629</u>
<u>(32,205)</u>	<u>587</u>	<u>(70,209)</u>
		203,443
		(1,176)
24,609		79,126
95		483
<u>(7,285)</u>		<u>(136,931)</u>
<u>17,419</u>		<u>144,945</u>
(14,786)	587	74,736
11,367	2,127	156,814
<u>\$ (3,419)</u>	<u>\$ 2,714</u>	<u>\$ 231,550</u>

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types For the Year Ended September 30, 2001 (In Thousands)

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 63,555	\$ 64,421	\$ 866
Licenses and Permits	58,028	59,846	1,818
Intergovernmental	24,870	22,040	(2,830)
Charges for Services	18,361	19,248	887
Indirect Cost Recovery	8,693	8,704	11
Investment Income	4,161	12,021	7,860
Miscellaneous	346	265	(81)
TOTAL REVENUES	178,014	186,545	8,531
EXPENDITURES			
Current:			
General Government	73,651	61,543	12,108
Public Safety	49,456	50,217	(761)
Highways and Roads			
Health and Welfare	1,104	1,104	
Culture and Recreation	13,762	13,758	4
Education	197	197	
Capital Outlay	2,689	1,890	799
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Indirect Cost	12,808	14,575	(1,767)
TOTAL EXPENDITURES	153,667	143,284	10,383
Excess of revenues over (under) expenditures	24,347	43,261	18,914
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Transaction			
Operating Transfers In	81	81	
Proceeds from Sale of Fixed Assets	172	55	(117)
Bond Discount and Issuance Costs			
Operating Transfers Out	(57,839)	(41,351)	16,488
TOTAL OTHER FINANCING SOURCES (USES)	(57,586)	(41,215)	16,371
Excess of revenues and other sources over (under) expenditures and other uses	(33,239)	2,046	35,285
Fund Balances at beginning of year, as restated (Note 27)	45,967	45,967	
Fund Balances at end of year	\$ 12,728	\$ 48,013	\$ 35,285

Special Revenue

Budget	Actual	Variance Favorable (Unfavorable)
\$ 76,645	\$ 77,839	\$ 1,194
42,187	24,626	(17,561)
489	707	218
417	532	115
4,530	4,413	(117)
<u>124,268</u>	<u>108,117</u>	<u>(16,151)</u>
16,398	14,124	2,274
1,201	1,096	105
34,877	32,282	2,595
12,958	8,500	4,458
9,798	5,988	3,810
4,461	4,463	(2)
<u>79,693</u>	<u>66,453</u>	<u>13,240</u>
<u>44,575</u>	<u>41,664</u>	<u>(2,911)</u>
32,169	26,084	(6,085)
478	333	(145)
<u>(68,758)</u>	<u>(66,195)</u>	<u>2,563</u>
<u>(36,111)</u>	<u>(39,778)</u>	<u>(3,667)</u>
8,464	1,886	(6,578)
10,119	10,123	4
<u>\$ 18,583</u>	<u>\$ 12,009</u>	<u>\$ (6,574)</u>

***Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types
For the Year Ended September 30, 2001
(In Thousands)***

	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Taxes	\$	\$	\$
Licenses and Permits			
Intergovernmental	720	812	92
Charges for Services	11	8	(3)
Indirect Cost Recovery			
Investment Income	1,012	4,265	3,253
Miscellaneous			
TOTAL REVENUES	1,743	5,085	3,342
<u>EXPENDITURES</u>			
Current:			
General Government			
Public Safety			
Highways and Roads			
Health and Welfare			
Culture and Recreation			
Education			
Capital Outlay			
Debt Service:			
Principal Retirement	119,345	119,345	
Interest and Fiscal Charges	14,012	9,200	4,812
Indirect Cost	56	56	
TOTAL EXPENDITURES	133,413	128,601	4,812
Excess of revenues over (under) expenditures	(131,670)	(123,516)	8,154
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Debt Transaction	203,443	203,443	
Operating Transfers In	29,368	28,352	(1,016)
Proceeds from Sale of Fixed Assets			
Bond Discount and Issuance Costs	(1,482)	(1,176)	306
Operating Transfers Out	(22,100)	(22,100)	
TOTAL OTHER FINANCING SOURCES (USES)	209,229	208,519	(710)
Excess of revenues and other sources over (under) expenditures and other uses	77,559	85,003	7,444
Fund Balances at beginning of year, as restated (Note 27)	87,230	87,230	
Fund Balances at end of year	\$ 164,789	\$ 172,233	\$ 7,444

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

Capital Projects

Budget	Actual	Variance Favorable (Unfavorable)
\$	\$	\$
6,679	1,495	(5,184)
1,280	497	(783)
281	74	(207)
317	160	(157)
<u>8,557</u>	<u>2,226</u>	<u>(6,331)</u>
4,436	4,436	
37,175	29,995	7,180
<u>41,611</u>	<u>34,431</u>	<u>7,180</u>
<u>(33,054)</u>	<u>(32,205)</u>	<u>849</u>
24,609	24,609	
	95	95
	(7,285)	(7,285)
<u>24,609</u>	<u>17,419</u>	<u>(7,190)</u>
(8,445)	(14,786)	(6,341)
11,367	11,367	
<u>\$ 2,922</u>	<u>\$ (3,419)</u>	<u>\$ (6,341)</u>

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***Combined Statement of Revenues, Expenses and Changes in Fund
Equity - All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)***

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum Only) Current Year
Operating Revenues			
Taxes	\$ 3,806	\$	\$ 3,806
Intergovernmental		4,672	4,672
Charges for Services	121,653	20,184	141,837
Other Operating Revenue	219		219
Total Operating Revenues	<u>125,678</u>	<u>24,856</u>	<u>150,534</u>
Operating Expenses			
Provisions for Bad Debt	5,224		5,224
Salaries	56,393	16,665	73,058
Employee Benefits and Payroll Taxes	12,491	4,434	16,925
Utilities	7,173	3,119	10,292
Supplies	12,417	3,477	15,894
Depreciation and Amortization	38,280	2,579	40,859
Outside Services	20,157	8,475	28,632
Services from other Hospitals	4,963		4,963
Jefferson Clinic	7,495		7,495
Office Expense	2,151	2,408	4,559
Closure and Postclosure Care Cost	134		134
Miscellaneous	738	445	1,183
Total Operating Expenses	<u>167,616</u>	<u>41,602</u>	<u>209,218</u>
Operating Income/(Loss)	\$ (41,938)	\$ (16,746)	\$ (58,684)

***Combined Statement of Revenues, Expenses and Changes in Fund
Equity - All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)***

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum Only) Current Year
<u>Nonoperating Revenues (Expenses)</u>			
Arbitrage Rebates	\$ (1,004)	\$	\$ (1,004)
Interest Revenue	51,464	323	51,787
Miscellaneous Revenue	29	1,435	1,464
Interest Expense	(91,335)		(91,335)
Indirect Cost	(4,733)	(216)	(4,949)
Gain (Loss) on Sale of Fixed Assets	(153)	(26)	(179)
Indirect Cost Recovery		15,471	15,471
Total Nonoperating Revenues (Expenses)	<u>(45,732)</u>	<u>16,987</u>	<u>(28,745)</u>
Income/(Loss) Before Operating Transfers	<u>(87,670)</u>	<u>241</u>	<u>(87,429)</u>
<u>Operating Transfers</u>			
Operating Transfers In	50,623	9,189	59,812
Operating Transfers Out	<u>(1,588)</u>	<u>(419)</u>	<u>(2,007)</u>
Total Operating Transfers	<u>49,035</u>	<u>8,770</u>	<u>57,805</u>
Net Income/(Loss)	(38,635)	9,011	(29,624)
Fund Equity at beginning of year, as restated (Note 27)	<u>1,616,998</u>	<u>22,118</u>	<u>1,639,116</u>
Fund Equity at end of year	<u>\$ 1,578,363</u>	<u>\$ 31,129</u>	<u>\$ 1,609,492</u>

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

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum Only) Current Year
<u>Cash Flows from Operating Activities</u>			
Operating Income (Loss)	\$ (41,938)	\$ (16,746)	\$ (58,684)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>			
Depreciation and Amortization	38,280	2,579	40,859
(Increase)/Decrease in Accounts Receivable	1,005	19	1,024
(Increase)/Decrease in Patients Receivable	(990)		(990)
(Increase)/Decrease in Interest Receivable	(353)		(353)
(Increase)/Decrease in Prepaid Items	(1,373)	65	(1,308)
(Increase)/Decrease in Due from Governmental Units	546	(770)	(224)
(Increase)/Decrease in Property Taxes Receivable	(3,427)		(3,427)
(Increase)/Decrease in Inventory	108	(113)	(5)
(Increase)/Decrease in Warrant Issuance Costs	(11,783)		(11,783)
(Increase)/Decrease in Deferred Loss on Early Debt Retirement	454		454
Increase/(Decrease) in Accounts Payable	(7,910)	865	(7,045)
Increase/(Decrease) in Advances to Other Funds	19,200		19,200
Increase/(Decrease) in Other Accounts Payable	(248)	(16)	(264)
Increase/(Decrease) in Due To Other Funds		(1)	(1)
Increase/(Decrease) in Deferred Revenues	3,427		3,427
Increase/(Decrease) in Accrued Payroll and Taxes	46	24	70
Increase/(Decrease) in Compensated Absences Payable		177	177
Increase/(Decrease) in Deposits Payable	11		11
Increase/(Decrease) in Retainage Payable	7,006		7,006
Increase/(Decrease) in Interest Payable	2,510		2,510
Increase/(Decrease) in Arbitrage Rebate Payable	1,004		1,004
Increase/(Decrease) in Compensated Absences Payable	407		407
Increase/(Decrease) in Estimated Claims Liability		1,981	1,981
Increase/(Decrease) in Estimated Liability for Landfill Postclosure Costs	93		93
Total Adjustments	48,013	4,810	52,823
Net Cash Provided/(Used) by Operating Activities	\$ 6,075	\$ (11,936)	\$ (5,861)
Carried Forward			

