

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jefferson County Commission, as of and for the year ended September 30, 2002, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents as Exhibits 1 through 11. These financial statements are the responsibility of the Jefferson County Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

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

The Management's Discussion and Analysis and the budgetary comparison information, Exhibits 12 through 14, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

February 21, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Jefferson County, Alabama's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2002. Please read it in conjunction with the County's basic financial statements, which begin on page 29. In this first year of presentation, no comparisons of government-wide data will be presented, but such comparisons will be presented in future years.

FINANCIAL HIGHLIGHTS

- Jefferson County's governmental fund type fund balances decreased approximately \$33 million, or 14.8%, while the enterprise fund type fund equity decreased approximately \$101 million, or 6.9%. The governmental funds decrease was mainly the result of over \$22 million expended for courthouse and jail renovations and \$4 million for road construction, all coming from the Capital Projects Funds, with only \$4 million in revenue provided from charges for services and amounts received from other governments. Interest expense of \$114 million on sewer revenue bonds, combined with \$43 million additional depreciation expense on municipal sewer assets taken over by the County, were the main reasons for the enterprise fund equity decrease.
- Total assets for governmental funds decreased approximately \$25 million, or 8%, while total assets for enterprise funds increased approximately \$439 million, or 12.7%. The governmental funds decrease is almost entirely the result of funds expended from Capital Projects Funds, as noted above. Enterprise funds assets increased mainly from additional cash and investments provided by new revenue bond issues.
- Total revenues for governmental funds increased approximately \$10 million, or 3%, while total operating revenues for enterprise funds increased approximately \$14 million, or 11%.
- Total expenditures for governmental funds decreased approximately \$58 million, or 15%, while total operating expenses for enterprise funds increased approximately \$41 million, or 24%. The key factor in the governmental funds decrease was an \$81 million decrease in general obligation warrants principal payments. The enterprise fund expense increase relates primarily to a \$43 million increase in depreciation expense, resulting from the \$1.4 billion in additional municipal sewer assets which were taken over by the County.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (pages 29 - 31) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements (pages 32 - 49) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the County as a Whole

Our analysis of the County as a whole begins on page 29. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental activities – Most of the County's basic services are reported here, including general government, public safety, highways and streets, health and welfare, and culture and recreation. Property and sales taxes, occupation license fees, and state grants finance most of these activities.
- Business-type activities – The County charges fees to users to help it cover all or most of the cost of certain services it provides. The County's indigent care hospital, nursing home, landfill, sanitary operations, and parking facilities are reported here.

Reporting the County's Most Significant Funds

Our analysis of the County's funds begins on page 22. The fund financial statements begin on page 32 and provide detailed information about the most significant funds – not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Commission established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's three types of funds – governmental, proprietary, and fiduciary – use different accounting approaches.

- Governmental funds – Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom or immediately following the fund financial statements.
- Proprietary funds – When the County charges users for the services it provides – whether to outside users or to other departments of the County – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact the County's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities – such as the County's Building Services Fund.
- Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the County's own programs.

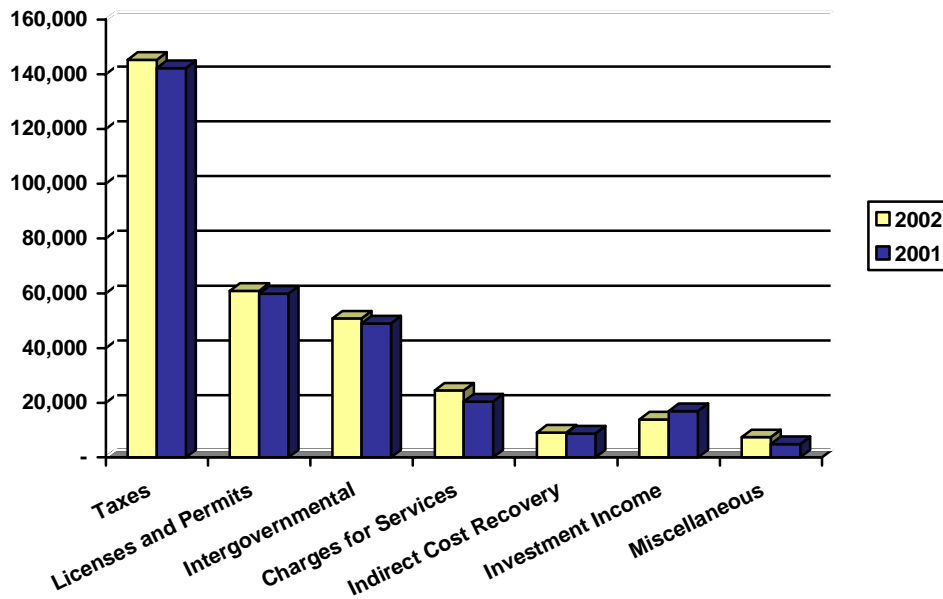
THE COUNTY'S FUNDS

Governmental Funds

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

(\$000 omitted)

Revenues by Source:	2002	2001	\$ change	% change
Taxes	\$ 145,295	\$ 142,261	\$ 3,034	2.13%
Licenses and Permits	60,903	59,846	1,057	1.77%
Intergovernmental	50,819	48,974	1,845	3.77%
Charges for Services	24,477	20,460	4,017	19.63%
Indirect Cost Recovery	9,088	8,704	384	4.41%
Investment Income	13,889	16,893	(3,004)	-17.78%
Miscellaneous	7,395	4,838	2,557	52.85%
Total Revenues	\$ 311,866	\$ 301,976	\$ 9,890	3.28%



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

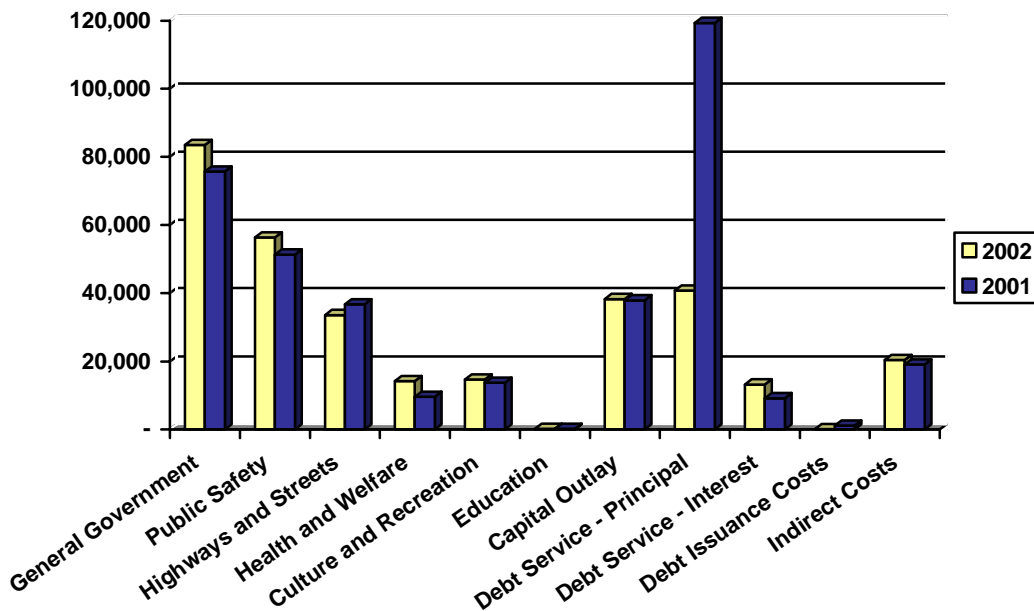
The decrease in investment income was due to less funds being available for investment, a reduction in the rates of return, and more funds available in the previous fiscal year from the issuance of the 2001-A General Obligation Warrants in the amount of \$82 million.