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>(Memorandum Only)</u> <u>Current Year</u>
Net Cash Provided/(Used) by Operating Activities			
Brought Forward	\$ 6,075	\$ (11,936)	\$ (5,861)
<u>Cash Flows from Non-Capital Financing Activities</u>			
Operating Transfers In	50,623	9,189	59,812
Operating Transfers Out	(1,588)	(419)	(2,007)
Increase/(Decrease) in Cash Deficit	2,493	447	2,940
Received from Auxiliary Services	29	1,435	1,464
Indirect Cost Recovery		15,471	15,471
Indirect Cost	(4,733)	(216)	(4,949)
Net Cash Provided/(Used) by Non-Capital Financing Activities	46,824	25,907	72,731
<u>Cash Flows from Capital and Related Financing Activities</u>			
Interest Paid	(91,335)		(91,335)
Acquisition of Fixed Assets	(384,053)	(8,352)	(392,405)
Proceeds from Warrant Issuance	275,000		275,000
Principal Payments	(37,635)		(37,635)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(238,023)	(8,352)	(246,375)
<u>Cash Flows from Investing Activities</u>			
Interest and Dividend Income	51,464	323	51,787
Net Cash Provided/(Used) by Investing Activities	51,464	323	51,787
Net Increase/(Decrease) in Cash and Cash Equivalents	(133,660)	5,942	(127,718)
Cash and Investments, Beginning of Year	689,608	12,699	702,307
Cash and Investments, End of Year	\$ 555,948	\$ 18,641	\$ 574,589

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

Statement of Changes in Plan Net Assets
Pension Trust Fund
For the Year Ended September 30, 2001
(In Thousands)

	Pension Trust Fund
Additions	
Investment Income	
Net Appreciation in Fair Value of Investments	\$ 29,064
Interest	23,164
Dividends	2,929
Total Investment Income	<u>55,157</u>
Less: Investment Manager Fees	<u>1,470</u>
Sub-Total	53,687
Contributions	
Members	7,537
Employer	7,544
Total Contributions	<u>15,081</u>
Other	
Pistol Permits	251
Other Income	38
Sub-Total	<u>289</u>
Total Additions	<u>69,057</u>
Deductions	
Net Depreciation in Common Stocks	71,369
Participant Expenses	
Benefits paid to participants and beneficiaries	15,458
Refunds of member contributions	1,283
Interest paid on refunds of member contributions	143
Sub-Total	<u>16,884</u>
Administrative Expenses	
Office Expenses	228
Other Expenses	54
Sub-Total	<u>282</u>
Total Deductions	<u>88,535</u>
Change in Net Assets	(19,478)
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	<u>690,024</u>
End of Year	<u>\$ 670,546</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2001

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 Commission's accounting policies are described below.

In June 1999, The Governmental Accounting Standards Board (GASB) approved Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (hereinafter referred to as the "Statement"). This Statement provides for significant changes in financial reporting for governmental entities. Some of the significant changes include:

- ◆ A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations.
- ◆ Financial statements prepared using full accrual accounting for all of the Commission's activities, including reporting infrastructure assets (roads, bridges, etc.).
- ◆ A change in the fund financial statements to focus on major funds.

The Statement provides for a phased-in implementation (based on the total annual revenues of the government) starting in fiscal years ending 2002. The Commission is considered a phase one government and will implement the statement in fiscal year ending September 30, 2002. The Commission is required to prospectively report general infrastructure assets at the same time the Statement is implemented. Retroactive reporting of all major general infrastructure assets is required by or before 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.

Notes to the Financial Statements

For the Year Ended September 30, 2001

Based on the application of the above criteria, the following entities are component units of the Commission: Jefferson 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. Fund Accounting

The Commission uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental fund types are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

General Fund

The Commission primarily received revenues from collections of occupational taxes, county sales taxes, property taxes and revenues collected by the State of Alabama and shared with the County.

Notes to the Financial Statements
For the Year Ended September 30, 2001

Special Revenue Funds

The Commission used the following special revenue funds:

- ◆ **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.
- ◆ **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.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, the Commission's general long-term debt principal and interest. During the fiscal year ended September 30, 2001, the Commission had one debt service fund.

Notes to the Financial Statements

For the Year Ended September 30, 2001

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). During the fiscal year ended September 30, 2001, the Commission had the following capital projects funds:

- ◆ 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.

Proprietary Fund Types

Proprietary fund types are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services for such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the County (internal service funds).

Enterprise Funds

These funds are used to account for activities where the intent of the Commission 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 Commission decided that periodic income determination is appropriate for capital maintenance, public policy, management control accountability or other purposes.

The Commission operates the following enterprises:

- ◆ 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.
- ◆ 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.
- ◆ 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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

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

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. During the fiscal year ended September 30, 2001, the Commission had the following internal service funds:

- ◆ **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.

Notes to the Financial Statements

For the Year Ended September 30, 2001

Fiduciary Fund Types

Fiduciary fund types are used to account for resources held by the Commission in a trustee capacity. Assets of fiduciary fund types do not belong to the Commission; the Commission has a liability to disburse those assets to specific individuals or organizations. These funds include expendable trust and pension trust funds.

Expendable Trust Fund

- ◆ *Stormwater Management Authority Fund* – This fund is used to account for the expenditure of intergovernmental revenues to assist member governing bodies with compliance with federal and state laws relating to storm water discharges.
- ◆ *City of Birmingham Revolving Loan Fund* – This fund is used to account for the Commission's administration of the City of Birmingham revolving loan program for economic development.

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.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Commission's general fixed assets and the unmatured principal of its general long-term debt. These account groups are not funds. They do not reflect available financial resources and related liabilities - but are accounting records of the general fixed assets and general long-term debt and certain associated information.

- ◆ *General Fixed Assets Account Group* – This account group is used to account for all Commission fixed assets except those related to specific proprietary funds.
- ◆ *General Long-Term Debt Account Group* – This account group is used to account for all unmatured long-term liabilities of the Commission except for the long-term liabilities of proprietary funds.

C. Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Notes to the Financial Statements

For the Year Ended September 30, 2001

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Commission considers revenue as available if it is collected within 60 days after year-end and can be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues that were accrued are those due from the federal government, State of Alabama, Jefferson County Revenue Department, Jefferson County Tax Collector, Jefferson County Probate Court, and various other Jefferson County agencies, municipalities, County Home residents, landfill customers, clients of Cooper Green, and interest revenue. Other revenues are not material or generally susceptible to accrual because they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Commission reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when all applicable revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Notes to the Financial Statements
For the Year Ended September 30, 2001

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, debt service and capital projects funds. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

E. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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 stated at fair value or amortized cost. Investments held in escrow for retainage on construction contracts and as surety for purchase commitments are stated at fair value.

F. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance and reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

G. Inventories

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2001, are recorded as prepaid items.

Notes to the Financial Statements

For the Year Ended September 30, 2001

I. Fixed Assets

Governmental Funds -- General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed 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.

Depreciation is not recorded or provided on general fixed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Proprietary Funds -- Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using straight-line method. The estimated useful lives are as follows:

	Years
Buildings	28-50
Improvements	28
Equipment	5-30

J. Other Debits

The general long-term debt account group reflects accounts entitled "Amount to Be Provided for Retirement of General Long-Term Debt" and "Amount to Be Provided for Payment of Compensated Absences." These accounts have debit balances and are offset by corresponding payables. They do not constitute assets of the Commission.

K. Compensated Absences

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

Notes to the Financial Statements

For the Year Ended September 30, 2001

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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

As of September 30, 2001, the liability for accrued vacation and compensatory leave is approximately \$12,837,000. The amounts applicable to the proprietary funds of \$5,568,000 have been recorded in those funds. Only the current portion of \$1,122,000 has been reported as a liability in the governmental funds and fiduciary funds. The remainder of \$6,147,000 has been recorded in the General Long-Term Debt Account Group (GLTDAG).

As of September 30, 2001, the liability for accrued sick leave is approximately \$7,775,000. The amounts applicable to the proprietary funds of \$3,534,000 have been recorded in those funds. Only the current portion of \$195,000 has been reported as a liability in the governmental funds and fiduciary funds. The remainder of \$4,046,000 has been recorded in the General Long-Term Debt Account Group (GLTDAG).

L. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

N. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method.

Bond discount/issue cost of the Series 2000-A Sewer Revenue Capital Improvement Warrants contain deferred costs of \$11,605,000 that are being amortized over 40 years. At September 30, 2001, the unamortized deferred cost of the 2000-A issue was \$11,435,000.

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, 2001, the unamortized deferred cost of the 1999-A issue was \$7,486,000.

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, 2001, the unamortized deferred cost of the 1997-A issue was \$8,407,000.

Notes to the Financial Statements

For the Year Ended September 30, 2001

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, 2001, the unamortized deferred cost of the 1997-B issue was \$113,000.

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, 2001, the unamortized deferred cost of the 1997-C issue was \$701,000.

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, 2001, the unamortized deferred cost of the 1997-D issue was \$5,355,000.

Bond discount/issue cost of the Series 2001-B General Obligation Warrants contain deferred costs of \$178,000 that are being amortized over 20 years. At September 30, 2001, the unamortized deferred cost of this issue was \$176,000.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers.

P. Memorandum Only – Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Property Taxes

Millage rates 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 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.

Notes to the Financial Statements

For the Year Ended September 30, 2001

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, 2001, the unamortized deferred cost of the 1997-B issue was \$113,000.

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Notes to the Financial Statements
For the Year Ended September 30, 2001

R. Policy re: FASB Pronouncements for Proprietary Activities

The Commission, in accounting for its proprietary activities, follows all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

Note 2 – Budgets and Appropriations

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.

The budget is usually divided into two parts - an operating budget and a capital budget. The operating budget addresses the immediate problems of providing services, paying personnel, and purchasing equipment. The capital budget address major equipment, furniture purchases, and public works projects.

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.

Note 3 – Deposits and Investments

Deposits

The Commission's deposits at year-end were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provision contained in the *Code of Alabama 1975*, Sections 41-14A 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 failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Notes to the Financial Statements

For the Year Ended September 30, 2001

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	Recorded Amount	Fair Value
U.S. Government Securities(**)	\$ 635,745	\$ 635,745	\$ 635,745
Repurchase Agreements	218,332	218,332	218,332
Corporate Obligations(*)	170,161	170,160	170,160
Common Stocks(*)	256,791	256,791	256,791
Total Investments	\$1,281,029	\$1,281,029	\$1,281,029

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

(**) Includes \$227,379,000 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 \$13,121,000 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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 4 – Due From Other Governments

Amounts due from other governments included on the accompanying financial statements as of September 30, 2001, are as follows:

	(In Thousands)					Totals
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds	
Federal	\$ 444	\$1,114	\$190	\$	\$	\$ 1,748
State	1,216	1,364		357	29	2,966
County	17,648	6,549		610	404	25,211
Municipal	25	46	228		2,860	3,159
Total	\$19,333	\$9,073	\$418	\$967	\$3,293	\$33,084

Note 5 – Advances to Other Funds

The advances to other funds at September 30, 2001, are as follows:

(In Thousands)	
Advances From Other Funds	
Sanitary Landfill Operations Fund	
<hr/>	
<u>Advances To Other Funds</u>	
Debt Service Fund	\$19,200

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 6 – Receivables

Accounts Receivable

Amounts recorded as accounts receivable for governmental fund types and proprietary fund types consist primarily of amounts due from individuals less an allowance account for amounts estimated to be uncollectible. The balances for accounts receivable at September 30, 2001, are listed as follows:

	(In Thousands)			Total
	Governmental Fund Type	Proprietary Fund Types		
	General	Enterprise	Internal Service	
Accounts Receivable	\$28	\$14,193	\$7	\$14,288
Less: Allowance Accounts		(2,403)		(2,403)
Net Receivables	\$28	\$11,790	\$7	\$11,825

Patient Receivables

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	\$15,205
Less: Allowance Accounts	(6,473)
Net Patient Receivables	\$ 8,732

Notes to the Financial Statements
For the Year Ended September 30, 2001

Loan Receivables

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 \$3,890,000 at September 30, 2001.

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, 2001, the balance of loans receivable (net of an allowance account) for the City of Birmingham totaled \$636,000.

Interest Receivables

Interest receivables for the Commission at September 30, 2001, were as follows:

	(In Thousands)			Total
	Special Revenue Funds	Enterprise Funds	Pension Trust Fund	
Interest Receivables	\$11,000	\$353,000	\$6,264,000	\$6,628,000

Note 7 – Changes in Fixed Assets

A summary of changes in the Commission's general fixed assets is as follows:

	(In Thousands)			Balance September 30, 2001
	Balance October 1, 2000	Additions	Reductions	
Land	\$ 9,024	\$ 1,285	\$	\$ 10,309
Buildings	189,366	951	3	190,314
Improvements Other Than Land/Buildings	7,785	98	7	7,876
Equipment and Furniture	78,032	6,034	6,133	77,933
Construction in Progress	75,737	29,135	99	104,773
Total	\$359,944	\$37,503	\$6,242	\$391,205

Notes to the Financial Statements
For the Year Ended September 30, 2001

A summary of changes in expendable trust fund fixed assets is as follows:

	(In Thousands)			Balance September 30, 2001
	Balance October 1, 2000	Additions	Reductions	
Equipment and Furniture	\$356	\$75	\$4	\$427
Less: Accumulated Depreciation	(157)	(71)	2	(226)
Total	\$199	\$ 4	\$2	\$201

A summary of changes in property, plant, and equipment of proprietary funds is as follows:

Enterprise Funds

	(In Thousands)			Balance September 30, 2001
	Balance October 1, 2000	Additions	Reductions	
Land	\$ 20,313	\$ 15,409	\$ 4,604	\$ 31,118
Buildings	266,564	6,779	15	273,328
Improvements Other Than Land/Buildings	562,851	1,479,968	2,508	2,040,311
Equipment and Furniture	45,171	2,886	2,203	45,854
Construction in Progress	513,085	378,109	77,533	813,661
Sub-Total	1,407,984	1,883,151	86,863	3,204,272
Less: Accumulated Depreciation	(325,452)	(36,695)	2,021	(360,126)
Total	\$1,082,532	\$1,846,456	\$84,842	\$2,844,146

Internal Service Funds

	(In Thousands)			Balance September 30, 2001
	Balance October 1, 2000	Additions	Reductions	
Land	\$ 76	\$	\$	\$ 76
Buildings	6,719			6,719
Improvements Other Than Land/Buildings	548	10	1	557
Equipment and Furniture	13,980	2,967	978	15,969
Construction in Progress	624	5,802		6,426
Sub-Total	21,947	8,779	979	29,747
Less: Accumulated Depreciation	(7,825)	(2,622)	571	(9,876)
Total	\$14,122	\$6,157	\$408	\$19,871

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 8 – 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 in the Commission's account groups. During the fiscal year ended September 30, 2001, the Commission paid a total of \$755,000 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2001:

Fiscal Year	(In Thousands)
	Facilities and Equipment
2001-2002	\$ 268
2002-2003	265
2003-2004	209
2004-2005	196
2005-2006	198
Thereafter	1,702
Total Minimum Payments Required	\$2,838

Note 9 – County Appropriation Agreement

During the 1989 fiscal year, the Birmingham-Jefferson Civic Center Authority (the "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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 10 – 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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

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	
	2001	2000	2001	2000	2001	2000	2001	2000
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 685	\$551	\$ (25)	\$200	\$1,999	\$2,286	\$2,659	\$3,037
<u>Incurred claims and claim adjustment expenses:</u>								
Provision for insured events of current fiscal year	778	404	412	90	1,072	591	2,262	1,085
Increases in provision for insured events of prior fiscal years	94		155		1,436		1,685	
Total incurred claims and claim adjustment expenses	872	404	567	90	2,508	591	3,947	1,085
<u>Payments:</u>								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	323	270	159	315	1,484	878	1,966	1,463
Claims and claim adjustment expenses attributable to insured events of prior fiscal year								
Totals payments	323	270	159	315	1,484	878	1,966	1,463
Total unpaid claim and claim adjustment expenses at end of fiscal year	<u>\$1,234</u>	<u>\$685</u>	<u>\$383</u>	<u>\$ (25)</u>	<u>\$3,023</u>	<u>\$1,999</u>	<u>\$4,640</u>	<u>\$2,659</u>

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 11 – Changes in Long-Term Debt

The following is a summary of general long-term debt transactions for the Commission for the year ended September 30, 2001:

	(In Thousands)			
	Debt Outstanding October 1, 2000	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2001
Warrants Payable:				
General Obligations Warrants	\$206,210	\$202,000	\$119,345	\$288,865
Estimated Liability for Compensated Absences	9,673	520		10,193
Total	\$215,883	\$202,520	\$119,345	\$299,058

The following is a summary of proprietary long-term debt transactions for the Commission for the year ended September 30, 2001:

	(In Thousands)			
	Debt Outstanding October 1, 2000	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2001
Warrants Payable:				
Revenue Warrants	\$1,558,885	\$275,000	\$37,635	\$1,796,250
Estimated Liability for Postclosure Landfill Costs	3,262	134	41	3,355
Estimated Claims Liability	2,659	3,947	1,966	4,640
Estimated Liability for Compensated Absences	8,515	586		9,101
Total	\$1,573,321	\$279,667	\$39,642	\$1,813,346

Notes to the Financial Statements
For the Year Ended September 30, 2001

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

Fiscal Year Ended	(In Thousands)				Total Principal and Interest Requirements
	General Obligation Warrants		Revenue Warrants		
	Principal	Interest	Principal	Interest	
September 30, 2002	\$ 17,505	\$ 12,423	\$ 8,495	\$ 95,721	\$ 134,144
2003	18,100	11,703	13,300	95,064	138,167
2004	18,810	11,154	2,595	94,603	127,162
2005	21,785	10,562	8,575	94,349	135,271
2006	16,405	9,723	6,490	93,991	126,609
2007	24,080	8,988	3,730	93,758	130,556
2008	14,430	8,045	3,885	93,601	119,961
2009	15,135	7,309	4,050	93,436	119,930
2010	12,805	6,534	4,220	93,265	116,824
2011	9,810	5,881	4,400	93,086	113,177
2012	9,695	5,420	4,585	92,899	112,599
2013	10,150	4,935	4,785	92,702	112,572
2014	10,620	4,432	4,990	92,494	112,536
2015	11,115	3,907	5,210	92,277	112,509
2016	11,630	3,356	1,215	92,136	108,337
2017	12,170	2,779	28,045	91,317	134,311
2018	12,740	2,173	31,085	89,651	135,649
2019	13,330	1,542	34,355	87,801	137,028
2020	13,950	883	37,960	85,758	138,551
2021	14,600	191	38,330	83,598	136,719
2022			46,195	81,195	127,390
2023			48,490	78,524	127,014
2024			53,670	75,672	129,342
2025			59,500	72,517	132,017
2026			65,810	69,030	134,840
2027			72,855	65,176	138,031
2028			61,105	61,582	122,687
2029			64,325	58,359	122,684
2030			67,675	55,008	122,683
2031			71,160	51,524	122,684
2032			74,815	47,868	122,683
2033			78,655	44,031	122,686
2034			82,840	39,844	122,684
2035			87,410	35,273	122,683
2036			92,240	30,440	122,680
2037			97,525	25,160	122,685
2038			103,290	19,396	122,686
2039			109,055	13,629	122,684
2040			101,960	8,098	110,058
2041			107,375	2,684	110,059
Totals	\$288,865	\$121,940	\$1,796,250	\$2,776,517	\$4,983,572

Notes to the Financial Statements

For the Year Ended September 30, 2001

Note 12 – Issuance of Sewer Warrants

On March 23, 2001, the Jefferson County Commission issued \$275,000,000 in Sewer Revenue Capital Improvement Warrants with interest rates ranging between 4.5 and 5.5 percent to finance improvements to the County's sewer system. The warrants are limited obligations of the County payable solely out of revenues derived from the Sewer Tax and all other monies received derived from the operation of the sewer system remaining after payment of operating expenses.

Note 13 – Warrants Payable-Enterprise Funds

The Sanitary Operations Fund has bonds and warrants payable of \$1,796,250,000 at September 30, 2001. 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 and 6) the 2001-A Sewer Revenue 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, and 5) a redemption fund into which the trustee deposits certain insurance or disposition proceeds.

The balances as of September 30, 2001, exceeded the bond indenture requirements and were as follows:

(In Thousands)	
Sewer Reserve Fund	\$54,106
1999 Sewer Reserve Fund	70,133
Sewer Rate Stabilization Fund	61,720
Sewer Depreciation Fund	37,325

Notes to the Financial Statements
For the Year Ended September 30, 2001

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,	2001	2000	1999	1998	1997	1996	1995
Active Accounts	142,305	142,277	142,042	141,606	140,324	140,146	140,361
Average Daily Treatment Volume (millions of gallons treated)	97	112	119	132	127	130	123
Sewer Charges	\$72,129,478	\$66,834,206	\$57,020,426	\$49,531,824	\$46,950,835	\$44,387,013	\$39,587,914
% Revenues - Largest Customer	2.66%	2.57%	2.93%	2.91%	2.92%	3.08%	2.87%
% Revenues - Top 10 Customers	12.53%	11.99%	11.62%	12.35%	10.37%	13.10%	10.37%

2001 Top Ten Customers	Consumption	Amount
University of Alabama – Birmingham	876,244	\$1,919,492
Birmingham Housing Authority	674,131	1,863,624
US Steel	516,791	1,379,428
Barber Dairies	144,828	1,243,709
Golden Flake	161,290	534,827
Birmingham Board of Education	180,821	523,303
Buffalo Rock	216,133	484,908
Baptist Medical Centers	204,236	439,239
Brookwood Medical Center	127,367	352,688
PEMCO	105,917	299,517

Effective March 1, 1999, January 1, 2000 and January 1, 2001, 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 – Extinguishment of Debt

On May 10, 2001, the Jefferson County Commission issued \$82,000,000 in General Obligation Warrants, Series 2001-A, for the purpose of 1) refunding \$7,125,000 of outstanding Series 2000 General Obligation Warrants with a variable interest rate and 2) paying the costs of various capital improvements to County buildings and facilities. The Series 2000 Warrants are considered to be legally defeased and the liability for those warrants has been removed from the general long-term debt account group.