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

(\$000 omitted)

Expenditures by Function:

	2002	2001	\$ change	% change
General Government	\$ 83,525	\$ 75,665	\$ 7,860	10.39%
Public Safety	56,336	51,314	5,022	9.79%
Highways and Streets	33,554	36,718	(3,164)	-8.62%
Health and Welfare	14,209	9,604	4,605	47.95%
Culture and Recreation	14,684	13,758	926	6.73%
Education	200	197	3	1.52%
Capital Outlay	38,242	37,872	370	0.98%
Debt Service - Principal	40,700	119,345	(78,645)	-65.90%
Debt Service - Interest & Fiscal	13,252	8,025	5,227	65.13%
Debt Issuance Costs	139	1,176	(1,037)	-88.18%
Indirect Cost	20,401	19,092	1,309	6.86%
Total Expenditures	\$ 315,242	\$ 372,766	\$ (57,524)	-15.43%



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

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

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

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

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

(\$000 omitted)

Fund Balance

Revenues	\$ 311,866
Expenditures	(315,242)
Net Other Financing Sources (Uses)	<u>(29,844)</u>
Net Change in Fund Balance	<u><u>\$ (33,220)</u></u>

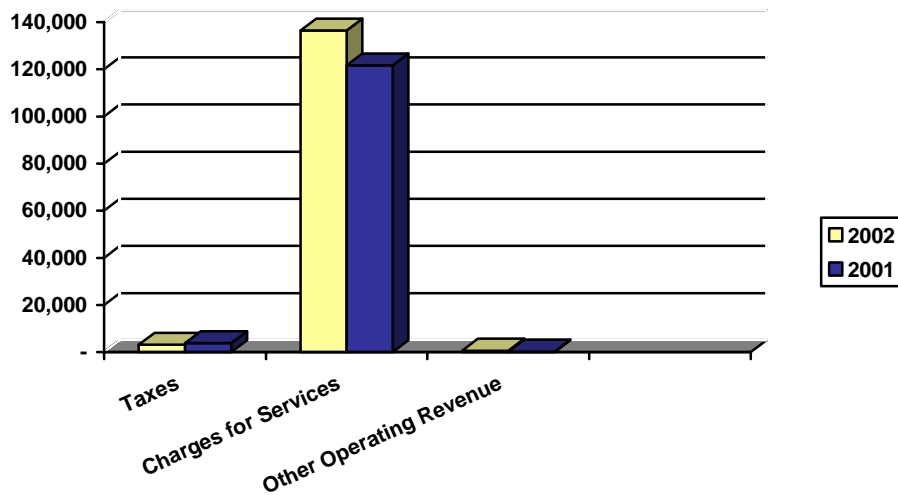
Enterprise Funds

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

(\$000 omitted)

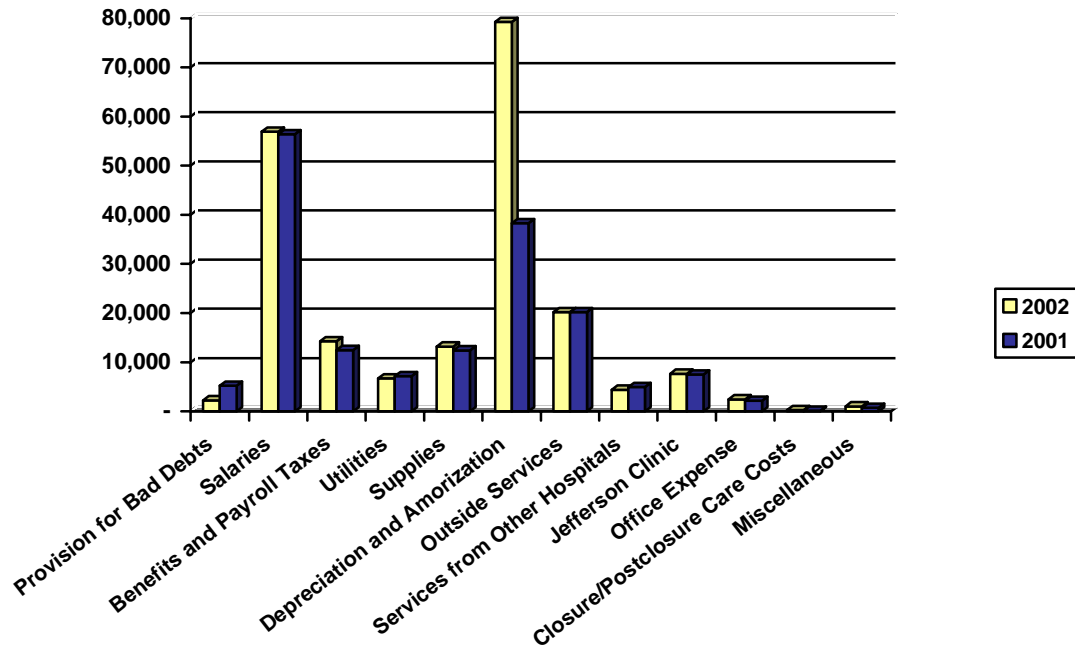
Operating Revenues

	<u>2002</u>	<u>2001</u>	<u>\$ change</u>	<u>% change</u>
Taxes	\$ 3,128	\$ 3,806	\$ (678)	-17.81%
Charges for Services	136,393	121,653	14,740	12.12%
Other Operating Revenue	653	219	434	198.17%
Total Operating Revenues	<u><u>\$ 140,174</u></u>	<u><u>\$ 125,678</u></u>	<u><u>\$ 14,496</u></u>	<u><u>11.53%</u></u>