Notes to the Financial Statements
For the Year Ended September 30, 2001

On July 19, 2001, the Commission issued \$120,000,000 in General Obligation Warrants, Series 2001-B, with a variable interest rate for the purpose of refunding \$100,000,000 of outstanding Series 1999 General Obligation Warrants and \$19,000,000 of outstanding Series 1996 General Obligation Warrants. The Series 1996 and 1999 Warrants are considered to be legally defeased and the liability for those warrants has been removed from the Landfill Enterprise Fund and the general long-term debt account group, respectively.

Note 16 – Prior Year Defeasance of Debt

As of September 30, 2001, the following warrants outstanding are considered defeased:

	(In Thousands)
Sewer Revenue Warrants, Series 1988	\$ 27,990
Sewer Revenue Warrants, Series 1992	46,050
Sewer Revenue Warrants, Series 1993	27,380
Sewer Construction Warrants, Series 1977	1,105
Sanitary Sewer Refunding Warrants, Series 1978	10,925
Total Warrants Defeased	<u>\$113,450</u>

Note 17 – Conduit Debt

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, 2001, the principal amount outstanding was \$44,045,000.

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 18 – Segment Information for Enterprise Funds

The Commission operates Enterprise Funds, which provide medical, inpatient nursing care, landfill, sewer and parking services. These funds are intended to be self-supporting through user fees charged to the public for services. Financial segment information as of and for the year ended September 30, 2001, is presented below:

	(In Thousands)					
	Cooper Green Hospital Fund	County Home Fund	Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Total Enterprise Funds
Operating Revenues	\$31,635	\$ 8,885	\$ 4,078	\$ 80,858	\$222	\$ 125,678
Depreciation, Depletion and Amortization Expense	2,026	353	2,312	33,576	13	38,280
Operating Income or (Loss)	(40,386)	(5,810)	(2,426)	6,708	(24)	(41,938)
Operating Grants, Entitlements and Shared Revenues		59	64	96		219
<u>Operating Transfers:</u>						
In	37,874	7,183	5,566			50,623
(Out)			(1,251)	(337)		(1,588)
Tax Revenues				3,806		3,806
Net Income or (Loss)	(3,960)	890	716	(36,217)	(64)	(38,635)
<u>Property, Plant and Equipment:</u>						
Additions	546	796	730	1,881,080		1,883,152
Deletions	908	181	872	84,904		86,865
Net Working Capital	5,617	1,551	(18,559)	532,792	26	521,427
<u>Bonds and Other Long-Term Liabilities:</u>						
Payable from Operating Revenue	2,315	523	23,004	1,799,426	5	1,825,273
Total Equity	\$15,515	\$10,542	\$29,591	\$1,522,674	\$ 41	\$1,578,363

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 19 – Construction and Other Significant Commitments

The following is a listing of the outstanding contracts entered into and commitments made for the fiscal year ending September 30, 2001:

Nature of Commitment	(In Thousands)
	Amount
Cahaba Sewer Improvement Project	\$ 32,878
Correctional Facilities Project	2,608
Courthouse Building Renovation Project	3,336
Five Mile Creek Sewer Improvement Project	8,997
Miscellaneous Sewer Improvements - System-Wide	9,946
Highway Improvements	2,737
Home Buyer Assistance Program	2,451
Valley Creek Sewer Improvement Project	133,324
Village Creek Sewer Improvement Project	111,533
Domestic Relations Project	5,676
Central Laundry Project	2,083
United Way Program	5,796
Miscellaneous Equipment	2,493
Totals	\$323,858

Note 20 – 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, 2001. The report may be obtained by writing: The General Retirement System for Employees of Jefferson County, Room 303-B Courthouse, Birmingham, Alabama 35263-0003.

Notes to the Financial Statements
For the Year Ended September 30, 2001

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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

C. Actuarial Information

For the year ended September 30, 2001, the Commission's annual pension contribution of \$7,543,314 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, 2001, 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, 2001 was 22 years.

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

Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2001	\$7,543,314	100%	\$0
9/30/2000	\$7,752,354	100%	\$0
9/30/1999	\$7,055,584	100%	\$0

The Schedule of Funding Progress, which is required supplementary information is contained in Exhibit 7.

Note 21 – Other Postemployment Benefits (OPEB)

In addition to the pension benefits described in Note 20, 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.

Notes to the Financial Statements
For the Year Ended September 30, 2001

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 264 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 \$276,243.76 were recognized for post-retirement health benefits.

Note 22 – Deficit Fund Balances

At September 30, 2001, the following funds had deficit fund balances:

(In Thousands)	
<u>Special Revenue Funds</u>	
Road Fund	\$2,927
Senior Citizens' Activities	\$ 35
<u>Capital Projects Funds</u>	
Capital Improvement Fund	\$4,514

Note 23 – 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.

The estimated liability for landfill closure and postclosure care costs had a balance of \$3,355,000, as of September 30, 2001. This estimate was based on 86% usage (filled) of the Jefferson County Landfill Number 1, 59% usage (filled) of the Jefferson County Landfill Number 2, 7% usage (filled) of the Jefferson County Inert Landfill Number 1, and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed in October 1997.

Notes to the Financial Statements
For the Year Ended September 30, 2001

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, 2001. 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 24 – Subsequent Events

In February 2002, the Commission issued \$20,065,000 in General Obligation Refunding Warrants, Series 2002-A. This issue refunded the outstanding balance of the 1992 General Obligation Capital Improvement and Capital Appreciation Warrants. In March 2002, the Commission is expected to issue \$110,000,000 in Sewer Revenue Warrants. The proceeds will be used for additional financing of the sanitary sewer upgrade project.

Note 25 – 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. In the event of an unfavorable outcome to the State of Alabama, the 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 26 – GASB Statement Number 33

The Commission implemented GASB Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement Number 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, an amendment of GASB Statement Number 33, beginning in fiscal year 2001. This Statement required the accrual of some assets and revenues which were not previously recognized in the Commission's financial statements. The most significant of these is the accrual of property, sales and occupational taxes. The accrual of the property taxes, which are levied in the current year but are not available to fund current year operations, results in deferred revenue.

Notes to the Financial Statements
For the Year Ended September 30, 2001

Note 27 – Restatements

On October 1, 2000, the fund balances of the general and special revenue funds were restated as follows:

	(In Thousands)	
	General Fund	Special Revenue Funds
Fund Balance, October 1, 2000, as Previously Reported	\$39,041	\$ 7,122
GASB 33 Accruals	6,926	3,085
Overstatement of Receivables		(84)
Fund Balance, October 1, 2000, as Restated	\$45,967	\$10,123

On October 1, 2000, the fund equity of the enterprise funds was restated as follows:

	(In Thousands)	
	Enterprise Funds	
Fund Equity, October 1, 2000, as Previously Reported	\$ 201,170	
Sewer Assets Obtained from the City of Birmingham	1,415,811	
Understatement of Fixed Assets in the Prior Year	17	
Fund Equity, October 1, 2000, as Restated	\$1,616,998	

Note 28 – Interest Rate Swap Agreements

The Commission has entered into interest rate swap agreements with Morgan Guaranty Trust Company of New York (Morgan) and has executed various transactions with Morgan to receive interest payments for periods of up to 40 years based on notional amounts ranging from \$70 to \$200 million. The Commission agreed to pay Morgan interest payments based on the published Bond Market Association (BMA) rates for periods of up to 40 years using the above mentioned notional amounts.

Required Supplementary Information

Schedule of Funding Progress
For the Year Ended September 30, 2001

(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 (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/1999	\$534,063	\$445,237	\$(88,826)	120.0%	\$120,691	(73.6%)
10/01/2000	\$595,364	\$517,622	\$(77,742)	115.0%	\$126,520	(61.4%)
10/01/2001	\$642,487	\$550,172	\$(92,315)	116.8%	\$133,919	(68.9%)

Combining Financial Statements

Combining Balance Sheet
All Special Revenue Funds
September 30, 2001
(In Thousands)

	Indigent Care Fund	Road Fund	Senior Citizens' Activities Fund
ASSETS			
Cash and Investments	\$ 529	\$ 337	\$
Loans Receivable, Net			
Interest Receivable			
Due from Other Governments	5,880	795	257
Property Taxes Receivable, Net		10,281	
Inventories		2,169	
Prepaid Expenses		2	2
TOTAL ASSETS	6,409	13,584	259
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Cash Deficit			141
Accounts Payable		985	124
Due to Other Governments		4,517	
Deferred Revenues		10,281	18
Accrued Payroll and Taxes		332	11
Estimated Liability for Compensated Absences		396	
TOTAL LIABILITIES		16,511	294
FUND EQUITY			
Fund Balances:			
Reserved for Prepaid Expenses		2	2
Reserved for Inventory		2,169	
Reserved for Petty Cash		1	
Reserved for CGH Foundation	409		
Reserved for Loan Receivable			
Reserved for Encumbrances	141	2,950	73
Unreserved	5,859	(8,049)	(110)
TOTAL FUND EQUITY	6,409	(2,927)	(35)
TOTAL LIABILITIES AND FUND EQUITY	\$ 6,409	\$ 13,584	\$ 259

Bridge and Public Building Fund	Community Development Fund	CDBG-EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Totals Current Year
\$ 2,691	\$ 154	\$ 910	\$ 77	\$ 1,027	\$ 5,571
	11	2,940	796		3,890
392	1,103		642	4	11
24,968					9,073
					35,249
					2,169
					4
28,051	1,268	3,850	1,515	1,031	55,967
	388				529
	738		280	13	2,140
		18			4,535
24,968				721	35,988
	21		1	6	371
				(1)	395
24,968	1,147	18	281	739	43,958
					4
					2,169
				1	2
					409
	154	2,940	796		3,890
	10,991		2,599	516	17,270
3,083	(11,024)	892	(2,161)	(225)	(11,735)
3,083	121	3,832	1,234	292	12,009
\$ 28,051	\$ 1,268	\$ 3,850	\$ 1,515	\$ 1,031	\$ 55,967

***Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Special Revenue Funds
For the Year Ended September 30, 2001
(In Thousands)***

	Indigent Care Fund	Road Fund	Senior Citizens' Activities Fund
<u>REVENUES</u>			
Taxes	\$ 38,217	\$ 11,996	\$ 5,339
Intergovernmental Charges for Services		7,847	
Investment Income	7	173	12
Miscellaneous	4,163	95	5
TOTAL REVENUES	42,387	20,111	5,356
<u>EXPENDITURES</u>			
Current:			
General Government	6,557		6,215
Public Safety			
Highways and Roads		32,282	
Health and Welfare			
Capital Outlay		4,562	25
Indirect Cost	22	3,889	165
TOTAL EXPENDITURES	6,579	40,733	6,405
Excess of revenues over (under) expenditures	35,808	(20,622)	(1,049)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	2,485	20,894	1,574
Proceeds from Sale of Fixed Assets		317	15
Operating Transfers Out	(37,869)	(626)	(524)
TOTAL OTHER FINANCING SOURCES (USES)	(35,384)	20,585	1,065
Excess of revenues and other sources over (under) expenditures and other uses	424	(37)	16
Fund Balances at beginning of year, as restated	5,985	(2,890)	(51)
Fund Balances at end of year	\$ 6,409	\$ (2,927)	\$ (35)

Bridge and Public Building Fund	Community Development Fund	CDBG-EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Totals Current Year
\$ 27,626	\$	\$	\$	\$	\$ 77,839
697	8,411	2	1,268	1,062	24,626
	223			311	707
360		119	16	18	532
		3	129	18	4,413
28,683	8,634	124	1,413	1,409	108,117
	1,240		112		14,124
				1,096	1,096
	6,638	412	1,450		32,282
	1,225			176	8,500
42	232	20	17	76	5,988
42	9,335	432	1,579	1,348	4,463
28,641	(701)	(308)	(166)	61	66,453
	656	96	277	102	41,664
	1				26,084
(27,101)	(75)				333
(27,101)	582	96	277	102	(66,195)
1,540	(119)	(212)	111	163	(39,778)
1,543	240	4,044	1,123	129	1,886
\$ 3,083	\$ 121	\$ 3,832	\$ 1,234	\$ 292	\$ 12,009

***Combining Balance Sheet
All Capital Projects Funds
September 30, 2001
(In Thousands)***

	Capital Improvements Fund	Road Construction Fund	Totals Current Year
<u>ASSETS</u>			
Cash and Investments	\$ 28	\$ 1,120	\$ 1,148
Due from Other Governments	213	205	418
TOTAL ASSETS	241	1,325	1,566
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	4,755	230	4,985
TOTAL LIABILITIES	4,755	230	4,985
<u>FUND EQUITY</u>			
Fund Balances:			
Reserved for Encumbrances	21,856	2,500	24,356
Unreserved	(26,370)	(1,405)	(27,775)
TOTAL FUND EQUITY	(4,514)	1,095	(3,419)
TOTAL LIABILITIES AND FUND EQUITY	\$ 241	\$ 1,325	\$ 1,566

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Capital Projects Funds
For the Year Ended September 30, 2001
(In Thousands)

	Capital Improvements Fund	Road Construction Fund	Totals Current Year
<u>REVENUES</u>			
Taxes			
Intergovernmental	\$ 569	\$ 926	\$ 1,495
Charges for Services		497	497
Investment Income	33	41	74
Miscellaneous		160	160
TOTAL REVENUES	602	1,624	2,226
<u>EXPENDITURES</u>			
Current:			
Highways and Roads		4,436	4,436
Capital Outlay	29,995		29,995
TOTAL EXPENDITURES	29,995	4,436	34,431
Excess of revenues over (under) expenditures	(29,393)	(2,812)	(32,205)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	24,200	409	24,609
Proceeds from Sale of Fixed Assets	95		95
Operating Transfers Out	(7,285)		(7,285)
TOTAL OTHER FINANCING SOURCES (USES)	17,010	409	17,419
Excess of revenues and other sources over (under) expenditures and other uses	(12,383)	(2,403)	(14,786)
Fund Balances at beginning of year	7,869	3,498	11,367
Fund Balances at end of year	\$ (4,514)	\$ 1,095	\$ (3,419)

Combining Balance Sheet
All Enterprise Funds
September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
<u>ASSETS</u>		
Cash and Investments	\$	\$ 194
Accounts Receivable, Net	36	
Patient Accounts Receivable, Net	7,144	1,588
Interest Receivable		
Due from Other Governments	357	
Inventories	892	91
Property Taxes Receivable, Net		
Prepaid Expenses	1,976	
Fixed Assets, Net Where Applicable	12,214	9,514
Warrant Issuance Cost		
Deferred Loss on Early Debt Retirement		
TOTAL ASSETS	22,619	11,387
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Cash Deficit	2,460	
Accounts Payable	1,782	126
Advances from Other Funds		
Deposits Payable		48
Deferred Revenues		
Accrued Payroll and Taxes	547	148
Accrued Interest Payable		
Retainage Payable		
Arbitrage Rebate Payable		
Estimated Liability for Compensated Absences	2,315	523
Warrants Payable		
Estimated Liability for Closure/Postclosure Care Costs		
TOTAL LIABILITIES	7,104	845
<u>FUND EQUITY</u>		
Unreserved Retained Earnings	15,515	10,542
TOTAL FUND EQUITY	15,515	10,542
TOTAL LIABILITIES AND FUND EQUITY	\$ 22,619	\$ 11,387

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
\$	\$	\$	\$
754	555,728	26	555,948
	10,999	1	11,790
	353		8,732
	610		353
	497		967
	3,427		1,480
	5		3,427
51,778	2,770,620	20	1,981
176	33,497		2,844,146
	2,776		33,673
52,708	3,378,512	47	2,776
			3,465,273
33			2,493
31	18,700		20,639
19,200			19,200
	3,427		48
49	426	1	3,427
	16,273		1,171
	13,121		16,273
	4,465		13,121
449	3,176	5	4,465
	1,796,250		6,468
3,355			1,796,250
23,117	1,855,838	6	3,355
			1,886,910
29,591	1,522,674	41	1,578,363
29,591	1,522,674	41	1,578,363
\$ 52,708	\$ 3,378,512	\$ 47	\$ 3,465,273

***Combining Statement of Revenues, Expenses and Changes in Fund Equity - All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)***

	Cooper Green Hospital Fund	County Home Fund
<u>Operating Revenues</u>		
Taxes	\$	\$
Charges for Services	31,635	8,826
Other Operating Revenue		59
Total Operating Revenues	<u>31,635</u>	<u>8,885</u>
<u>Operating Expenses</u>		
Provisions for Bad Debt	3,555	357
Salaries	27,345	6,995
Employee Benefits and Payroll Taxes	5,446	1,683
Utilities	958	573
Supplies	8,965	1,175
Depreciation and Amortization	2,026	353
Outside Services	10,179	3,393
Services from other Hospitals	4,963	
Jefferson Clinic	7,495	
Office Expense	698	134
Closure and Postclosure Care Cost		
Miscellaneous	391	32
Total Operating Expenses	<u>72,021</u>	<u>14,695</u>
Operating Income (Loss)	<u>(40,386)</u>	<u>(5,810)</u>
<u>Nonoperating Revenues (Expenses)</u>		
Arbitrage Rebates		
Interest Revenue	42	
Miscellaneous Revenue		
Interest Expense	(73)	
Indirect Cost	(1,375)	(484)
Gain/(Loss) On Sale of Fixed Assets	(42)	1
Total Nonoperating Revenues (Expenses)	<u>(1,448)</u>	<u>(483)</u>
Income (Loss) Before Operating Transfers	<u>(41,834)</u>	<u>(6,293)</u>
<u>Operating Transfers</u>		
Operating Transfers In	37,874	7,183
Operating Transfers Out		
Total Operating Transfers	<u>37,874</u>	<u>7,183</u>
Net Income (Loss)	(3,960)	890
Fund Equity at beginning of year, as Restated	19,475	9,652
Fund Equity at end of year	<u>\$ 15,515</u>	<u>\$ 10,542</u>

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
\$	\$	\$	\$
	3,806		3,806
4,014	76,956	222	121,653
64	96		219
4,078	80,858	222	125,678
22	1,290		5,224
2,302	19,724	27	56,393
531	4,825	6	12,491
272	5,322	48	7,173
406	1,869	2	12,417
2,312	33,576	13	38,280
489	6,092	4	20,157
			4,963
			7,495
25	1,294		2,151
134			134
11	158	146	738
6,504	74,150	246	167,616
(2,426)	6,708	(24)	(41,938)
	(1,004)		(1,004)
61	51,360	1	51,464
	29		29
(871)	(90,391)		(91,335)
(389)	(2,444)	(41)	(4,733)
26	(138)		(153)
(1,173)	(42,588)	(40)	(45,732)
(3,599)	(35,880)	(64)	(87,670)
5,566			50,623
(1,251)	(337)		(1,588)
4,315	(337)		49,035
716	(36,217)	(64)	(38,635)
28,875	1,558,891	105	1,616,998
\$ 29,591	\$ 1,522,674	\$ 41	\$ 1,578,363

Combining Statement of Cash Flows
All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
<u>Cash Flows from Operating Activities</u>		
Operating Income (Loss)	\$ (40,386)	\$ (5,810)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>		
Depreciation and Amortization	2,026	353
(Increase)/Decrease in Accounts Receivable	4	
(Increase)/Decrease in Interest Receivable		
(Increase)/Decrease in Patients Receivable (Net)	(813)	(177)
(Increase)/Decrease in Prepaid Items	(1,368)	
(Increase)/Decrease in Due from Governmental Units	666	
(Increase)/Decrease in Property Taxes Receivable		
(Increase)/Decrease in Inventory	94	(36)
(Increase)/Decrease in Warrant Issuance Costs		
(Increase)/Decrease in Deferred Loss on Early Debt Retirement		
Increase/(Decrease) in Accounts Payable	557	(246)
Increase/(Decrease) in Advances to Other Funds		
Increase/(Decrease) in Other Accounts Payable	(245)	
Increase/(Decrease) in Deferred Revenues		
Increase/(Decrease) in Accrued Payroll and Taxes		12
Increase/(Decrease) in Deposits Payable		11
Increase/(Decrease) in Retainage Payable		
Increase/(Decrease) in Interest Payable		
Increase/(Decrease) in Arbitrage Rebate Payable		
Increase/(Decrease) in Compensated Absences Payable	42	50
Increase/(Decrease) in Estimated Liability for Landfill Postclosure Costs		
Total Adjustments	<u>963</u>	<u>(33)</u>
Net Cash Provided/(Used) by Operating Activities		
Carried Forward	<u>\$ (39,423)</u>	<u>\$ (5,843)</u>