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

(\$000 omitted)				
Operating Expenses	2002	2001	\$ change	% change
Provision for Bad Debts	\$ 2,278	\$ 5,224	\$ (2,946)	-56.39%
Salaries	56,921	56,393	528	0.94%
Benefits and Payroll Taxes	14,276	12,491	1,785	14.29%
Utilities	6,742	7,173	(431)	-6.01%
Supplies	13,209	12,417	792	6.38%
Depreciation and Amorization	79,275	38,280	40,995	107.09%
Outside Services	20,146	20,157	(11)	-0.05%
Services from Other Hospitals	4,426	4,963	(537)	-10.82%
Jefferson Clinic	7,672	7,495	177	2.36%
Office Expense	2,454	2,151	303	14.09%
Closure/Postclosure Care Costs	273	134	139	103.73%
Miscellaneous	1,013	738	275	37.26%
Total Operating Expenses	\$ 208,685	\$ 167,616	\$ 41,069	24.50%



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

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

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

(\$000 omitted)

Fund Equity

Operating Revenues	\$ 140,174
Operating Expenses	(208,685)
Net Nonoperating Revenues (Expenses)	(77,604)
Net Operating Transfers	45,296
Net Change in Fund Equity	<u><u>\$ (100,819)</u></u>

BUDGETS

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

Statements reflecting original and final budgets, plus actual compared to final budget amounts, are shown on pages 86 – 88 for the general fund and all major governmental funds. The original budget for state intergovernmental revenue in the general fund was reduced \$3.4 million for a digital tax system which state funds were initially budgeted to fund. The digital tax system increased the expenditure budgets of the Board of Equalization and Tax Assessor by a combined total of \$1.6 million. The nondepartmental original budget was increased by \$1.3 million for retirement credit and health insurance increases, \$400,000 for Treatment Alternatives to Street Crime grant, and \$180,000 for a Department of Justice mental health grant. The Sheriff's budget was increased \$1.4 million to fund the jail inmate health services program. A \$1 million increase was made to the Culture and Recreation budget for a biomedical grant to the University of Alabama at Birmingham.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2002, the County had \$470 million invested in a broad range of fixed assets related to governmental activities, including buildings, roads, bridges, and public safety equipment. This amount represents a net increase (including additions and deductions) of \$39 million, or 9%, over the previous year. In addition, capital assets invested in business-type activities was \$3.5 billion, a net increase over the previous year of \$359 million, or 11.2%.

Debt

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Jefferson County, Alabama
Statement of Net Assets
September 30, 2002
(In Thousands)
Exhibit #1

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

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

Jefferson County, Alabama
Statement of Activities
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #2

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

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		Totals
	Governmental Activities	Business Type Activities	
\$ 1,250	\$ (42,695)	\$	\$ (42,695)
	(59,511)		(59,511)
	(29,789)		(29,789)
	(60)		(60)
	(16,187)		(16,187)
	(200)		(200)
	(15,809)		(15,809)
1,250	(164,251)		(164,251)
		(40,543)	(40,543)
		(5,539)	(5,539)
		(3,568)	(3,568)
		(143,995)	(143,995)
		(104)	(104)
		(193,749)	(193,749)
\$ 1,250	\$ (164,251)	\$ (193,749)	\$ (358,000)
General Revenues			
Taxes:			
Property Taxes	73,117	3,128	76,245
Sales Tax	62,834		62,834
Other Taxes	9,343		9,343
Occupational License	54,698		54,698
Unrestricted Investment Earnings	14,083	43,900	57,983
Miscellaneous	10,238	606	10,844
Transfers	(45,296)	45,296	-
Total General Revenues and Transfers	179,017	92,930	271,947
Change in Net Assets	14,766	(100,819)	(86,053)
Net Assets Beginning of Year - As Restated (Note 22)	170,200	1,455,385	1,625,585
Net Assets End of Year	\$ 184,966	\$ 1,354,566	\$ 1,539,532

Jefferson County, Alabama
Balance Sheet - Governmental Funds
September 30, 2002
(In Thousands)
Exhibit #3

	<u>General Fund</u>	<u>Indigent Care Fund</u>	<u>Road Fund</u>
Assets			
Cash and Investments	\$ 39,746	\$ 219	\$ 1,419
Accounts Receivable, Net	51		
Loans Receivable, Net			
Interest Receivable			
Advances Due From Other Funds			
Due From Other Governments	20,946	6,038	879
Inventories	183		2,115
Prepaid Expenses	77		1
Property Taxes Receivable, Net	<u>27,470</u>		<u>10,301</u>
 Total Assets	 <u>\$ 88,473</u>	 <u>\$ 6,257</u>	 <u>\$ 14,715</u>
Liabilities			
Cash Deficit	\$	\$	\$
Accounts Payable	10,896		4,413
Due To Other Governments	121		4,648
Deferred Revenue	29,336		10,985
Retainage Payable			1,407
Accrued Wages and Benefits Payable	2,042		415
Accrued Interest Payable			
Estimated Liability for Compensated Absences	<u>804</u>		<u>307</u>
 Total Liabilities	 <u>43,199</u>		 <u>22,175</u>
Fund Balances			
Reserved For:			
Inventories	183		2,115
Petty Cash	76		1
Mapping and Reappraisal	2,652		
Cooper Green Hospital Foundation		186	
Debt Service			
Encumbrances	1,785		1,679
Prepaid Expenses	77		1
Loans Receivable			
Advances Due From Other Funds			
Unreserved Reported In:			
General Fund	40,501		
Special Revenue		6,071	(11,256)
Capital Projects			
 Total Fund Balances	 <u>45,274</u>	 <u>6,257</u>	 <u>(7,460)</u>
 Total Liabilities and Fund Balances	 <u>\$ 88,473</u>	 <u>\$ 6,257</u>	 <u>\$ 14,715</u>

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

<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 161,095	\$ 4,967	\$ 207,446
	2	53
	3,359	3,359
	10	10
19,489		19,489
	4,241	32,104
		2,298
	2	80
	25,017	62,788
<u>\$ 180,584</u>	<u>\$ 37,598</u>	<u>\$ 327,627</u>
\$	\$ 31,662	\$ 31,662
	4,466	19,775
	6	4,775
	28,269	68,590
		1,407
	51	2,508
6,241		6,241
	1	1,112
<u>6,241</u>	<u>64,455</u>	<u>136,070</u>
		2,298
	1	78
		2,652
		186
154,854		154,854
	34,907	38,371
	2	80
	3,359	3,359
19,489		19,489
		40,501
	(7,817)	(13,002)
	(57,309)	(57,309)
<u>174,343</u>	<u>(26,857)</u>	<u>191,557</u>
<u>\$ 180,584</u>	<u>\$ 37,598</u>	<u>\$ 327,627</u>