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
\$ (2,426)	\$ 6,708	\$ (24)	\$ (41,938)
2,312	33,576	13	38,280
(8)	1,009		1,005
	(353)		(353)
	(5)		(990)
	(120)		(1,373)
	(3,427)		546
	50		(3,427)
(178)	(11,605)		108
			(11,783)
	454		454
31	(8,252)		(7,910)
19,200			19,200
	(3)		(248)
	3,427		3,427
2	32		46
			11
	7,006		7,006
(67)	2,577		2,510
	1,004		1,004
26	289		407
93			93
21,411	25,659	13	48,013
\$ 18,985	\$ 32,367	\$ (11)	\$ 6,075

Combining Statement of Cash Flows
All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
Net Cash Provided/(Used) by Operating Activities		
Brought Forward	\$ (39,423)	\$ (5,843)
<u>Cash Flows from Non-Capital Financing Activities</u>		
Operating Transfers In	37,874	7,183
Operating Transfers Out		
Increase/(Decrease) in Cash Deficit	2,460	
Received from Auxiliary Services		
Indirect Cost	(1,375)	(484)
Net Cash Provided/(Used) by Non-Capital Financing Activities	38,959	6,699
<u>Cash Flows from Capital and Related Financing Activities</u>		
Interest Paid	(73)	
Acquisition of Fixed Assets	(541)	(756)
Proceeds from Warrant Issuance		
Principal Payments		
Net Cash Provided/(Used) by Capital and Related Financing Activities	(614)	(756)
<u>Cash Flows from Investing Activities</u>		
Interest and Dividend Income	42	
Net Cash Provided/(Used) by Investing Activities	42	
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,036)	100
Cash and Investments, Beginning of Year	1,036	94
Cash and Investments, End of Year	\$	\$ 194

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
\$ 18,985	\$ 32,367	\$ (11)	\$ 6,075
5,566			50,623
(1,251)	(337)		(1,588)
33			2,493
	29		29
(389)	(2,444)	(41)	(4,733)
3,959	(2,752)	(41)	46,824
(871)	(90,391)		(91,335)
(134)	(382,622)		(384,053)
	275,000		275,000
(22,000)	(15,635)		(37,635)
(23,005)	(213,648)		(238,023)
61	51,360	1	51,464
61	51,360	1	51,464
	(132,673)	(51)	(133,660)
	688,401	77	689,608
\$	\$ 555,728	\$ 26	\$ 555,948

***Combining Balance Sheet
All Internal Service Funds
September 30, 2001
(In Thousands)***

	Risk Management Fund	Personnel Board Fund	Elections Fund
<u>ASSETS</u>			
Cash and Investments	\$ 10,009	\$	\$ 342
Accounts Receivable, Net			
Due from Other Governments		3,219	41
Inventories			
Prepaid Expenses	56		
Fixed Assets, Net Where Applicable	166	83	280
TOTAL ASSETS	10,231	3,302	663
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Cash Deficit		2,592	
Accounts Payable	362	382	12
Accrued Payroll and Taxes	11	51	5
Estimated Liability for Compensated Absences	52	330	48
Estimated Claims Liability	4,640		
TOTAL LIABILITIES	5,065	3,355	65
<u>FUND EQUITY</u>			
Unreserved Retained Earnings	5,166	(53)	598
TOTAL FUND EQUITY	5,166	(53)	598
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,231	\$ 3,302	\$ 663

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
\$ 15	\$ 409	\$ 226	\$ 16	\$ 7,624	\$ 18,641
1				6	7
		3	1	29	3,293
	294	11	164	664	1,133
19					75
5,647	2,066	5,553	64	6,012	19,871
5,682	2,769	5,793	245	14,335	43,020
					2,592
336	155	19	44	352	1,662
56	55	8	5	173	364
418	412	63	32	1,278	2,633
					4,640
810	622	90	81	1,803	11,891
					4,872
4,872	2,147	5,703	164	12,532	31,129
4,872	2,147	5,703	164	12,532	31,129
\$ 5,682	\$ 2,769	\$ 5,793	\$ 245	\$ 14,335	\$ 43,020

Combining Statement of Revenues, Expenses and Changes in Fund Equity - All Internal Service Funds For the Year Ended September 30, 2001 (In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
<u>Operating Revenues</u>			
Intergovernmental	\$	\$	\$
Charges for Services	2,370	3,796	876
Total Operating Revenues	<u>2,370</u>	<u>3,796</u>	<u>876</u>
<u>Operating Expenses</u>			
Salaries	469	2,315	392
Employee Benefits and Payroll Taxes	596	515	46
Utilities	1	1	5
Supplies	15	66	22
Depreciation and Amortization	56	55	27
Outside Services	976	2,088	17
Office Expense	1,701	120	17
Miscellaneous	9	17	
Total Operating Expenses	<u>3,823</u>	<u>5,177</u>	<u>526</u>
Operating Income	<u>(1,453)</u>	<u>(1,381)</u>	<u>350</u>
<u>Nonoperating Revenues (Expenses)</u>			
Interest Revenue	182		
Miscellaneous Revenue	405		
Indirect Cost		(90)	(76)
Gain (Loss) on Sale of Fixed Assets		(22)	
Indirect Cost Recovery		1,101	
Total Nonoperating Revenues (Expenses)	<u>587</u>	<u>989</u>	<u>(76)</u>
Income (Loss) Before Operating Transfers	<u>(866)</u>	<u>(392)</u>	<u>274</u>
<u>Operating Transfers</u>			
Operating Transfers In		339	206
Operating Transfers Out	(30)		
Total Operating Transfers	<u>(30)</u>	<u>339</u>	<u>206</u>
Net Income	(896)	(53)	480
Fund Equity at beginning of year	<u>6,062</u>		<u>118</u>
Fund Equity at end of year	<u>\$ 5,166</u>	<u>\$ (53)</u>	<u>\$ 598</u>

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
\$ 462	\$ 1,490	\$ 1,016	\$ 679	\$ 14,167	\$ 4,672
462	1,490	1,016	679	14,167	20,184
2,537	2,554	442	244	7,712	16,665
534	617	121	58	1,947	4,434
2	126	230		2,754	3,119
270	1,666	15	199	1,224	3,477
1,706	242	42	41	410	2,579
3,093	104	187	62	1,948	8,475
124	24	3	9	410	2,408
117	15		53	234	445
8,383	5,348	1,040	666	16,639	41,602
(7,921)	(3,858)	(24)	13	(2,472)	(16,746)
	8	4		129	323
	2		1	1,027	1,435
(48)			(2)		(216)
	(1)	(4)	(1)	2	(26)
5,236	3,843	48		5,243	15,471
5,188	3,852	48	(2)	6,401	16,987
(2,733)	(6)	24	11	3,929	241
3,146	96	5,393		9	9,189
	(60)			(329)	(419)
3,146	36	5,393		(320)	8,770
413	30	5,417	11	3,609	9,011
4,459	2,117	286	153	8,923	22,118
\$ 4,872	\$ 2,147	\$ 5,703	\$ 164	\$ 12,532	\$ 31,129

Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
<u>Cash Flows from Operating Activities</u>			
Operating Income (Loss)	\$ (1,453)	\$ (1,381)	\$ 350
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>			
Depreciation and Amortization	56	55	27
(Increase)/Decrease in Accounts Receivable			
(Increase)/Decrease in Prepaid Items			
(Increase)/Decrease in Due from Governmental Units		(802)	26
(Increase)/Decrease in Inventory			
Increase/(Decrease) in Accounts Payable	255	311	10
Increase/(Decrease) in Other Accounts Payable			
Increase/(Decrease) in Due to Other Funds			
Increase/(Decrease) in Accrued Payroll and Taxes	1	5	
Increase/(Decrease) in Compensated Absences Payable	11	34	4
Increase/(Decrease) in Estimated Claims Liability	1,981		
Total Adjustments	<u>2,304</u>	<u>(397)</u>	<u>67</u>
Net Cash Provided/(Used) by Operating Activities			
Carried Forward	<u>\$ 851</u>	<u>\$ (1,778)</u>	<u>\$ 417</u>

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
\$ (7,921)	\$ (3,858)	\$ (24)	\$ 13	\$ (2,472)	\$ (16,746)
1,706	242	42	41	410	2,579
5				14	19
(4)				69	65
	9	(2)		(1)	(770)
	(13)	3	(37)	(66)	(113)
221	98	18	(20)	(28)	865
			(9)	(7)	(16)
				(1)	(1)
6	1	(1)		12	24
34	29	(3)	10	58	177
					1,981
1,968	366	57	(15)	460	4,810
\$ (5,953)	\$ (3,492)	\$ 33	\$ (2)	\$ (2,012)	\$ (11,936)

Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Net Cash Provided/(Used) by Operating Activities			
Brought Forward	\$ 851	\$ (1,778)	\$ 417
<u>Cash Flows from Non-Capital Financing Activities</u>			
Operating Transfers In		339	206
Operating Transfers Out	(30)		
Increase/(Decrease) in Cash Deficit		447	
Received from Auxiliary Services	405		
Indirect Cost Recovery		1,101	
Indirect Cost		(90)	(76)
Net Cash Provided/(Used) by Non-Capital Financing Activities	375	1,797	130
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition of Fixed Assets	(15)	(19)	(205)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(15)	(19)	(205)
<u>Cash Flows from Investing Activities</u>			
Interest and Dividend Income	182		
Net Cash Provided/(Used) by Investing Activities	182		
Net Increase/(Decrease) in Cash and Cash Equivalents	1,393		342
Cash and Investments, Beginning of Year	8,616		
Cash and Investments, End of Year	\$ 10,009	\$	\$ 342

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
\$ (5,953)	\$ (3,492)	\$ 33	\$ (2)	\$ (2,012)	\$ (11,936)
3,146	96 (60)	5,393		9 (329)	9,189 (419)
	2		1	1,027	447 1,435
5,236 (48)	3,843	48	(2)	5,243	15,471 (216)
8,334	3,881	5,441	(1)	5,950	25,907
(2,367)	(104)	(5,393)		(249)	(8,352)
(2,367)	(104)	(5,393)		(249)	(8,352)
	8	4		129	323
	8	4		129	323
14	293	85	(3)	3,818	5,942
1	116	141	19	3,806	12,699
\$ 15	\$ 409	\$ 226	\$ 16	\$ 7,624	\$ 18,641