Jefferson County, Alabama
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2002
Exhibit #4

Total Fund Balances - Government Funds (Exhibit #3)	\$	191,557
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit #1) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		234,994
Deferred charges related to issuance of long-term liabilities are not reported in the funds.		109
Internal service funds are used by management to charge the costs of certain activities, such as building services and risk management, to individual funds. The assets and liabilities of certain internal service funds are included in the statement of net assets.		37,667
Long-Term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General Obligation Warrants Payable		268,230
Estimated Liability For Compensated Absences		11,131
		(279,361)
Total Net Assets - Governmental Activities (Exhibit #1)	\$	184,966

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

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Jefferson County, Alabama
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #5

	<u>General Fund</u>	<u>Indigent Care Fund</u>	<u>Road Fund</u>
Revenues			
Taxes	\$ 65,377	\$ 38,436	\$ 12,674
Licenses and Permits	60,903		
Intergovernmental	19,460		7,739
Charges for Services	20,557		204
Indirect Costs Recovery	9,088		
Miscellaneous	389	6,632	37
Interest	8,450	4	
	<u>184,224</u>	<u>45,072</u>	<u>20,654</u>
Total Revenues			
Expenditures			
Current:			
General Government	67,307	7,554	
Public Safety	55,147		
Highways and Roads			32,224
Welfare	703		
Culture and Recreation	14,684		
Education	200		
Capital Outlay	2,316		4,394
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Debt Issuance Costs			
Indirect Costs	15,893	13	3,776
	<u>156,250</u>	<u>7,567</u>	<u>40,394</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over Expenditures	27,974	37,505	(19,740)
Other Financing Sources (Uses)			
Debt Issued			
Premiums on Debt Issued			
Proceeds From Sale of Capital Assets	31		231
Transfers In	1	745	15,812
Transfers Out	(28,948)	(38,402)	(176)
	<u>(28,916)</u>	<u>(37,657)</u>	<u>15,867</u>
Total Other Financing Sources (Uses)			
Net Change In Fund Balances	(942)	(152)	(3,873)
Fund Balances at Beginning of Year, As Restated (Note 22)	46,216	6,409	(3,587)
Fund Balances at End of Year	<u>\$ 45,274</u>	<u>\$ 6,257</u>	<u>\$ (7,460)</u>

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

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

Jefferson County, Alabama
Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2002
Exhibit #6

Net Change in Fund Balances - Total Governmental Funds (Exhibit #5)	\$	(33,220)
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Amounts reported for governmental activities in the Statement of Activities (Exhibit #2) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$38,242) exceeded depreciation (\$14,909) in the current period.		23,333
--	--	--------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.

Debt Issued:		
Refunding Warrants	(\$20,065)	
Premium on Refunding Debt	(728)	
Repayments:		
Principal	<u>40,700</u>	
Net Adjustment		19,907

Some expenditures reported in the governmental funds are deferred on the statement of net assets, in particular bond issuance costs.		139
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The current year increases in Estimated Liability for Compensated Absences (\$936) exceeded amortization of deferred charges (\$2).		(934)
---	--	-------

Internal service funds are used by management to charge the costs of certain activities, such as building services and risk management, to individual funds. The net revenue and expense of certain internal service funds is reported with governmental activities.		<u>5,541</u>
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Change in net assets of governmental activities	\$	<u><u>14,766</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

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Jefferson County, Alabama
Statement of Net Assets - Proprietary Funds
September 30, 2002
(In Thousands)
Exhibit #7

	Business-type Activities - Enterprise Funds		
	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds
Assets			
Current Assets:			
Cash and Cash Equivalents	\$	\$ 13,300	\$ 4
Accounts Receivable, Net	48	12,395	2,210
Patient Accounts Receivable, Net	6,058		1,785
Interest Receivable		667	
Due From Other Governments	576	563	
Inventories	953	344	83
Prepaid Expenses	1,767	9	1
Property Taxes Receivable, Net		3,434	
Deferred Loss on Early Debt Retirement		2,322	
Total Current Assets	<u>9,402</u>	<u>33,034</u>	<u>4,083</u>
Noncurrent Assets:			
Deferred Charges		39,798	167
Restricted Assets		816,974	
Capital Assets, Net Where Applicable	12,456	2,932,952	61,000
Total Noncurrent Assets	<u>12,456</u>	<u>3,789,724</u>	<u>61,167</u>
Total Assets	<u>21,858</u>	<u>3,822,758</u>	<u>65,250</u>
Liabilities			
Current Liabilities:			
Cash Deficit	4,309		1,371
Accounts Payable	1,169	42,305	145
Deposits Payable			30
Deferred Revenue		3,662	
Accrued Wages and Benefits Payable	665	522	236
Accrued Interest Payable		18,384	23
Retainage Payable		12,505	
Estimated Liability for Compensated Absences	210	310	89
Warrants Payable		13,300	
Estimated Claims Liability			
Total Current Liabilities	<u>6,353</u>	<u>90,988</u>	<u>1,894</u>
Noncurrent Liabilities:			
Advances Due to Other Funds			19,489
Arbitrage Rebate Payable		2,383	
Warrants Payable		2,424,455	
Estimated Liability for Landfill Closure/ Postclosure Care Costs			3,587
Estimated Liability for Compensated Absences	2,118	3,131	902
Total Noncurrent Liabilities	<u>2,118</u>	<u>2,429,969</u>	<u>23,978</u>
Total Liabilities	<u>8,471</u>	<u>2,520,957</u>	<u>25,872</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	12,456	537,317	41,511
Unrestricted	931	764,484	(2,133)
Total Net Assets	<u>\$ 13,387</u>	<u>\$ 1,301,801</u>	<u>\$ 39,378</u>

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

<u>Total</u>	<u>Internal Service Funds</u>
\$ 13,304	\$ 20,692
14,653	79
7,843	
667	
1,139	5,613
1,380	1,126
1,777	136
3,434	
2,322	
<u>46,519</u>	<u>27,646</u>
39,965	
816,974	
<u>3,006,408</u>	<u>22,263</u>
<u>3,863,347</u>	<u>22,263</u>
<u>3,909,866</u>	<u>49,909</u>
5,680	5,095
43,619	798
30	
3,662	
1,423	484
18,407	
12,505	
609	254
13,300	
	<u>3,038</u>
<u>99,235</u>	<u>9,669</u>
19,489	
2,383	
2,424,455	
3,587	
<u>6,151</u>	<u>2,573</u>
<u>2,456,065</u>	<u>2,573</u>
<u>2,555,300</u>	<u>12,242</u>
591,284	22,263
763,282	15,404
<u>\$ 1,354,566</u>	<u>\$ 37,667</u>

Jefferson County, Alabama
Statement of Revenues, Expenses and
Changes in Fund Net Assets -
Proprietary Funds
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #8

	Business-type Activities - Enterprise Funds		
	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds
Operating Revenues			
Taxes	\$	\$ 3,128	\$
Intergovernmental			
Charges for Services	32,816	89,963	13,614
Other Operating Revenue	16	505	132
Total Operating Revenues	32,832	93,596	13,746
Operating Expenses			
Provision for Bad Debts	2,253		25
Salaries	26,756	20,677	9,488
Employee Benefits and Payroll Taxes	5,935	5,865	2,476
Materials and Supplies	9,667	1,977	1,565
Utilities	913	4,965	864
Outside Services	10,268	6,019	3,859
Services From Other Hospitals	4,426		
Jefferson Clinic	7,672		
Office Expense	1,188	890	376
Depreciation and Amortization	1,789	74,943	2,543
Landfill Closure and Postclosure Care Costs			273
Miscellaneous	818	162	33
Total Operating Expenses	71,685	115,498	21,502
Operating Income (Loss)	(38,853)	(21,902)	(7,756)
Nonoperating Revenues (Expenses)			
Interest Expense	(18)	(114,324)	(337)
Interest Revenue	13	43,816	71
Miscellaneous		635	1,407
Amortization of Bond Issue Costs		(1,660)	(9)
Indirect Costs	(1,672)	(2,981)	(1,109)
Gain/(Loss) on Sale of Capital Assets		(1,479)	43
Indirect Cost Recovery			
Total Nonoperating Revenues (Expenses)	(1,677)	(75,993)	66
Operating Transfers			
Transfers In	38,402		8,152
Transfers Out			(1,258)
Total Operating Transfers	38,402		6,894
Change in Net Assets	(2,128)	(97,895)	(796)
Total Net Assets - Beginning of Year as Restated (Note 22)	15,515	1,399,696	40,174
Total Net Assets - End of Year	\$ 13,387	\$ 1,301,801	\$ 39,378

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

<u>Total</u>	<u>Internal Service Funds</u>
\$ 3,128	\$ 4,949
136,393	20,819
653	
<u>140,174</u>	<u>25,768</u>
2,278	
56,921	18,725
14,276	5,223
13,209	3,566
6,742	3,184
20,146	8,803
4,426	
7,672	
2,454	899
79,275	2,801
273	
1,013	470
<u>208,685</u>	<u>43,671</u>
(68,511)	(17,903)
(114,679)	
43,900	193
2,042	1,404
(1,669)	
(5,762)	(266)
(1,436)	(21)
	17,502
<u>(77,604)</u>	<u>18,812</u>
46,554	6,550
<u>(1,258)</u>	<u>(921)</u>
45,296	5,629
<u>(100,819)</u>	<u>6,538</u>
1,455,385	31,129
<u>\$ 1,354,566</u>	<u>\$ 37,667</u>

Jefferson County, Alabama
Statement of Cash Flows -
Proprietary Funds
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #9

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

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

Enterprise Funds

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

Jefferson County, Alabama
Statement of Cash Flows -
Proprietary Funds
September 30, 2002
(In Thousands)
Exhibit #9

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

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

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

Jefferson County, Alabama
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2002
(In Thousands)
Exhibit #10

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

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

Jefferson County, Alabama
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #11

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Note 1 - Summary of Significant Account Policies

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

In June 1999, the GASB approved Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement provides for significant changes in financial reporting for state and local governments. Some of the significant changes include:

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

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

A. Reporting Entity

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

Based on the application of the above criteria, the following entities are component units of the Commission: Jefferson County Tax Collector – Birmingham and Bessemer Divisions, Tax Assessor – Birmingham and Bessemer Divisions, Revenue Department, Probate Judge – Birmingham and Bessemer Divisions, Sheriff, Treasurer – Birmingham Division and Deputy

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Treasurer – Bessemer Division. Separate legal compliance examination reports are issued for these component units, and these reports can be obtained from the State of Alabama, Department of Examiners of Public Accounts.

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

The Commission reports the following major governmental funds:

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

- **Road Fund** – This fund is used to account for the County’s share of the following taxes: 7-cent and 4-cent per gallon gasoline tax, the 5-cent per gallon supplemental excise tax, the 2-cent per gallon inspection fee, motor vehicle and truck license taxes and fees, and driver’s license revenue. Revenues are earmarked for building and maintaining county roads and bridges.
- **Debt Service Fund** – This fund is used to account for the accumulation of resources for, and the payment of, the Commission’s principal and interest on governmental funds.

Other non-major governmental funds are as follows:

- **Senior Citizens’ Activities Fund** – This fund is used to account for the expenditure of federal and county funds to provide social, nutritional, transportation, and other services to elderly residents of Jefferson County.
- **Bridge and Public Building Fund** – This fund is used to account for the expenditure of special county property taxes for building and maintaining public buildings, roads and bridges.
- **Community Development Fund** – This fund is used to account for the expenditure of federal block grant funds.
- **CDBG/EDA Revolving Loan Fund** – This fund is used to account for the Commission’s administration of various loan programs for rental housing rehabilitation and economic development.
- **Home Grant Fund** – This fund is used to account for the expenditure of funds received from the U. S. Department of Housing and Urban Development.
- **Emergency Management Fund** – This fund is used to account for the expenditure of funds received for disaster assistance programs.
- **Capital Improvements Fund** – This fund is used to account for the financial resources used in the improvement of major capital facilities.
- **Road Construction Fund** – This fund is used to account for the financial resources used in the construction of roads.

The Commission reports the following major enterprise funds:

- **Cooper Green Hospital Fund** – This fund is used to account for the operations of the Cooper Green Hospital. Operating revenues are derived from net patient charges and reimbursements from third parties including Medicare and Medicaid.
- **Sanitary Operations Fund** – This fund is used to account for the operations of the County’s sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated ad valorem taxes.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Other non-major enterprise funds are as follows:

- **Landfill Operations Fund** – This fund is used to account for the operations of the County's landfill systems. Revenues are generated primarily through user charges.
- **County Home Fund** - This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.
- **Parking Deck Fund** – This fund is used to account for the operations of the County parking deck. Revenues are generated through user charges.

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

- **Risk Management Fund** – This fund is used to account for resources to provide insurance needs to County departments.
- **Personnel Board Fund** – This fund is used to account for resources for providing personnel to County departments and other governmental units by the Jefferson County Personnel Board.
- **Elections Fund** – This fund is used to account for resources for holding County elections.
- **Information Services Fund** – This fund is used to account for resources for providing data processing, microfilming and related services to the various County departments.
- **Fleet Management Fund** – This fund is used to account for resources for providing and maintaining vehicles to County departments.
- **Central Laundry Fund** – This fund is used to account for providing laundry services to County departments.
- **Printing Fund** – This fund is used to account for resources for providing printing, postage and related services to County departments.
- **Building Services Fund** – This fund is used to account for resources for providing building maintenance and other related services for the County.