***Combining Balance Sheet
All Fiduciary Fund Types
September 30, 2001
(In Thousands)***

	<u>Expendable Trust Funds</u>		<u>Pension</u>	<u>Totals</u>
	<u>Stormwater Management Authority Fund</u>	<u>City of Birmingham Revolving Loan Fund</u>	<u>Trust Fund General Retirement System</u>	
<u>ASSETS</u>				
Cash and Investments	\$ 1,301	\$ 743	\$ 664,670	\$ 666,714
Loans Receivable, Net		636		636
Interest Receivable			6,264	6,264
Prepaid Expenses	2			2
Fixed Assets, Net Where Applicable	201			201
TOTAL ASSETS	1,504	1,379	670,934	673,817
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts Payable	30		388	418
Accrued Payroll and Taxes	18			18
Estimated Liability for Compensated Absences	121			121
TOTAL LIABILITIES	169		388	557
<u>FUND EQUITY</u>				
Fund Balances:				
Reserved for:				
Prepaid Expenses	2			2
Loans Receivable		636		636
Trust Requirements	1,318	743		2,061
Reserved for Encumbrances	15			15
Contingent Refunds			65,833	65,833
Retirement/Disability Benefits			604,713	604,713
TOTAL FUND EQUITY	1,335	1,379	670,546	673,260
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,504	\$ 1,379	\$ 670,934	\$ 673,817

***Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Expendable Trust Funds
For the Year Ended September 30, 2001
(In Thousands)***

	Stormwater Management Authority Fund	City of Birmingham Revolving Loan Fund	<u>Totals</u> Current Year
<u>REVENUES</u>			
Intergovernmental	\$ 2,227	\$	\$ 2,227
Investment Income	35	30	65
Miscellaneous	59	96	155
TOTAL REVENUES	<u>2,321</u>	<u>126</u>	<u>2,447</u>
<u>EXPENDITURES</u>			
General Government	1,788		1,788
Indirect Cost	72		72
TOTAL EXPENDITURES	<u>1,860</u>		<u>1,860</u>
Excess of revenues over (under) expenditures	461	126	587
Fund Balances at beginning of year	874	1,253	2,127
Fund Balances at end of year	<u>\$ 1,335</u>	<u>\$ 1,379</u>	<u>\$ 2,714</u>

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U.S. Department of Housing and Urban Development</u>		
<u>Direct Programs</u>		
Community Development Block Grants/Entitlement Grants	14.218	B95-UC-01-0001
	14.218	B96-UC-01-0001
	14.218	B97-UC-01-0001
	14.218	B98-UC-01-0001
	14.218	B99-UC-01-0001
	14.218	B00-UC-01-0001
Revolving Loan Funds	14.218	
Sub-Total Community Development Block Grants/Entitlement Grants		
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
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-99-UC-01-0006
	14.231	S-00-UC-01-0006
Sub-Total Emergency Shelter Grants Program (Direct Programs)		
<u>U.S. Department of Housing and Urban Development</u>		
<u>Passed Through Alabama Department</u>		
<u>of Economic and Community Affairs</u>		
Emergency Shelter Grants Program	14.231	ESG-99-036
	14.231	ESG-00-036
	14.231	ESG-98-036
	14.231	ESG-95-036
Sub-Total Emergency Shelter Grants Program (Passed Through)		
Total Emergency Shelter Grants Program		
Community Development Block Grants-State's Program (M)	14.228	DRI-98-001
Total U.S. Department of Housing and Urban Development		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10-01-1995 To 09-30-2001	\$ 3,219,000	\$ 3,219,000	\$	\$ 63,603
10-01-1996 To 09-30-2001	3,118,000	3,118,000		31,190
10-01-1997 To 09-30-2001	2,838,000	2,838,000		115,836
10-01-1998 To 09-30-2001	2,729,000	2,729,000	799,388	96,617
10-01-1999 To 09-30-2001	2,745,000	2,745,000	1,980,509	917,937
10-01-2000 To 09-30-2001	2,724,000	2,724,000		1,554,714
10-01-1999 To 09-30-2000				2,919,894
	17,373,000	17,373,000	2,779,897	5,699,791
10-01-1996 To 09-30-2001	1,145,000	916,000	147,515	147,515
10-01-1997 To 09-30-2001	1,118,750	895,000	209,408	209,408
10-01-1998 To 09-30-2001	1,176,250	941,000	607,757	607,757
10-01-1999 To 09-30-2001	1,272,500	1,018,000	226,895	226,895
10-01-2000 To 09-30-2001		1,023,000	76,684	76,684
	4,712,500	4,793,000	1,268,259	1,268,259
06-18-1997 To 09-30-2001	1,116,255	1,014,778	95,565	95,564
10-01-1999 To 09-30-2001	97,000	97,000	15,295	15,295
10-01-2000 To 09-30-2001	97,000	97,000	96,553	96,553
	194,000	194,000	111,848	111,848
06-03-1999 To 06-02-2001	342,000	171,000	32,185	32,185
06-02-2000 To 06-02-2002	250,000	125,000	120,870	120,870
06-02-2000 To 06-02-2002	10,294	5,147	5,147	5,147
06-02-2000 To 06-02-2002	49,706	24,853	24,853	24,853
	652,000	326,000	183,055	183,055
	846,000	520,000	294,903	294,903
10-04-1999 To 09-29-2002	1,500,000	1,500,000	833,827	833,827
	25,547,755	25,200,778	5,272,451	8,192,344
	\$ 25,547,755	\$ 25,200,778	\$ 5,272,451	\$ 8,192,344

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>U.S. Department of Agriculture</u>		
<u>Passed Through State Department of Education</u>		
Nutrition Cluster:		
School Breakfast Program	10.553	
National School Lunch Program	10.555	
Sub-Total Child Nutrition Cluster		
Food Distribution (N)	10.550	
Sub-Total Passed Through Alabama Department of Education		
<u>Passed Through Alabama Commission on Aging</u>		
Nutrition Program for the Elderly (Commodities)	10.570	
<u>Passed Through State Emergency Management Agency</u>		
Watershed Protection and Flood Prevention	10.904	69-4101-1-44
	10.904	
Sub-Total Watershed Protection and Flood Prevention		
Total U.S. Department of Agriculture		
<u>U.S. Department of Health and Human Services</u>		
<u>Direct Programs</u>		
Consolidated Knowledge Development and Application Program: Targeted Capacity Expansion	93.230	5 H79 TI12422-02
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	6H76HA00098-081
<u>Passed Through Alabama Commission on Aging</u>		
Aging Cluster:		
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 - Administrative	93.044	03-01-00-03a
Title III, Part B - Grants for Supportive Services and Senior Centers - Social Services	93.044	03-01-01-03a
Title III, Part B - Grants for Supportive Services and Senior Centers - Social Services	93.044	03-01-00-03a
Sub-Total Title III, Part B		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 25,547,755	\$ 25,200,778	\$ 5,272,451	\$ 8,192,344
10-01-2000 To 09-30-2001	40,714	40,714	40,714	40,714
10-01-2000 To 09-30-2001	73,050	73,050	73,050	73,050
	113,764	113,764	113,764	113,764
10-01-2000 To 09-30-2001	7,208	7,208	7,208	7,208
	120,972	120,972	120,972	120,972
10-01-2000 To 09-30-2001	293,615	293,615	293,615	293,615
09-01-2001 To 09-30-2001	225,000	225,000	187,300	187,300
05-01-2001 To 06-01-2001	47,000	47,000	39,950	39,950
	272,000	272,000	227,250	227,250
	686,587	686,587	641,837	641,837
09-30-2000 To 09-29-2003	514,097	514,097	87,690	87,690
01-01-2001 To 12-31-2001	891,150	891,150	1,047,270	1,047,270
10-01-2000 To 09-30-2001	101,822	101,822	101,822	101,822
10-01-1999 To 09-30-2000	64,565	64,565	64,565	64,565
10-01-2000 To 09-30-2001	439,091	439,091	439,091	439,091
10-01-1999 To 09-30-2000	27,101	27,101	27,101	27,101
	632,579	632,579	632,579	632,579
	\$ 28,272,168	\$ 27,925,191	\$ 7,681,827	\$ 10,601,720

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Title III, Part C - Congregate Nutrition Services	93.045	03-01-01-03a
Title III, Part C - Congregate Nutrition Services	93.045	03-01-00-03a
Title III, Part C - In Home Nutrition Services	93.045	03-01-01-03a
Title III, Part C - In Home Nutrition Services	93.045	03-01-00-03a
Sub-Total Title III, Part C		
Total Aging Cluster		
National Family Caregiver Support Program	93.052	03-01-01-03a
Title XIX - Healthcare Financing Research, Demonstrations and Evaluations: Health Information Counseling and Assistance Grant Program	93.779	03-01-01-03a
Title III, Part F-Disease Prevention and Health Promotion Services	93.043	03-01-01-03a
Title III, Part F-Disease Prevention and Health Promotion Services	93.043	03-01-00-03a
Sub-Total Title III, Part F - Disease Prevention and Health Promotion Services		
Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	03-01-01-03a
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 28,272,168	\$ 27,925,191	\$ 7,681,827	\$ 10,601,720
10-01-2000 To 09-30-2001	552,811	552,811	277,017	277,017
10-01-1999 To 09-30-2000	382,070	382,070	348,250	348,250
10-01-2000 To 09-30-2001	468,818	468,818	367,770	367,770
10-01-1999 To 09-30-2000	62,052	62,052	62,052	62,052
	<u>1,465,751</u>	<u>1,465,751</u>	<u>1,055,089</u>	<u>1,055,089</u>
	<u>2,098,330</u>	<u>2,098,330</u>	<u>1,687,668</u>	<u>1,687,668</u>
10-01-2000 To 09-30-2001	19,934	19,934	19,934	19,934
10-01-2000 To 09-30-2001	61,575	61,575	28,269	28,269
10-01-2000 To 09-30-2001	41,066	41,066	34,736	34,736
10-01-1999 To 09-30-2000	960	960	960	960
	<u>42,026</u>	<u>42,026</u>	<u>35,696</u>	<u>35,696</u>
10-01-2000 To 09-30-2001	9,736	9,736	9,736	9,736
	\$ 29,871,190	\$ 29,524,213	\$ 8,830,551	\$ 11,750,444