The Commission also reports the following Fiduciary Fund Types:

Agency Funds

- **Stormwater Management Authority Fund** – This fund is used to account for resources held by the Commission in a custodial capacity for Storm Water Management Authority, Inc. and the disbursement of funds for various projects relating to storm water discharges.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

- **City of Birmingham Revolving Loan Fund** – This fund is used to account for the disbursement of funds of the City of Birmingham’s 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.

The Commission reports the following columns:

Proprietary Funds

- **Enterprise Funds** – These funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.
- **Internal Service Funds** – These funds are used to account for the financing of goods and services provided by a county department or agency to other county departments and agencies or to other governmental units on a cost reimbursement basis and for a governmental entity’s risk financing activities.

Fiduciary Fund Types

- **Pension Trust Fund** - This fund is used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.
- **Agency Funds** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are changes between the government’s

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

enterprise function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

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

D. Assets, Liabilities, and Net Assets/Fund Balances

1. Deposits and Investments

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Commission reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

2. Receivables

Receivables are reported in the following designations on the statement of net assets. All trade, property tax, sales tax, and motor vehicle tax receivables are shown net of an allowance for uncollectibles.

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

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

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

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

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

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

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

3. Inventories

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

4. Prepaid Items

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

5. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sewer systems, and similar items), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Such assets are valued at cost where historical records are available or at an estimated fair market value on the date received. Donated fixed assets are valued at their estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

GASB Statement No. 34 requires the Commission to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2002. These infrastructure assets are likely to be the largest asset class of the Commission. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period of up to four years. The Commission will retroactively report its infrastructure built or acquired since June 30, 1980 by the beginning of fiscal year 2006.

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the County will not deteriorate and therefore should not be depreciated. The remaining part of the roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the County will be depreciated.

6. Long-Term Obligations

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

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

Bond discount/issue cost of the Series 2002-B Sewer Revenue Warrants contain deferred costs of \$5,900,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 2002-A issue was \$5,887,000.

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

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

Bond discount/issue cost of the Series 1999-A Sewer Revenue Refunding Warrants contain deferred costs of \$8,003,000 that are being amortized over 40 years. At September 30, 2002, the unamortized deferred cost of the 1999-A issue was \$7,285,000.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

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

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

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

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

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

Bond discount/issue cost of the Series 2001-B General Obligation Warrants contain deferred costs of \$379,000 attributable to general government operations and \$178,000 attributable to Landfill Operations that are being amortized over 20 years. At September 30, 2002, the unamortized deferred cost of the 2001-B issue was \$356,000 for the governmental funds and \$169,000 for enterprise funds.

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

7. Compensated Absences

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

Vacation Leave

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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 for 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 (1) payment at the current hourly pay step of the employee or (b) granting equivalent time off.

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

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

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

8. Net Assets/Fund Equity

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

- **Invested in Capital Assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- **Restricted** – Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Commission.

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

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

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

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Note 3 – Stewardship, Compliance and Accountability

A. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

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

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

B. Deficit Fund Balances/Net Assets of Individual Funds

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

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

Note 4 – Deposits and Investments

The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Programs (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the **Code of Alabama 1975**, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by the 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.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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.

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

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

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

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

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

Note 5 – Capital Assets

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

	(In Thousands)				
	<u>Balance 10/01/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassification</u>	<u>Balance 09/30/02</u>
Governmental Activities:					
Capital Assets, not being depreciated					
Land	\$ 10,385	\$ 396	\$	\$	\$ 10,781
Construction in Progress	111,197	29,013		(876)	139,334
General Infrastructure - C. I. P.	<u>10,299</u>	<u>6,233</u>			<u>16,532</u>
Total Capital Assets, not being depreciated	<u>131,881</u>	<u>35,642</u>		<u>(876)</u>	<u>166,647</u>
Capital Assets, being depreciated:					
Buildings	197,033	(552)	(2)		196,479
Improvements Other than Land/Bldg	8,434		(26)		8,408
Maintenance Equipment	4,576	127	(7)		4,696
Motor Vehicle (Non Fleet)	17,221	1,938	(275)		18,884
Office Furniture and Fixtures	3,731	242	(348)		3,625
Motor Vehicle (Fleet)	36,771	4,542	(3,087)		38,226
Miscellaneous Equipment	<u>31,603</u>	<u>2,551</u>	<u>(1,890)</u>	<u>876</u>	<u>33,140</u>
Total Capital Assets, being depreciated	<u>299,369</u>	<u>8,848</u>	<u>(5,635)</u>	<u>876</u>	<u>303,458</u>
Less Accumulated Depreciation for:					
Buildings	(132,199)	(6,548)	2		(138,745)
Improvements Other than Land/Bldg	(3,532)	(567)	17		(4,082)
Maintenance Equipment	(3,571)	(530)	7		(4,094)
Motor Vehicle (Non Fleet)	(8,684)	(1,731)	175		(10,240)
Office Furniture and Fixtures	(2,384)	(198)	238		(2,344)
Motor Vehicle (Fleet)	(26,917)	(4,027)	2,925		(28,019)
Miscellaneous Equipment	<u>(22,431)</u>	<u>(4,109)</u>	<u>1,219</u>		<u>(25,321)</u>
Total Accumulated Depreciation	<u>(199,718)</u>	<u>(17,710)</u>	<u>4,583</u>		<u>(212,845)</u>
Total Capital Assets, being depreciated, net	<u>99,651</u>	<u>(8,862)</u>	<u>(1,052)</u>	<u>876</u>	<u>90,613</u>
Governmental Activities Capital Assets, net	<u>\$ 231,532</u>	<u>\$ 26,780</u>	<u>\$ (1,052)</u>	<u>\$</u>	<u>\$ 257,260</u>

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

	(In Thousands)				
	<u>Balance 10/01/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassification</u>	<u>Balance 09/30/02</u>
Business-Type Activities					
Capital Assets, not being depreciated					
Land	\$ 31,118	\$ 3,186	\$ (133)	\$ 2,717	\$ 36,888
Construction in Progress	813,661	359,471		(253,504)	919,628
Total Capital Assets, not being depreciated	<u>844,779</u>	<u>362,657</u>	<u>(133)</u>	<u>(250,787)</u>	<u>956,516</u>
Capital Assets, being depreciated:					
Buildings	273,328	525	(692)	81,075	354,236
Improvements Other than Land/Bldg	624,501	1,957	(5,945)	169,712	790,225
Infrastructure North	533,317				533,317
Infrastructure South	882,493				882,493
Maintenance Equipment	5,947	30	(34)		5,943
Motor Vehicle (Non Fleet)	7,237	141	(885)		6,493
Office Furniture and Fixtures	10,193	7	(204)		9,996
Motor Vehicle (Fleet)	11,342	1,094	(1,141)		11,295
Miscellaneous Equipment	11,135	2,723	(852)		13,006
Total Capital Assets, being depreciated	<u>2,359,493</u>	<u>6,477</u>	<u>(9,753)</u>	<u>250,787</u>	<u>2,607,004</u>
Less Accumulated Depreciation for:					
Buildings	(123,220)	(9,626)	464		(132,382)
Improvements Other than Land/Bldg	(202,626)	(30,325)	1,858		(231,093)
Infrastructure North	(43,951)	(13,333)			(57,284)
Infrastructure South	(78,806)	(22,062)			(100,868)
Maintenance Equipment	(5,118)	(320)	30		(5,408)
Motor Vehicle (Non Fleet)	(3,987)	(654)	795		(3,846)
Office Furniture and Fixtures	(9,663)	(85)	201		(9,547)
Motor Vehicle (Fleet)	(7,511)	(1,460)	1,006		(7,965)
Miscellaneous Equipment	(8,001)	(1,410)	692		(8,719)
Total Accumulated Depreciation	<u>(482,883)</u>	<u>(79,275)</u>	<u>5,046</u>		<u>(557,112)</u>
Total Capital Assets, being depreciated, net	<u>1,876,610</u>	<u>(72,798)</u>	<u>(4,707)</u>	<u>250,787</u>	<u>2,049,892</u>
Business-type Activities Capital Assets, net	<u>\$ 2,721,389</u>	<u>\$ 289,859</u>	<u>\$ (4,840)</u>	<u>\$</u>	<u>\$ 3,006,408</u>

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

<u>(In Thousands)</u>	
Governmental Activities:	
General Government	\$ 7,188
Public Safety	3,249
Highway and Roads	4,343
Health & Welfare	129
Total Depreciation Expense - Governmental Activities	\$ 14,909
<u>(In Thousands)</u>	
Business-Type Activities:	
Hospital	\$ 1,789
Nursing Operations	349
Landfill	2,181
Sanitary Operations	74,943
Parking Services	13
Total Depreciation Expense - Business-Type Activities	\$ 79,275

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The General Retirement System for Employees of Jefferson County, Alabama (Retirement System) is the administrator of a single-employer, defined benefit pension plan (Plan) covering substantially all employees of Jefferson County, Alabama. The Retirement System was established by Act Number 487, Acts of Alabama 1965, page 717, and provides guidelines for benefits to retired and disabled employees of the County.

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

B. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Plan are prepared under the accrual method of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and when the employer has made a formal

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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 is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized appreciation or depreciation is reflected in the financial statements, when applicable.

Reserves for Contingent Refunds and Retirement and Disability Benefits

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

C. Actuarial Information

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

(In Thousands)			
Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/02	\$ 8,189	100%	\$0
09/30/01	\$ 7,543	100%	\$0
09/30/00	\$ 7,752	100%	\$0

<u>Schedule of Funding Progress</u>						
(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	Percentage of Covered Payroll [(b-a)/c]
09/30/00	\$ 595,364	\$ 517,622	\$ (77,742)	115.0%	\$ 126,520	(61.4%)
09/30/01	\$ 642,487	\$ 550,172	\$ (92,315)	116.8%	\$ 133,919	(68.0%)
09/30/02	\$ 676,094	\$ 610,351	\$ (65,743)	110.8%	\$ 144,465	(45.5%)

Note 7 – Other Post-Employment Benefits (OPEB)

In addition to the pension benefits described in Note 5, 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 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.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

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

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

Note 8 – Construction and Other Significant Commitments

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

Note 9 – Deferred Revenues

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

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

Note 10 – Lease Obligations

Operating Leases

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

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

Fiscal Year Ended September 30	(In Thousands)	
	Governmental Activities	Business-Type Activities
2003	\$ 252	\$ 24
2004	218	14
2005	205	
2006	203	
2007	198	
2008-2012	992	
2012-2015	512	
Total:	<u>\$ 2,580</u>	<u>\$ 38</u>

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Note 11 – County Appropriation Agreement

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

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

Note 12 – Long-Term Debt

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

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

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

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

The Sewer Revenue Warrants Series 1997-D dated March 1, 1997 were issued for the purpose of refunding the 1992 and 1995-A Sewer Revenue Warrants.

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

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

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

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

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

	(In Thousands)				
	Debt Outstanding October 1, 2001	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2002	Amounts Due Within One Year
Governmental Activities:					
General Obligation Warrants	\$ 288,865	\$ 20,065	\$ 40,700	\$ 268,230	\$ 17,145
Estimated Claims Liability	4,640	1,314	2,916	3,038	
Estimated Liability for Compensated Absences	10,193	3,511		13,704	
Governmental Activity Long- Term Liabilities	<u>\$ 303,698</u>	<u>\$ 24,890</u>	<u>\$ 43,616</u>	<u>\$ 284,972</u>	<u>\$ 17,145</u>
Business-type Activities:					
Revenue Warrants	\$ 1,796,250	\$ 650,000	\$ 8,495	\$ 2,437,755	\$ 13,300
Estimated Liability for Post- Closure Landfill Costs	3,355	273	41	3,587	
Estimated Liability for Compensated Absences	9,101		2,950	6,151	
Business-type Activity Long- Term Liabilities	<u>\$ 1,808,706</u>	<u>\$ 650,273</u>	<u>\$ 11,486</u>	<u>\$ 2,447,493</u>	<u>\$ 13,300</u>

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

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

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

		(In Thousands)	
		Governmental Activities	
		General Obligation	
		Warrants	
		Principal	Interest
Fiscal Year Ended			
September 30,			
	2003	\$ 17,145	\$ 12,569
	2004	18,025	11,847
	2005	21,175	11,078
	2006	15,980	10,056
	2007	23,725	9,252
	2008-2012	61,875	33,191
	2013-2017	55,685	19,409
	2018-2021	54,620	4,786
Totals		<u>\$ 268,230</u>	<u>\$ 112,188</u>
		Business-Type Activities	
		Revenue	
		Warrants	
		Principal	Interest
Fiscal Year Ended			
September 30,			
	2003	\$ 13,300	\$ 125,475
	2004	2,595	127,272
	2005	8,575	127,018
	2006	6,490	126,661
	2007	3,730	126,427
	2008-2012	21,140	629,631
	2013-2017	44,245	624,272
	2018-2022	187,925	591,348
	2023-2027	300,325	524,264
	2028-2032	339,080	437,686
	2033-2037	438,670	338,094
	2038-2042	1,071,680	139,947
Totals		<u>\$ 2,437,755</u>	<u>\$ 3,918,095</u>

Warrant Issuance Costs and Premiums

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

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

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

Defeased Debt

On March 28, 2002, Jefferson County Commission issued \$20,065,000 in General Obligation Warrants, Series 2002-A, for the purpose of (1) refunding outstanding Series 1992 General Obligation Warrants with a variable interest rate and (2) paying the costs of issuing the Series 2002-A warrants. The Series 1992 General Obligation Warrants were called on April 1, 2002, and therefore, are legally defeased.

Prior year Defeasance of Debt

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

Note 13 – Warrants Payable – Enterprise Funds

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

In accordance with the bond indentures, the County uses (1) a debt service fund to which it deposits principal and interest amounts due; (2) a reserve fund which is required to be

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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 debt service reserve fund to be established at an amount equal to 10% of the original principal amount.

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

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

Note 14 – Continuing Disclosure

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

	Fiscal Year Ended September 30,							
	2002	2001	2000	1999	1998	1997	1996	1995
Active Accounts	143,038	142,305	142,277	142,042	141,606	140,324	140,146	140,361
Average Daily Treatment Volume (millions of gallons)	116	97	114	119	132	127	130	123
Sewer Charges	\$ 84,470,770	\$ 72,129,478	\$ 66,834,206	\$ 57,020,426	\$ 49,531,824	\$ 46,950,835	\$ 44,387,013	\$ 39,587,914
% Revenues - Largest Customer	2.74%	2.66%	2.57%	2.93%	2.91%	2.92%	3.08%	2.87%
% Revenues - Top 10 Customers	11.13%	12.53%	11.99%	11.62%	12.35%	10.37%	13.10%	10.37%

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

2002 Top Ten Customers	Consumption (in cubic feet)	Amount
University of Alabama - Birmingham	865,776	\$ 2,317,840
Birmingham Housing Authority	579,064	1,932,577
US Steel	494,880	1,290,160
Barber Dairies	130,833	997,964 *
Golden Flake	153,314	606,370 *
Birmingham Board of Education	178,528	592,021
Buffalo Rock	226,898	518,781 *
Brookwood Medical Center	124,574	412,754
SMI Steel	123,197	377,128
Baptist Medical Centers	150,439	358,284

* Indicates surcharge on same consumption

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

Note 15 – Landfill Closure and Postclosure Care Costs

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

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Note 16 – Conduit Debt Obligations

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

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

Note 17 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains a risk management program in order to minimize its exposures to loss. Risk financing for these various exposures is accomplished through the following methods:

- **General and Auto Liability** - Self-insured with an established internal service fund to finance losses.
- **Workers’ Compensation** – Self-insured with a retention of \$350,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.
- **Property Insurance** – Commercial insurance coverage purchased in the amount of \$100 million per occurrence, except a separate annual aggregate of \$50 million flood and earthquake, to include the following sub-limits: (1) \$20 million per occurrence as respects to property in the course of construction, builder’s risks and installation or erection; (2) \$10 million per occurrence separately as respects to demolition, increased cost of construction and building ordinance; (3) \$5 million as respects to extra expense and (4) \$1 million as respects to transit.
- **Boiler and Machinery Insurance** – Commercial insurance coverage purchased in the amount of \$30 million per occurrence.
- **Hospital and Nursing Home Medical Malpractice and General Liability** – Insured through the County’s participation in the Alabama Hospital Association Trust Fund with limits of \$1 million per occurrence with a \$3 million per report year aggregate.

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

and dismemberment, and the employees pay \$100% of dental insurance and other voluntary insurance plans.

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

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

Note 18 – Advances to Other Funds

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

(In Thousands)	
<u>Advances From Other Funds</u>	
<u>Sanitary Landfill Operation Fund</u>	
<u>Advances to Other Funds</u>	
Debt Service Fund	\$19,489

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Interfund Transfers

	Transfers								Totals
	In								
<u>Transfers Out</u>	General Fund	Indigent Care Fund	Road Fund	Debt Service Fund	Cooper Green Hospital	Nonmajor Governmental Funds	Internal Service Funds	Nonmajor Proprietary Funds	
General Fund	\$	\$ 745	\$ 15,812	\$	\$	\$ 3,042	\$ 3,192	\$ 6,157	\$ 28,948
Indigent Care Fund					38,402				38,402
Road Fund						176			176
Debt Service Fund								1885	1,885
Nonmajor Governmental Funds				30,199			3143	45	33,387
Internal Service Funds	1					640	215	65	921
Nonmajor Proprietary Funds				1258					1,258
Totals	\$ 1	\$ 745	\$ 15,812	\$ 31,457	\$ 38,402	\$ 3,858	\$ 6,550	\$ 8,152	\$ 104,977

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

Note 19 – Subsequent Events

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

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

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

Note 20 – Deficit Cash Balance

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

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

Note 21 – Franchise Taxes

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

Note 22 – Accounting Changes and Restatements

Changes in Accounting Principles

During the fiscal year 2002, the Commission implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statement split the Commission's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business type activities equals fund equity for the enterprise funds from the prior year. The beginning net asset amount for governmental programs reflects the change in

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

fund balance for governmental funds at September 30, 2001 caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balances

GASB Statement No. 34 eliminated the use of expendable trust funds to account for assets held by the County in a trustee capacity for other governmental units.

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

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

The impact of restatements on the Fund Equity of Enterprise Funds is as follows:

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

Expendable Trust Funds were reclassified as Agency Funds as follows:

	(In Thousands)		
	<u>Storm Water Management Authority Fund</u>	<u>City of Birmingham Revolving Loan Fund</u>	<u>Total</u>
Fund Equity September 30, 2001, as previously reported	\$ 1,335	\$ 1,379	\$ 2,714
Reclassification	(1,335)	(1,379)	(2,714)
September 30, 2001 as restated	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Note 23 – Interest Rate Swap Agreements

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

The County and JP Morgan Chase, as successor to Morgan Guaranty Trust Company of New York, are parties to a rate swap that is referable to General Obligation Warrants, Series 2001-B. The notional amount is \$1,200,000, effective April 19, 2001, with a termination date of April 1, 2011. The County receives monthly payments calculated using the BMA Municipal Swap Index and makes semiannual payments at the fixed rate of 4.295% per annum. Morgan has the option to cancel the swap on April 1, 2008, or any April 1 or October 1, thereafter.

Jefferson County, Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2002

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

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

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

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

Note 24 – Jointly Governed Organization

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



Required Supplemental Information

Jefferson County, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #12

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

Jefferson County, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Indigent Care Fund
For the Year Ended September 30, 2002
(In Thousands)
Exhibit #13

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