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Title VII, Chapter 2-Long-Term Care Ombudsman Services for Older Individuals	93.042	03-01-01-03a
Title VII, Chapter 2-Long-Term Care Ombudsman Services for Older Individuals	93.042	03-01-0-03a
Sub-Total Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals		
Sub-Total Passed Through Alabama Commission on Aging		
<u>Passed Through Administrative Office of Courts</u>		
Grants to States for Access and Visitation Programs	93.597	00-AV-01
Sub-Total Passed Through Administrative Office of Courts		
Total U.S. Department of Health and Human Services		
<u>U.S. Department of Labor</u>		
<u>Direct Program</u>		
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	D-6135-7-01-81-55
<u>Passed Through Alabama Department of Senior Services</u>		
Senior Community Service Employment Program	17.235	05-502-00-3A
Sub-Total Senior Community Service Employment Program (M)		
<u>Passed Through Alabama Department of Economic and Community Affairs</u>		
Workforce Investment Act	17.255	02
Workforce Investment Act	17.255	92
Sub-Total Workforce Investment Act (M)		
Total U.S. Department of Labor		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 29,871,190	\$ 29,524,213	\$ 8,830,551	\$ 11,750,444
10-01-2000 To 09-30-2001	19,080	19,080	19,080	19,080
10-01-1999 To 09-30-2000	8	8	8	8
	19,088	19,088	19,088	19,088
	2,250,689	2,250,689	1,800,391	1,800,391
07-01-2000 To 06-30-2001	21,000	21,000	14,781	14,781
	21,000	21,000	14,781	14,781
	3,676,936	3,676,936	2,950,132	2,950,132
04-01-2000 To 09-30-2002	562,500	562,500	317,051	317,051
03-20-2000 To 03-20-2001	5,000,000	5,000,000	1,095,196	1,095,196
07-01-2000 To 06-30-2001	418,477	372,377	337,328	337,328
07-01-2000 To 06-30-2001	191,147	172,032	156,815	156,815
	609,624	544,409	494,143	494,143
07-01-2000 To 06-30-2003	2,093,112	2,093,112	1,346,551	1,346,551
07-01-2000 To 06-30-2002	400,767	400,767	64,185	64,185
	2,493,879	2,493,879	1,410,736	1,410,736
	8,666,003	8,600,788	3,317,126	3,317,126
	\$ 38,577,281	\$ 38,165,089	\$ 12,181,546	\$ 15,101,439

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>Federal Emergency Management Agency Passed Through State Emergency Management Agency</u>		
Hazard Mitigation Grant	83.548	HMGP1250-0020
Hazard Mitigation Grant	83.548	FMA-PJ-04AL-1999001
Sub-Total Hazard Mitigation Grant (M)		
Public Assistance Grants	83.544	FEMA -1282-DR-AL,PA
Total Emergency Management Agency		
<u>U.S. Department of Justice Direct Programs</u>		
Equipment Support Program	16.006	2000-TE-CS-0103
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	1999JSFX0021
Local Law Enforcement Block Grants Program	16.592	2000-LB-BX-2047
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 (M)		
Bulletproof Vest Partnership Program	16.607	01004124
	16.607	00000459
Sub-Total Bulletproof Vest Partnership Program		
<u>Passed through Alabama Department of Economic and Community Affairs</u>		
Violence Against Women Formula Grant	16.588	99-WF-PR-006
Violent Offenders Incarceration and Truth in Sentencing Incentive Grant	16.586	96-CV-LCL-005
Total U.S. Department of Justice		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 38,577,281	\$ 38,165,089	\$ 12,181,546	\$ 15,101,439
11-07-2000 To 09-30-2001	1,942,191	1,463,791	910,244	910,244
11-07-2000 To 09-30-2001	84,125	63,094	50,494	50,494
	<u>2,026,316</u>	<u>1,526,885</u>	<u>960,738</u>	<u>960,738</u>
06-01-1999 To 09-30-2001	492,000	369,000	172,581	172,581
	<u>2,518,316</u>	<u>1,895,885</u>	<u>1,133,319</u>	<u>1,133,319</u>
10-01-2000 To 09-30-2001	199,836	199,836	199,836	199,836
07-01-1999 To 09-30-2000	148,942	74,471	35,354	35,354
11-17-2000 To 11-17-2002	752,386	677,147	677,147	677,147
09-01-1999 To 08-31-2002	1,035,670	1,035,670	155,488	155,488
04-01-1999 To 06-30-2002	2,001,925	1,801,732	1,116,672	1,116,672
	<u>3,037,595</u>	<u>2,837,402</u>	<u>1,272,160</u>	<u>1,272,160</u>
03-01-1999 To 02-28-2003	13,616	6,808	6,808	6,808
05-15-2001 To 04-31-2004	7,690	3,845	3,845	3,845
	<u>21,306</u>	<u>10,653</u>	<u>10,653</u>	<u>10,653</u>
05-01-2000 To 08-31-2001	193,867	145,400	138,029	138,029
12-15-1998 To 12-14-1999	325,160	292,644	9,617	9,617
	<u>4,679,092</u>	<u>4,237,553</u>	<u>2,342,796</u>	<u>2,342,796</u>
	\$ 45,774,689	\$ 44,298,527	\$ 15,657,661	\$ 18,577,554

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2001
(In Thousands)***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>U.S. Department of Education</u>		
<u>Passed through Alabama Department of Economic and Community Affairs</u>		
Safe and Drug-Free Schools and Communities: State Grants	84.186	99-GV-DR-018
Total U.S. Department of Education		
<u>U.S. Department of Treasury</u>		
<u>Direct Program</u>		
Gang Resistance Education and Training	21.053	ATC010100
Total U.S. Department of Treasury		
<u>U.S. Department of Commerce</u>		
<u>Direct Program</u>		
Economic Development-Technical Assistance	11.303	04-39-03391.02
Total U.S. Department of Commerce		
<u>Other Federal Assistance</u>		
<u>U.S. Department of Energy</u>		
<u>Passed through Alabama Department of Economic and Community Affairs</u>		
Exxon	N/A	1EX SEP00 17
Total Expenditures of Federal Awards		

(M) = Major Program
(N) = Non-cash assistance
(N/A) = Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 45,774,689	\$ 44,298,527	\$ 15,657,661	\$ 18,577,554
10-01-2001 To 09-30-2001	40,000	40,000	40,000	40,000
	40,000	40,000	40,000	40,000
01-16-2001 To 01-15-2002	33,370	33,370	1,103	1,103
	33,370	33,370	1,103	1,103
07-25-1986 To 09-30-1999				586,594
				586,594
10-01-1999 To 09-30-2000	11,719	9,719	9,719	9,719
	\$ 45,859,778	\$ 44,381,616	\$ 15,708,483	\$ 19,214,970

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2001***

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
Workforce Investment Act	17.255	\$1,080,205
Youth Opportunity Grant	17.263	\$1,050,348
Community Development Block Grant – States Program	14.228	\$ 858,966

Note 3 – Other

Jefferson County issues loans through the Community Development Office for eligible recipients. The following loans were outstanding at September 30, 2001:

		Loans Outstanding	Less: Allowance for Doubtful Accounts	Net Loans Outstanding
Community Development Block Grants/Entitlement Grants	CFDA #14.218	\$2,735,581	\$(121,587)	\$2,613,994
Economic Development Technical Assistance	CFDA #11.303	\$ 527,281	\$ (47,492)	\$ 479,789
HOME Investment Partnership Program	CFDA #14.239	\$ 795,914	\$	\$ 795,914

Additional Information

Commission Members and Administrative Personnel
October 1, 2000 through September 30, 2001

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	Suite 250 Jefferson County Courthouse Birmingham, AL 35263	2002
Hon. Chris McNair, Member	5328 Molton Gray Drive Birmingham, AL 35228	Resigned March 29, 2001
Hon. Mary M. Buckelew, Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2002
Hon. Steve Small, Jr., Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2002

Administrative Personnel

Mr. Steve Saylor, 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 (the "Commission") as of and for the year ended September 30, 2001, and have issued our report thereon dated February 22, 2002. 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 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 Commission in the Report to the Chief Examiner.

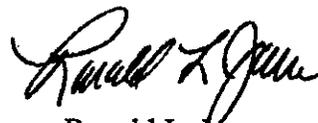
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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.

***Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards***

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 do not believe 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 22, 2002

***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, 2001. 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, 2001.

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***

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Jefferson County Commission's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2001-2.

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. Our consideration of the internal control over compliance 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 do not believe that the reportable condition described above is a material weakness.

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 22, 2002

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2001

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)? X Yes 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? X Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships Program
14.228	Community Development Block Grants/State's Program
17.235	Senior Community Service Employment Program
17.255	Workforce Investment Act
17.263	Youth Opportunity Grants
83.548	Hazard Mitigation Grant
16.710	Public Safety Partnership and Community Policing Grants

Dollar threshold used to distinguish Between
 Type A and Type B programs: \$471,254
 Auditee qualified as low-risk auditee? X Yes No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2001

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
99-1	Internal Control	<p><u>Finding:</u> Procedures were not in place to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.</p> <p><u>Recommendation:</u> Procedures should be implemented to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.</p>	
2001-1	Internal Control	<p><u>Finding:</u> Procedures were not present to assure that all certificates of deposit for retainage on construction contracts were recorded in the financial statements.</p> <p><u>Recommendation:</u> Procedures should be implemented to assure that all certificates of deposit for retainage on construction contracts are properly recorded.</p>	

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2001

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
2001-2	14.239	U.S. Department of Housing and Urban Development; Direct Program; HOME Investment Partnerships Program	<p><u>Finding:</u> Procedures were not present in the County's Office of Community Development to assure that payroll and fringe benefits amounts used as administrative costs were correctly charged to the program for which they were claimed.</p> <p><u>Recommendation:</u> Procedures should be implemented to assure that payroll and fringe benefits amounts are properly compiled for charges to grants as administrative costs.</p>	
	14.228	U.S. Department of Housing and Urban Development; Passed through Alabama Department of Economic and Community Affairs; Community Development Block Grants – State's Program		
	17.255	U.S. Department of Labor; Passed through Alabama Department of Economic and Community Affairs; Workplace Investment Act		
	17.263	U.S. Department of Labor; Direct Program; Youth Opportunity Grant		
	83.548	Federal Emergency Management Agency; Passed through Alabama Emergency Management Agency; Hazard Mitigation Grant Program		

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Auditee Response/Corrective Action Plan

JEFFERSON COUNTY COMMISSION



GARY WHITE - PRESIDENT
MARY M. BUCKELEW
BETTYE FINE COLLINS
JEFF GERMANY
STEVE SMALL, JR.

GARY WHITE-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, 2001

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, 2001.

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 retainage on construction contracts were recorded in financial records.

Response: The Finance Department and Sewer Department are working together to institute proper procedures.

Finding #2001-2: Procedures were not present in the County's Office of Community Development to assure that payroll and fringe benefits amounts used as administrative costs were correctly charged to the program for which they were claimed.

Response: Community Development is improving their procedures to hopefully reduce or eliminate these errors.

APPENDIX C

Proposed Opinion of Bond Counsel

APPENDIX C

PROPOSED OPINION OF BOND COUNSEL

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) \$2,880,000 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, bonds, 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 D
Auction Procedures

APPENDIX D

AUCTION PROCEDURES

The following is a summary of definitions of certain terms relating to the Auction Procedures. Capitalized terms used in this Appendix D that are not defined herein or elsewhere in the Official Statement 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:

<u>Prevailing Rating</u>	<u>Applicable Percentage</u>
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 D.

"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 180-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 bonds 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 decimals) 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 E

Specimen XL Capital Assurance Inc. Insurance Policy

250 Park Avenue
New York, New York 10177
Telephone: (646) 658-5900

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: